

1998-99 BUDGET PAPER No. 1

**BUDGET STRATEGY
AND OUTLOOK
1998-99**

CIRCULATED BY
THE HONOURABLE PETER COSTELLO, M.P.,
TREASURER OF THE COMMONWEALTH OF AUSTRALIA, AND
THE HONOURABLE JOHN FAHEY, M.P.,
MINISTER FOR FINANCE AND ADMINISTRATION,
FOR THE INFORMATION OF HONOURABLE MEMBERS
ON THE OCCASION OF THE BUDGET 1998-99
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BUDGET PAPER NO. 1 — BUDGET STRATEGY AND OUTLOOK 1998-99

FOREWORD

Budget Paper No. 1 — Budget Strategy and Outlook 1998-99 has been drafted in line with the Charter of Budget Honesty, which has now passed through the Parliament. The Charter requires that, inter alia, the Government provide a statement of its fiscal strategy and a report on the economic and fiscal outlook.

Consistent with these requirements, this Paper contains seven statements:

- **Statement 1 — Fiscal Strategy.** A statement of the fiscal strategy, which includes a summary of the budget aggregates and budget priorities.
- **Statement 2 — Economic and Fiscal Outlook.** The Economic Outlook discusses the economic forecasts which underpin the outlays and revenue estimates while the Fiscal Outlook provides an overview of the fiscal position and the factors influencing outlays and revenue estimates. The Statement also contains the following appendices:
 - Appendix A: Statement of Risks. A detailed description of general and specific risks to the forward estimates.
 - Appendix B: Sensitivity of Fiscal Aggregates to Economic Developments. A discussion of the sensitivity of the forward estimates to changes in the economic parameters.
 - Appendix C: Tax Expenditures. A discussion of the budgetary impact of concessional taxation treatment of specific groups and/or activities.
 - Appendix D: Historical Budget and Net Debt Data. Tables with historical data and forward estimates for budget aggregates and Commonwealth general government net debt.
 - Appendix E: Classification Issues. A discussion of the conceptual basis for the classifications used for Commonwealth budget statistics and differences from Government Finance Statistics, and an explanation of how items have been reclassified in the 1998-99 Budget.
 - Appendix F: Commonwealth Government Sector Statistics. Fiscal estimates for the Commonwealth general government, public trading enterprise and consolidated government sectors.
- **Statement 3 — The Current Account Deficit: Structural Improvements.** A discussion of the factors underlying the forecast increase in the current account deficit in 1998-99, including the general improvement in the economic and policy environment in which this increase will occur.
- **Statement 4 — Outlays.** Overview of budget underlying outlays estimates by portfolio as well as a detailed discussion of underlying outlays by function, together with a statistical appendix covering underlying outlays by function, economic type and portfolio.

- **Statement 5 — Revenue.** A detailed discussion of budget revenue estimates.
- **Statement 6 — Budget Funding.** Details of the Commonwealth's recent and prospective budget funding activities.
- **Statement 7 — The Public Sector.** Trends in public sector balances as a whole and Government Finance Statistics (GFS) tables.

In addition, to complement *Budget Paper No. 1, Budget Paper No.2 — Budget Measures 1998-99*, provides comprehensive information on all revenue and outlays measures announced in the Budget.

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NOTES

- (a) The following definitions are used in this Budget Paper:
- underlying outlays = total outlays - net advances;
 - net advances = net equity transactions + net policy lending;
 - ‘real’ means adjusted for the effect of inflation;
 - real growth in outlays is measured by the non-farm Gross Domestic Product deflator;
 - Budget year refers to 1998-99, while the forward years refer to 1999-2000, 2000-01 and 2001-02; and
 - one billion is equal to one thousand million.
- (b) Figures in tables and generally in the text have been rounded. Discrepancies in tables between totals and sums of components are due to rounding:
- estimates under \$100,000 are rounded to the nearest thousand;
 - estimates \$100,000 and over are rounded to the nearest tenth of a million;
 - estimates midway between rounding points are rounded up; and
 - the percentage changes in statistical tables are calculated using unrounded data.
- (c) In tables, the sign in front of the number reflects the impact of the change on the aggregate concerned, eg a negative in a revenue table reflects a reduction in revenue.
- (d) For the budget balance, a negative sign indicates a deficit while no sign indicates a surplus. For Statement 7, however, the ABS sign convention is used for presenting a deficit, where a negative sign indicates a surplus.
- (e) The following notations are used:
- | | |
|---------|---|
| NEC/nec | not elsewhere classified |
| AEST | Australian Eastern Standard Time |
| - | nil |
| .. | not zero, but rounded to zero |
| na | not applicable (unless otherwise specified) |
| nfp | not for publication |
| \$m | \$ million |

- (f) References to the 'States' or 'each State' include the Territories, because from 1993-94 onwards, general purpose funding has been on the same basis for all jurisdictions. The Australian Capital Territory and the Northern Territory are referred to as 'the Territories'. The following abbreviations are used for the names of the States, where appropriate:

| | |
|---------|------------------------------|
| NSW | New South Wales |
| VIC/Vic | Victoria |
| QLD/Qld | Queensland |
| WA | Western Australia |
| SA | South Australia |
| TAS/Tas | Tasmania |
| ACT | Australian Capital Territory |
| NT | Northern Territory |

Budget Strategy and Outlook 1998-99 is one of a series of Budget Papers, the purpose of which is to provide information supplementary to that in the Budget Speech. A full list of the series is printed on the inside cover of this Paper.

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STATEMENT 1 — FISCAL STRATEGY

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STATEMENT 1 — FISCAL STRATEGY

PART I: BUDGET AGGREGATES

The 1998-99 Budget fulfils the Government's commitment to return the underlying budget¹ to surplus within its first term of office. This return to underlying surplus is a significant milestone in the Government's medium-term fiscal strategy of maintaining the underlying budget in balance, on average, over the course of the economic cycle.

- In 1998-99, the underlying budget balance is estimated to be in surplus by \$2.7 billion, or 0.5 per cent of Gross Domestic Product (GDP). This is an improvement of \$3.8 billion, or 0.7 per cent of GDP, on the expected outcome for 1997-98.
- In 1999-2000, the underlying surplus is projected to be \$4.7 billion, or 0.8 per cent of GDP. Increasing underlying surpluses are projected beyond 1999-2000.

The underlying deficit in 1997-98 is now expected to be \$1.2 billion, or 0.2 per cent of GDP. This improvement reflects both stronger than expected revenue collections and lower underlying outlays than forecast in last year's Budget.

The budget aggregates for 1996-97 to 2001-02 are shown in Table 1 below.

Table 1: Summary of Budget Aggregates

| | 1996-97 | | 1997-98 | | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------|
| | Actual | Budget | Revised | Estimate | Projection | Projection | Projection | |
| Revenue (\$m) | 131031 | 133351 | 135448 | 144258 | 151299 | 160200 | 171096 | |
| <i>Per cent of GDP</i> | 25.4 | 24.5 | 24.9 | 25.0 | 24.7 | 24.7 | 24.9 | |
| Underlying Outlays (\$m) | 135933 | 137204 | 136603 | 141570 | 146566 | 151586 | 156508 | |
| <i>Per cent of GDP</i> | 26.3 | 25.2 | 25.1 | 24.6 | 24.0 | 23.4 | 22.8 | |
| Underlying Balance (\$m) | -4902 | -3853 | -1155 | 2688 | 4733 | 8614 | 14588 | |
| <i>Per cent of GDP</i> | -0.9 | -0.7 | -0.2 | 0.5 | 0.8 | 1.3 | 2.1 | |
| <i>Memorandum items:</i> | | | | | | | | |
| Net advances (\$m) | -7452 | -10276 | -13920 | -16027 | -18772 | -12856 | 455 | |
| Headline balance (\$m) | 2550 | 6423 | 12765 | 18715 | 23505 | 21470 | 14133 | |
| <i>Per cent of GDP</i> | 0.5 | 1.2 | 2.3 | 3.2 | 3.8 | 3.3 | 2.1 | |

The expected underlying surplus in 1998-99 represents a significant turnaround of \$13 billion from the \$10.3 billion underlying deficit outcome in 1995-96. This represents a turnaround of just over 2½ per cent of GDP from the outcome inherited from the previous Government, with further improvements projected in the outyears.

¹ The underlying budget balance is measured as revenue less underlying outlays (defined as outlays excluding net advances). Net advances consist of net policy lending (new policy lending less repayment of past policy lending) and net equity transactions (equity injections/purchases less equity sales).

Large headline budget surpluses are expected in 1998-99 and over the forward estimates period. These reflect both underlying surpluses in prospect and expected receipts of equity asset sale proceeds, primarily associated with the sale of the Government's remaining equity in Telstra.

Increasing national saving — through higher public saving — and debt reduction remain key priorities for the Government. The relevance of these aims is reinforced by the uncertainties surrounding the international economic environment and the related widening in Australia's external current account deficit.

- The underlying surplus in 1998-99 — the first since 1990-91 — ensures that the Commonwealth Government, through its own budget, will save more than enough to meet its own investment needs. It will therefore no longer need to draw on private saving and is expected to become a significant net lender to the private sector in the outyears. This should help to moderate pressures on the current account deficit.
- The fiscal outlook is also consistent with the Government's objective of halving the ratio of Commonwealth general government net debt to GDP by the turn of the century. Even without the further sale of Telstra, this objective would have been reached on latest projections. However, it will now be comfortably exceeded, with net debt falling from around 20 per cent of GDP in 1995-96 to around 1½ per cent of GDP by 2001-02.

Underlying outlays have declined substantially as a share of GDP in recent years and further declines are estimated in 1998-99 and over the forward estimates period. By 2001-02, underlying outlays are projected to be around 23 per cent of GDP compared with almost 27 per cent of GDP in 1995-96. Revenues are expected to remain broadly unchanged as a share of GDP from levels of just under 25 per cent of GDP in 1995-96. These movements are consistent with the Government's commitment that fiscal consolidation be achieved primarily through outlays restraint.

Table 2 provides a reconciliation of the budget and forward estimates for the period from the 1997-98 Budget to the 1998-99 Budget, including the 1997-98 Mid Year Economic and Fiscal Outlook (MYEFO), identifying the effects of policy decisions and parameter and other variations.

The 1997-98 MYEFO reported an improved fiscal outlook for 1997-98 and 1998-99 and a slight deterioration in 1999-2000 and 2000-01 relative to the estimates published in the 1997-98 Budget. Reduced underlying outlays — reflecting an improved outlook for inflation and lower public debt interest payments — accounted for the bulk of the improvement in 1998-99.

Table 2: Reconciliation of 1997-98 Budget, MYEFO and 1998-99 Budget Estimates^(a)

| | 1997-98 \$m | 1998-99 \$m | 1999-00 \$m | 2000-01 \$m |
|---|-----------------------|---------------------|---------------------|----------------------|
| 1997-98 Budget underlying balance estimate (per cent of GDP) | -3853 -0.7 | 1597 0.3 | 5383 0.9 | 10692 1.6 |
| Changes between 1997-98 Budget and MYEFO | | | | |
| Effect of reclassifications | -46 | -11 | 0 | 0 |
| Effect of parameter and other variations | | | | |
| Underlying outlays | -203 | -1127 | -416 | -642 |
| Revenue | 1250 | 362 | 45 | 528 |
| Total | -1453 | -1489 | -461 | -1170 |
| Effect of policy decisions | | | | |
| Underlying outlays(b) | 395 | 566 | 733 | 1242 |
| Revenue | 3 | -73 | -113 | -244 |
| Total | 392 | 639 | 846 | 1486 |
| 1997-98 MYEFO underlying balance estimate | -2746 | 2458 | 4998 | 10375 |
| Changes between MYEFO and 1998-99 Budget | | | | |
| Effect of reclassifications | 20 | -58 | 5 | 5 |
| Effect of parameter and other variations | | | | |
| Underlying Outlays | -924 | 29 | -229 | 900 |
| Revenue | 839 | 1480 | 992 | 1322 |
| Total | -1762 | -1450 | -1221 | -423 |
| Effect of policy decisions | | | | |
| Underlying outlays(b) | 156 | 1385 | 1526 | 1862 |
| Revenue | 5 | 106 | 44 | -317 |
| Total | 152 | 1279 | 1481 | 2180 |
| 1998-99 Budget underlying balance estimate (per cent of GDP) | -1155 -0.2 | 2688 0.5 | 4733 0.8 | 8614 1.3 |

(a) A negative figure for revenue indicates a deterioration in the budget balance. For all other items a negative figure indicates an improvement in the budget balance.

(b) Includes the public debt interest impact of underlying policy decisions. A separate breakdown of policy decisions and their impact on public debt interest can be found in Table 6 in Statement 2.

The starting point² underlying budget balances have improved in all years since the MYEFO. A significant factor is higher other individual tax collections to date strengthening the revenue base and flowing through into an improved revenue outlook. In 1998-99, an upward revision to non-tax revenues also contributes to the improved starting point balance. By 2000-01, higher underlying outlays — largely reflecting upward revisions to programme specific parameters — provide a significant offset.

In net terms, policy decisions since the MYEFO detract from the starting point underlying surpluses.

² Starting point estimates include parameter and other variations since the 1997-98 Budget and policy decisions taken prior to the MYEFO. They exclude the impact of decisions taken by the Government since the MYEFO.

- Net outlays policy measures³ — including funding for high priority areas such as aged care, health, education, training and youth — amounting to around \$1.4 billion in 1998-99 and rising to \$1.5 billion in 1999-2000 and \$1.9 billion in 2000-01 have been announced since the MYEFO.
- Revenue policy measures, in net terms, are expected to raise \$0.1 billion in 1998-99. This principally reflects additional revenues expected from the continuation of the Australian Taxation Office's High Wealth Individuals Taskforce. In 2000-01, revenue policy decisions are expected to reduce revenue by \$0.3 billion on account of revised arrangements relating to the taxation treatment of Year 2000 compliance and computer software expenditure.

A more detailed discussion of the implications of changes in the economic outlook, other estimate variations and policy decisions is included in Part II of Statement 2. Further details on individual policy decisions taken since the MYEFO are included in *Budget Paper No. 2*.

³ Includes the public debt interest impact of underlying policy decisions.

PART II: ECONOMIC FRAMEWORK

Recent economic events in East Asia, including Japan, heavily condition the economic framework for this year's Budget. These events will affect Australia's short-term economic prospects but, more importantly, they demonstrate the importance of sound economic fundamentals and policy settings.

Policy shortcomings were at the root of the difficulties faced by a number of the Asian economies in the past year which, in Japan's case, resulted in sluggish growth over a longer period. In contrast, Australia is weathering the 'crisis' in Asia because of its sound economic fundamentals, including low inflation, rigorous pursuit of the commitment to return the budget to underlying surplus, a healthy financial sector and ongoing microeconomic and regulatory reform. Economic policy is aimed at improving these fundamentals. For this reason the overall outlook for the Australian economy remains favourable, with ongoing solid growth, low inflation and further reductions in unemployment, continuing the economic growth that commenced after the recession in the early 1990s.

The Australian economy experienced strong growth in private sector demand over the course of 1997, supported by low interest rates, low inflation, high corporate profits, a strengthening in the labour market and a pick-up in housing. The momentum of this growth in domestic demand appears to have been maintained in the first half of 1998 and is expected to carry through into 1998-99. The overall pace of economic activity in 1998-99 will depend on the extent to which the impact of the significant slowdown in some of Australia's trading partners offsets the strong growth in domestic demand.

As discussed in Statement 2, the Asian downturn is likely to dampen demand for Australia's exports, particularly for tourism, some other services and elaborately transformed manufactures. However, there are factors likely to cushion the overall impact on Australia's exports. For instance, there has not been a close relationship between economic growth in specific markets and Australia's overall export performance. The volume of Australia's commodity exports — which account for the bulk of total exports — is mainly determined by the amount produced. Changes in overseas market conditions predominantly affect commodity prices, but in this respect the main influence is world industrial production rather than conditions in individual markets. For this reason, the continuing strong growth in the United States and the strengthening in Europe are significant to Australia's export prospects. Some diversion of Australian exports away from the Asian economies most affected by the crisis has occurred, not only for commodities but also for manufactures and services, and this is expected to continue. It is also relevant that in recent years Australia's fastest growing export markets have not been in East Asia, but countries such as India, New Zealand, the Middle East and South Africa. In addition, exchange rate movements have cushioned the effect of lower world prices for Australian exports on domestic incomes as well as improving the competitiveness of Australia's exports and import competing industries.

While the impact of events in East Asia on Australia's export prospects needs to be kept in perspective, the significant slowdown in some of Australia's major trading partners in the region will progressively affect Australia's exports over the course of 1998. This adverse impact will vary across export categories. The strong growth in domestic demand should, nevertheless, provide considerable support for economic activity.

Overall, while the pace of economic growth will slow in 1998-99 compared with 1997-98, Australia is still expected to be one of the fastest growing OECD economies. The uncertain nature of international events, including the pace of recovery in Japan, poses considerable risks to the outlook.

Strong growth in domestic demand and slower growth in exports will result in a rise in Australia's current account deficit in 1998-99. However, as discussed in Statement 3, the increase in the current account deficit will be largely cyclical and reflect the saving and investment decisions of the private sector, not the fiscal position of the Commonwealth. Part III of this Statement provides further details on the implications of the Commonwealth's strong fiscal position for national saving and net lending.

In addition, unlike the late 1980s, when a rising current account deficit and rising inflationary pressure were symptoms of unsustainably strong growth in domestic demand, the outlook is for continued low inflation, indicating that demand growth is sustainable on this occasion. The underlying inflation rate is expected to rise in 1998-99, but remain within the target range agreed between the Government and the Reserve Bank. The expected rise in inflation largely reflects the impact of the recent modest decline in the nominal exchange rate against the US dollar and major European currencies. It does not reflect wage and price pressures flowing from excessive domestic demand growth. Long-term nominal interest rates in Australia are now very close to those in the United States, indicating that financial markets are confident that inflation will remain low over the medium to long term.

The investment environment in Australia is favourable, with the benefits of low inflation, relatively low real interest rates and microeconomic reform increasingly manifesting themselves in strong growth in investment. The increase in the capital stock is contributing to an improved productivity performance and is raising the economy's capacity to service the financing costs associated with Australia's foreign liabilities.

The events in East Asia demonstrate that an economy is always exposed to adverse external developments. The ability of the Australian economy to adjust to such developments has, however, improved as a result of the Government's microeconomic reforms. Increased competition in product and financial markets combined with labour market reforms has enhanced the competitiveness of Australian firms and their capacity to respond to rapidly changing demand and supply conditions. Indeed, the Asian crisis underscores the importance of minimising artificial distortions in the operation of competitive product, labour and financial markets. It also highlights the importance of sound prudential regulation of financial institutions, sound corporate governance arrangements, and relevant and transparent financial reporting requirements. These are priority areas of the Government's reform programme.

The Government's overriding policy priority is the achievement of maximum sustainable rates of economic growth and rising living standards including via reductions in unemployment. This will require maintaining the current medium-term macroeconomic policy framework and pressing ahead with microeconomic reform, including reform of the taxation system, the labour market, the financial system and corporate law. The 1998-99 Budget forms an integral part of meeting these challenges as it consolidates the recent gains made in improving Commonwealth finances and reinforces the Government's medium-term fiscal strategy.

PART III: FISCAL STRATEGY

The Government has adopted a medium-term fiscal strategy of pursuing, as a guiding principle, the objective of underlying budget balance, on average, over the course of the economic cycle. As was the case with the 1996-97 and 1997-98 Budgets, the 1998-99 Budget has been framed against the Government's ongoing commitment to this medium-term strategy.

The primary objective of the Government's medium-term fiscal strategy is to ensure that, over time, the Commonwealth budget makes no overall call on private sector saving and therefore does not detract from national saving. This aims to ensure fiscal settings are sustainable and help promote longer-term growth prospects by reducing Australia's vulnerability to external shocks and allowing greater flexibility for fiscal settings to adjust to changing economic conditions.

The Government has implemented a substantial programme of fiscal consolidation since its election. This has been integral to the establishment of the strong macroeconomic environment now in place — with low interest rates and continued solid economic growth prospects.

BOX 1: MEDIUM-TERM FISCAL OBJECTIVE

The Government's basic medium-term fiscal objective is to achieve underlying budget balance, on average, over the course of the economic cycle. Consistent with this medium-term objective, the fiscal strategy adopted by the Government in framing its 1998-99 Budget is centred on:

- returning the underlying budget to surplus in the life of this Parliament;
- maintaining surpluses over the forward estimates period while economic growth prospects remain sound;
- halving the ratio of Commonwealth general government net debt to GDP from 20 per cent in 1995-96 to 10 per cent by the turn of the century;
- maintaining its commitment not to introduce new taxes or raise existing taxes over the term of this Parliament, while seeking to ensure that all taxpayers pay their fair share of taxes; and
- directing sufficient resources to high priority areas, while significantly reducing the ratio of outlays to GDP through to the turn of the century.

The benefits flowing from the Government's fiscal strategy are illustrated by the reduction in the exposure of the Australian economy to international uncertainty at a time of unsettling developments in the Asian region. The Government's fiscal strategy and the strength of the fiscal outlook have been important in sustaining financial market confidence and shielding Australia from the instability experienced in some Asian

countries. These developments underscore the continuing need to operate prudent fiscal policy and maintain a strong fiscal position.

Consistent with the medium-term fiscal objective, the Government has set itself a number of associated targets which have helped shape the 1998-99 Budget (see Box 1).

These fiscal objectives and targets are consistent with the requirements of the Charter of Budget Honesty. The Charter represents a major reform of the framework for setting and reporting on fiscal policy and has helped to build Australia's fiscal policy credibility. The Charter is at the forefront of international best practice and will help ensure that all future governments maintain responsible and sustainable fiscal policies in the medium term. This reflects the requirement, in particular, for governments to determine their fiscal objectives with regard to the Charter's principles of sound fiscal management and report regularly on their progress in achieving them (see Box 2).

BOX 2: THE CHARTER OF BUDGET HONESTY

The Charter of Budget Honesty, which has recently passed through the Parliament, aims to improve fiscal outcomes by enhancing the transparency of, and accountability for, fiscal policy. In particular, it requires governments to set out their medium-term fiscal strategy in each budget, along with their shorter-term fiscal objectives and targets. It also provides for full economic and fiscal outlook reports at the time of the budget, at mid-year, and prior to elections. In addition, the Charter sets out arrangements for the costing of election commitments by the Government and the Opposition.

Under the terms of the Charter, the fiscal strategy must be based on principles of sound fiscal management which require governments to:

- ensure that fiscal policy contributes to achieving adequate national saving and to moderating cyclical fluctuations in economic activity, as appropriate, taking account of the economic risks facing the nation and the impact of those risks on governments' fiscal positions;
- manage financial risks faced by the Commonwealth prudently, having regard to economic circumstances, including by maintaining Commonwealth general government debt at prudent levels;
- pursue spending and taxing policies that are consistent with a reasonable degree of stability and predictability in the level of the tax burden;
- maintain the integrity of the tax system; and
- ensure that policy decisions have regard to their financial effects on future generations.

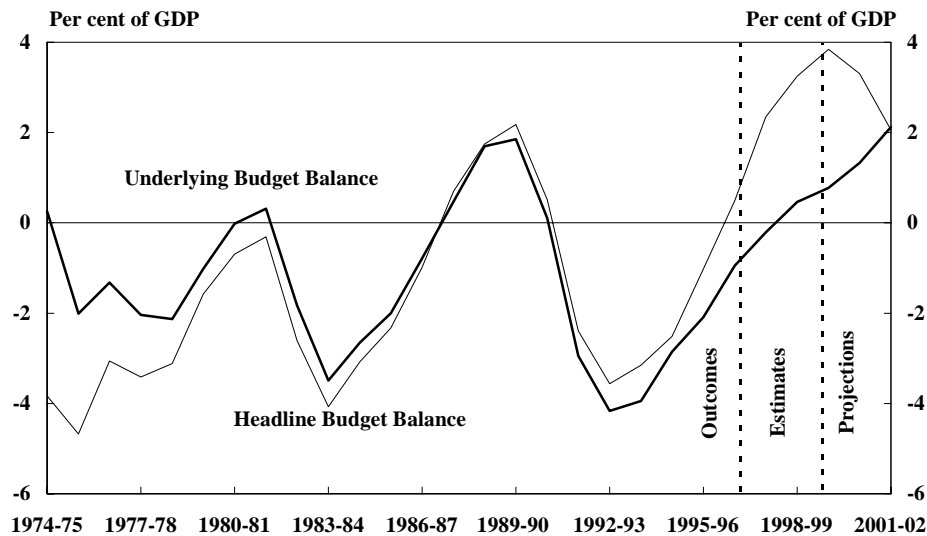
The Government's fiscal objectives and targets accord with these requirements.

BUDGET SURPLUS AND NATIONAL SAVING

A key feature of the Government's 1998-99 Budget strategy is the achievement of underlying surplus in 1998-99 and the maintenance of surpluses over the forward estimates period (Chart 1). This is appropriate given that Australia has now experienced several years of solid growth. The medium-term fiscal strategy requires the Government to run surpluses during periods of relatively strong economic growth, so that deficits which emerge during periods of significant weakness are manageable.

The surpluses in 1998-99 and in prospect over the forward estimates period reflect the programme of fiscal consolidation implemented by the Government since 1996-97.

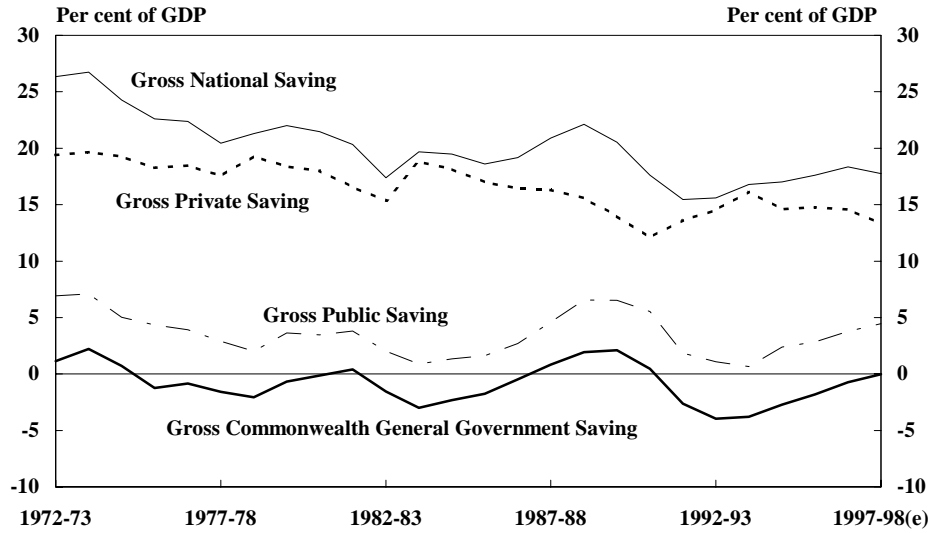
Chart 1: Headline and Underlying Budget Balance



The underlying budget balance closely approximates the contribution of the Commonwealth budget to national net lending — the difference between national saving and investment. As shown in Chart 2, improvements in the underlying budget balance as a result of the Government's programme of fiscal consolidation have been associated with increases in Commonwealth general government saving and public saving over the past two years. These increases have helped maintain overall national saving during a period of declining private saving.

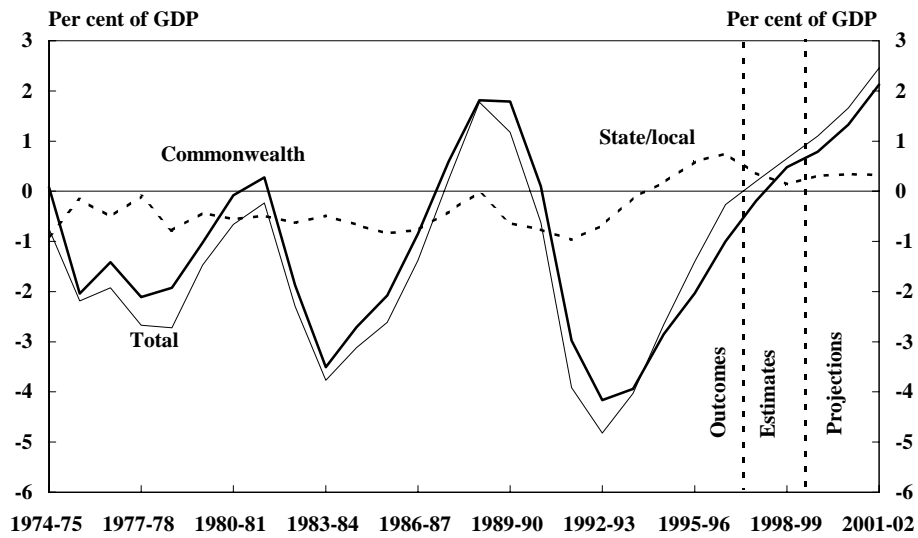
The move into underlying surplus in 1998-99 means that the Commonwealth will not need to draw on the available pool of private saving; instead, it will become a net lender — adding to the pool of private savings available to fund private investment, without recourse to foreign savings. Moreover, its contribution to national net lending is expected to increase over the forward estimates period. With the State/local general government sector and the Public Trading Enterprise (PTE) sector also expected to be in underlying surplus over the forward estimates period (see Chart 3), both the Commonwealth and public sector as a whole should contribute to reducing the current account deficit over time. Projected developments in the State/local general government and PTE sectors are discussed in detail in Statement 7.

Chart 2: Public, Private and National Saving



(e) Treasury estimate.

Chart 3: General Government Underlying Balance

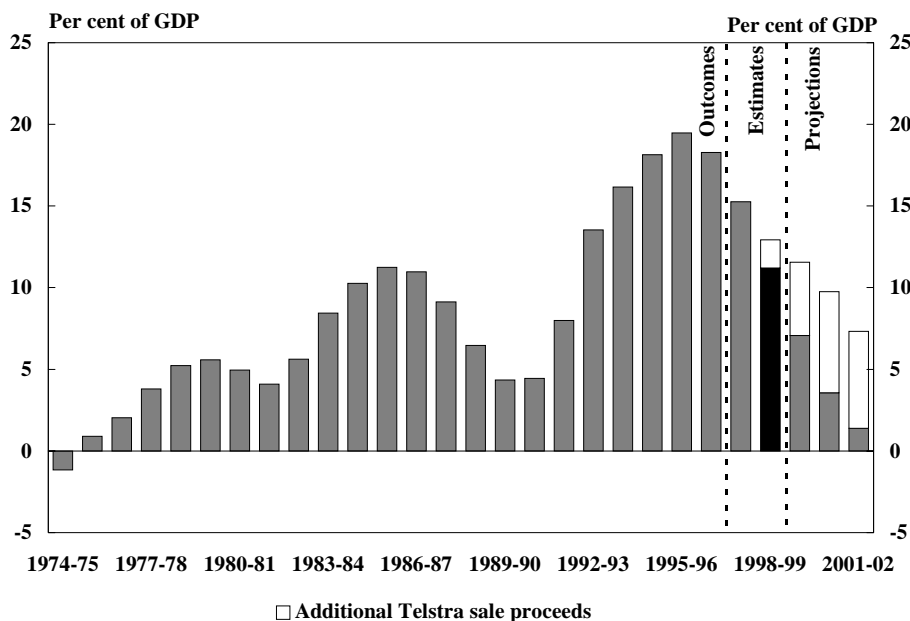


REDUCING NET DEBT

The Government's fiscal strategy has been instrumental in improving the Commonwealth's net debt⁴ position, with the stock of Commonwealth general government net debt falling in 1996-97 for the first time since 1989-90.

The underlying budget surpluses in prospect — together with additional asset sale proceeds, notably those from the sale of the Government's remaining equity in Telstra — provide for further significant reductions in net debt over the forward estimates period. As shown in Chart 4, on current projections, the Government's objective of halving the ratio of Commonwealth general government net debt to GDP by the turn of the century would be met in the absence of the further sale of Telstra equity. Taking into account the sale of Telstra equity the objective is expected to be exceeded by a considerable margin. Based on current projections, Commonwealth general government net debt is projected to decline to around 1½ per cent of GDP by 2001-02. This is to levels not achieved since the mid-1970s.

Chart 4: Commonwealth General Government Net Debt^(a)



(a) Figures are for net debt stocks as at the end of each financial year. Data for 1987-88 to 1996-97 are from ABS *Public Sector Financial Assets and Liabilities* (Cat. No. 5513.0). Data for the years prior to 1987-88 and the years following 1996-97 are Treasury estimates. Estimates underpinning this chart are provided in Table D3 in Appendix D of Statement 2.

Reductions in net debt levels help reduce Australia's vulnerability to economic shocks — such as those posed by recent developments in Asia — and are important in ensuring that the economy is better placed to cope with emerging pressures on the fiscal position such

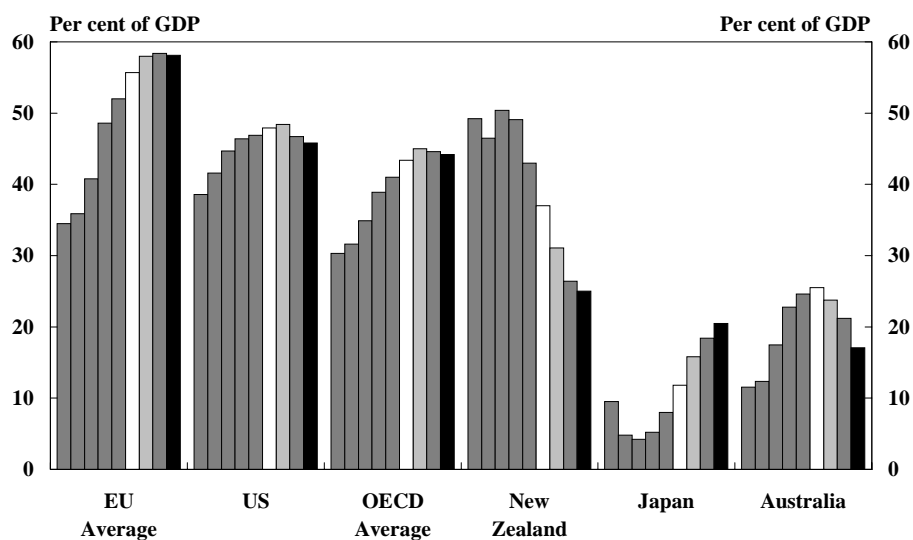
4 Net debt is defined as selected financial liabilities (deposits held, advances received and borrowing) less selected financial assets (cash and deposits, advances paid and investments). See Australian Bureau of Statistics *Government Finance Statistics Concepts, Sources and Methods* publication for more detail.

as ageing of the population. They should also help ensure that the burden of the cost of services enjoyed by the current generation is not transferred to future generations.

Chart 5 shows that as a result of improvements in both the Commonwealth and State/local net debt positions, total general government net debt for Australia compares favourably with that of other OECD countries and the OECD average. While Australia's position is well below the OECD average, many other OECD countries have had weak fiscal positions and face the prospect of major ongoing fiscal consolidation tasks. In addition, some other countries have the benefit of strong private sector saving offsetting the weakness in their public saving.

- Low levels of private saving in Australia relative to other OECD countries underscore the importance of ensuring that public finances — and associated levels of public indebtedness — remain sound.

**Chart 5: General Government Net Debt Levels in Selected Countries
1990 to 1998^{(a)(b)}**



(a) All data are for the total general government sector (ie the aggregate of all levels of government, including the social security sector but excluding the PTE sector). The OECD is the Organisation for Economic Co-operation and Development. Its membership consists of the industrial countries of Europe and North America, Mexico, Japan, Korea, Australia and New Zealand. The OECD average data relate only to the 20 countries included in the OECD *Economic Outlook 62*. The EU average is the average of member countries of the European Union.

(b) All data up to 1996 are outcomes. For Australia, data refer to the year ending 30 June (eg 1996 data are for year ended 30 June 1996). The OECD and New Zealand data for 1997 and 1998, and the data for Australia for 1998, are estimates.

Source: OECD *Economic Outlook 62*, New Zealand Budget Papers, ABS *Public Sector Financial Assets and Liabilities* (Cat. No. 5513.0) and Treasury estimates.

OUTLAYS RESTRAINT

Outlays restraint has been — and remains — fundamental to the delivery of the fiscal surpluses projected over the next few years. In accordance with a continued focus on outlays restraint, new policy spending since the 1997-98 Budget has been restricted over the forward estimates period and directed towards high priority areas such as seniors, health, education, training and youth. The Government's ongoing review of expenditure priorities has provided some offsetting savings.

The strict limits on net new policy spending are in line with the Government's commitment to reduce the level of underlying outlays as a proportion of GDP over the forward estimates period.

- Outlays as a share of GDP are expected to fall from around 27 per cent of GDP in 1995-96 to below 23 per cent by 2001-02 — their lowest levels since 1973-74.

The Government's budget priorities are spelled out in greater detail in Part IV of this Statement.

STABLE TAX BURDEN

The projected surpluses are not predicated on higher growth in revenues. Revenues as a share of GDP are projected to remain relatively stable through the forward estimates period — and are little different from their 1995-96 levels of around 25 per cent of GDP. The few additional revenue measures in 1998-99 have focussed on addressing anomalies and protecting the tax revenue base. The Government's commitment to no new taxes or increases in existing taxes over the life of this Parliament has been met.

A credible fiscal strategy has been built on surpluses generated by outlays restraint. This has also been achieved despite the structure of the tax system failing to keep pace with changes in the economy and the pressures this is placing on existing tax bases, requiring continual repair and maintenance. These ongoing problems, as well as serious concerns relating to the overall complexity, distortions and unfairness of the existing system, highlight the need for tax reform. The achievement of a sound fiscal position means the Government's tax reform focus can concentrate on delivering better outcomes rather than generating additional revenues to cover growing outlays.

PART IV: BUDGET PRIORITIES

The Government's budget priorities continue to be developed within a framework that takes account of the Government's broader economic and social objectives. In particular, the Government aims to:

- promote an economic climate conducive to high levels of sustainable economic and employment growth, including through contributing to improved levels of national saving and reductions in government debt;
- ensure that taxes are used by the Government as efficiently and effectively as possible, particularly through:
 - the ongoing assessment of public expenditure priorities to ensure that funding is provided to the highest priority programmes;
 - the review of programmes to ensure that they are achieving their intended objectives and are efficiently and effectively delivered;
- fulfil its social obligations through:
 - the supply of essential public goods and services;
 - the provision and maintenance of a fair and effective social safety net that supports those in the community most in need;
- minimise the tax burden on Australians, while ensuring that the integrity of the taxation base is preserved and that all taxpayers bear an equitable burden of taxes; and
- undertake broader reforms of the public sector, including through the review of public sector involvement in non-core activities, and improving processes for planning and the assessment of performance.

The measures in the 1998-99 Budget are consistent with, and build on, the budget priorities laid out in the 1996-97 and 1997-98 Budgets. Since coming to office, the Government has consistently focussed on a number of key areas including families, the elderly, small business, employment and regional Australia.

In the 1996-97 and 1997-98 Budgets, the Government helped to relieve financial pressures on families with the Family Tax Initiative, Private Health Insurance Incentives Scheme and through policy initiatives to support those caring for children with disabilities. Small business has received support through a variety of initiatives including Capital Gains Tax rollover relief, the establishment of a Small Business Innovation Fund, reductions in the provisional tax uplift factor and reductions in taxation compliance costs. The Government has sought to promote employment through reforms to labour market assistance and training, including improved incentives for employers to take on apprentices and trainees and the Work for the Dole scheme. The elderly have been assisted through the legislation of the commitment to maintain pensions at a minimum of

25 per cent of Male Total Average Weekly Earnings, and self-funded retirees have been assisted through the introduction of the low income aged persons tax rebate.

The 1998-99 Budget aims to extend these achievements. The following provides details on key outlays and revenue priorities, particularly as reflected in the measures announced over the past year.

National Saving and Debt Reduction

Improving national saving and reducing net debt remain key budget priorities. The 1996-97 and 1997-98 Budgets were intended to provide a substantial boost to public saving and, over time, national saving. The Government has also introduced a savings rebate to be implemented from 1 July 1998, which is aimed at assisting private saving. The savings from fiscal consolidation efforts — together with the proceeds from equity asset sales — have been used to reduce net debt.

It is important that the fiscal consolidation achieved to date is maintained if credibility in the medium-term objective is to be preserved and the longer-term benefits flowing from fiscal consolidation efforts are to be realised. The 1998-99 Budget maintains the medium-term path for fiscal policy that has been established by the Government. The shift to underlying budget surplus ensures the Commonwealth will not be contributing to the expected widening in the current account deficit. It also provides for significant reductions in net debt.

Care And Support For Older Australians

The Government has increased funding for a range of measures to enhance the care of older people in the community, and provide greater recognition and support for carers. The Government's *Staying at Home — Care and Support for Older Australians* package announced in April is directed at assisting elderly Australians remain in their homes by enhancing community care. The Government has committed \$280 million over the next four years to: provide Community Aged Care Packages; provide a more generous eligibility test for Domiciliary Nursing Care Benefit; and expand carer respite places (including specific places for people with dementia).

In recognition of the significant contribution and sacrifice that Australia's World War II veterans have made, from 1 January 1999 the Government will extend full repatriation health care entitlements (the Gold Card) to an estimated 50,000 Australian WWII veterans aged 70 years or older who have qualifying service as a result of incurring actual danger from hostile forces. This measure, at a cost of \$500 million over four years, will provide substantial additional health care benefits to eligible veterans. The Gold Card entitles veterans to treatment for all health conditions whether service-related or not. It provides free treatment as a private patient in hospital with choice of doctor/medical practitioner, free out-of-hospital treatment and concessions on a wider range of pharmaceuticals than available to other concessional cardholders. Gold Card holders are also not required to pay the Medicare levy.

To encourage and support self-funded retirees the Government has simplified the income test for the Commonwealth Seniors Health Card to one based on taxable income and raised the income test threshold for the card. The change is likely to allow some 220,000

additional self-funded retirees to qualify for the card. The benefit is that cardholders can purchase eligible pharmaceuticals at the same concessional rate as pensioners.

A Healthy Australia

The Government has made a significant commitment to improving the health system. Under the Australian Health Care Agreements, funds which the States have available for hospitals will increase by \$2.9 billion (including the cost of direct purchasing of veterans' health care) over the period 1998-99 to 2002-03, relative to the continuation of the previous agreements. These arrangements will ensure that public patients receive free access on a needs basis and facilitate reforms to improve the efficiency and effectiveness of health services. This year, the Commonwealth has also provided increased funding for the States and Territories of \$130 million over five years under the new Commonwealth State Disability Agreement. This will provide for additional accommodation support services for people with disabilities and assist States to meet their responsibilities in this area. This funding is in addition to the \$54 million in extra funding which was provided in the 1997-98 Budget.

The Government is providing significant increases in resources to combat illicit drugs and their adverse health impact in the community through the National Illicit Drugs Strategy. In total, the Strategy provides funding of around \$215 million over five years to reduce the demand and supply of illicit drugs in the community, for drug treatment and rehabilitation, and for community education.

Measures announced in the 1998-99 Budget will build on these commitments. Measures to improve preventive health will involve a new programme to combat influenza among older Australians, and programmes to combat infectious diseases amongst indigenous people, and tobacco-related disease. Steps will also be taken to improve rural and regional health, through the establishment of an integrated approach to providing health and family services in regional Australia. The Government has also demonstrated its commitment to medical research by providing additional funding of around \$175 million over four years for the National Health and Medical Research Council.

Investing for Growth

In December 1997, the Government released its \$1.3 billion *Investing for Growth* industry statement as part of its extensive reform agenda to deliver improved industry performance. A range of well-targeted measures were introduced to: increase support for business research and development and the commercialisation of that research; make investment in Australia more attractive; build Australia's strength as a trading nation; further improve the attractiveness of Australia as a financial centre; and ensure government, business and the wider community maximise the opportunities to contribute to, and benefit from, the global information revolution.

The Government recently announced the Automotive Competitiveness and Investment Scheme (ACIS), a new scheme that will form part of its package of post-2000 measures for the automotive industry. ACIS will encourage the continued development of a competitive and sustainable automotive industry in Australia by providing assistance of up to \$2 billion over five years, depending on production and investment performance.

Increasing Employment and Improving Education

Lasting reductions in unemployment will only be achieved by creating an environment for sustained economic growth and real job opportunities. An important part of the Government's strategy for reducing unemployment is to improve the overall operation of the labour market through progressing its industrial relations and labour market assistance reforms. The Government announced initiatives in January 1998 that extend the principle of mutual obligation. This aims to improve young peoples' job prospects and encourage their involvement with the community. From 1 July 1998, young people aged 18 to 24 years who have been unemployed for six months will be required to undertake an additional activity, as well as continue to look for work. Government-funded activities include Work for the Dole, literacy and numeracy training or Green Corps. Alternatively, mutual obligations can be fulfilled by undertaking part-time work, voluntary work or education and training.

The Government has announced it will introduce a new Youth Allowance on 1 July 1998. Youth Allowance will replace a number of different payments, including AUSTUDY for students under 25 years of age and Newstart Allowance and Youth Training Allowance for under 21 year olds. The new payment will provide a simplified and flexible system of income support for young people that will include incentives to remain in education and training.

The Government has introduced measures to increase educational opportunities for young Australians, so as to improve their job prospects. For example, additional funding is provided in the 1998-99 Budget for the continuation of the National Asian Language Studies in Australian Schools Strategy; continuing the Job Placement, Employment and Training Programme; and establishing a Volunteer Ambassadors for Development Programme.

Improving the Environment

The Government has established the Natural Heritage Trust of Australia Reserve which provides an innovative and integrated approach to Australia's environmental problems, recognising that environmental protection and the development of sustainable agriculture are complementary goals. The Trust is about to enter the third of its five year term of funding which totals \$1.25 billion. The Trust aims to stimulate investment in the conservation, repair and replenishment of Australia's environmental, agricultural and natural resources.

On 20 November 1997, the Prime Minister announced a significant package of measures with a total cost of \$180 million over five years as part of Australia's response to climate change. The measures are aimed at addressing Australia's greenhouse gas emissions, including programmes in the residential, energy and transport sectors and for revegetation, plantations and land use.

Federation Fund

The Government established the \$1 billion Federation Fund in the 1997-98 Budget to finance major projects of national significance to mark the Centenary of Federation and contribute to the infrastructure needs of Australia for the next century. Major projects are

selected on the basis that they will make a significant and ongoing contribution to Australia and the Australian economy. To date, more than \$500 million has been allocated, including funds for: the construction of new facilities for the National Museum of Australia and the Australian Institute of Aboriginal and Torres Strait Islander Studies (\$147 million); the Alice Springs to Darwin rail link (\$100 million); the Jervoise Bay Port Facility in Western Australia (\$80 million); the Brisbane Light Rail Project (\$65 million); re-development of the National Gallery of Victoria (\$25 million); and Federation community, cultural and heritage projects (\$100 million).

Rural Australia

In September 1997, the Government announced a major rural policy statement, *Agriculture Advancing Australia*, which provides an integrated package of measures costing \$525 million over four years. The package replaces the Rural Adjustment Scheme (RAS) and seeks a smooth transition of farmers out of drought and debt problems and promotes a growing and healthy rural sector. More specifically, the package: helps individual farm businesses profit from change; ensures the farm sector has access to an adequate welfare safety net; provides positive incentives for on-going farm adjustment; and encourages social and economic development in rural areas.

Fostering Regional Stability

Promoting regional stability will help protect Australia's own economic growth prospects. Australia has been a strong supporter of the International Monetary Fund (IMF) sponsored adjustment programmes implemented in a number of Asian economies following recent financial crises. Australia has pledged up to \$US1 billion in support to each of Thailand, Indonesia and the Republic of Korea, linked to their continued adherence to the IMF programmes. Australia is one of only two countries (the other being Japan) to provide bilateral support for all three IMF programmes. Australia's assistance will be in the form of loans or swaps from the Commonwealth Government or, in the case of Thailand, through a 'currency swap' agreement between the Reserve Bank of Australia and the Bank of Thailand. Australia has to date made \$US680 million available to Thailand under this agreement. For Indonesia and the Republic of Korea the Government has announced a preparedness to activate up to \$US300 million and \$US330 million, respectively, of its proposed support through loans. Funds provided to other governments under loan facilities are classified as net advances and do not impact on the underlying budget aggregates.

The Australian Government has also announced the establishment of a \$500 million facility to provide trade credit insurance for Australian exporters to the Republic of Korea using the National Interest Account (NIA) and managed by the Export Finance Insurance Corporation (EFIC). In addition, applications for trade credit insurance for exports to Indonesia will be considered on a case by case basis for uncapped access to the NIA. Under this facility the Government will be providing up to \$500 million in trade credit insurance cover, through EFIC, in relation to exports of wheat to Indonesia by the Australian Wheat Board and \$US250 million for exports of cotton in 1998.

STATEMENT 2 — ECONOMIC AND FISCAL OUTLOOK

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STATEMENT 2 — ECONOMIC AND FISCAL OUTLOOK

PART I: ECONOMIC OUTLOOK¹

OVERVIEW

The Australian economy should continue to record solid economic growth, low inflation and a further reduction in the unemployment rate in 1998-99.

Economic growth will slow over the course of 1998-99 as a consequence of the economic and financial difficulties being experienced by some of Australia's Asian trading partners, including Japan. Growth in activity will be supported by continuing strong growth in domestic demand, underpinned by favourable fundamental influences. GDP is forecast to grow by 3 per cent in 1998-99, following estimated growth of 3¾ per cent in 1997-98. In the absence of the downturn in Asia, Australia's GDP growth in 1998-99 would likely have exceeded that estimated for 1997-98.

The economic crisis in Asia will have an adverse effect on both export volumes and prices, and the resultant reductions in exporters' incomes will affect outputs and incomes in associated industries. It is important, however, to keep in perspective the likely impact on Australia's export prospects of developments in specific markets. Allowance needs to be made for the diversification of Australian exports in recent years and the capacity for exporters to divert sales to alternative markets, especially in the light of a more competitive exchange rate. The Asian crisis will also affect confidence, resulting in slower growth in business and consumer spending than would otherwise be the case. But not all of the influences from events in Asia will be negative. In particular, Australia has benefited from the reallocation of world capital flows which has contributed to higher equity prices and lower bond yields in the long-established markets. In addition, the depreciation of the Australian dollar against most currencies outside Asia has offset the decline in world commodity prices and improved the competitiveness of Australian firms. These developments will support domestic activity.

Some of the factors which encouraged strong growth in domestic demand in 1997-98 will continue to have an influence in 1998-99. Low interest rates, stemming from reductions in the official cash rate and greater competition among lenders, will support private sector activity, particularly dwelling and business investment. Strong growth in consumption is expected, supported by continuing solid employment growth as well as a transitory boost from gains to consumers as a result of the AMP Society demutualisation.

Employment growth should remain firm, supported by recent and prospective growth in non-farm activity and the unemployment rate is forecast to fall to around 7¾ per cent in the June quarter 1999.

¹ In this Statement, unless otherwise specified, monthly and quarterly data are expressed in seasonally adjusted terms. The current price GDP (Income) measure is used as the nominal measure of GDP, while GDP (Average) is the constant price GDP series used.

While a modest rise in underlying inflation is expected as recent increases in import prices flow through into retail prices, it is expected to remain within the 2 to 3 per cent band. Some moderation in wage growth is forecast.

The current account deficit is forecast to rise to \$31 billion, or 5¼ per cent of GDP, reflecting the weaker international environment and continuing solid domestic demand growth.

The uncertain nature of the international economy, particularly the state of the Japanese economy, poses a considerable risk to the outlook for the Australian economy in 1998-99 and beyond. As usual, weather conditions will be crucial for the farm sector with further widespread rainfall required to achieve the assumed average seasonal conditions.

Table 1: Domestic Economy Forecasts^(a)

| | Outcomes(b) | | Estimates | | Forecasts | |
|---|----------------------------|----------------------------|----------------------------|----------------------------------|-----------|--|
| | 1996-97 Year Average | 1997-98 Year Average | 1998-99 Year Average | Four quarters to June 1999 | | |
| Panel A - Demand and Output(c) | | | | | | |
| Private consumption | 2.4 | 5 | 4 | 3 1/2 | | |
| Private investment | | | | | | |
| Dwellings | 1.1 | 12 | 10 | 8 | | |
| Total business investment(d) | 17.4 | 8 | 6 | 5 | | |
| Non-dwelling construction | 18.5 | -4 | 9 | 8 | | |
| Equipment | 16.9 | 13 | 5 | 3 | | |
| Private final demand(d) | 4.5 | 6 1/4 | 5 | 4 | | |
| Public final demand(d) | 0.0 | 3 3/4 | 2 1/4 | 1 | | |
| Total final demand | 3.6 | 5 3/4 | 4 1/4 | 3 1/2 | | |
| Increase in stocks(e) | | | | | | |
| Private non-farm | -0.4 | 0 | 1/4 | 0 | | |
| Farm and public authority | -0.5 | 1/2 | 0 | 0 | | |
| Gross national expenditure | 2.7 | 6 | 4 3/4 | 3 1/2 | | |
| Exports of goods and services | 10.1 | 3 1/2 | 2 1/2 | 6 | | |
| Imports of goods and services | 12.3 | 12 | 9 | 8 | | |
| Net exports(e) | -0.4 | -2 1/4 | -1 3/4 | - 3/4 | | |
| Gross domestic product (Average measure) | 2.7 | 3 3/4 | 3 | 3 | | |
| Non-farm product | 2.3 | 4 | 3 1/4 | 3 | | |
| Farm product | 15.1 | -5 | -1 | 3 | | |
| Panel B - Expenditure Excluding Transfers and One-off Transactions(c)(f) | | | | | | |
| Total business investment | 13.2 | 13 | 8 | 5 | | |
| Non-dwelling construction | 13.2 | 1 | 10 | 9 | | |
| Equipment | 13.2 | 19 | 6 | 4 | | |
| Public final demand | 2.3 | 1 3/4 | 1 | 3/4 | | |
| Increase in stocks(e) | -0.3 | 0 | 1/2 | 0 | | |
| Gross national expenditure | 3.2 | 5 3/4 | 4 3/4 | 3 1/2 | | |
| Exports of goods and services | 7.4 | 5 1/4 | 2 1/2 | 6 | | |
| Panel C - Other Selected Economic Measures | | | | | | |
| Prices and wages | | | | | | |
| Consumer Price Index (12 th series basis) | 1.3 | 0 | 2 1/2 | 2 3/4 | | |
| - Treasury 'Underlying' measure (12 th series basis) | 2.0 | 1 1/2 | 2 1/2 | 2 3/4 | | |
| Gross non-farm product deflator | 2.3 | 1 1/2 | 3 | 3 1/2 | | |
| Average earnings (national accounts basis) | 4.9 | 4 3/4 | 4 1/4 | 4 1/4 | | |
| Labour market | | | | | | |
| Employment (Labour Force Survey basis) | 1.1 | 1 1/4 | 1 3/4 | 1 3/4 | | |
| Unemployment rate (per cent)(g) | 8.7 | 8 1/4 | 8 | 7 3/4 | | |
| Participation rate (per cent)(g) | 63.5 | 63 1/4 | 63 1/4 | 63 1/4 | | |
| Household income and saving | | | | | | |
| Real household disposable income | 3.8 | 3 1/2 | 3 1/2 | 3 1/4 | | |
| Household saving ratio (per cent) | 4.7 | 3 1/4 | 2 3/4 | | | |
| External accounts | | | | | | |
| Terms of trade(h) | 1.6 | -1 1/2 | -1 1/4 | 1 1/4 | | |
| Current account balance | | | | | | |
| \$billion | -17.7 | -25 | -31 | | | |
| Percentage of GDP | -3.4 | -4 1/2 | -5 1/4 | | | |

(a) Percentage change on preceding year unless otherwise indicated.

(b) Calculated using annual original data.

(c) Average 1989-90 prices.

(d) The ABS has recently advised that it is likely to treat the \$2.4 billion sale of the Dampier to Bunbury gas pipeline by the WA Government in 1997-98 as the sale of a second-hand fixed asset. If so, this would act to lower forecast public investment with an offsetting boost to private investment, although the forecasts in Panel B would be unaffected.

(e) Percentage point contribution to growth in GDP (Average).

(f) Transfers are net second-hand asset sales from the public sector to the private sector. One-off transactions are gold sales by the Reserve Bank of Australia, 'lumpy' imports of aircraft, ships and satellites and exports of ANZAC frigates.

(g) The estimate in the final column represents the forecast level in the June quarter 1999.

(h) Adjusted to exclude computer import prices.

THE OUTLOOK FOR THE INTERNATIONAL ECONOMY

Financial crises in several countries in East Asia and renewed weakness in the Japanese economy have brought a deterioration in the outlook for global economic growth in 1998. Continuing solid, but more sustainable, growth in North America and a consolidation of growth in Europe is, however, expected to support world growth of 3 per cent in 1998. The world economy is expected to improve in 1999 to growth above the average level since 1970. Inflationary pressures are expected to remain subdued in major industrial countries.

Table 2: Economic Indicators for Selected Countries and Groupings

| | GDP Growth(a) | | | | CPI Inflation(b) | | | |
|-------------------|---------------|------|---------|---------|------------------|------|---------|---------|
| | 1996 | 1997 | 1998(e) | 1999(e) | 1996 | 1997 | 1998(e) | 1999(e) |
| United States | 2.8 | 3.8 | 2¾ | 2 | 2.9 | 2.3 | 2 | 2½ |
| Japan | 3.9 | 0.9 | ¼ | 1¼ | 0.1 | 1.7 | ½ | ¼ |
| Germany | 1.4 | 2.3 | 2¾ | 2¾ | 1.5 | 1.8 | 1½ | 2¼ |
| OECD(c) | 2.8 | 3.1 | 2½ | 2½ | 4.3 | 3.7 | 3½ | 3 |
| World(d) | 4.1 | 4.1 | 3 | 3¾ | - | - | - | - |
| East Asian MTP(f) | 7.1 | 6.2 | 2 | 4 | 5.2 | 3.6 | 7¾ | 6¼ |
| Total MTP(g) | 4.9 | 3.9 | 1¾ | 3 | 3 | 2.5 | 3¾ | 3¼ |

(a) Major Trading Partners (MTP) GDP growth is calculated using Australian merchandise export trade weights.

(b) The GDP deflator in the case of the OECD. MTP CPI inflation is calculated using Australian total merchandise trade weights.

(c) OECD *Economic Outlook 63* historical and forecast figures.

(d) IMF *World Economic Outlook May 1998* historical and forecast figures.

(e) Unless otherwise stated, forecasts are Treasury forecasts.

(f) Australia's East Asian MTP are China, Hong Kong, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand.

(g) East Asian MTP, Canada, France, Germany, Italy, Japan, New Zealand, the United Kingdom and the United States comprise Australia's total MTP.

Source: Various national statistical publications, OECD, IMF and Treasury.

The East Asian Crisis and Regional Outlook

A feature of world economic developments in 1997 of particular relevance to Australia was the financial turmoil which affected the East Asian region, especially Indonesia, Korea and Thailand. The onset of the crisis in the second half of 1997 was marked by sharp declines in currency and equity markets, as a sudden loss of confidence by investors in the face of accumulating evidence of underlying economic difficulties precipitated a large outflow of capital from the region. Following concerted international action, the situation in the countries concerned has generally stabilised. There has been a significant recovery in currency and equity markets, although to levels still well below those prevailing before the crisis.

The origins of the regional crisis can be traced back to underlying structural weaknesses in the financial sectors of a number of countries, together with large-scale capital flows and policy weaknesses, which led to over-heating of economies in the region, the emergence of major imbalances and an asset price spiral in the commercial and industrial property sectors. Private investment in the affected economies was financed increasingly by short-term, unhedged, foreign borrowings. The subsequent collapse in currencies left many borrowers unable to repay and service remaining foreign currency denominated loans.

The downturn exposed underlying weaknesses in corporate governance, lending practices, prudential and supervisory standards and a lack of transparency. Corporations and financial institutions carried excessive foreign borrowing exposures. Lending practices gave insufficient weight to profits and debt servicing capacity and placed too great a reliance on commercial property and other asset backing as collateral, or reflected government use of 'directed' lending to favoured industry and infrastructure projects.

Measures to deal with the weaknesses revealed in financial sectors are core requirements of the International Monetary Fund (IMF) supported programmes for Indonesia, Korea and Thailand. In addition, these programmes recognise that a return to sustained growth will be promoted by other structural reforms, including reductions in barriers to trade and direct foreign investment, acceptance of the need for transparent and arms-length dealings between government and business, the dismantling of monopolies, and the commercialisation and sale of state-owned enterprises.

The financial and currency market fall-out has impacted on activity in the region, with an abrupt slowing in growth, a corresponding rise in unemployment and higher inflation. There has been considerable disruption of trade flows and trade credit, and widespread banking and business failures. The sharp contraction in domestic demand associated with the loss of confidence and corrective action has already contributed to a noticeable improvement in current account balances, aided by some pick-up in exports from improved competitiveness. The full impact of developments in the region is expected to be felt in 1998-99, with a modest rebound in activity forecast for the second half of 1999.

The shape and timing of economic recovery will depend upon both the scale of the task confronting the troubled economies and the responses of the governments concerned. The outlook depends on how vigorously necessary reforms are implemented by governments and the time it takes to re-establish financial stability and lock in the competitive gains from lower exchange rates. A noticeable pick-up in activity in Korea and Thailand should be apparent in 1999, after flat or negative growth in 1998. In Indonesia, where the deterioration has been more severe, the turnaround may take longer. In all three countries inflation is expected to rise sharply in 1998 before starting to moderate in 1999.

The outlook for Japan is a matter of concern. Not only is Japan heavily exposed to regional developments, its domestic economy is experiencing substantial weakness and showing no signs of an early turnaround. Weak consumer and investor confidence point to the prospect of little or no growth in Japan in the year ahead — although a range of government fiscal initiatives announced should provide some impetus to domestic demand. Export growth is expected to weaken in the face of weaker regional economic conditions in particular, but import growth is expected to slow significantly as a result of subdued domestic demand. In net terms, the external sector's contribution to growth in Japan will remain positive, but weaker, in 1998.

Substantial policy challenges face Japan. Its problems are essentially structural in nature and long standing, overlaid by major macroeconomic imbalances associated with a shortage of domestic demand. The economy is struggling with a substantial public debt burden, a still substantial asset price overhang, a weakened financial sector, low productivity growth and a rapidly ageing population. While some progress has been made on structural reform, including the financial sector reforms that commenced on

1 April 1998, and deregulation of the telecommunications and transport sectors, there continues to be a need to advance regulatory reform on a broad front.

The economic conjunction in Japan has demanded a re-assessment of macroeconomic policies, strongly urged by other major industrial countries. With only marginal scope to further reduce interest rates, fiscal settings have been made more expansionary in a number of steps since October 1997. The most recent package foreshadows tax cuts and additional spending of yen 16.7 trillion, equal to about 3¼ per cent of GDP. An issue facing the Japanese government is the task of striking a balance between providing short-term stimulus to economic activity and pursuing medium-term fiscal consolidation plans.

China's growth is expected to slow from the 8.8 per cent recorded in 1997, reflecting some easing in domestic demand, a build-up in inventories, a commercial property overhang in some regions and a slowing in export growth and foreign direct investment. The government has given repeated assurances that it will not devalue the currency which it sees as an important contribution to helping restore regional stability. This will, however, place more of the burden for meeting the official growth target on domestic activity.

In New Zealand, growth in activity slowed to 2.2 per cent in 1997 as the pace of domestic demand growth declined from its previous high rates and net exports continued to detract from growth. Domestic demand is expected to remain subdued in 1998 largely as a result of the effects of high real interest rates domestically and of weaker external demand on income growth.

Developments and Outlook in Other Regions

Prospects for North America and continental Europe remain positive and underpin a continuing sound international environment in spite of the weakness in Asia.

The resilience of the expansion in the United States is impressive — with growth in GDP of 3.8 per cent in 1997, the strongest in 9 years. As a consequence, the unemployment rate has fallen to its lowest level in 24 years. The health of the United States economy, in part, reflects sound fundamentals. The budget has been returned to surplus, inflation expectations have fallen, and both headline and core inflation remain at historically low levels.

Growth in activity has been driven by strong private consumption and investment spending which in turn has supported robust employment growth. In 1998, growth in industrial production is expected to slow from recent rapid rates in response to weaker domestic demand, lower net exports to Asia, and inventory adjustments. The combined effects of a significantly stronger currency and weaker export demand from Asia should result in an increased net export deduction from growth this year. With an expected slowdown in economic activity and weaker corporate profitability, investment expenditure should increase more slowly through 1998 and into 1999.

There are some risks to the United States outlook. The economy is operating at close to full capacity, and there are some signs of a pick-up in wage costs. The strength of the US dollar and the expected increase in cheaper imports from Asia should help to contain

these pressures in 1998. Inflationary pressures, however, are likely to mount without a slowdown in the United States economy to more sustainable levels. In addition, some widening of the current account deficit is expected, which could give rise to trade tensions. The stock market has grown strongly, increasing the possibility of a sizeable correction; any such development could have important consequences for global financial markets.

The outlook in continental Europe seems positive, supported by favourable macroeconomic settings. There appears to have been substantial fiscal consolidation and convergence to a low inflation and low interest rate environment as countries prepare for the commencement of the European Monetary Union. With the expansion being only relatively recent, there is the prospect of a further pick-up in growth as private consumption consolidates and business investment expenditure strengthens. This is expected to outweigh any slowdown in net exports resulting from weaker Asian demand. Despite the improved outlook, structural reform will remain a priority in continental Europe in tackling high levels of unemployment within the unified currency framework.

The United Kingdom economic cycle, like that in the United States, is at an advanced stage. In response to a stronger currency and the tightening of monetary policy over the past 18 months, growth is expected to slow from the 3¼ per cent recorded in 1997 to a more sustainable rate in 1998.

Substantial shifts in current account balances of countries in different regions are likely to occur in 1998. For the United States and Europe, strong domestic demand and strong currencies will act to reduce surpluses or increase deficits, while weak domestic demand but increased export competitiveness will strengthen current account positions in East Asia. It will be important that such a development be seen as part of the adjustment to events in Asia within the framework of a continued favourable global outlook and not as evidence of major bilateral structural distortions. Any resort to trade action, for example, would harm the adjustment process and also affect the interests of countries not directly involved, such as Australia.

THE EFFECT OF INTERNATIONAL DEVELOPMENTS ON THE DOMESTIC ECONOMY

The financial and economic crisis in Asia will have a significant influence on the Australian economy in 1998-99. The most obvious effects will be on export volumes and prices, resulting in lower levels of exporters' incomes than would otherwise be the case, with consequent impacts on output and employment elsewhere in the economy. However, as is already evident, the exchange rate will also be affected by these developments, in part influencing the manner in which the overall impact is shared throughout the community. A lower exchange rate than otherwise would have occurred will tend to lessen the impact of lower world demand and prices on exporters' incomes while increasing the impact on consumers through higher import prices. There will also be other financial sector implications to consider, in particular the already observable tendency for lower bond yields. In addition, there will be indirect effects, not only as the impacts in the trade sector flow through into related sectors but also more generally as a result of impacts on household and business confidence. While the timing and magnitude of these effects are subject to uncertainty, it is important to keep in perspective the impact on Australia's overall export prospects of developments in specific markets.

Direct Effects on Export Volumes

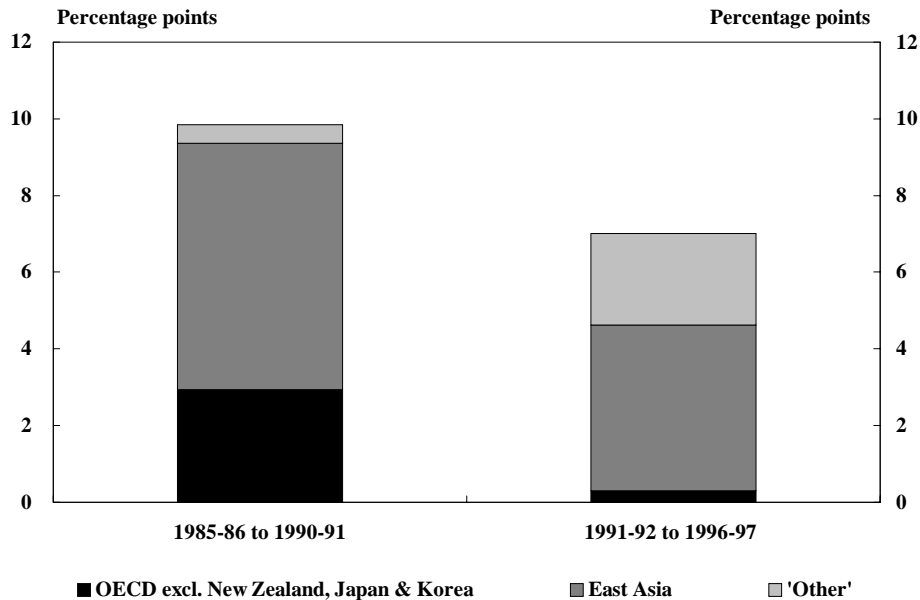
Factors Influencing Export Growth

Australia has a diverse range of exports covering rural and non-rural commodities, manufactures and services. Not surprisingly, reflecting this diverse base, there are a great many factors affecting Australia's export performance. As a result, attempts to analyse the direct impact on Australia's exports of developments in Asia using a simple framework based on export shares to the region and expected movements in GDP are likely to produce misleading results. In the past, such a framework has not provided a good basis for forecasting growth in Australia's export volumes, either to specific markets or in total.

There are several important factors that this simple framework does not incorporate. For instance, it does not allow for diversification of trade and the diversion of exports to alternative markets. These features have been characteristics of Australia's export performance throughout the 1990s. As indicated in Chart 1, the importance of various markets in contributing to growth in Australia's merchandise exports has varied over the 1980s and 1990s. During the 1980s, the importance of the non-Asian OECD countries to Australian export growth diminished; a trend that continued in the 1990s. In the 1980s, exporters found new markets in the rapidly growing East Asian economies. But the contribution to total export growth from those markets has declined in the 1990s, particularly in recent years. During the 1990s, markets outside the OECD and East Asia have contributed more significantly to growth in Australia's exports.²

² Included in this group of other countries are New Zealand, Fiji, Papua New Guinea, the Indian sub-continent, South Africa, the Middle East, Eastern Europe, the former Soviet Union, and South America.

Chart 1: Contributions to Merchandise Exports Growth, by Destination



Source: ABS data on the Department of Foreign Affairs and Trade's STARS database.

The recent strong growth in markets outside the OECD and East Asia has been broadly based. Very strong rates of growth have been sustained during the 1990s for exports to the Oceania countries (particularly New Zealand but also, more recently, Fiji and Papua New Guinea) and to South Africa. Complementing this over the past few years has been a strong acceleration in exports to the Indian sub-continent and a sharp reversal of the previous downward trend in exports to the Middle East and non-OECD Europe. In recent years, of all the countries in this 'other' grouping, only exports to South America have not kept pace with or exceeded previous average rates of export growth.

The relative strength of export growth to these emerging markets in the 1990s is also apparent across the major export classifications. Exports of non-rural commodities to this group increased on average over the 1990s at a double digit rate, with some slight acceleration in the past two years. This is faster than the overall growth in non-rural commodities over this period. Exports of manufactures to 'other' countries have increased by more than 16 per cent per annum since the mid 1980s, with slightly faster growth in the past two years. In comparison, exports of manufactures to all countries increased at a similar rate to this up to 1994-95, but there was a significant deceleration in the subsequent two years. Exports of rural products to these 'other' countries have increased significantly in the past two years, reversing an earlier downward trend. This outcome largely reflects increased cereal exports to the Middle East.

The diversification of export markets which has contributed to Australia's export growth in recent years demonstrates that it is inappropriate to view trade shares as being fixed. This is particularly important in the current international environment of weaker demand in East Asia but stronger growth in the United States, Europe and the rest of the world. Such a situation may well result in even greater diversification of Australia's export markets, although the speed with which individual exporters can establish alternative

markets will vary. Nevertheless, as outlined below, greater diversification is likely to be encouraged by recent exchange rate movements.

A further factor that needs to be considered in assessing the impact of developments in East Asia on Australia's exports is that GDP growth in specific export markets has not proved to be a good indicator of growth in Australia's exports to those markets. Demand for many rural commodities tends to be influenced more by movements in population and changes in tastes and the stage of economic development than by any indicator of output or income. Demand for non-rural commodities tends to be related to trends in industrial production which, depending on the maturity of the economy and the relative importance of the services sector, might display a cyclical pattern somewhat different from that of GDP growth or growth in domestic demand in particular markets. In the case of some Asian economies in particular, many Australian exports are intermediate inputs into local production which is exported elsewhere; GDP growth in these economies will be an inappropriate indicator of the resultant demand for Australian exports.

Related to the above, a key factor influencing Australia's exports to any market will be the relative competitiveness of Australian producers. This will be important both in determining the aggregate level of exports and its distribution across countries. The relevant measure of competitiveness will include not only Australian production costs but also transport costs and exchange rate relativities, and will be affected by the presence of subsidies offered by competitors. More subjective factors will also be important, including desires to maintain stable trading relationships.

A particularly important aspect to be taken into account when considering the impact of developments in specific markets is the importance of supply considerations in influencing the performance of commodity exports. Rural exports are a good example of this, where farm production has been the main influence on the volume of Australia's exports in the short term rather than developments in any market. As a relatively low cost producer, Australia has the ability to vary sales to other markets as supply circumstances dictate for the majority of rural exports. Supply considerations are also an important influence on changes in exports of non-rural commodities.

The total amount of Australian production exported, and its distribution across countries, will thus be determined by a range of factors, and not simply GDP growth in specific markets. Importantly, export shares will be the final outcome of the process, not the principal determinant.

Impact of the Slowdown in Asia

Having regard to the above factors, in aggregate, **rural commodity** exports are likely to be less affected than many other exports as a result of developments in Asia. This is because the volume of rural exports is primarily supply-determined, with relatively low levels of responsiveness to variations in income growth in countries of destination. However, within this overall picture, there are individual rural commodities where demand from Asian economies will be seriously affected and where there is little opportunity of finding alternative markets; examples include exports of live cattle and horticultural products.

With demand for rural exports in aggregate relatively unaffected by developments in the troubled Asian economies, the main influence on the growth of rural exports in 1998-99 will be weather conditions and production. Although farm production is estimated to have fallen in 1997-98, it is likely to have remained at a high level; concerns in early 1997 about the impact of adverse weather conditions were largely unrealised due to timely rainfall which resulted, for example, in above-average levels of cereals production. The assumption of average seasonal conditions for 1998-99 implies a slight decline in rural production, although again the level of production is expected to remain high by historical experience. Coupled with a relatively low level of carry-over stocks at the end of 1997-98, this production profile suggests that rural export volumes should decline by around 1 per cent in 1998-99, following a small increase in 1997-98.

As noted previously, supply factors are also a very important determinant of the volume of **non-rural commodity** exports. This is particularly relevant at present, with strong growth in mining investment resulting in significant increases in supply capacity. Moreover, the recent decline in world prices for non-rural commodities has been largely offset by the depreciation of the exchange rate, with the result that the domestic currency returns to commodity producers have been maintained, if not increased, and this has encouraged continued high rates of capacity utilisation.

While East Asia has been the major market for Australia's exports of non-rural commodities, the homogeneity of many of the products and the fact that they are freely traded on established world markets means that there is considerable scope to divert sales to other markets. To some extent this diversion has been occurring within Asia; for example, some producers have increased sales of bulk commodities to Taiwan and China to compensate for reductions in sales to Japan and Korea. Alternatively, the diversion might occur in relation to markets less directly affected by developments in Asia; the continuing solid growth forecast for OECD industrial production — influenced by the favourable outlook for overall activity in the United States and Europe — is of particular importance in this regard. In addition, the substantial nominal depreciation of a number of Asian currencies will help to sustain export growth from these countries, which will cushion the impact on those Australian non-rural commodity exports — especially the bulk ores — that are intermediate inputs in Asian export production. However, the eventual effect will depend on the ability of the Asian countries to convert nominal exchange rate depreciation into sustained competitiveness improvements.

While there is scope to divert Australia's commodity exports away from the troubled Asian economies, the overall demand for Australia's commodity exports will be influenced by the fact that world activity and world industrial production will be adversely affected by developments in Asia. As a consequence, the volume of non-rural commodity exports in 1998-99 is forecast to grow modestly, by around 2 per cent (after abstracting from the boost to exports in 1997-98 from Reserve Bank gold sales in the September quarter 1997).

Exports of **elaborately transformed manufactures** (ETMs) are more sensitive to changes in income in countries of destination than either rural or non-rural commodities, and are thus more susceptible to adverse impacts from the slowdown in Asia. However, Asian economies have been of relatively less importance as destinations for such products than is the case for commodities. A factor contributing to ongoing strength in exports of manufactures during the 1990s has been the ability of Australian

manufacturers to compete vigorously in terms of prices. Highlighting a willingness to accept lower margins to increase export sales, the relevant export price index in Australian currency terms has fallen throughout the 1990s in an environment of subdued increases for domestic output prices. This practice is expected to continue over the year ahead. Moreover, the net effect of recent bilateral exchange rate movements has been broadly to maintain the overall competitiveness of Australian producers, although their competitiveness relative to some Asian producers will have declined significantly. Overall, developments in Asia have significantly weakened the outlook for ETM exports. The volume of ETM exports is forecast to grow by around 7 per cent in 1998-99, compared with an average growth rate of 16 per cent over the past decade.

Services exports are also sensitive to changes in income in importing countries, and therefore will be significantly affected by the downturn in Asia. Indeed, outcomes have already been adversely affected, particularly in relation to tourism receipts, as a result of a sharp fall in Asian visitors. However, it is likely that reduced visitor numbers from Asia will eventually be partially offset by increased arrivals from other markets (particularly North America and Europe) as a result of exchange rate movements which have improved Australia's competitiveness in those markets. The continuing relative strength of North America and Europe will also help sustain growth in business service exports. As with ETM exports, growth in overall services export volumes is forecast to be significantly weaker than the average experienced since the mid-1980s; a rise of 3 per cent is forecast for 1998-99, compared with an average growth rate of 8 per cent over the past decade.

In summary, while it is important to keep the developments in Asia in perspective, and not rely on simple frameworks based on fixed trade shares, the volume of Australia's exports will be adversely affected by the financial and economic crisis in Asia. The extent of the impact will vary across export categories. Abstracting from the effect of irregular transactions (such as gold sales and the export of ANZAC frigates), exports of goods and services are estimated to increase by 5¼ per cent in 1997-98 and are forecast to increase by 2½ per cent in 1998-99. By contrast, the average rate of growth over the previous decade was around 7 per cent.

This outlook, however, remains uncertain. A weaker world environment than currently forecast could result in a more pronounced easing in export growth than expected. Conversely, the ability of Australian exporters to continue diverting sales to less affected markets could mean that exports remain more resilient than forecast.

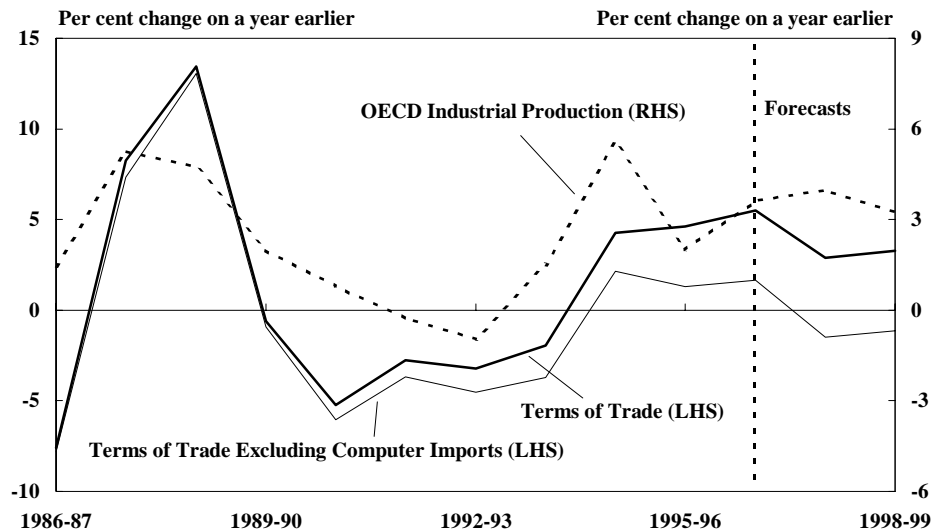
Direct Effect on Export Prices

A weaker external environment will not only adversely affect export volumes, but will also impact on export prices. This downward pressure is already evident, particularly in relation to commodities. Since the onset of the financial crisis in Asia, world prices for commodities of importance in Australian trade, expressed in either SDRs or US dollars, have fallen by around 8 per cent. Although the price falls to date have been sharp, they are not large by historical standards, and a reasonable degree of stability has been evident since mid-January 1998. Some further weakness in world commodity prices cannot be ruled out, but underlying support should be forthcoming if the continuing solid growth expected in OECD industrial production (excluding Japan) throughout 1998 and 1999 eventuates. For Australia, the decline in world commodity prices to date has been

entirely offset by exchange rate movements. In Australian dollar terms, commodity prices in April 1998 were around 4 per cent higher than at the onset of the crisis, and at a level which compares favourably with the average experience of the 1990s. As noted above, these developments provide encouragement for commodity producers to maintain production rates, and also have been a major factor supporting the terms of trade.

In analysing movements in the terms of trade (as currently published) it is necessary to allow for the effect of changes in computer prices.³ The rapid fall in computer prices, combined with the increasing importance of computers within Australia's imports, has a major depressing influence on the growth in overall import prices. An indication of this effect, both in recent years and as forecast, can be gained by comparing the estimated changes in the terms of trade, both including and excluding computer imports, shown in Chart 2. Abstracting from computers, the terms of trade fell sharply late in 1997, principally the result of the exchange rate depreciation feeding into higher import prices. It is likely that the terms of trade (abstracting from computers) weakened further during the first half of 1998; exchange rate induced increases in import prices early in the year are likely to have been combined with falls in Australian dollar denominated commodity prices (in part reflecting falls in negotiated coal prices for export to Japan). The terms of trade index (abstracting from computer imports) is forecast to rise gradually during 1998-99, reflecting the expected ongoing strength in OECD industrial production. Allowing for the effect of continuing significant declines in computer prices, solid increases in the published terms of trade are expected for both 1997-98 and 1998-99.

Chart 2: The Terms of Trade and OECD Industrial Production



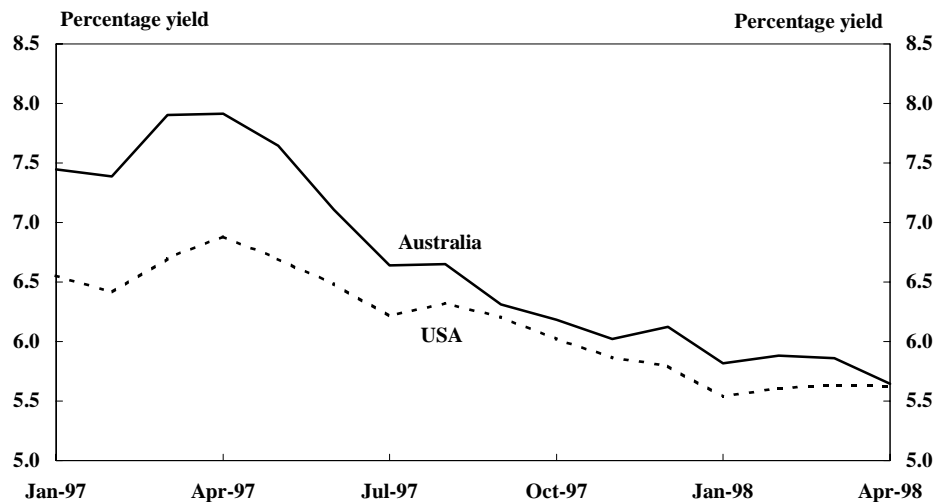
Source: ABS Cat. No. 5302.0, OECD and Treasury.

³ The ABS is in the process of introducing chain-linked volume indexes for national accounts estimates. For items where computers are relatively important, chain-linking will provide different estimates of rates of growth from those currently published. Those items particularly affected are equipment investment, imports of goods and services and the terms of trade.

Financial Linkages

Australia appears to have benefited from the shift of world capital flows from a number of the Asian economies to more stable markets. Partly reflecting this 'flight to quality' and an ongoing favourable inflation outlook, long-term bond yields in Australia have continued to fall over recent months. The yield on 10 year government bonds has fallen by around two percentage points over the past year. At the same time, the differential between Australian and US 10 year bond yields has narrowed further, falling from around 100 basis points a year ago to be near parity recently (Chart 3), and the Australian stock market has risen accordingly. If sustained, higher stock prices and lower bond yields should have a stimulatory effect on domestic spending, helping to offset the negative impact on activity resulting from weaker export growth.

Chart 3: 10 Year Interest Rates for Australia and the United States



Source: Reserve Bank of Australia.

As noted earlier, the depreciation of the exchange rate against the US dollar has been important in offsetting declines in world commodity prices and maintaining domestic currency returns to commodity producers. The Australian dollar has also depreciated against the currencies of the other major industrial countries and appreciated against the currencies of the East Asian countries. The former group of countries are more important to Australia as a source of imports while the latter set of countries has been an important destination for Australia's exports. Accordingly, these exchange rate movements have led to an unusually large gap between the export-share and import-share weighted exchange rates, with the export-share weighted exchange rate rising by around 7 per cent in the March quarter compared with a 2 per cent increase in the import-share weighted exchange rate.

By itself, the higher export-share weighted exchange rate suggests that there has been a deterioration in competitiveness. However, other exchange rate measures indicate a modest improvement in competitiveness over the past year that will help stimulate Australian exports. An exchange rate index constructed using multilateral trade weights allows for changes in competitiveness arising from exchange rate movements against those countries which compete against Australia in world markets. Although volatile in

recent months, this 'third-country' export-share weighted exchange rate has depreciated slightly over the past year, indicating a small improvement in Australia's competitiveness. The depreciation against the US dollar has also provided a boost to competitiveness, given that a large proportion of trade contracts are written in US dollars.

Indirect Effects

Any direct impacts on export volumes or the terms of trade will be reflected in sectoral incomes, with consequential indirect effects on expenditures, output and employment. A more uncertain, but equally important, channel through which weaker external conditions can impact on domestic activity is through a decline in business and consumer confidence.

Business surveys show a significant decline in business confidence over the past six months. At the same time, however, most such surveys indicate that actual trading performance has continued to improve. At this stage, it would appear that business decisions are related more to actual outcomes than to sentiment. Short-term employment expectations remain firm and reported job vacancies continue to rise. Year-ahead capital expenditure plans also remain firm, showing no downgrade in response to the decline in confidence.

There has been some recent volatility in surveys of consumer confidence, with increased pessimism evident in relation to consumers' perceptions about the state of the economy. However, perceptions about consumers' own financial positions remain sound and at a level which is comparable with the average experience of recent years. Recent indicators of consumer spending have been mixed, but the continuing strong growth evident in consumer credit suggests that any increased uncertainty is yet to have a significant impact.

Nevertheless, it is likely that consumer and business confidence will continue to be influenced by substantial media reporting of the 'Asia crisis'. This uncertainty may result in lower levels of private sector expenditures than would otherwise be the case, magnifying the overall effects of developments in Asia on domestic activity. Such effects are inherently difficult to estimate, both in terms of magnitude and timing. Nevertheless, some allowance has been incorporated in the forecasts, but with impacts on decision-making assumed to be more pronounced for business than for households.

In summary, the Asian crisis will have a significant impact on domestic economic activity. Lower export incomes and indirect effects on investment, consumption and employment growth will produce a substantial detraction from economic growth. In the absence of developments in Asia it is likely that the momentum in domestic activity evident in much of 1997 would have continued to build. That would have resulted in very strong growth in 1998-99, most likely stronger than the estimated outcome for 1997-98 of 3¾ per cent.

THE OUTLOOK FOR THE DOMESTIC ECONOMY

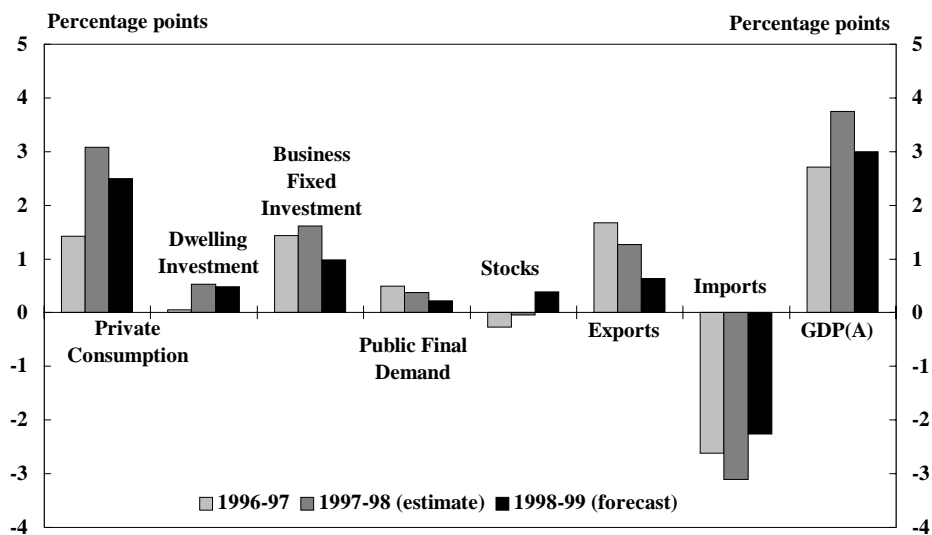
Forecasting Assumptions

The forecasts for the domestic economy have been developed in the context of the international environment outlined previously. In line with usual practice, it is assumed that nominal exchange rates remain broadly unchanged from average levels reached in recent months. The farm sector forecasts have been prepared on the assumption that seasonal conditions result in average yields across the range of major commodities.

Demand and Output

Solid economic growth is expected in 1998-99, although lower than in 1997-98, as continued strength in domestic demand cushions the negative effects from developments in Asia. Private demand growth is expected to remain robust, supported by favourable economic fundamentals: inflation is low; interest rates are low with part of the stimulus from declines in interest rates still to be felt; capacity utilisation is at a relatively high level; the balance sheets of the household and corporate sectors remain in good shape; the construction cycle is yet to reach its peak; and stock levels should be more responsive to movements in sales.

Chart 4: Contributions to GDP Growth^(a)



(a) Adjusted for transfers and one-off transactions as noted in Table 1.
Source: ABS Cat. No. 5206.0 and Treasury.

Private Consumption

Private consumption growth is expected to remain strong in 1998-99, although easing somewhat from the rapid pace of 1997-98. Helping to limit the extent of this slowdown will be a likely boost to expenditure by households from the demutualisation of the AMP Society (see Box 1).

BOX 1: THE EFFECT OF THE AMP DEMUTUALISATION ON PRIVATE CONSUMPTION

The demutualisation of the AMP Society involves the Society's listing on the stock exchange with members receiving shares in AMP in exchange for forgoing membership rights in the mutual society. After the listing, which is scheduled for mid-1998, AMP shareholders will be able to sell their shares, if they choose.

Since most AMP members are unlikely to have placed a monetary value on their membership in the mutual society, the shares they receive are likely to be viewed by them as a windfall gain. If members sell their shares, this gain will take the form of cash, while if they retain their shares, their perceived value of wealth will rise. While the sale of AMP shares will be matched by corresponding purchase transactions, the latter will be a reallocation of the financial assets of the purchasing parties. Part of the gains to AMP members is likely to be used to finance additional expenditure by households, with most of the impact expected to occur in 1998-99. Depending on the exact nature of the expenditure, it is possible that some household spending on home improvements would be classed in the national accounts as investment in alterations and additions rather than consumption.

This boost to consumption is likely to be similar to the recent United Kingdom experience, where consumers increased their expenditure using part of the gains from a number of large demutualisations. These consumers spent most money on home improvements, holidays and travel and household durables.⁴ Around one-third of shares were sold in the months after listing, with around one-third of the proceeds used to finance additional consumption. Almost no members spent their gains in advance of the demutualisation.

Using the United Kingdom experience as a starting point, current market estimates of the total value of the shares to be issued suggest that the gains from the demutualisation could finance a considerable amount of additional consumption expenditure in 1998-99, with some analysts indicating the impact could be of the order of ½ percentage point of consumption growth. Such estimates are very uncertain, depending not only on the value of capitalisation of AMP upon listing but also on the behaviour of shareholders; given this, and the economic climate in which the demutualisation will be occurring, the additional assumed consumption effect is more conservative.

Growth in real after-tax labour income is expected to be slightly lower in 1998-99 than in 1997-98, as a result of slightly higher inflation and a slowing in wage growth. However, growth in real household disposable income is expected to remain broadly unchanged. Slower labour income is expected to be offset by interest income growth as the effect of the earlier falls in deposit interest rates fades.

⁴ Robert Fleming Securities Limited, *Economic Comment: Consumer Windfalls*, 13 August 1997. See also the November 1997 Bank of England *Inflation Report*.

Despite the forecast for firm growth in household income, the household saving ratio is expected to decline in 1998-99 to around 2¾ per cent, a little lower than the average ratio over the 1990s to date. The dip in saving is largely explained by increased consumption funded out of the gains from the AMP demutualisation. These types of gains are excluded from the national accounts measure of household disposable income and are therefore not included in the national accounts estimates of saving.

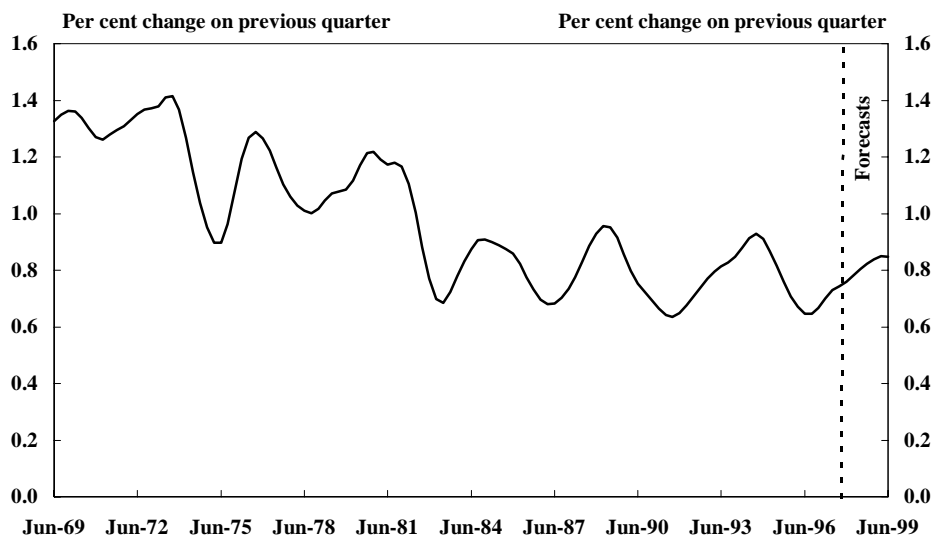
Dwelling Investment

Dwelling investment is expected to grow at a rapid pace in 1998-99, the second year of rapid expansion during this upturn. However, the pace of growth is expected to ease in the second half of 1998-99, as the demand for housing is satisfied by the increase in the dwelling stock. Developments in Asia are also expected to exert some dampening influence on activity in the medium-density sector during the course of the year.

The strength of the housing sector reflects high levels of housing affordability, mainly reflecting the very low level of housing interest rates. The standard bank variable mortgage interest rate is currently 6.7 per cent, the lowest level since 1970, and some introductory rates offered by lenders are considerably lower.

Cumulative increases in dwelling investment of the magnitude forecast are not uncommon during expansion phases of the housing cycle. Indeed, the implied growth in the dwelling capital stock is consistent with past experience (see Chart 5). Compositionally, however, forecast growth in dwelling investment is expected to be somewhat different to past cycles, with a significantly higher real average unit value of dwelling commencements in this upturn. Slower population growth across key household forming age cohorts than in previous dwelling cycles is expected to constrain the number of dwelling commencements in the current cycle. Against this, the historically high real average unit value of dwelling commencements reflects a long-term structural trend toward larger dwellings and also the weaker demand by first-home buyers in this upturn relative to previous experience.

Chart 5: Dwelling Net Capital Stock^(a)



(a) Trend data.
Source: Treasury estimates.

Business Investment

Transfer of ownership of assets can have a significant impact on published estimates of business investment and public final demand. This has been the case in recent years, as is evident from a comparison of the information in Panels A and B of Table 1.⁵ Such asset sales will have no impact on aggregate activity, but can provide a misleading view of movements in individual components. For this reason, it is preferable to abstract from such influences when interpreting fundamental movements in economic activity.

Growth in business investment (exclusive of asset sales) is expected to ease from the double-digit rates of growth experienced in recent years, with this deceleration being particularly marked through the year to the June quarter 1999. A number of fundamental influences will continue to act as a stimulus to investment: surveyed and estimated levels of capacity utilisation are at above-average levels; nominal interest rates are at low levels, with competition between lenders leading to recent falls in lending rates to small business; real interest rates have fallen over the past year; and profitability remains supportive. However, growth in business investment will be constrained by the effects of the Asian crisis on corporate profitability and capacity utilisation. The recent weakening in business confidence as a result of the Asian crisis is also likely to result in some deferral of investment plans.

The balance between these opposing forces is difficult to forecast with any precision. However, the initial investment intentions for 1998-99 from the ABS *Private New Capital Expenditure (CAPEX) Survey* remained quite firm, despite being collected in

5 The recent sale by the WA Government of the Dampier to Bunbury pipeline has not been incorporated in the 1997-98 estimates in Table 1 since at the time of preparation of the forecasts it was uncertain whether the ABS would treat the transaction as the sale of a second-hand asset or a going concern.

January/February at the height of uncertainty about developments in Asia. Normally, in subsequent surveys, these initial investment intentions would be significantly increased as businesses firmed up plans for the actual budget year. The outlook of continuing solid, though easing, growth in investment in 1998-99 is somewhat conservative, in that it assumes a less pronounced expansion of intended investment in subsequent surveys than is normally the case in periods of solid economic growth. The assumed lower realisation of initial intentions seems appropriate in an environment where uncertainty is likely to remain significant.

Investment intentions data from the CAPEX survey provide some information on how positive investment fundamentals and the effect of Asia may translate into investment on an industry basis. The survey data indicate solid growth in business investment in 1998-99 is likely to be concentrated in the services sector, with mining investment expected to plateau after doubling over the past four years. Investment in manufacturing is expected to fall. The importance of the services sector for business investment reflects its importance to the whole economy: it accounts for around 70 per cent of GDP.

In terms of the components of business investment, equipment investment growth is expected to slow in 1998-99 after a number of years of strong growth. While growth should remain solid in line with favourable investment fundamentals, slower growth reflects in part the direct and indirect effects of the Asian slowdown and the natural maturing of the equipment investment cycle. Equipment investment is forecast to slow sharply over the course of 1998-99; abstracting from asset sales, equipment investment is forecast to increase by 4 per cent in the year to the June quarter 1999, compared with the double-digit rates of increase in recent years.

Non-residential construction investment is also expected to slow through 1998-99, but not as markedly as equipment investment. The amount of work in progress and yet to be completed is at a very high level, with a large amount of mining and infrastructure projects under way. This will support a continued high level of activity for some time, despite some Olympics-related projects nearing completion during 1998-99. Approvals are on a rising trend, and leading indicators such as finance approvals point to continued increases in the short term, further adding to the pool of work to be done. The longer planning schedules involved in construction projects suggest that delays and deferrals associated with the effects of developments in Asia are likely to be less evident during 1998-99 than will be the case for equipment expenditures.

Public Final Demand

Abstracting from asset sales, growth in public final demand is expected to continue to slow in 1998 99, largely reflecting slower growth in public consumption.

Public investment in 1997 98 was significantly affected by asset sales. Abstracting from these, public investment in 1998-99 is expected to fall by about the same rate as in 1997-98, with falls evident at both levels of government. Commonwealth government investment will be influenced by continued falls in public trading enterprise investment. State and local investment is expected to fall as Olympics-related spending abates and as some State government infrastructure programmes run their course.

Public consumption is expected to grow more slowly in 1998-99 reflecting slower growth at both the Commonwealth and State government levels, consistent with fiscal consolidation objectives.

Non-farm Stocks

Private non-farm stocks are expected to contribute around ¼ percentage point to GDP growth in 1998-99 after a zero contribution in 1997-98 and a modest detraction in the previous year. The stocks-sales ratio has fallen sharply over recent quarters as sales growth has outstripped growth in stocks. This resumption of a sharp downward trend suggests that any earlier excessive holdings of stocks have now been eliminated, leaving businesses in a position whereby continuing solid growth in sales will be quickly reflected in production outcomes. There is also a possibility that current stocks-sales ratios are below desired levels, in which case a level of stock accumulation in excess of that forecast could be in prospect.

Farm Sector

In 1998-99, on the usual forecasting assumption of average seasonal conditions, the level of gross farm product is expected to remain broadly unchanged, only slightly lower than the most recent peak in farm production in 1996-97. However, there is some variation in the outlook for the main components of farm production, with lower grain production and livestock slaughterings expected to be partly offset by a larger wool clip as some rebuilding of the sheep flock takes place.

Net Exports

Net exports should make a large detraction from GDP growth in 1998-99, though by a slightly smaller magnitude than that in the previous year. Export growth is expected to weaken further in response to international developments (as discussed above), while import growth should remain strong.

The volume of goods and services imported increased at a rapid rate in 1996-97, and a similar rate of increase is estimated to have occurred in 1997-98. A number of factors contributed to this strength: continued strong growth in domestic demand in both years, but particularly in 1997-98; the composition of demand being relatively import-intensive, due to strong growth in consumption expenditure and equipment investment; and a lagged response to relative price movements which, through the course of 1996-97, favoured imports rather than domestically produced goods. Continued strength in domestic demand in 1998-99 is expected to underpin ongoing strong growth in import volumes. However, some easing of growth is in prospect. Domestic demand growth itself is forecast to increase at a slightly less rapid rate. Moreover, the composition of demand growth — with a relatively stronger contribution from construction investment than was the case in the previous year — should also have some dampening influence on growth in the imports-sales ratio. Further, higher import prices stemming from the recent depreciation of the Australian dollar against the currencies of the major industrial countries, including the United States, should act to dampen the effect of strong domestic demand.

Wages

Wage growth in the year to the June quarter 1999 is expected to be slightly lower than growth in the year to the June quarter 1998. The slowing in aggregate wage growth reflects some moderation of enterprise bargaining outcomes more than offsetting a slightly faster pace of award wage growth flowing from the April 1998 Australian Industrial Relations Commission (AIRC) safety net decision.

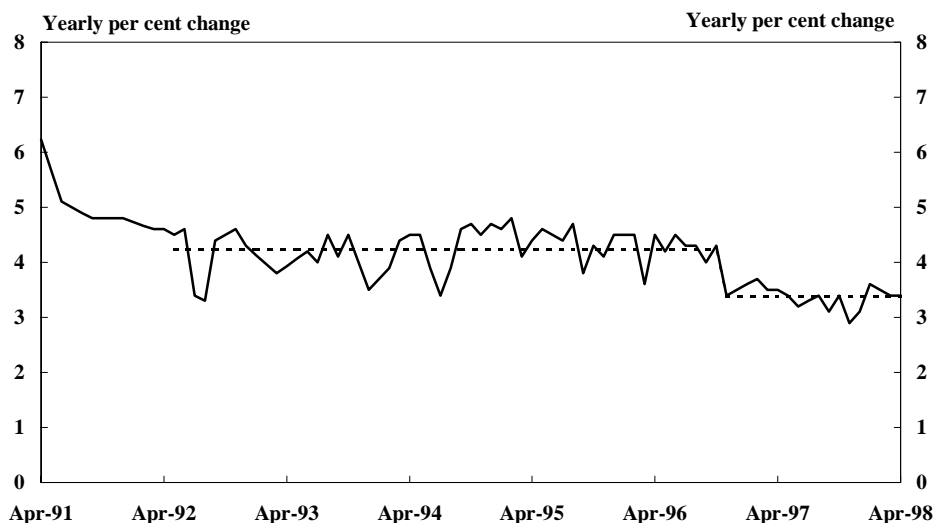
The legislated increase in Superannuation Guarantee contributions made by employers from 6 to 7 per cent on 1 July 1998 will contribute to growth in average earnings (on a national accounts basis) in 1998-99.

Prices

The underlying inflation rate is expected to rise over coming quarters, gradually returning to the Reserve Bank's monetary policy target range of 2 to 3 per cent and remaining in that band throughout 1998-99. By the June quarter 1999, the underlying inflation rate is forecast to reach 2¾ per cent, but with no signs of acceleration. Headline inflation is expected to increase in line with underlying inflation, also reaching 2¾ per cent by the June quarter 1999.

The prospect of continuing low inflation is reflected in low consumer and investor inflation expectations, with median consumer inflation expectations currently near a record low (see Chart 6).

Chart 6: Median Consumer Inflation Expectations



Source: Melbourne Institute of Applied Economic and Social Research, *Survey of Consumer Inflationary Expectations*.

The forecast gradual rise in inflation during 1998-99 primarily reflects the lagged pass-through into retail prices of the higher import prices which resulted in the latter part of 1997 and in early 1998 from depreciation in the Australian dollar against the currencies of major industrial countries. Another factor contributing to the rise is higher

nominal unit labour costs, primarily resulting from a cyclical slowing in productivity growth. Acting in the opposite direction will be the moderating effect of some easing in demand pressure.

Higher import prices are also expected to lead to a gradual increase in broader measures of inflation, such as the gross non-farm product deflator.

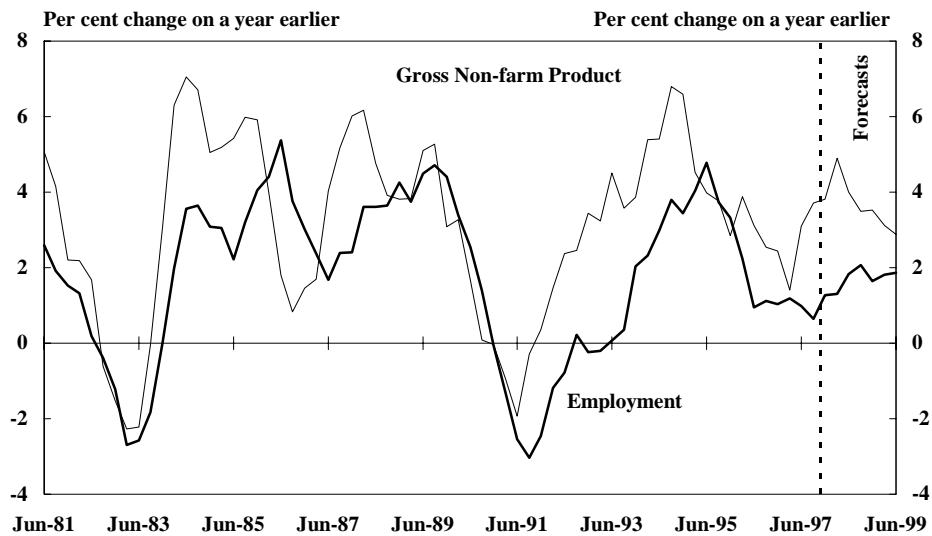
The Labour Market

The labour market is forecast to continue to improve in 1998-99, with further solid employment growth and a small fall in the unemployment rate expected.

Employment growth strengthened during 1997-98 and this momentum is expected to be carried through into 1998-99, underpinned by recent and prospective growth in non-farm activity (see Chart 7).

The outlook for continued solid employment growth is supported by the current high levels of job vacancies, with the ANZ series at around its highest level in three years and the ABS series at its highest level since the series commenced. Continued strong growth in job vacancies suggests that the recent drop in surveyed business confidence has not had an appreciable effect on firms' intentions to hire more staff.

Chart 7: Growth in Employment and Non-farm Activity



Source: ABS Cat. Nos. 5206.0 and 6202.0.

After growing strongly throughout 1997-98, labour productivity is expected to slow over 1998-99, as employment growth responds with a lag to the easing in output growth.

The unemployment rate is forecast to fall to 7¾ per cent by the June quarter 1999, its lowest level since the December quarter 1990.

The strong increase in employment in 1997-98 translated almost fully into a decline in the number of unemployed, as the participation rate remained broadly stable. The participation rate is forecast to rise slightly during 1998-99 in response to modestly improving employment opportunities. Housing affordability also appears to be an important factor in the decision whether or not to participate in the workforce. In this regard, the ongoing high level of housing affordability and its impact on existing mortgage repayment obligations might mean that the stimulus to labour force participation continues to be less than would otherwise be the case.

The Current Account Balance

The current account deficit is expected to increase to around \$31 billion, or 5¼ per cent of GDP, in 1998-99. This anticipated rise is due to lower net export volumes and an increase in the net income deficit, partly offset by an increase in the terms of trade. The widening of the deficit is expected to be concentrated in 1998 with some narrowing occurring in 1999. As a per cent of GDP, the outcome for a particular quarter will be higher than that forecast for the year as a whole.

Statement 3 of this document compares the forecast increase in the current account deficit with past current account deficit episodes.

Uncertainties Surrounding the Outlook

The events in Asia over the past year or so highlight some of the uncertainties associated with economic forecasting. While there was some awareness of the policy shortcomings of the Asian economies, along with the threat they posed to economic stability, the timing and extent of the financial and economic crisis was not predicted. The unpredictability of these developments underlines the difficulty of appropriately incorporating risks to the economic outlook, but at this stage three broad issues warrant consideration: the direct and indirect effects of international developments; the extent to which weather conditions might depart from 'normality'; and the extent to which current monetary conditions might underpin greater strength in domestic spending than forecast.

As outlined above, the downturn in Asia is an important factor impacting on the domestic outlook. However, the extent and timing of this impact is particularly uncertain, partly because it relates to the outlook for world activity itself. While there now appears to be greater stability in financial markets in most of the troubled Asian economies, the full effects of developments on real activity are still to be felt in these economies. Of particular concern is the outlook for Japan. A sharper and more protracted weakening in Japan than currently forecast could have significant impacts on world industrial production, with consequent implications for the volume and prices of Australian exports. This would be especially so if weakness in Japan was combined with a more pronounced slowing toward sustainable growth in the United States and weaker than expected growth in Europe. Furthermore, a tightening in monetary policy in the United States and/or a sharp correction in stock prices could have significant implications for financial markets in other countries. Conversely, activity in the United States has continually surprised on the upside for some years without introducing sustained inflationary pressures, and may continue to do so over the next year. In addition, the strengthening of growth in Continental Europe may gather further pace than expected in

response to current relatively accommodating monetary settings. The outlook for international activity thus seems to be finely balanced.

There are necessarily uncertainties about the magnitude and timing of the impacts of these international developments upon the Australian economy. While the forecasts allow for a significant adverse direct impact, various factors could result in the impacts being overestimated. In particular, increases in supply capacity, continuing high Australian dollar returns to commodity producers, continued competitiveness of Australian exporters and their proven ability to expand sales into emerging markets may lead to export outcomes being higher than expected. Uncertainties surrounding indirect influences are also very large, and difficult to assess. Further weakening in business and consumer confidence could obviously result in lower levels of private sector expenditure than currently assumed. However, while events in Asia have already resulted in a decline in business confidence, the impact to date on expenditure plans appears to be modest. In particular, short-term employment expectations remain firm and year-ahead capital expenditure plans show no signs of deferral. If actual trading performance continues to grow solidly, as forecast, it could be that continuing high levels of private sector uncertainty fail to impart a constraining influence on overall activity to the extent incorporated in the forecasts.

The prospect of drought continues to pose a risk to farm production, though useful rains occurred during April throughout much of south-east Australia and the Bureau of Meteorology is cautiously optimistic about relatively normal rainfall patterns in the longer term. Nevertheless, follow-up rains are still required to ensure average seasonal conditions are achieved. If this does not occur, farm production could be lower than forecast, with flow-on effects to rural exports and GDP growth.

For private sector activity as a whole, the extent of the stimulus to private demand from current monetary conditions is an important uncertainty. The reductions in the official interest rate in 1997, competition-induced reductions in market interest rates and the decline in bond yields will all have a positive effect on activity in 1998-99. Some uncertainty relates to the extent of stimulus that should be incorporated in the forecasts, with the possibility existing that impacts on activity will be stronger, and more persistent, than assumed.

PART II: FISCAL OUTLOOK

OVERVIEW

The underlying balance is expected to be in surplus by \$2.7 billion or 0.5 per cent of GDP in 1998-99 — the first surplus since the early 1990s. Increasing surpluses are projected for the outyears, consistent with the medium term fiscal strategy (see Table 3). By 2001-02, the underlying budget balance is projected to be in surplus by around 2 per cent of GDP, a turnaround of over 4 per cent of GDP on the \$10.3 billion deficit in 1995-96.

The large headline surpluses in prospect reflect both the move into underlying budget surplus and equity asset sale proceeds, including those from the Government's decision to sell the Commonwealth's remaining equity in Telstra.

Table 3: Summary of Budget Aggregates

| | 1997-98 | | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---------------------------|---|--------------|-------------|-------------|-------------|--------------|
| | Budget | Revised | Estimate | Projection | Projection | Projection |
| | \$million | | | | | |
| Revenue | | | | | | |
| Tax | 129433 | 130827 | 138172 | 146371 | 155595 | 165956 |
| Non-tax | 3918 | 4621 | 6086 | 4928 | 4605 | 5140 |
| Total | 133351 | 135448 | 144258 | 151299 | 160200 | 171096 |
| Underlying outlays | 137204 | 136603 | 141570 | 146566 | 151586 | 156508 |
| Underlying balance | -3853 | -1155 | 2688 | 4733 | 8614 | 14588 |
| <i>Memorandum items:</i> | | | | | | |
| Net advances | -10276 | -13920 | -16027 | -18772 | -12856 | 455 |
| Headline balance | 6423 | 12765 | 18715 | 23505 | 21470 | 14133 |
| | Real growth on previous year (per cent) | | | | | |
| Revenue | | | | | | |
| Tax | 2.0 | 2.6 | 2.6 | 3.4 | 3.6 | 4.1 |
| Non-tax | -27.0 | -12.6 | 27.9 | -21.0 | -8.9 | 9.0 |
| Total | 0.9 | 2.0 | 3.4 | 2.3 | 3.2 | 4.3 |
| Underlying outlays | -1.4 | -0.9 | 0.6 | 1.0 | 0.8 | 0.8 |
| | Per cent of GDP | | | | | |
| Revenue | | | | | | |
| Tax | 23.8 | 24.1 | 24.0 | 23.9 | 24.0 | 24.1 |
| Non-tax | 0.7 | 0.9 | 1.1 | 0.8 | 0.7 | 0.7 |
| Total | 24.5 | 24.9 | 25.0 | 24.7 | 24.7 | 24.9 |
| Underlying outlays | 25.2 | 25.1 | 24.6 | 24.0 | 23.4 | 22.8 |
| Underlying balance | -0.7 | -0.2 | 0.5 | 0.8 | 1.3 | 2.1 |
| <i>Memorandum items:</i> | | | | | | |
| Net advances | -1.9 | -2.6 | -2.8 | -3.1 | -2.0 | 0.1 |
| Headline balance | 1.2 | 2.3 | 3.2 | 3.8 | 3.3 | 2.1 |

The economic forecasts and projections underpinning the budget estimates are discussed in detail in Part I of this Statement and the major economic parameters are presented in Table 4.

Table 4: Major Economic Parameters (percentage change from previous year)

| | Forecasts | | Projections | | |
|----------------|-----------|---------|-------------|---------|---------|
| | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
| Real GDP(A) | 3 3/4 | 3 | 3 1/2 | 3 1/2 | 3 1/2 |
| Employment(a) | 1 1/4 | 1 3/4 | 2 1/4 | 2 1/4 | 2 1/4 |
| Wages(b) | 4 3/4 | 4 1/4 | 3 1/2 | 3 1/2 | 3 1/2 |
| Headline CPI | 0 | 2 1/2 | 2 1/2 | 2 1/2 | 2 1/2 |
| Underlying CPI | 1 1/2 | 2 1/2 | 2 1/2 | 2 1/2 | 2 1/2 |

(a) Labour Force Survey basis.

(b) Average earnings (national accounts basis).

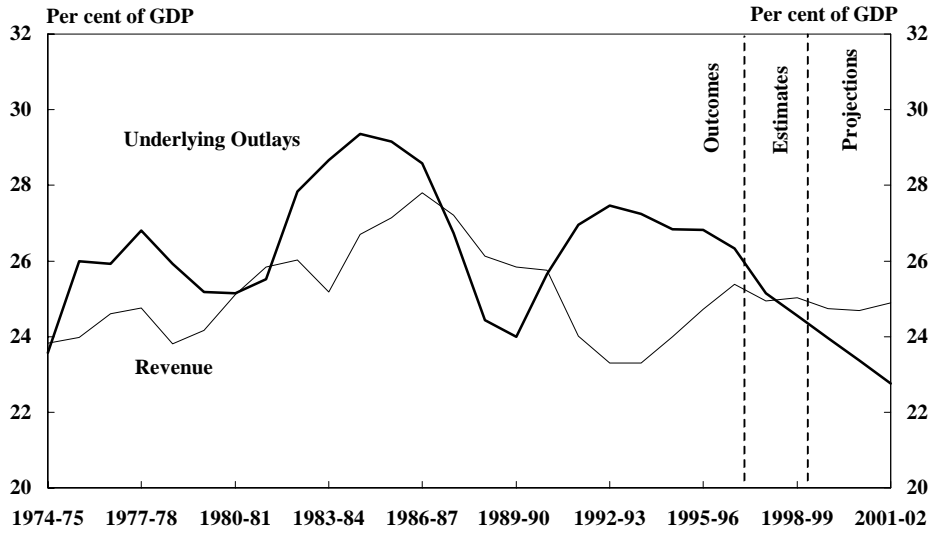
The projections for the period from 1999-2000 to 2001-02 are prepared solely as a basis for Budget figuring and do not represent forecasts.

A range of factors may change the budgetary outlook in future years. Appendix A contains a Statement of Risks which details risks that may have a material effect on the fiscal outlook. One factor influencing the fiscal outlook will be variations in the economic parameters. A discussion of the estimated sensitivity of the outlays and revenue estimates to changes to the economic parameters is provided in Appendix B to this Statement.

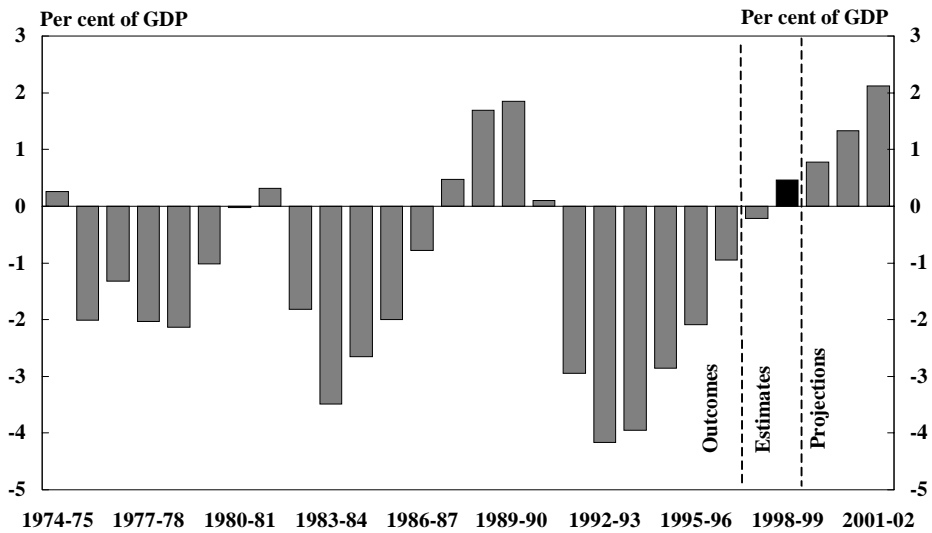
As shown in Chart 8, improvements in the underlying balance derive principally from falls in underlying outlays as a proportion of GDP. By 2001-02 they are expected to reach 22.8 per cent of GDP — their lowest level since the early 1970s. This reflects the focus placed by the Government on outlays restraint in implementing its programme of fiscal consolidation in the 1996-97 and 1997-98 Budgets. Revenue as a proportion of GDP is expected to remain relatively stable over the forward estimates period. The tax burden projected over that period is lower than in the late 1980s, when underlying surpluses were last recorded.

Chart 8: Underlying Budget Aggregates

Panel A: Budget Sector Revenues and Outlays



Panel B: Underlying Budget Balances



OUTLAYS

Table 5 provides estimates of budget sector outlays for 1997-98 to 2001-02.

Table 5: Estimates of Budget Sector Outlays

| | 1997-98 | | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| | Budget | Revised | Estimate | Projection | Projection | Projection |
| Underlying outlays (\$m) | 137204 | 136603 | 141570 | 146566 | 151586 | 156508 |
| <i>Real growth on previous yr (%)</i> | -1.4 | -0.9 | 0.6 | 1.0 | 0.8 | 0.8 |
| <i>Per cent of GDP</i> | 25.2 | 25.1 | 24.6 | 24.0 | 23.4 | 22.8 |
| Net advances (\$m) | -10276 | -13920 | -16027 | -18772 | -12856 | 455 |
| Outlays (\$m) | 126928 | 122684 | 125543 | 127794 | 138730 | 156963 |
| <i>Real growth on previous year (%)</i> | -3.4 | -5.8 | -0.6 | -0.7 | 5.8 | 10.4 |
| <i>Per cent of GDP</i> | 23.3 | 22.6 | 21.8 | 20.9 | 21.4 | 22.8 |

Over the period 1998-99 to 2001-02, underlying outlays are expected to:

- in real terms, increase only slightly in each year after declining slightly in 1997-98; and
- as a proportion of GDP, decline from just over 25 per cent in 1997-98 to 22.8 per cent in 2001-02.

Headline outlays (ie underlying outlays plus net advances) decrease slightly in real terms in 1998-99 and 1999-2000, but increase strongly thereafter. The decreases in earlier years reflect the proceeds from asset sales (particularly receipts from the sale of the Commonwealth's remaining equity in Telstra) which decline sharply in 2001-02.

Table 6 reconciles the outlays estimates between the 1997-98 Budget, the 1997-98 MYEFO and the 1998-99 Budget in terms of policy decisions and parameter and other variations.

Table 6: Reconciliation of Changes to Budget Sector Underlying Outlays since the 1997-98 Budget

| | 1997-98 \$m | 1998-99 \$m | 1999-00 \$m | 2000-01 \$m |
|--|----------------|----------------|----------------|----------------|
| Underlying outlays at 1997-98 Budget | 137204 | 140786 | 144947 | 148219 |
| Changes from 1997-98 Budget to 1997-98 MYEFO | | | | |
| Effect of reclassifications(a) | -46 | -11 | 0 | 0 |
| Policy decisions | 395 | 566 | 733 | 1242 |
| <i>of which</i> public debt interest impact of measures | 3 | 24 | 58 | 124 |
| Revision to economic parameters | | | | |
| Unemployment benefits | -367 | -303 | -227 | -311 |
| Prices and wages | -21 | -426 | -666 | -667 |
| Interest and exchange rates | 11 | 53 | -17 | -17 |
| Public debt interest | -486 | -976 | -1001 | -1274 |
| Sub-total: revisions to economic parameters | -863 | -1652 | -1911 | -2269 |
| Programme specific parameters | 414 | 502 | 753 | 1007 |
| Slippage in 1997-98 Budget decisions | 7 | -1 | -3 | -3 |
| Other revisions | 239 | 25 | 745 | 623 |
| Sub-total: programme specific parameter and other variations | 660 | 526 | 1495 | 1627 |
| Total parameter and other variations | -203 | -1127 | -416 | -642 |
| Total variations | 146 | -572 | 317 | 600 |
| Underlying outlays at 1997-98 MYEFO | 137350 | 140214 | 145264 | 148819 |
| Changes from 1997-98 MYEFO to 1998-99 Budget | | | | |
| Effect of reclassifications(a) | 21 | -58 | 6 | 6 |
| Policy decisions | 156 | 1385 | 1526 | 1862 |
| <i>of which</i> public debt interest impact of measures | 0 | 26 | 94 | 184 |
| Revision to economic parameters | | | | |
| Unemployment benefits | -38 | -59 | -85 | -110 |
| Prices and wages | 64 | 362 | 205 | 159 |
| Interest and exchange rates | 1 | 284 | 214 | 220 |
| Public debt interest | -163 | -237 | -195 | -140 |
| Sub-total: revisions to economic parameters | -137 | 350 | 139 | 129 |
| Programme specific parameters | -376 | 595 | 670 | 1307 |
| Slippage in 1997-98 Budget decisions | 0 | 4 | 0 | -6 |
| Other revisions | -412 | -919 | -1039 | -530 |
| Sub-total: programme specific parameter and other variations | -787 | -320 | -369 | 770 |
| Total parameter and other variations | -924 | 29 | -229 | 900 |
| Total variations | -746 | 1357 | 1302 | 2768 |
| Underlying outlays at 1998-99 Budget | 136603 | 141570 | 146566 | 151586 |

(a) See Appendix E for details on classification changes.

The outlook for underlying outlays was broadly unchanged between the 1997-98 Budget and the MYEFO. Lower numbers of unemployment beneficiary recipients, an improved outlook for inflation and lower public debt interest payments reduced outlays significantly in all years. These were only partially offset by higher outlays as a result of adverse changes to programme specific parameters (associated with higher than expected levels of Disability Support Pension and a higher than expected demand for medical services by veterans and dependants) and other estimates variations.

Since the MYEFO, the estimates for underlying outlays have been increased for all years other than 1997-98. In 1998-99 and 1999-2000, the increases primarily reflect the impact

of new policy decisions while, in 2000-01, there is also a significant contribution from net parameter variations including, specifically, further adverse changes in programme specific parameters. While programme specific parameter variations also contribute to higher outlays in 1998-99 and 1999-2000, these factors are more than offset by other estimates variations including the regular drawdown in the conservative bias allowance.

The major influence on programme specific parameters has been an increase in the estimated number of clients seeking disability support payments. Other factors affecting programme specific parameter changes reflect increases in client numbers and/or higher average rates payable on family payments.

Over the full year since the 1997-98 Budget, in total, the outlays estimates have increased in all years except 1997-98, generally reflecting the cost of policy decisions which, in 1998-99 and 1999-2000, more than offset significant public debt interest savings. In 2000-01, both policy decisions and parameter variations, over the past year, contribute to the estimated increase in outlays.

Conservative Bias Allowance

The forward estimates are based on decisions already made and economic projections. They also include an allowance for the established tendency for spending on existing Government policy (particularly for demand-driven programmes) to be higher than estimated. This allowance, known as the conservative bias allowance (CBA), is included in the forward estimates at the beginning of each budget year and gradually reduced as the budget estimates are finalised so that the Budget year CBA is zero.

At the time of the 1997-98 Budget, the CBA was based on 0.75 per cent of headline outlays in the first forward year, increasing in each following year. Following a review of the accuracy of this allowance, this figure was increased to 1.0 per cent of underlying outlays in the first forward year, increasing in each following year. The increases were factored into the 1997-98 MYEFO estimates.

Since the MYEFO, further adjustments have been made to the CBA in 2000-01 and 2001-02 to improve the overall accuracy of underlying outlays in the outyears.

Outlays Measures

The 1996-97 and 1997-98 Budgets provided for substantial net outlays savings over the budget and forward estimates period. The 1998-99 Budget provides for some moderate net new policy spending.

- Policy decisions taken since the MYEFO (up to and including the 1998-99 Budget) increase underlying outlays by around \$1.4 billion in 1998-99, \$1.5 billion in 1999-2000, \$1.9 billion in 2000-01 and \$1.5 billion in 2001-02.
- In total, net outlays measures since the 1997-98 Budget increase underlying outlays by \$2.0 billion in 1998-99, \$2.3 billion in 1999-2000, \$3.1 billion in 2000-01 and \$2.6 billion in 2001-02.

Table 7 provides a summary of the major outlays measures affecting underlying outlays.

Major new outlays spending measures since the 1997-98 Budget include:

- increased funding for health, including the Australian Health Care Agreements with the States and Territories;
- Care and Support for Older Australians;
- programmes for the young unemployed;
- a package of measures included in the Industry Statement *Investing for Growth*;
- funding for the Advancing Australia agricultural package;
- measures to reduce Australia's greenhouse gas emissions; and
- extension of the Gold Card to eligible World War II veterans.

Despite the considerable savings already identified in the 1996-97 and 1997-98 Budgets, additional savings have been identified in a number of areas including:

- the dividend from Department of Finance and Administration (DoFA) restructuring;
- lower tender prices in the employment services market;
- improving compliance activities under the Pharmaceutical Benefits Scheme; and
- agreement with the diagnostic imaging profession to limit servicing costs while improving access to magnetic resonance imaging services.

A full description of all 1998-99 Budget outlays measures can be found in Part I of *Budget Paper No. 2*.

Table 7: Major Outlays Measures Introduced Since the 1997-98 Budget

| Description of Measure | Effect on Underlying Outlays | | | |
|--|------------------------------|----------------|----------------|----------------|
| | 1998-99 \$m | 1999-00 \$m | 2000-01 \$m | 2001-02 \$m |
| SPENDING MEASURES | | | | |
| <i>Measures introduced since the 1997-98 MYEFO</i> | | | | |
| Establishment of the Australian Securities and Investments Commission | 15 | 12 | 12 | 12 |
| Establishment of the Australian Prudential Regulation Authority | 26 | 28 | 24 | 24 |
| Enhancing mutual obligations for unemployed young people including literacy and numeracy training | 100 | 85 | 81 | 81 |
| National Illicit Drugs Strategy - measures | 27 | 28 | 28 | 21 |
| Australian Health Care Agreements - increased funding | 242 | 309 | 437 | 524 |
| Additional health funding | 35 | 84 | 97 | 102 |
| Staying at Home - Care and Support for Older Australians | 28 | 62 | 86 | 103 |
| Extension of Seniors Card Eligibility | 26 | 53 | 55 | 57 |
| Additional funding for Year 2000 compliance | 126 | 0 | 0 | 0 |
| Extension of the Gold Card to eligible World War II veterans | 70 | 145 | 138 | 126 |
| Additional funding for entitled veterans' hospital services | 150 | 150 | 150 | 150 |
| Link War Widows' Pension to the benchmark of 25% of Further Youth Allowance measures | 23 | 35 | 47 | 59 |
| Further Youth Allowance measures | 58 | 42 | 32 | 27 |
| Extension of real per capita guarantee on Financial Assistance Grants to the States | 0 | 0 | 191 | 196 |
| Tourism Package - funding for promotion and development | 12 | 12 | 12 | 13 |
| Continuation of National Asian Languages and Studies | 25 | 17 | 0 | 0 |
| Other(a) | 473 | 601 | 655 | 230 |
| Sub-total | 1437 | 1663 | 2046 | 1726 |
| <i>Measures introduced up to and in the 1997-98 MYEFO</i> | | | | |
| Revisions to Austudy Means Test | 43 | 44 | 46 | 47 |
| A replacement nuclear research reactor for Australia | 6 | 12 | 32 | 67 |
| National Illicit Drugs Strategy - measures | 29 | 28 | 23 | 19 |
| Introduction of a Youth Allowance | 49 | 34 | 29 | 29 |
| Enhanced package of measures to reduce Australia's greenhouse gas emissions | 34 | 39 | 41 | 30 |
| Member choice & Commonwealth superannuation arrangements | 12 | 40 | 290 | 320 |
| Delay income test for residential aged care and exempt existing residents | 55 | 38 | 29 | 24 |
| Extension of Export Market Development Grants for two years | 0 | 0 | 150 | 150 |
| Additional funding for innovation programmes | 43 | 143 | 225 | 260 |
| Agriculture - Advancing Australia | 77 | 71 | 52 | 21 |
| Amendment to allow rent assistance to sub-tenants in public housing where relevant State Housing Authority is notified | 56 | 57 | 59 | 60 |
| Other(a) | 173 | 245 | 298 | 136 |
| Sub-total | 577 | 752 | 1273 | 1163 |
| Total spending measures | 2014 | 2415 | 3320 | 2888 |
| SAVINGS MEASURES | | | | |
| <i>Measures introduced up to and in the 1998-99 Budget</i> | | | | |
| Changes to the Migration Programme - focus on skills | -8 | -15 | -27 | -40 |
| Dividend from departmental restructuring - DoFA | -3 | -25 | -26 | -26 |
| Maximising effectiveness of Pharmaceutical Benefits Scheme | -3 | -21 | -22 | -22 |
| Non-economic loss compensation payments | 1 | -9 | -20 | -21 |
| Diagnostic imaging package including improving access to magnetic resonance imaging services | -2 | -18 | -29 | -31 |
| Savings in employment services market | -36 | -37 | -37 | -38 |
| Other | -13 | -31 | -54 | -84 |
| Total savings measures | -63 | -156 | -215 | -261 |
| TOTAL IMPACT OF ALL MEASURES | 1951 | 2259 | 3104 | 2627 |

(a) Includes public debt interest impact of decisions.

REVENUE

Table 8 provides estimates of budget sector revenues for the period from 1997-98 to 2001-02.

Table 8: Summary of Budget Sector Revenue

| | 1997-98 | | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Budget | Revised | Estimate | Projection | Projection | Projection |
| Total tax (\$m) | 129433 | 130827 | 138172 | 146371 | 155595 | 165956 |
| <i>Real growth on previous yr (%)</i> | 2.0 | 2.6 | 2.6 | 3.4 | 3.6 | 4.1 |
| <i>Per cent of GDP</i> | 23.8 | 24.1 | 24.0 | 23.9 | 24.0 | 24.1 |
| Non-tax (\$m) | 3918 | 4621 | 6086 | 4928 | 4605 | 5140 |
| <i>Real growth on previous yr (%)</i> | -27.0 | -12.6 | 27.9 | -21.0 | -8.9 | 9.0 |
| <i>Per cent of GDP</i> | 0.7 | 0.9 | 1.1 | 0.8 | 0.7 | 0.7 |
| Total revenue (\$m) | 133351 | 135448 | 144258 | 151299 | 160200 | 171096 |
| <i>Real growth on previous yr (%)</i> | 0.9 | 2.0 | 3.4 | 2.3 | 3.2 | 4.3 |
| <i>Per cent of GDP</i> | 24.5 | 24.9 | 25.0 | 24.7 | 24.7 | 24.9 |

Over the period 1998-99 to 2001-02, total revenue is expected:

- in real terms, to rise steadily through all years; and
- as a proportion of GDP, to remain relatively stable through the outyears.

Table 9 reconciles revenue estimates at the time of the 1997-98 Budget, the 1997-98 MYEFO and the 1998-99 Budget in terms of policy decisions and parameter and other variations.

Table 9: Reconciliation of Budget and Forward Estimates of Revenue in Aggregate

| | 1997-98 | 1998-99 | 1999-00 | 2000-01 |
|---|---------------|---------------|---------------|---------------|
| | \$m | \$m | \$m | \$m |
| Revenue at 1997-98 Budget | 133351 | 142383 | 150330 | 158911 |
| Changes from 1997-98 Budget to MYEFO | | | | |
| Policy decisions | 3 | -73 | -113 | -244 |
| Parameter and other revisions | 1250 | 362 | 45 | 528 |
| Total variations | 1253 | 289 | -69 | 283 |
| Revenue at 1997-98 MYEFO | 134604 | 142672 | 150262 | 159194 |
| Changes from 1997-98 MYEFO to 1998-99 Budget | | | | |
| Effect of reclassifications(a) | 1 | 0 | 1 | 1 |
| Policy decisions | 5 | 106 | 44 | -317 |
| Parameter and other revisions | 839 | 1480 | 992 | 1322 |
| Total variations | 844 | 1586 | 1037 | 1006 |
| Revenue at 1998-99 Budget | 135448 | 144258 | 151299 | 160200 |

(a) See Appendix E for details on classification changes.

At the time of the MYEFO, the revenue estimates were revised upwards for all years except 1999-2000. While policy decisions reduced estimated revenues in all years from 1998-99, this effect was — with the exception of 1999-2000 — more than offset by parameter and other revisions.

Variations in the period since the 1997-98 MYEFO improve the revenue outlook in all years. Policy decisions since MYEFO have only a minor positive impact in 1998-99 and 1999-2000 and detract from revenues thereafter. Parameter and other variations are the primary factor driving revenues higher in all years. Within tax revenues, these principally reflect increases in anticipated other individuals tax receipts. In 1998-99, there is also a significant positive contribution from non-tax revenues, including higher dividend receipts.

Overall, there have been only moderate increases to the revenue estimates since the 1997-98 Budget, amounting to \$1.9 billion in 1998-99, \$1.0 billion in 1999-2000 and \$1.3 billion in 2000-01.

Revenue Measures

In keeping with the Government's commitments, the 1998-99 Budget does not introduce new taxes or increase existing taxes.

Table 10 provides a summary of the major revenue measures. Key revenue measures include:

- additional expected revenue associated with the continued operation of the Australian Taxation Office's (ATO) High Wealth Individuals Taskforce;
- changes to the taxation treatment of Year 2000 compliance and computer software expenditure;
- a reduction in the provisional tax uplift factor from 6 per cent in 1997-98 to 5 per cent in 1998-99;
- implementation of previously announced initiatives for the automotive and information technology industries;
- enhanced visa processing and border monitoring; and
- cost recovery arrangements associated with the establishment of the Australian Securities and Investments Commission and the Australian Prudential Regulation Authority.

A full description of all 1998-99 Budget revenue measures can be found in Part II of *Budget Paper No. 2*.

Table 10: Summary of Revenue Measures Introduced Since the 1997-98 Budget

| Description of Measure | Effect on Revenue | | | |
|--|-------------------|----------------|----------------|----------------|
| | 1998-99 \$m | 1999-00 \$m | 2000-01 \$m | 2001-02 \$m |
| MEASURES INTRODUCED SINCE THE 1997-98 MYEFO | | | | |
| <i>Tax Avoidance and Minimisation</i> | | | | |
| ATO High Wealth Individuals Taskforce | 100 | 100 | - | - |
| Amendment to Item 192 of the Sales Tax (Exemptions and Classifications) Act 1992 | 50 | 50 | 50 | 50 |
| Other | .. | .. | .. | 5 |
| <i>Information Technology</i> | | | | |
| Year 2000 compliance expenditure and taxation of software | -30 | -205 | -295 | -520 |
| Tariff reductions on information industry inputs | -52 | -28 | -5 | -5 |
| <i>Anomalies</i> | | | | |
| Beneficiary tax rebate for CDEP participants | -7 | -7 | -7 | -7 |
| Taxation treatment for spectrum licences | -8 | -8 | -8 | -8 |
| <i>Cost recovery</i> | | | | |
| Changes to visa application charges for non-Electronic Travel Authority visitor visas | 40 | 38 | 42 | 47 |
| Supervision and funding arrangements for self-managed superannuation funds | - | -19 | -19 | -19 |
| Establishment of the Australian Prudential Regulation Authority | 4 | 39 | 29 | 30 |
| Establishment of the Australian Securities and Investments Commission | 8 | 14 | 14 | 14 |
| Increase in the Passenger Movement Charge | 10 | 21 | 23 | 24 |
| 1998-99 Migration Programme - visa application charges | 2 | 9 | 13 | 13 |
| Stevedoring levy | 25 | 25 | 25 | 25 |
| Other | 4 | 6 | 5 | 5 |
| <i>Other Measures</i> | | | | |
| Increased charges to carriage service providers for the purchase of certain telecommunications numbers | 30 | 30 | 30 | 30 |
| Automotive Competitiveness and Investment Scheme | - | - | -200 | -400 |
| Deductibility of donations to political parties and independents | - | -18 | -12 | -15 |
| Provisional tax uplift factor | -75 | - | - | - |
| Other | 5 | -2 | -3 | -3 |
| Sub-total | 106 | 44 | -317 | -735 |
| MEASURES INTRODUCED UP TO AND IN THE 1997-98 MYEFO | | | | |
| <i>Tax Avoidance and Minimisation</i> | | | | |
| Trust distributions to superannuation funds | 15 | 15 | 15 | 15 |
| <i>Anomalies</i> | | | | |
| Capital Gains Tax (cost base provisions: transitional measure) | -60 | -70 | - | - |
| <i>Cost recovery</i> | | | | |
| Other | -7 | -7 | -7 | -7 |
| <i>Other Measures</i> | | | | |
| Abolition of non-callable deposits | - | - | -200 | -200 |
| Resolution of residence status for certain persons in Australia | 10 | 1 | .. | .. |
| Extension of Offshore Banking Unit concession | -9 | -16 | -16 | -16 |
| TRADEX | -15 | -30 | -30 | -30 |
| Other | -7 | -6 | -6 | -6 |
| Sub-total | -73 | -113 | -244 | -244 |
| TOTAL IMPACT OF ALL MEASURES | 34 | -69 | -562 | -979 |

BUDGETARY IMPLICATIONS OF THE SALE OF TELSTRA

The sale of the Commonwealth's remaining equity in Telstra has been included in the budget figuring throughout the budget papers, in accordance with the Government's decision to seek an electoral mandate to fully privatise the telecommunications carrier. This section explicitly identifies current estimates of the expected budgetary impact.

While the proceeds of equity asset sales affect only headline outlays — and the headline balance — there are indirect implications for the underlying balance from debt servicing cost savings associated with the use of proceeds to reduce Commonwealth general government net debt, dividends forgone and the costs of sale.

The estimates of the impact of the sale are highly dependent on assumptions made regarding: the structure, timing and proceeds of the sale; expected sale costs; dividends forgone; yield assumptions; and financial management strategies. It is assumed that all proceeds are used to reduce Commonwealth general government net debt. The current estimates will change as processes for the sale are progressed, and should not be seen as committing the Government to a specific sale process or timing.

Table 11 provides estimates of the potential budgetary implications of the sale of the Commonwealth's remaining equity in Telstra as included in the current budget and forward estimates.

Table 11: Budgetary Impact of Sale of Two Thirds of Telstra

| | 1998-99 \$m | 1999-00 \$m | 2000-01 \$m | 2001-02 \$m |
|------------------------------------|----------------|----------------|----------------|----------------|
| Sale costs | -70 | -265 | -245 | 0 |
| Net income(a) | 42 | 232 | 457 | 699 |
| Underlying budget impact(b) | -28 | -33 | 212 | 699 |

(a) Includes both interest effects and dividends forgone.

(b) A negative figure on balance items indicates a deterioration in the underlying budget balance.

The following assumptions have been made:

- sale proceeds broadly in line with estimates of the current market price for Telstra instalment receipts;
- sale costs of \$580 million, largely falling due in 1999-2000 and 2000-01;
- a net income effect comprising the balance of:
 - the loss of dividend payments to the Commonwealth as a result of the sale; and
 - the interest effects associated with reductions in net debt.

Any change to the assumed sale arrangements underpinning the analysis can be expected to affect the budget and forward estimates.

As shown in Table 11, the effect of the Telstra sale in the outyears is for positive net income effects to broadly offset initial sale costs. Positive interest effects can be expected to be large and to peak beyond the forward estimates period.

The Government's decision to sell the Commonwealth's remaining equity in Telstra is based not on the budgetary effects, but rather on broader economic considerations.

The Government believes that the sale of the Commonwealth's remaining equity in Telstra will provide an unprecedented opportunity for Australians to buy into — and share in the benefits deriving from — a strongly performing Australian company.

The Government believes that sale of equity in Telstra represents an historic opportunity to reduce Commonwealth net debt.

APPENDIX A: STATEMENT OF RISKS

OVERVIEW

The forward estimates of revenue and outlays in the Budget incorporate assumptions and judgements based on information available at the time of publication.

A range of factors may influence the actual budget outcome in future years. The Charter of Budget Honesty requires these to be disclosed in a Statement of Risks in each Budget. The purpose of this report is to increase the transparency of the fiscal projections.

Events which could affect fiscal outcomes include:

- changes in economic and other parameters;
- matters which have not been included in the fiscal forecasts because of uncertainty about their timing, magnitude, or whether they will eventuate; and
- the realisation of contingent liabilities.

Economic and Other Parameters

Some degree of uncertainty attaches to budget time and forward estimates for both revenues and outlays.

The major factors influencing expected outlays and revenues in any year are typically changes in forecasts of economic and non-economic parameters. Differences between the economic parameter forecasts and outcomes have not caused any clear bias toward understatement or overstatement of outlays and revenue — and therefore the budget balance. The sensitivity of the estimates to major economic parameters (but not other parameters) is discussed in Appendix B.

Differences in non-economic (programme specific) parameter forecasts and outcomes, however, have been strongly biased towards an understatement of outlays in recent years. Programme specific parameters are specific assumptions underpinning specific programme estimates eg client numbers and/or average rates payable on family payments, family tax payments and disability support pension programmes. A conservative bias allowance is made in the contingency reserve for each year, in part to account for this tendency (see the outlays discussion in Part II for more detail on this issue).

The projected values for programme specific parameters are determined jointly with the relevant spending portfolio, drawing on trends in actual payments and information which the portfolio is able to provide on the impact of policy changes on the programme estimates.

Fiscal Risks

Fiscal risks are general developments or specific events which may have an effect on the fiscal outlook. In some cases, the events will simply raise the possibility of some fiscal

impact. In other cases, some fiscal impact will be reasonably certain, but it will not be included in the forward estimates because the timing or magnitude is not known. Fiscal risks may affect both outlays and revenue and may be positive or negative.

Specific sources of fiscal risk include:

- litigation currently before the courts; and
- possible Senate rejection of budget measures.

Some fiscal risks are reflected in the Outlays Contingency Reserve and are therefore included in the aggregate outlays figuring. The Contingency Reserve is an allowance included in aggregate outlays to reflect anticipated events which cannot be assigned to individual programmes at budget time. These items are also not included in the Statement of Risks. Fiscal risks in the Contingency Reserve include expected running costs carryovers from 1998-99 to 1999-2000, and allowances for the established tendency for estimates of some programme expenditure to be overstated in the budget year and understated in the forward years.

As part of its decision to sell the Commonwealth's remaining equity in Telstra, the Government has announced it will apply the overwhelming majority of sale proceeds to debt reduction, and has said some of the proceeds will be used to deliver a 'social bonus'. As the details of this social bonus expenditure, including timing, amount and portfolio involved, are yet to be determined, no provision has been included in the forward estimates.

Matters that are not currently under active consideration by government, or pressure from interests outside the government for changes in spending levels, are not treated as fiscal risks.

Details of known fiscal risks which may have an impact on fiscal forecasts, but are not reflected in the forward estimates in the 1998-99 Budget, are provided below.

Contingent Liabilities

Contingent liabilities differ from fiscal risks in that they are generally more readily quantifiable and clearly defined.

Contingent liabilities are defined as costs the Government will have to face if a particular event occurs. They include loan guarantees, non-loan guarantees, warranties, indemnities, uncalled capital and letters of comfort.

The Commonwealth's major exposures to contingent liabilities arise out of legislation providing guarantees over certain liabilities of Commonwealth controlled financial institutions (ie the Reserve Bank of Australia (RBA) and the Export Finance and Insurance Corporation) and the now fully privatised Commonwealth Bank of Australia. Other substantial non-loan guarantees include guaranteed payments from Telstra Corporation Ltd to the Telecom Superannuation Scheme.

The strategies for managing these exposures are aimed at ensuring the underlying strength and viability of the entities with respect to which guarantees have been provided so that the guarantees are not triggered. Similar strategies apply to entities not subject to explicit guarantees.

Other arrangements are in place governing the entering into, and monitoring of, contingent liabilities such as indemnities and uncalled capital. Uncalled capital is primarily associated with international financial institutions such as the International Bank for Reconstruction and Development, the Asian Development Bank and the European Bank for Reconstruction and Development. Arrangements concerning uncalled capital are approved by Parliament and reports on the institutions are provided annually by the Government to Parliament.

Consistent with Australian Bureau of Statistics (ABS) standards, transactions concerned with the management of international reserves and the monetary system are classified as financing transactions (and do not impact on the budget balance). Therefore, contingent liabilities (and assets) with the International Monetary Fund (IMF) are not shown here.

DETAILS OF FISCAL RISKS AND CONTINGENT LIABILITIES

Fiscal risks and contingent liabilities with a possible impact on the forward estimates greater than \$20 million in any one year, or \$40 million over the forward estimates period, are listed below. Information on fiscal risks takes account of decisions of Parliament and other developments up to the close of parliamentary business on 8 April 1998. In general, information on contingent liabilities is based on information provided by departments and agencies and is current to 31 March 1998 (or a later date as indicated where that information is available). However, for the guarantees under the *Commonwealth Bank Sale Act 1995* the latest reliable information available on the balance of guarantees outstanding was at the end of June 1997.

Information on contingent liabilities is provided in annual financial statements of departments and non-budget entities.

Fiscal Risks — Outlays

Defence

Litigation cases in train — Department of Defence

The Department of Defence is involved in several cases covering a wide range of litigation where either the cases have not been heard, or damages and costs have yet to be awarded. The litigation involves claims before the Human Rights and Equal Opportunity Commission, and claims relating to HMAS Stalwart, HMAS Voyager, asbestos litigation, and alleged defective administration by the Department. The value of these claims is \$49 million.

Finance and Administration

Asset Sales

The Government's asset sales programme has a significant impact on the Commonwealth Budget through proceeds from sales (in most cases impacting largely on the headline budget balance), the cost of implementing sales, the reduction in public debt servicing charges and the loss of any future dividends from the enterprises/assets no longer being owned by the Commonwealth.

The estimates of the proceeds from asset sales are based on current market information. However, the actual amount realised will depend on the market conditions at the time of sale. The estimates of sale costs are based on experience in selling other Commonwealth assets and enterprises. Both the proceeds and the costs of sales estimates are highly dependent on assumptions about how the sales might be structured. Savings in public debt interest depend on the structure of sales, net proceeds received and the manner in which the proceeds are applied to reducing net debt.

The major asset sale provided for in the 1998-99 Budget figuring is the sale of the Commonwealth's remaining equity in Telstra Corporation. Draft legislation to facilitate the sale is currently before the Parliament.

Other significant asset sales included in the 1998-99 Budget are:

- ADI Limited;
- National Railway Corporation Limited;
- National Transmission Network;
- Australian National Line Limited;
- oversight the collection of the second instalment for the sale of shares in Telstra Corporation;
- the Commonwealth's domestic office estate (that which has already been identified for disposal but is yet to be sold); and
- overseas staff accommodation (stand alone, non-representational).

Member choice and Commonwealth Superannuation Arrangements

New superannuation arrangements for Commonwealth employees have been provided for in the budget and forward estimates. These new arrangements involve the closure of the Public Sector Superannuation Scheme (PSS) from 1 July 1998 and the choice for employees of either a complying superannuation fund or a Retirement Savings Account. The impact of incorporation of the new superannuation arrangements in the estimates has been to bring forward future superannuation liabilities for existing employees in the amounts of \$12 million in 1998-99, \$40 million in 1999-2000, and \$290 million in

2000-01, without increasing the superannuation costs to employers. It therefore represents no net cost to the Budget on an accruals basis.

The bringing forward of these outlays is subject to legislation before the Parliament and, depending upon Parliament's consideration of the Bills, the timing of some or all of the outlays could be delayed.

Health and Family Services

Australian Health Care Agreements

The Commonwealth has offered the States and Territories new funding arrangements to replace the existing Medicare Agreements which expire on 30 June 1998. The offer is based on a funding formula in which the Commonwealth shares financial risk in relation to changes in the private health insurance participation rate and changes in the measured national average output cost for public hospital treatment. Under this formula, the Commonwealth payments to the States and Territories vary after 1998-99, by about \$85 million a year for every one percentage point change in the private health insurance participation rate relative to the 1998-99 level, and by about \$45 million for every one percentage point change in the measured hospital cost, relative to the budget assumption of 0.5 per cent.

Major new listings — Pharmaceutical Benefits Scheme and Medicare Benefits Scheme

A joint agreement between the Treasurer, Minister for Finance and Administration and the Prime Minister is required when the cost of listing a new drug on the Pharmaceutical Benefits Scheme is over \$10 million. Similarly, new medical services costing more than \$10 million a year need to go to Cabinet before listing on the Medical Benefits Schedule. New drugs can only be listed after an assessment of comparative effectiveness and value for money. New medical services are considered by the Medical Services Advisory Committee before listing. The listing of new high cost drugs and services has the potential to increase Commonwealth outlays by up to \$200 million over the four years to 2001-02.

New Resident Classification Scale for Residential Aged Care

As part of the Government's aged care reforms a new Resident Classification Scale (RCS) has been developed and implemented. The RCS is used to assess the need of each resident for care and the appropriate level of subsidy. It replaces two separate instruments previously used in nursing homes and hostels and was designed to be cost neutral. However, there is a risk that the measured dependency of residents under the RCS will be greater than was originally expected. An initial review has identified a number of differences between the predicted and actual distribution of residents across RCS categories, but modelling based on data over a longer period than the first three months is necessary before the quantum of the risk can be firmly established. As an illustration of the magnitude of the possible impact, if outlays were 1 per cent higher as a result of the new instrument, the impact would be about \$30 million per annum.

Litigation cases in train — Department of Health and Family Services

The Department of Health and Family Services is involved in around 90 cases covering a wide range of litigation, where either the cases have not been heard or damages and costs have yet to be awarded. The litigation involves Creutzfeldt-Jakob disease, Acquired Immune Deficiency Syndrome, Rehabilitation Services, Hepatitis C, benefit payments, defective products, the Professional Services Review Scheme, and the Department as an employer. It is not possible to quantify the liability arising from the cases.

Immunisation funding mechanism

Agreement between the Minister for Health and Family Services and the Minister for Finance and Administration is required when the cost of new vaccines under the immunisation funding mechanism is between \$10 million and \$20 million. Cabinet approval is required when this cost is over \$20 million. Future vaccine technology will result in new vaccines substituting vaccines already in use (eg multivalent vaccines which combine several vaccines into one), and as a consequence will result in higher unit costs of vaccine within the routine schedule. Given the nature of current vaccine technology, and the possible introduction of new vaccines required for a full cohort and several doses, specific vaccine costs cannot be precisely quantified at this stage. However, the inclusion of new essential vaccines within the routine schedule between 1998-99 and 2001-02 has the potential to increase Commonwealth outlays by up to \$120 million in total over the four years.

Industry, Science and Tourism

Diesel Fuel Rebate Scheme — major litigation

Legal action through the Administrative Appeals Tribunal and the Federal Court is being pursued by a range of companies involved in quarrying activities for payment under the Diesel Fuel Rebate Scheme in respect of diesel fuel used in the extraction of sand and rock undertaken prior to 1 July 1995. Possible claims on the Commonwealth from a successful legal challenge could amount to some \$90-\$100 million. The likelihood of this liability arising has diminished as a result of the Commonwealth's success in a recent action. The *Excise Act 1901* and the *Customs Act 1901* were amended with effect from 1 July 1995 to remove sand and rock extraction from eligibility under the Scheme.

Textiles, Clothing and Footwear (TCF) assistance package

In response to the Industry Commission report on the TCF industries, the Government has announced a pause in tariffs at levels scheduled for the year 2000. A TCF investment programme was also announced. As at 31 March 1998, the timing and the details, including the cost, of the investment programme had not been established.

Primary Industries and Energy

Exceptional circumstances and drought relief

Additional expenditure on drought relief is subject to climate variability which cannot be predicted with any degree of certainty. The number of Exceptional Circumstances Relief

Payment recipients and exceptional circumstances interest rate subsidies approved will vary significantly each year, depending on the severity of drought and other exceptional circumstances conditions.

Prime Minister and Cabinet

Native Title cost sharing

The Commonwealth has previously offered to assist States and Territories in meeting compensation costs associated with their validation of past acts under legislation complementary to the *Native Title Act 1993*. Following the High Court's *Wik* decision, the Commonwealth offer has been extended to cover intermediate period acts and future acts arising under the 10-point plan. The extent of Commonwealth payments to the States pursuant to this offer will depend on the compensation liabilities arising from actions by the States to acquire native title rights. Those liabilities cannot be quantified at this time. The Commonwealth has also offered to assist States and Territories with the costs of alternative arbitral bodies and regimes approved under the Act. The extent of this assistance will depend on decisions to establish such bodies and regimes, the timing of their recognition and the extent of their use. Negotiation of financial assistance agreements with the States is unlikely to be completed until the Native Title Amendment Bill has been passed.

Separation of Aboriginal children from their families in the Northern Territory

Earlier laws, policies and practices led to the separation of many Aboriginal and Torres Strait Islander families. Legal actions are under way against the Commonwealth concerning the separation of Aboriginal children from their families in the Northern Territory. The plaintiffs are claiming damages and if any or all of the actions are successful, the Commonwealth may be liable for payments.

Social Security

Possible Social Security Agreement with Greece

The Government is continuing negotiations with Greece on a social security agreement which would cover those people who have lived part of their working lives in both countries. Depending on its terms, such an agreement would cost Australia an estimated \$25 million a year. If agreement on the terms is reached in 1998, it would not commence before July 1999 at the earliest.

Youth Allowance and related measures

The Youth Allowance, a new social security payment to be implemented on 1 July 1998, will provide an integrated income support payment for young people which will be available regardless of whether a person is in education, training, unemployed or sick.

The legislation package to provide for the Youth Allowance and the transfer of programme elements for older students from the portfolio of the Minister for Employment, Education, Training and Youth Affairs to the portfolio of the Minister for Social Security, is contained in two Bills. The first of these, the Social Security

Legislation Amendment (Youth Allowance) Bill 1997, is awaiting Royal Assent. However the second Bill, the Social Security Legislation Amendment (Youth Allowance Consequential and Related Measures) Bill 1998, passage of which is critical to the implementation of Youth Allowance, is not scheduled for debate in the Senate until 12 May 1998.

In addition, final incorporation of programme elements such as fares allowance, the Student Financial Supplement Scheme and the Youth Allowance actual means test depend on approval of disallowable instruments and tabling of regulations. This subordinate legislation cannot be tabled in Parliament until passage of the Social Security Legislation Amendment (Youth Allowance Consequential and Related Measures) Bill 1998.

Any legislative impediment to the full implementation of the Youth Allowance and related measures would constitute a potential fiscal risk to the forward estimates.

Abolition of Employment Entry Payment and Education Entry Payment

The measures that abolished the Employment Entry Payment and Education Entry Payment were rejected by the Senate in December 1996. A new bill to re-present these measures has been in the Senate since June 1997. The Bill is unlikely to be considered until later this year and, as a result, may cause a further delay of the planned implementation date. If the Bill is not passed, the forward estimates will need to be increased to exclude the savings from these measures.

Transport and Regional Development

Compensation claims — finalisation of acquisition of properties for the Second Sydney Airport at Badgerys Creek

Compensation claims relating to disputes arising from the compulsory acquisition of properties acquired for the proposed Second Sydney Airport at Badgerys Creek which have not been finalised at 31 March 1998 give rise to a risk of \$41.1 million. The properties were acquired under the *Lands Acquisition Act 1989*.

Northern Territory Government loans

Loans of the Northern Territory Government (Private Treaty Loans, Public Loan Flotations, and Private Placement of Northern Territory Stock) are covered by Commonwealth guarantee under sections 47 and 47A of the *Northern Territory (Self Government) Act 1978*. As at 31 March 1998, the value of these loans was \$162.2 million.

The payment of interest on the money borrowed by the Northern Territory Government is also guaranteed. As at 31 March 1998, no interest payments were overdue.

Treasury

Australia's involvement in the International Monetary Fund (IMF) assistance to Indonesia and the Republic of Korea

In response to recent instability in regional financial markets and economies, Australia has offered to provide bilateral financing in support of IMF programmes in Indonesia and the Republic of Korea. Australia has agreed to provide supplementary financing or 'second tier' financing of up to \$US1 billion in each case. This financing would be provided via a loan on a non-concessional basis that would be repaid to the Commonwealth. Whilst no funds have yet been disbursed to these two countries, the forward estimates provide for \$US300 million for Indonesia and \$US330 million for the Republic of Korea, as required, in 1997-98 and 1998-99 respectively. Amounts additional to this — and up to the \$US1 billion agreed by the Government — constitute fiscal risks to the headline forward estimates.

Australia's involvement in the International Monetary Fund (IMF) assistance to Thailand

In response to recent instability in regional financial markets and economies, Australia has offered to provide bilateral financing in support of the IMF programme in Thailand. This support has taken the form of a currency swap between the RBA and the Bank of Thailand for \$US1 billion which is being drawn down over a three-year period and repaid. In the event of default, the ability of the RBA to maintain the dividend stream projected in the forward estimates may be affected.

Fiscal Risks — Revenue

General risks

The forward estimates of revenue are subject to a number of general pressures which can result in risks to revenue collections. These general pressures include: tax minimisation and avoidance, including through the exploitation of tax expenditures; financial innovation; internationalisation; developments in communications technology and workplace arrangements; salary sacrifice arrangements; and court decisions. These pressures may result in a shift in the composition of revenue collected from the various tax bases and/or a change in the size of the tax base. The revenue forecasts make what is believed to be an appropriate allowance for these factors, given the data available.

Tax minimisation and avoidance involves the use of provisions and 'loopholes' in the tax law which were not intended by policy-makers. With evidence of greater taxpayer focus on tax avoidance and minimisation schemes, and in the absence of closing these off, the revenue base will shrink relative to that projected in the forward estimates. The Government is committed to addressing these problems through its fundamental tax reform programme which has, as one of its aims, the formation of a simpler and fairer tax system. At the same time, the Government will continue to take legislative action to close off such schemes as they are identified. In addition, the Australian Taxation Office (ATO) will continue to undertake extensive compliance enforcement work, including pursuing matters through the courts, to maintain the integrity of the tax system.

Financial innovation has increased dramatically during the past two decades and the tax system has generally not kept pace with these innovations. Consequently, uncertainty has arisen over the application of existing laws to new and often complex financial arrangements. Also the scope for tax minimisation and avoidance through the application of financial arrangements has expanded. An Issues Paper on the taxation of financial arrangements was released by Treasury and the ATO in December 1996. The paper has provided a vehicle for ongoing consultations between officials and taxpayers as to an appropriate basis for any reforms in this area.

The **internationalisation** of the Australian economy also introduces a general risk to the forward estimates of revenue. Income tax collections from capital are subject to increasing downward pressure due to increasing 'tax competition' among jurisdictions and 'profit shifting' in the context of the relatively free international flow of capital. The ATO is undertaking a series of compliance improvement measures to ensure that Australian companies deal with their international parties at 'arms length'. Income tax collections from labour are also coming under increasing downward pressure as a rising proportion of labour becomes more internationally mobile and subject to tax competition. The further integration of economies also means the integrity of each country's tax system will increasingly rely on international co-operation on tax matters.

Developments in **communications technology**, such as the Internet, also raise a general risk to the forward estimates of revenue. Such developments may allow the purchase or sale of an increasing number of goods and services — including the provision of labour services — in a way which avoids the traditional tax bases (and indeed most alternative, reasonably sophisticated, tax bases). Such developments pose a major challenge in tax system design in most countries. The ATO has sought to raise awareness of the issue in its December 1997 publication *Tax and the Internet*. Further, Australia will be participating in the October 1998 OECD Ministerial Conference on Electronic Commerce in Ottawa at which an international co-operative approach to regulating 'e' commerce will be discussed.

Developments in workplace arrangements may also affect taxation collections. Australia's tax system is characterised by a progressive system of personal income tax rates, combined with a flat company tax rate. Typically, the top marginal tax rate has been higher than the company tax rate. The divergence between the rates of personal and company tax provides an opportunity for some individual taxpayers, who would otherwise be subject to progressive marginal rates of tax, to derive income through a corporate structure. This may allow an individual taxpayer to take advantage of features of the corporate tax regime (for example, a lower company tax rate) which are not available to individual taxpayers. In response to such activity (termed 'alienation of personal services income'), the Commissioner of Taxation is taking appropriate steps to safeguard the intended operation of the law, including testing the law in the courts.

Salary sacrifice arrangements involve employees agreeing to forgo part of the remuneration they would otherwise receive in the form of salary or wages in return for benefits of a similar value. The objective of Fringe Benefits Tax (FBT) is to ensure that where an employee receives less salary and wages in exchange for a fringe benefit, the employer is subject to FBT on the benefit provided. Where FBT is payable (and costs to the employer are fully deductible), the total level of tax received by the Government (income tax and FBT) is generally the same as if an equivalent amount was provided in

gross salary and wages. In this case there is no cost advantage for the employer to provide fringe benefits rather than an equivalent amount of wages and salaries. This does not apply, however, in respect of employers where the FBT applies in part or not at all. In this case, salary sacrificing represents a risk to revenue. Salary sacrificing may also be used to defeat income tests on social security and other benefits as well as surcharges, for example those relating to superannuation and Medicare. As with other areas of the tax system which can be used for tax minimisation, the Government reviews the operation of the FBT on an ongoing basis to ensure that it is meeting its objectives.

Court decisions also increase the risk that revenue will be lower or higher than anticipated. Court decisions can affect the interpretation of tax legislation and, in the absence of Government action, can significantly change the level of revenue collected under that legislation.

Tax expenditures are often at risk of being exploited in an unexpected manner, which can also have a significant effect on the forward estimates of revenue. The Government receives a steady stream of calls for new tax expenditures to be granted. As a general proposition, the granting of further tax expenditures will lead to the downward adjustment of the forward estimates of revenue. Equally, the winding back of existing tax expenditures will generally require the upward adjustment of the forward estimates of revenue. In the future, all tax expenditures will be subject to ongoing monitoring and evaluation to determine whether they remain relevant to meeting the Government's priorities (see Appendix C to this Statement).

Apart from the above-mentioned general risks, which could have a cumulative impact over time, there are general risks to the forward estimates which could have a significant effect in any one year but not necessarily a cumulative effect over time. In any one year, revenue will be influenced by a number of factors, including, for example, the degree to which companies and individuals realise losses and capital gains, the valuation of stock, the utilisation of specific tax expenditures and taxpayer behavioural responses to revenue measures. Such factors can have a particularly significant effect on company tax collections and the revenue forgone through tax expenditures. Generally, such factors are not, by their nature, able to be forecast with a high degree of certainty.

Specific risks

There are also a number of specific risks to revenue that are currently the subject of ongoing analysis and evaluation by the Treasury and the ATO. Such risks include, for example, specific tax minimisation and avoidance schemes. Early detection and Government response to such risks is desirable. It would be inappropriate to explicitly identify such current specific risks until the Government is in a position to respond to the risks. To do so may compromise the Government's policy response and magnify the downside risks to the forward estimates of revenue.

The Government has announced a number of measures to date which have already been factored into the forward estimates of revenue but are yet to be passed by Parliament. Should the passage of legislation relating to these measures be delayed, amended or rejected, the forward estimates would need to be adjusted. Two important measures from the 1997-98 Budget are still awaiting passage through the Senate. The Government announced in the 1997-98 Budget, measures to address the unintended usage of franking

credits through **dividend streaming arrangements and trading in franking credits**. In the 1997-98 Budget, the Government also announced changes to the taxation of **distributions disguised as loans from private companies**. If these measures are not passed, as announced, there will be an impact on future revenue collections.

Contingent Liabilities — Quantifiable

Communications and the Arts

Telstra Corporation Ltd — loan guarantee

The Commonwealth has guaranteed loans taken out by Telstra Corporation Ltd. The principal amount covered by the guarantee as at 31 March 1998 was \$275.1 million.

Australian Broadcasting Corporation

The Commonwealth has guaranteed loans by the Australian Broadcasting Corporation. The principal amount covered by the guarantee as at 31 March 1998 was \$223.6 million. These loans were largely used to meet costs relating to the construction of premises for the Corporation at Southbank (Melbourne) and Ultimo (Sydney).

Special Broadcasting Service

The Commonwealth has guaranteed loans taken out by the Special Broadcasting Service. The principal amount covered by the guarantee as at 31 March 1998 was \$39 million. These loans were used to pay for refurbishment and enhancement of the Corporation's premises at Artarmon in Sydney.

Commonwealth Indemnity Scheme

The Commonwealth has provided indemnities to the owners of artworks against loss of, or damage to, those artworks whilst they are on loan to galleries participating in exhibitions organised under the Scheme. The global limit set by the Government on indemnities is \$1 billion. The actual amount indemnified as at 31 March 1998 was approximately \$261.2 million.

Defence

Defence Housing Authority

Private sector borrowing by the Defence Housing Authority is explicitly guaranteed by the Commonwealth under section 38 of the *Defence Housing Authority Act 1987*. The value of outstanding loans guaranteed at 31 March 1998 was \$60 million.

Military compensation

Contingent liabilities exist in relation to military compensation claims to the value of some \$188 million. These outstanding claims include long term incapacity payments, permanent impairment payments, medical, rehabilitation and death payments, and also includes long term Incurred But Not Reported (IBNR) payments. These long term IBNR

payments are included as a contingent liability because payment is contingent upon the fact that an officer has to place a claim, and the Department of Defence does not have an obligation to pay a claim.

Employment, Education, Training and Youth Affairs

Commonwealth Loan Guarantees — Group Training

The Minister for Employment, Education, Training and Youth Affairs is authorised to issue Commonwealth guarantees on a limited number of loans made to Commonwealth endorsed Group Training organisations by commercial lenders in the period 1 July 1998 to 31 December 2000. These guarantees facilitate the provision of additional apprenticeship and traineeship positions by the employers on the Department of Employment, Education, Training and Youth Affairs' register of endorsed Group Training organisations. The maximum value of loans outstanding is capped at \$30 million.

Commonwealth Loan Guarantees — Student Loan Supplement Scheme

The Student Loan Supplement Scheme is a voluntary loan scheme which enables tertiary students to obtain additional financial assistance to enable them to meet their living expenses while studying. The loans are negotiated with the Commonwealth Bank of Australia Ltd and guaranteed by the Commonwealth. As at 31 March 1998, the value of such loans was \$1,188 million. From 1 July 1998, most of this scheme will be administered by the Department of Social Security.

Immigration and Multicultural Affairs

Adult Migrant English Program (AMEP) — teacher redundancy costs

Under the terms of a 1993 memoranda of understanding between the Commonwealth and the States, the Commonwealth may be liable for some costs incurred by state AMEP service providers associated with redundancy packages for a proportion of their permanent teaching staff. The Department of Immigration and Multicultural Affairs is currently negotiating with state AMEP service providers to extinguish this liability.

Industry, Science and Tourism

Australian Industry Development Corporation (AIDC)

As at 15 April 1998, AIDC contingent liabilities totalled \$246 million in respect of guarantees and credit risk facilities. The Corporation's other guaranteed borrowings, which total \$2,234 million, have now as a result of arrangements associated with the sale of certain assets of AIDC Ltd to UBS Australia Ltd, a wholly owned subsidiary of Union Bank of Switzerland, been offset by holdings in Commonwealth Government securities and certain hedging instruments guaranteed by UBS Australia. They have thus been netted off the gross borrowings to determine the contingent liabilities above.

Export Finance and Insurance Corporation (EFIC)

The Commonwealth guarantees the due payment by EFIC of money that is, or may at any time become, payable by EFIC to any person other than the Commonwealth. As at 31 March 1998, the contingent liability totals \$6,648 million, comprising contracts of insurance and guarantees (\$3,119 million), liabilities (\$724 million) and national interest provisions (\$2,805 million).

Primary Industries and Energy

Snowy Mountains Hydro-electric Authority (SMHEA)

The *Snowy Mountains Hydro-electric Power Act 1949* provides that borrowings by the SMHEA may be guaranteed by the Commonwealth. The Authority has issued inscribed stock at a discount to finance capital works of the Scheme. The borrowings are subject to explicit Commonwealth guarantees. As at 3 April 1998, the face value of guaranteed borrowings was \$212.5 million, with the net amount guaranteed (excluding unamortised discount on the issue of inscribed stock) being \$117.6 million.

Wool International

Under Section 53(7) of the *Wool International Act 1991*, the Commonwealth underwrites borrowings of Wool International for the management of the wool stockpile. Contingent liabilities to Wool International totalled \$336 million at 31 March 1998. Sources of borrowings include domestic and overseas commercial borrowings. Wool International is reducing this debt through the sale of the stockpile. The target date for the payout of debt is by the end of 1998.

Australian Wheat Board (AWB)

Under the *Wheat Marketing Act 1989*, the Commonwealth underwrites borrowings by the AWB that fund advance and related payments from the wheat pool up to a maximum of \$3,759 million. Borrowings are repaid as the wheat pool is sold. The percentage underwritten by the Commonwealth is set at 85 per cent of the estimated aggregate net return on the wheat pool. The Commonwealth's responsibility for the underwriting of borrowings ceases after the 1998-99 season's pools are finalised.

There is also an additional borrowing guarantee for a total principal of \$20 million for the AWB, which allows for the payout of equity in the 1990-91 pools to assist growers who were in financial difficulties at the time (following a fall in international wheat prices).

Queensland Fish Management Authority

The Commonwealth guaranteed a loan up to a maximum of \$40.9 million to encourage the restructuring of the Northern Prawn Fishery. There is still \$6.9 million outstanding to be paid off within three years. The loan was taken out by the Queensland Fisheries Management Authority on behalf of the Commonwealth to buy back surplus boat units from the fishery with repayment to be made by the industry through levies.

Treasury

Guarantees under the Commonwealth Bank Sale Act 1995

Under the terms of the *Commonwealth Bank Sale Act 1995*, the Commonwealth has guaranteed various liabilities of the Commonwealth Bank of Australia, the Commonwealth Bank Officers' Superannuation Corporation (CBOSC) and the Commonwealth Development Bank.

The guarantee for the Commonwealth Bank of Australia relates to both on and off-balance sheet liabilities. Of the existing contingent liability, 34 per cent involves off-balance sheet liabilities. As at 30 June 1997, the balance of the guarantee was \$104,174.1 million, a reduction of \$220,830.6 million on the previous year.

The guarantee for CBOSC covers the due payments of any amount that is payable to or from the Fund, by CBOSC or by the Bank, in respect of a person who was a member, retired member or beneficiary of the Fund immediately before 19 July 1996. Total accrued benefits at 30 June 1997 have been valued at \$4,022 million following an actuarial review. The outstanding value subject to the guarantee is estimated to be \$4,017 million.

As of 1 July 1996, the Commonwealth Development Bank ceased to write new business and no additional liabilities are being incurred. The existing contingent liability will gradually decline with the retirement of existing loans and exposures. The revised estimate for the balance of this guarantee was \$482 million as at June 1997.

Reserve Bank of Australia (RBA) guarantee

This contingent liability relates to the Commonwealth's guarantee of the liabilities of the RBA. The major component of RBA liabilities relates to Notes (ie currency) on Issue. This treatment of Notes largely relates to the historical convention of the convertibility of Notes to gold — coins are not treated as a liability in the Commonwealth's accounts. At 15 April 1998, Notes on Issue totalled \$21,874 million.

The other major liability consists of deposits with the RBA by the banking sector. At 15 April 1998, these deposits amounted to \$6,002 million. The large decrease from 30 June 1997 to 15 April 1998 is principally due to the decrease in the value of exchange settlement accounts held with the RBA by the banking sector. In total, the guarantee for the Reserve Bank was \$32,523 million as at 15 April 1998.

Uncalled Capital Subscriptions — international financial institutions

This liability relates to the value of the uncalled portion of the value of the Commonwealth's shares in the International Bank for Reconstruction and Development (\$US2,769.5 million — estimated value \$A4,249.0 million at 22 April 1998), the Asian Development Bank (\$US2,477.5 million — estimated value \$A3,801.0 million), and the European Bank for Reconstruction and Development (\$US81.7 million — estimated value \$A125.3 million).

Workplace Relations and Small Business

ANL Ltd — \$100 million promissory note facility

In order to enable ANL to trade in an orderly fashion, the Commonwealth has guaranteed access to a promissory note facility of up to \$100 million. Only \$50 million has been drawn down by ANL under this facility.

Maritime Industry Reform

The Commonwealth has undertaken to provide a guarantee of up to \$250 million on borrowings by the Maritime Industry Finance Company (MIFCo) to finance redundancy related payments in the stevedoring and maritime industries subject to certain conditions. As at 6 May 1998, the Commonwealth has not signed any such guarantee.

Contingent Liabilities — Unquantifiable

Attorney-General's

Australian Federal Police Adjustment Scheme (AFPAS)

Under section 30(2) of the *Australian Federal Police Act 1979*, all Australian Federal Police (AFP) appointees who complete a fixed term appointment are entitled to a payment upon separation from the organisation. The entitlement is payable subject to, and in accordance with, eligibility conditions determined by the Commissioner of the AFP. Funding has been provided for the costs expected to be incurred over the next five years, but actual expenditure is subject to the number of staff separations.

Communications and the Arts

Telstra Corporation Ltd — Superannuation Guarantee

Telstra Corporation Ltd has agreed to make additional employer contributions to the Telstra Superannuation Scheme. The Commonwealth has guaranteed that it will cover any benefits that may have to be paid from the Fund in the event that the Telstra Superannuation Scheme or Telstra is ever bankrupted and wound up.

Defence

HMAS Melbourne compensation

The recent decision in the Mewett case which went against the Commonwealth may be used by up to 900 crewmen of the HMAS Melbourne, in relation to the Voyager incident, to lodge claims against the Commonwealth. There is no basis for quantifying potential claims (92 have been lodged to date).

Finance and Administration

Superannuation Act 1976 and the Public Sector Superannuation Scheme (PSS)

Under the *Superannuation Act 1976* (for the Commonwealth Superannuation Scheme (CSS)) and the PSS Trust Deed and Rules and determinations made under them, the Commonwealth guarantees payment of the amounts of members' contributions and productivity contributions with interest allocated to those amounts by respective Boards of Trustees.

The CSS and the PSS guarantee the accrued contributions and interest so there cannot be a negative crediting rating on invested funds. The funds maintain a reserve which covers the possibility of negative returns. The Commonwealth has not had to make a payment in relation to this guarantee.

Sale of ADI Limited

An indemnity was provided on 15 January 1998 to ADI Directors, officers and employees in respect of claims and legal costs that may arise from assistance provided to the Commonwealth in relation to the proposed sale of the Commonwealth's shares in, or the business or assets of, ADI. The indemnity is ongoing.

Review of the Commonwealth's beneficial shareholding in the Australian Submarine Corporation

An indemnity was provided on 17 February 1998 to Mr Barry A C Hilson and BACH Pty Limited in respect of claims and legal costs that may arise from assistance provided to the Commonwealth during the conduct of the review of the Commonwealth's shareholding in the Australian Submarine Corporation. The indemnity is ongoing.

Sale of the former Department of Administrative Services Business Units

Eight business units of the former Department of Administrative Services (DAS) were sold in the second half of 1997. The businesses were DAS Distribution, Works Australia, Asset Services, Australian Operational Support Services, Australian Property Group, Interiors Australia, DAS Centre for Environmental Management and DASFleet. The sales agreements incorporate warranties and sale price adjustments. Commonwealth liabilities for these matters are limited in accordance with sales contracts.

Indemnities relating to other Asset Sales

Indemnities have been given in respect of a range of other asset sales. Details of these indemnities have been provided in previous Budget and MYEFO papers. A summary of these indemnities is provided below.

- Aerospace Technologies of Australia (ASTA) Pty Ltd — a number of indemnities have been given to the purchaser of ASTA to protect ASTA and the purchaser from any reasonable losses or liabilities incurred in respect of actions of ASTA prior to, or at the time of the sale, or from circumstances arising from the sale. These indemnities were issued on 20 June 1995 and will not extend to any claim which

either accrues, or is made, more than four years after that date or is for an amount less than \$100,000.

- Australian Industry Development Corporation (AIDC) Limited — an indemnity was provided on 30 May 1996 to the Directors and nominated officers of AIDC Ltd and the AIDC Corporation to indemnify them against claims and reasonable costs in respect of assistance provided with the sale on 3 February 1998. Indemnities have been provided to the purchaser against claims from employees, claims relating to premises and tax liability arising before the sale contract was signed.
- Commonwealth Funds Management (CFM) and Total Risk Management (TRM) — an indemnity has been provided to the Directors and certain officers of CFM and TRM to indemnify them against certain claims in relation to assistance given to the Commonwealth in the sale process. This indemnity was issued on 28 August 1996. The Commonwealth has indemnified the purchaser of CFM from certain losses and liabilities as a result of the exercise of powers under the *CFM Sale Act 1996* and against any stamp duty payments related to the transaction other than the basic share transfer duty.
- Avalon Airport Geelong Pty Ltd (AAG) — indemnities have been given to the purchaser of AAG to indemnify them and AAG against certain liabilities and claims arising out of the actions of AAG prior to the sale, or relating to Avalon Airport prior to closing.
- CSL Ltd — indemnities have been given to Potter Warburg/Price Waterhouse on 14 October 1992, and to Arthur Anderson on 7 June 1993 for circumstances relating to performance of the consultancy in the sale of CSL Ltd. An indemnity has been given to CSL Ltd on 14 September 1992 to protect CSL Ltd from any claim made against them for breach of confidentiality as a result of CSL Ltd having provided information to the Commonwealth.
- Lease of Federal Airports Corporation (FAC) Airports — indemnities have been provided to:
 - Ernst & Young on 15 July 1996 to indemnify them against legal costs incurred in respect of their obligations for legal compulsion to disclose;
 - the Board of the FAC on 3 October 1996 to replace the extension of Finance Direction 21 to FAC Board members;
 - Mallesons Stephen Jaques on 13 September 1996 to indemnify them in relation to all reasonable costs incurred in complying with any requests or directions by the Commonwealth; and
 - BZW Australia Limited on 18 August 1995 to indemnify them against legal costs and disbursements incurred in respect of BZW's obligations for legal compulsion to disclose.
- Moomba Sydney Gas Pipeline — an indemnity has been given to East-Aust Pipeline Ltd on 30 June 1994 against losses sustained due to a claim by an employee of the

Pipeline Authority for negligence or accrued salary or other entitlements arising prior to the 'Transfer Day'.

- Snowy Mountains Engineering Corporation (SMEC) — an indemnity has been given to Tinbury Ltd on 21 October 1993 against certain liabilities and costs which they may suffer from the Commonwealth's non-observance of any of the express representations, warranties, covenants or undertakings contained in the sale agreement.
- Commonwealth Bank Public Share Offer — in 1996 the Commonwealth provided an indemnity to the Commonwealth Bank, its directors and certain officers to cover the civil liability in relation to providing assistance to the Commonwealth in the offer context.
- Partial Sale of Telstra Corporation — Telstra Scoping Study — An indemnity has been provided on 23 September 1996 to the present and certain former Telstra directors and officers to protect them against certain liability incurred in connection with the Telstra Sale Scoping Study.
- Partial Sale of Telstra Corporation — Telstra Share Offer — indemnities were provided in 1997 to:
 - present and former directors, and certain executives of Telstra to protect them against certain liabilities in connection with a Telstra Sale Scheme; and
 - to Telstra Corporation to protect against:
 - (i) certain liabilities which may arise in connection with a Telstra Sale Scheme; and
 - (ii) any penalty or additional tax within the meaning of Division II of the *Income Tax Assessment Act 1936* or any loss or cost incurred by Telstra arising from the payment of Franking Deficit Tax or Franking Deferral;
 - the international underwriters to the Telstra Share Offer to protect them against any Australian documentary, stamp, transaction or registration or similar taxes;
 - the Joint Global Coordinators and Lead Managers to protect them against any claim arising from the acts of other parties where the Commonwealth requires them to rely on those acts in the performance of the consultancy services;
 - the Telstra Instalment Receipt Trustee and its directors to protect against certain losses and liabilities arising from performance of its functions under the Trust Deed governing the administration of the instalment payment;
 - the Bank of New York and its Custodian to protect them against certain losses that may arise in the performance of their obligations relating to the issuing of Interim American Depository Receipts in the United States of America; and

- to Coopers & Lybrand and Price Waterhouse by the Telstra Instalment Receipt Trustee, on behalf of the Commonwealth, in relation to performance of certain of their functions as the Instalment Receipt Registrar and Manager of the Instalment Receipt Trustee, respectively.
- Australian Multimedia Enterprise (AME) — an indemnity, effective from 3 July 1997, has been provided to the Directors and Chief Executive Officer of AME to indemnify them against certain costs in respect of assistance provided by the director for the purposes of investigating or conducting the sale of AME.
- Housing Loans Insurance Corporation (HLIC) — the sales agreement, effective on 15 December 1997 incorporates warranties, indemnities and sale price adjustments. Commonwealth liabilities for these matters are limited by total value and, in some cases, are also limited to time.

Indemnities for banks

The Commonwealth has indemnified a number of banks in Europe and North America and the RBA against loss and damage arising from the acceptance of certain Commonwealth cheques bearing a facsimile signature having been impressed thereon without the authority of the Commonwealth.

New Commonwealth Insurable Risk Managed Fund

Under the current non-insurance policy, the Commonwealth is exposed to risks with the operations of agencies, such as government departments, under the *Financial Management and Accountability Act 1997*. These risks cover loss or damage to property, consequential losses, court awards and out of court settlements, for which the costs are met from existing agency appropriations or supplemented as required from the budget.

The Government proposes to replace its non-insurance policy with one of self-insurance via a managed fund, with effect from 1 July 1998. Commonwealth insurable risks that are not currently insured will be systematically identified and costed, and the risks will be funded by provisioning over time. The managed fund will produce better risk management and therefore reduce costs over time.

Similarly, the insurable risks of some bodies under the *Commonwealth Authorities and Companies Act 1997* within the general government sector will also be progressively covered by the new managed fund from 1 July 1998. Premiums will be charged by the fund to cover the long-term cost of risk and associated administrative costs and an allowance has been made in the Budget and Forward Estimates to cover the expected payment of claims to these bodies. However, given the unpredictable nature of insurable risk, it is possible that this estimate could be exceeded in any particular financial year.

Foreign Affairs and Trade

Australian Trade Commission

Under the *Australian Trade Commission Act 1985* the Commonwealth guarantees payment by the Australian Trade Commission of money that is payable to any person other than the Commonwealth.

Health and Family Services

CSL Ltd

CSL Ltd is indemnified against claims made by persons who contract specified infections from specified products and against employees contracting asbestos related injuries. CSL Ltd has unlimited cover for most events that occurred before the sale of CSL Ltd on 1 January 1994, but has more limited cover for a specified range of events that might occur during the period of the current contract. Given the open-ended nature of some of the indemnities, damages and risk cannot be quantified.

Transport and Regional Development

Civil Aviation Safety Authority (CASA) — indemnity in relation to the Authority's safety regulatory functions

Under a Deed of Agreement, CASA is indemnified against claims incurred in carrying out its responsibilities for aviation safety regulation. Under existing arrangements, this indemnity is subject to annual renewal on payment of an annual premium by CASA to the Commonwealth. The current CASA safety regulatory indemnity expires on 5 July 1998.

Civil Aviation Safety Authority (CASA) — indemnity to officers of the Authority administering the Carrier's liability insurance requirements

An indemnity has been given to those officers of CASA who administer the carrier's liability insurance requirements under Part IVA of the *Civil Aviation (Carrier's Liability) Act 1959* and complementary state legislation. This indemnity is unquantifiable and no expiry date has been set.

Tripartite Deed relating to the sale of Phase 1 Airports

The Tripartite Deeds between the Commonwealth of Australia, airport Lessees and Lessees' financiers provide for the Commonwealth to 'step-in' as airport operator in defined circumstances. The potential liability of the Commonwealth in the event varies considerably with the specific factors leading to such an action.

If the Commonwealth entered into possession of an airport site it could seek to recover its costs from a number of sources, including airport revenues.

Sale of the Australian National Railways Commission (AN) and National Rail Corporation Ltd (NR)

An indemnity has been provided to each of the Commissioners of AN in relation to their assistance for the purposes of the sale of AN, its business units or assets, including the provision of information about AN at the request of the Commonwealth or its advisers.

An indemnity has been provided to Directors and certain specified officers of NR in relation to their assistance during the Scoping Study into the possible sale of the Commonwealth's equity in NR, including the provision of information about NR at the request of the Commonwealth or its advisers.

Treasury

Housing Loans Insurance Corporation (HLIC)

The Commonwealth guarantees the liabilities of the HLIC which provides mortgage insurance to lenders. Whilst it is possible to measure the total value of all insurance contracts on the HLIC's books at any given time, this does not realistically reflect the potential risk to the Commonwealth. The HLIC has never suffered a claim for the total value of any insurance contract in its 30-year history; claims amounts on policies usually amount to 10 to 20 per cent of the policy value.

Workplace Relations and Small Business

ANL Ltd

The Commonwealth has issued a guarantee for all ANL's major lease facilities. If the risk materialised, the full termination value of the leases may be largely offset by the value of ANL's lessor loans and the value of assets that ANL would assume in the event of termination of the leases.

ANL Ltd Board

An indemnity for ANL Board members was provided to protect against civil claims relating to employment and conduct as a director of ANL Ltd and subsidiary/associated companies. This indemnity is unquantifiable and no expiry date has been set.

Australian Maritime Safety Authority (AMSA) — in relation to ship-sourced marine pollution.

In the normal course of operations, the Authority is responsible for the provision of funds necessary to meet the clean-up costs arising from ship-sourced marine pollution. The Commonwealth has agreed that the Authority's responsibility be limited to a maximum outlay of \$10 million. The Authority entered into a stand-by loan facility for this purpose. In the event of costs above that limit, funds will be provided by the Commonwealth. The Commonwealth's risk is unquantifiable. In all circumstances, the Authority is responsible for making appropriate efforts to recover the costs of any such incidents.

Possible increased workers' compensation costs to the Commonwealth

In December 1997, the NSW Court of Appeal found that Commonwealth employees, who were previously considered to be covered solely by the provisions of the *Safety, Rehabilitation and Compensation Act 1988*, could choose to claim compensation under State workers compensation legislation (the case is *Telstra Corporation v Worthing & Anor*).

The Commonwealth has applied to the High Court for leave to appeal this decision; the hearing is scheduled for 19 May 1998. The Australian Government Solicitor advises there are good prospects of the High Court overturning the Court of Appeal's decision.

If the Court of Appeal's decision is not overturned, the Australian Government Solicitor considers that there is some risk, although probably not a substantial risk, of Commonwealth exposure to financial liability under State workers compensation legislation.

APPENDIX B: SENSITIVITY OF FISCAL AGGREGATES TO ECONOMIC DEVELOPMENTS

Table B1 provides a guide to the sensitivity of the forward estimates of outlays and revenue to variations in economic parameters in 1998-99. It is important to recognise that such guides provide only a 'rule of thumb' indication of the impact on the budget of changes in prices, wages and other parameters.

Table B1: Sensitivity of Fiscal Aggregates to a 1 Percentage Point Increase in Economic Parameters

| | 1998-99 \$m | 1999-00 \$m | 2000-01 \$m | 2001-02 \$m |
|---------------------------------|----------------|----------------|----------------|----------------|
| <i>Outlays</i> | | | | |
| Prices | 270 | 540 | 610 | 660 |
| Wages | 80 | 300 | 330 | 340 |
| Unemployment benefit recipients | 280 | 280 | 280 | 280 |
| Safety Net Adjustment | 80 | 160 | 240 | 320 |
| <i>Revenue</i> | | | | |
| Average earnings | 980 | 1060 | 1140 | 1230 |
| Employment | 660 | 710 | 760 | 820 |
| Company income | 20 | 220 | 190 | 200 |
| Other individuals income | 0 | 150 | 110 | 110 |
| Consumption | 260 | 280 | 290 | 300 |
| CPI | 30 | 140 | 150 | 150 |
| Imports | 40 | 50 | 50 | 60 |

On the outlays side, the sensitivity analysis of the estimates provides for the following assumptions about changes to four broad groups of parameters:

- prices — all price deflators are assumed to increase by one percentage point at the start of the September quarter 1998, with wage deflators left unchanged;
- wages — all wage and salary rates are assumed to increase by one percentage point from the beginning of the September quarter 1998, with price deflators left unchanged;
- unemployment benefit recipients (includes Newstart Allowance and unemployed Youth Allowance recipients) — the total number of recipients is assumed to increase by 5 per cent from the beginning of the September quarter 1998; and
- Safety Net Adjustment — the Safety Net Adjustment determined by the AIRC is assumed to increase by \$2 per week in the budget and forward years from the 1997-98 financial year.

Projected outlays respond to changes in economic parameters through a variety of mechanisms. For example, the Government's decision to maintain pensions at 25 per cent of Male Total Average Weekly Earnings (MTAWE) means that projected spending on pensions will depend not just on changes to the CPI, by which pensions have been indexed for some time, but also on expected changes in the level of MTAWE.

In addition, about \$26 billion of underlying outlays, comprising running costs, other Commonwealth Own Purpose Outlays of a running cost nature and Specific Purpose Payments to the States of a running cost nature, are indexed to weighted averages of movements in underlying inflation and the Safety Net Adjustment (SNA) determined by the AIRC.

The items affected by prices and wages have been re-examined since the 1997-98 MYEFO. This has resulted in a compositional change between the sensitivity of prices and wages. In addition, the Government has introduced the Youth Allowance which has had the effect of reducing unemployment benefit recipients.

The number of unemployment benefit recipients, and therefore the total spending on benefits, are affected by economic growth and employment growth. However, the relationship between GDP growth and unemployment benefit recipients is highly variable and difficult to quantify. For this reason, Table B1 only includes the impact of changes in the number of unemployment benefit recipients (ie Newstart Allowance and unemployed Youth Allowance recipients) on the estimates.

On the revenue side, the figures show the estimated impact of a one percentage point change in a range of economic variables in 1998-99 as a whole. The CPI is assumed to increase by a quarter of one percentage point at the start of each quarter in 1998-99.

Differences in impact over the years reflect:

- the full-year impact of variations in parameters not occurring until the year following the variation;
- the effect on revenue collections of variations in company and other individuals income occurring largely in the year following the receipt of income; and
- for variations in most economic parameters, the flow-through effect of a higher (or lower) base in a year on revenue collections in subsequent years.

APPENDIX C: TAX EXPENDITURES

OVERVIEW

This appendix discusses the revenue impacts associated with concessional taxation treatment of specific groups and/or activities.

Individuals and businesses derive financial benefits from various tax concessions. These concessions are usually delivered by tax exemptions, deductions, rebates or reduced rates. They can either reduce or delay the collection of tax revenue. The Government can use taxation concessions to allocate resources to different activities in much the same way that it can use direct expenditure programmes. For this reason, and noting their direct impact on the underlying budget deficit, these tax concessions are generally called 'tax expenditures'.

A feature of the Government's Charter of Budget Honesty is the requirement to publish an overview of tax expenditures as part of the budget.

Following a review of existing tax expenditures, first announced in the 1996-97 Budget, the Government has decided to undertake periodic monitoring and evaluation of all tax expenditures through normal budget processes to ensure they deliver Government assistance in an effective manner.

AGGREGATE TAX EXPENDITURES

Table C1 shows estimates for the period 1994-95 to 2001-02 of the aggregate tax expenditures that have been identified and costed in the *Tax Expenditures Statement 1996-97* (TES), which was published in December 1997. The availability of new information and decisions taken since the TES was published have led to a re-estimation of actual costs and forward projections for aggregate tax expenditures.

Table C1: Aggregate Tax Expenditures 1994-95 to 2001-02

| Year | Superannuation (\$m) | Other Tax Expenditures (\$m)(a) | Tax Expenditures Total (\$m) | Tax Expenditures as a proportion of Outlays (%)(b) | Tax Expenditures as a proportion of GDP (%) |
|----------------------|-------------------------|---------------------------------------|------------------------------------|--|---|
| 1994-95 | 5770 | 10459 | 16229 | 13.1 | 3.5 |
| 1995-96 | 8315 | 9972 | 18287 | 13.9 | 3.7 |
| 1996-97 | 8700 | 10626 | 19326 | 14.2 | 3.7 |
| 1997-98 (est) | 8490 | 10335 | 18825 | 13.8 | 3.5 |
| 1998-99 (est) | 8750 | 11841 | 20591 | 14.5 | 3.6 |
| 1999-00 (proj) | 9420 | 13240 | 22660 | 15.5 | 3.7 |
| 2000-01 (proj) | 10060 | 14183 | 24243 | 16.0 | 3.7 |
| 2001-02 (proj) | 10740 | 15395 | 26135 | 16.7 | 3.8 |

(a) These aggregates do not include measures allowing delayed payments of tax.

(b) Outlays are reported on an underlying basis.

There are a number of major considerations in analysing aggregate tax expenditures.

- These aggregate figures will understate the total cost to revenue of tax expenditures. The TES does not provide a comprehensive listing of all tax expenditures, and some of those which are identified have not been costed due to a lack of data.

- Tax expenditures in the form of delayed tax payments (such as depreciation allowances which defer tax revenue collections to a later date), have been excluded from the estimates of aggregate tax expenditures. There is a considerable number of such arrangements in the tax system and, collectively, they lead to substantial revenue loss and economic inefficiency. They are, however, difficult to cost. Without such estimates it is not possible to aggregate timing tax expenditures with other estimates on a consistent basis.
- The increasing focus on tax expenditures in recent times has led to an enhanced effort to estimate the cost of more tax expenditures. However, this can make interpreting aggregate trends more problematic given the inconsistent coverage of tax expenditures over time.
- Changes over time in methodology and available data used for calculating the cost of particular expenditures means that there can be quite large revisions of tax expenditure estimates. Therefore, particular tax expenditure estimates may not be strictly comparable from year to year.
- Forward projections for the outyears can be subject to considerable uncertainty. Caution should be exercised when trying to draw strong conclusions on longer term trends.

Bearing these considerations in mind, Table C1 shows that the net cost of aggregate tax expenditures which provide a benefit or penalty to taxpayers (excluding timing measures), has increased by around \$1 billion in the year to 1996-97. As a result, the ratio of tax expenditures to underlying budget outlays increased to 14.5 per cent in 1996-97, with it projected to rise to almost 17 per cent by 2001-02.

While tax expenditures are expected to rise as a proportion of outlays, they remain relatively stable as a proportion of GDP reflecting, in many cases, the fact that they are closely related to income growth.

TAX EXPENDITURES BY FUNCTIONAL CATEGORIES

Table C2 compares the costs of identified tax expenditures in 1996-97 with underlying outlays by functional category. The functional categories are the same for outlays in this Statement.

The aggregates for a number of tax expenditure categories are only approximations as some tax expenditures do not lend themselves to easy categorisation. For example, it may not be possible to determine precisely which industry sectors have accessed tax concessions which are available to all industries. Tax expenditures that cannot be classified as belonging to a particular functional category are aggregated in the 'Not Allocated to Function' category.

Table C2 indicates there is considerable variation in the importance of tax expenditures to particular sectors of the economy. For example, while a relatively small level of assistance was provided through tax expenditures to the Education sector, about 96 per cent of the total Government assistance to the Fuel and Energy sector was provided in the form of tax expenditures.

The most significant category of tax expenditures was Social Security and Welfare, accounting for \$13.4 billion, or about 70 per cent of total tax expenditures. This compares with the next largest category (Mining and Mineral Resources other than fuels, Manufacturing and Construction) at \$1.7 billion or about 9 per cent of total tax expenditures.

Table C2: Aggregate Tax Expenditures and Direct Outlays by Functional Category, 1996-97

| Functional category | Tax Expenditures \$(a) | Budget Outlays \$(b) | Total \$m |
|---|---------------------------|-------------------------|---------------|
| <i>General Public Services</i> | | | |
| Legislative and Executive Affairs | <1 | 489 | 489 |
| Financial and Fiscal Affairs | - | 1804 | 1804 |
| Foreign Economic Aid | 123 | 1718 | 1841 |
| General Research | - | 1158 | 1158 |
| General Services | 5 | 77 | 82 |
| Government Superannuation Benefits | - | 1419 | 1419 |
| Defence | 66 | 10054 | 10120 |
| Public Order and Safety | - | 1226 | 1226 |
| Education | 29 | 10321 | 10350 |
| Health | 529 | 19196 | 19725 |
| Social Security & Welfare | 13401 | 49602 | 63003 |
| Housing & Community Amenities | 211 | 1138 | 1349 |
| Recreation and Culture | 42 | 1375 | 1417 |
| Fuel and Energy | 610 | 27 | 637 |
| Agriculture, Forestry and Fishing | 354 | 1903 | 2257 |
| Mining and Mineral Resources other than Fuels; Manufacturing; and Construction | 1722 | 1653 | 3375 |
| Transport and Communication | 25 | 1655 | 1680 |
| <i>Other Economic Affairs</i> | | | |
| Tourism and Area Promotion | 70 | 86 | 156 |
| Labour and Employment Affairs | 15 | 2945 | 2960 |
| Other Economic Affairs, nec | 813 | 335 | 1148 |
| <i>Other Purposes</i> | | | |
| Public Debt Interest | - | 9402 | 9402 |
| General Purpose Inter-Government Transactions | - | 18229 | 18229 |
| Natural Disaster Relief | - | 20 | 20 |
| Contingency Reserve | - | - | - |
| Asset Sales | - | 101 | 101 |
| Not Allocated to Function | 1311 | - | 1311 |
| Total | 19326 | 135933 | 155259 |

(a) Aggregate cost of tax expenditures in functional categories are derived by summing individual tax expenditure costings.

(b) Outlays are reported on an underlying basis.

APPENDIX D: HISTORICAL BUDGET AND NET DEBT DATA

This appendix provides historical data and forward estimates for budget sector underlying outlays, revenue and underlying balances; and for Commonwealth general government net debt.

Table D1 provides details of the budget aggregates for the period 1960-61 to 2001-02. The underlying budget balance is revenue minus headline outlays excluding net advances to other sectors. Net advances comprise net loans from the budget (new policy loans and advances less repayments) and net equity injections (injections/purchases of equity less equity sales). Classification differences and revisions, as well as changes to the structure of the budget, can impact on comparisons over such an extended period. In particular, there are some classification differences in the data relating to the period prior to 1976-77. This means that data for the earlier period may not be entirely consistent with that for 1976-77 and later years.

Table D2 provides details of tax, non-tax and total revenue for the period 1960-61 to 2001-02. These revenue data are compiled on a consistent basis from 1976-77.

Other factors which affect the comparability of budget aggregates between years are:

- adjustments in the coverage of agencies included in the accounts of the Commonwealth budget sector;
- transfers of taxing powers between the Commonwealth and the States;
- other changes in financial arrangements between the Commonwealth budget sector, Commonwealth non-budget sector agencies and the State/local government sector; and
- changes in arrangements for transfer payments where tax concessions or rebates are replaced by payments through the social security system. This has the effect of increasing both revenue and outlays as compared with earlier periods, but not changing balances. Changes in the opposite direction (tax expenditures replacing outlays) reduce both outlays and revenue.

While approximate adjustments can be made to identify trends in budget aggregates on a generally consistent basis, the further back this analysis is taken, the less manageable that task becomes.

A detailed discussion of the comparability of budget aggregates since 1960-61 is provided in Statement 5 of *1992-93 Budget Paper No. 1*.

Further details of the coverage of the budget sector and the changes in the classification of budget transactions are provided in Appendix E of this Statement.

Table D3 provides Commonwealth general government net debt data for the period 1974-75 to 2001-02.

Table D1: Commonwealth Budget Sector Revenue, Underlying Outlays and Underlying Balance

| | Revenue | | | Underlying Outlays | | | Underlying Balance | |
|---------------------------|-----------------|------------------|--------------------|--------------------|------------------|--------------------|--------------------|--------------------|
| | Estimate \$m | % Real Growth | Per cent of GDP | Estimate \$m | % Real Growth | Per cent of GDP | Estimate \$m | Per cent of GDP |
| 1960-61 | 3204 | 9.6 | 21.1 | 2654 | 5.1 | 17.5 | 551 | 3.6 |
| 1961-62 | 3262 | -0.6 | 20.9 | 2941 | 8.2 | 18.9 | 321 | 2.1 |
| 1962-63 | 3356 | 1.3 | 19.9 | 3105 | 3.9 | 18.4 | 250 | 1.5 |
| 1963-64 | 3725 | 9.3 | 19.9 | 3437 | 9.0 | 18.4 | 289 | 1.5 |
| 1964-65 | 4349 | 12.4 | 21.1 | 3765 | 5.5 | 18.3 | 584 | 2.8 |
| 1965-66 | 4774 | 6.6 | 22.1 | 4220 | 8.8 | 19.5 | 554 | 2.6 |
| 1966-67 | 5088 | 2.9 | 21.3 | 4766 | 9.0 | 20.0 | 322 | 1.4 |
| 1967-68 | 5583 | 5.3 | 21.9 | 5258 | 5.9 | 20.6 | 324 | 1.3 |
| 1968-69 | 6228 | 6.5 | 21.7 | 5712 | 3.8 | 19.9 | 515 | 1.8 |
| 1969-70 | 7157 | 9.3 | 22.5 | 6188 | 3.0 | 19.5 | 969 | 3.0 |
| 1970-71 | 8093 | 6.6 | 23.0 | 7251 | 10.4 | 20.7 | 841 | 2.4 |
| 1971-72 | 8913 | 3.0 | 22.7 | 8060 | 4.0 | 20.5 | 853 | 2.2 |
| 1972-73 | 9471 | -0.2 | 21.1 | 9189 | 7.1 | 20.5 | 281 | 0.6 |
| 1973-74 | 11978 | 10.8 | 22.3 | 10965 | 4.5 | 20.5 | 1012 | 1.9 |
| 1974-75 | 15431 | 5.9 | 23.8 | 15266 | 14.4 | 23.6 | 165 | 0.3 |
| 1975-76 | 18365 | 2.6 | 24.0 | 19904 | 12.4 | 26.0 | -1539 | -2.0 |
| 1976-77 | 21546 | 5.1 | 24.6 | 22701 | 2.2 | 25.9 | -1156 | -1.3 |
| 1977-78 | 23601 | 1.3 | 24.8 | 25541 | 4.0 | 26.8 | -1940 | -2.0 |
| 1978-79 | 25814 | 2.5 | 23.8 | 28125 | 3.2 | 25.9 | -2311 | -2.1 |
| 1979-80 | 29793 | 4.7 | 24.2 | 31046 | 0.2 | 25.2 | -1253 | -1.0 |
| 1980-81 | 35320 | 7.4 | 25.1 | 35349 | 3.2 | 25.1 | -29 | 0.0 |
| 1981-82 | 41010 | 4.0 | 25.8 | 40513 | 2.7 | 25.5 | 497 | 0.3 |
| 1982-83 | 44879 | -1.5 | 26.0 | 48024 | 6.7 | 27.8 | -3144 | -1.8 |
| 1983-84 | 49308 | 2.9 | 25.2 | 56147 | 9.5 | 28.7 | -6839 | -3.5 |
| 1984-85 | 57989 | 10.6 | 26.7 | 63761 | 6.8 | 29.4 | -5772 | -2.7 |
| 1985-86 | 65278 | 5.8 | 27.1 | 70097 | 3.3 | 29.1 | -4819 | -2.0 |
| 1986-87 | 73553 | 4.8 | 27.8 | 75628 | 0.4 | 28.6 | -2075 | -0.8 |
| 1987-88 | 81558 | 3.3 | 27.2 | 80138 | -1.3 | 26.7 | 1420 | 0.5 |
| 1988-89 | 88796 | 0.2 | 26.1 | 83040 | -4.7 | 24.4 | 5756 | 1.7 |
| 1989-90 | 95995 | 1.5 | 25.8 | 89113 | 0.8 | 24.0 | 6881 | 1.9 |
| 1990-91 | 98093 | -2.1 | 25.8 | 97692 | 5.0 | 25.7 | 400 | 0.1 |
| 1991-92 | 93509 | -6.5 | 24.0 | 104976 | 5.4 | 27.0 | -11467 | -2.9 |
| 1992-93 | 95062 | 0.3 | 23.3 | 112061 | 5.4 | 27.5 | -17000 | -4.2 |
| 1993-94 | 100747 | 5.0 | 23.3 | 117814 | 4.2 | 27.2 | -17067 | -3.9 |
| 1994-95 | 110430 | 8.5 | 24.0 | 123563 | 3.8 | 26.8 | -13133 | -2.9 |
| 1995-96 | 121688 | 7.2 | 24.7 | 131966 | 3.9 | 26.8 | -10278 | -2.1 |
| 1996-97 | 131031 | 5.1 | 25.4 | 135933 | 0.5 | 26.3 | -4902 | -0.9 |
| 1997-98 (estimate) | 135448 | 2.0 | 24.9 | 136603 | -0.9 | 25.1 | -1155 | -0.2 |
| 1998-99 (estimate) | 144258 | 3.4 | 25.0 | 141570 | 0.6 | 24.6 | 2688 | 0.5 |
| 1999-00 (projection) | 151299 | 2.3 | 24.7 | 146566 | 1.0 | 24.0 | 4733 | 0.8 |
| 2000-01 (projection) | 160200 | 3.2 | 24.7 | 151586 | 0.8 | 23.4 | 8614 | 1.3 |
| 2001-02 (projection) | 171096 | 4.3 | 24.9 | 156508 | 0.8 | 22.8 | 14588 | 2.1 |

Table D2: Commonwealth Budget Sector Taxation Revenue, Non-Taxation Revenue and Total Revenue

| | Tax Revenue | | | Non-Tax Revenue | | | Total Revenue | | |
|---------------------------|-----------------|------------------|--------------------|-----------------|------------------|--------------------|-----------------|------------------|--------------------|
| | Estimate \$m | % Real Growth | Per cent of GDP | Estimate \$m | % Real Growth | Per cent of GDP | Estimate \$m | % Real Growth | Per cent of GDP |
| 1960-61 | 2851 | 10.0 | 18.7 | 353 | 6.4 | 2.3 | 3204 | 9.6 | 21.1 |
| 1961-62 | 2862 | -2.0 | 18.4 | 400 | 10.6 | 2.6 | 3262 | -0.6 | 20.9 |
| 1962-63 | 2915 | 0.2 | 17.3 | 441 | 8.5 | 2.6 | 3356 | 1.3 | 19.9 |
| 1963-64 | 3257 | 10.0 | 17.4 | 469 | 4.7 | 2.5 | 3725 | 9.3 | 19.9 |
| 1964-65 | 3835 | 13.4 | 18.6 | 514 | 5.5 | 2.5 | 4349 | 12.4 | 21.1 |
| 1965-66 | 4209 | 6.6 | 19.5 | 564 | 6.5 | 2.6 | 4774 | 6.6 | 22.1 |
| 1966-67 | 4485 | 2.8 | 18.8 | 603 | 3.2 | 2.5 | 5088 | 2.9 | 21.3 |
| 1967-68 | 4952 | 6.0 | 19.4 | 631 | 0.4 | 2.5 | 5583 | 5.3 | 21.9 |
| 1968-69 | 5533 | 6.7 | 19.3 | 694 | 5.0 | 2.4 | 6228 | 6.5 | 21.7 |
| 1969-70 | 6391 | 9.9 | 20.1 | 767 | 5.1 | 2.4 | 7157 | 9.3 | 22.5 |
| 1970-71 | 7221 | 6.5 | 20.6 | 872 | 7.2 | 2.5 | 8093 | 6.6 | 23.0 |
| 1971-72 | 7934 | 2.8 | 20.2 | 979 | 5.0 | 2.5 | 8913 | 3.0 | 22.7 |
| 1972-73 | 8468 | 0.3 | 18.9 | 1003 | -3.8 | 2.2 | 9471 | -0.2 | 21.1 |
| 1973-74 | 10907 | 12.8 | 20.3 | 1071 | -6.4 | 2.0 | 11978 | 10.8 | 22.3 |
| 1974-75 | 14211 | 7.1 | 21.9 | 1221 | -6.3 | 1.9 | 15431 | 5.9 | 23.8 |
| 1975-76 | 16933 | 2.7 | 22.1 | 1432 | 1.1 | 1.9 | 18365 | 2.6 | 24.0 |
| 1976-77 | 19783 | 4.7 | 22.6 | 1763 | 10.3 | 2.0 | 21546 | 5.1 | 24.6 |
| 1977-78 | 21469 | 0.3 | 22.5 | 2132 | 11.8 | 2.2 | 23601 | 1.3 | 24.8 |
| 1978-79 | 23514 | 2.6 | 21.7 | 2300 | 1.1 | 2.1 | 25814 | 2.5 | 23.8 |
| 1979-80 | 27539 | 6.3 | 22.3 | 2255 | -11.1 | 1.8 | 29793 | 4.7 | 24.2 |
| 1980-81 | 32769 | 7.8 | 23.3 | 2551 | 2.5 | 1.8 | 35320 | 7.4 | 25.1 |
| 1981-82 | 38058 | 4.1 | 24.0 | 2952 | 3.7 | 1.9 | 41010 | 4.0 | 25.8 |
| 1982-83 | 41239 | -2.5 | 23.9 | 3640 | 11.0 | 2.1 | 44879 | -1.5 | 26.0 |
| 1983-84 | 45065 | 2.3 | 23.0 | 4243 | 9.2 | 2.2 | 49308 | 2.9 | 25.2 |
| 1984-85 | 53208 | 11.0 | 24.5 | 4782 | 6.0 | 2.2 | 57989 | 10.6 | 26.7 |
| 1985-86 | 59248 | 4.7 | 24.6 | 6030 | 18.5 | 2.5 | 65278 | 5.8 | 27.1 |
| 1986-87 | 66881 | 5.0 | 25.3 | 6672 | 2.9 | 2.5 | 73553 | 4.8 | 27.8 |
| 1987-88 | 75465 | 5.1 | 25.2 | 6093 | -14.9 | 2.0 | 81558 | 3.3 | 27.2 |
| 1988-89 | 83897 | 2.3 | 24.7 | 4899 | -26.0 | 1.4 | 88796 | 0.2 | 26.1 |
| 1989-90 | 91343 | 2.2 | 24.6 | 4651 | -10.8 | 1.3 | 95995 | 1.5 | 25.8 |
| 1990-91 | 93225 | -2.2 | 24.5 | 4867 | 0.2 | 1.3 | 98093 | -2.1 | 25.8 |
| 1991-92 | 87970 | -7.4 | 22.6 | 5539 | 11.7 | 1.4 | 93509 | -6.5 | 24.0 |
| 1992-93 | 89434 | 0.3 | 21.9 | 5627 | 0.3 | 1.4 | 95062 | 0.3 | 23.3 |
| 1993-94 | 94024 | 4.2 | 21.7 | 6722 | 18.4 | 1.6 | 100747 | 5.0 | 23.3 |
| 1994-95 | 105687 | 11.3 | 23.0 | 4743 | -30.2 | 1.0 | 110430 | 8.5 | 24.0 |
| 1995-96 | 116386 | 7.1 | 23.7 | 5302 | 8.7 | 1.1 | 121688 | 7.2 | 24.7 |
| 1996-97 | 125815 | 5.5 | 24.4 | 5216 | -4.0 | 1.0 | 131031 | 5.1 | 25.4 |
| 1997-98 (estimate) | 130827 | 2.6 | 24.1 | 4621 | -12.6 | 0.9 | 135448 | 2.0 | 24.9 |
| 1998-99 (estimate) | 138172 | 2.6 | 24.0 | 6086 | 27.9 | 1.1 | 144258 | 3.4 | 25.0 |
| 1999-00 (projection) | 146371 | 3.4 | 23.9 | 4928 | -21.0 | 0.8 | 151299 | 2.3 | 24.7 |
| 2000-01 (projection) | 155595 | 3.6 | 24.0 | 4605 | -8.9 | 0.7 | 160200 | 3.2 | 24.7 |
| 2001-02 (projection) | 165956 | 4.1 | 24.1 | 5140 | 9.0 | 0.7 | 171096 | 4.3 | 24.9 |

Table D3: Commonwealth General Government Net Debt^(a)

| | Commonwealth general government net debt | |
|---------------------------|--|-----------------|
| | Estimate (\$b) | Per cent of GDP |
| 1974-75 | -0.8 | -1.2 |
| 1975-76 | 0.7 | 0.9 |
| 1976-77 | 1.8 | 2.0 |
| 1977-78 | 3.6 | 3.8 |
| 1978-79 | 5.7 | 5.2 |
| 1979-80 | 6.9 | 5.6 |
| 1980-81 | 7.0 | 4.9 |
| 1981-82 | 6.5 | 4.1 |
| 1982-83 | 9.7 | 5.6 |
| 1983-84 | 16.5 | 8.4 |
| 1984-85 | 22.3 | 10.3 |
| 1985-86 | 27.1 | 11.3 |
| 1986-87 | 29.0 | 11.0 |
| 1987-88 | 27.4 | 9.1 |
| 1988-89 | 22.0 | 6.5 |
| 1989-90 | 16.1 | 4.3 |
| 1990-91 | 16.9 | 4.4 |
| 1991-92 | 31.1 | 8.0 |
| 1992-93 | 55.2 | 13.5 |
| 1993-94 | 69.9 | 16.2 |
| 1994-95 | 83.5 | 18.1 |
| 1995-96 | 95.8 | 19.5 |
| 1996-97 | 94.4 | 18.3 |
| 1997-98 (estimate) | 82.9 | 15.3 |
| 1998-99 (estimate) | 64.6 | 11.2 |
| 1999-00 (projection) | 43.2 | 7.1 |
| 2000-01 (projection) | 23.1 | 3.6 |
| 2001-02 (projection) | 9.6 | 1.4 |

(a) Data for 1987-88 to 1996-97 are from ABS *Public Sector Financial Assets and Liabilities* (Cat. No.5513.0). These data take into account the reclassification of universities from the general government sector to a separate multi-jurisdictional sector. Data for years prior to 1987-88 are Treasury estimates which do not exclude universities. The adjustment for universities has only a negligible effect on the estimates.

APPENDIX E: CLASSIFICATION ISSUES

This appendix:

- discusses the conceptual basis for the classifications used in Commonwealth budget statistics and differences from Government Finance Statistics (GFS);
- in accordance with the Charter of Budget Honesty, identifies departures of the budget presentation from external reporting standards; and
- shows the impact of classification changes since the 1997-98 Budget.

STATISTICAL CONCEPTS

In presenting budget statistics, the standards established by the Australian Bureau of Statistics (ABS) in its *Government Finance Statistics: Concepts, Sources and Methods* (Cat. No. 5514.0) are generally adopted. This standard draws on features of the 1968 United Nations publication *A System of National Accounts* (SNA) and the 1986 IMF publication *A Manual on Government Finance Statistics*. A revised version of the SNA standard was issued in 1993, but this has not yet been incorporated into ABS Government Finance or National Accounts statistics. The IMF standard is currently being revised.

The Commonwealth, States and Territories have an agreed framework — the Uniform Presentation Framework (UPF) — for the consistent presentation of government financial information on a GFS basis. The data provided in Appendix F are consistent with this framework.

Sectoral Classifications

As shown in Diagram 1, the Commonwealth non-financial public sector may be viewed in two ways:

- budget/non-budget sectors; and
- general government/public trading enterprise (PTE) sectors.

Commonwealth financial enterprises, such as the Reserve Bank, are currently excluded from Commonwealth government statistics in line with ABS practice.

The term government business enterprise (GBE) is not an ABS concept but is used by the Commonwealth to describe a group of companies and authorities, located mainly in the PTE and public financial enterprise (PFE) sectors, which trade goods and/or services in the market with a prime objective of earning a commercial return. Government trading enterprises is a term used in the Council of Australian Governments context and refers to the commercial activities of the Commonwealth, States and Territories.

Diagram 1: Commonwealth Non-financial Public Sector

| | BUDGET CLASSIFICATION | GFS CLASSIFICATION |
|---|--|---|
| Commonwealth Non-financial Public Sector | Budget Sector (eg DEETYA, DSS) | General Government Sector (includes budget sector and non-budget general government entities) |
| | Non-budget Sector — Non-budget General Government Sector (eg ABC, CSIRO) | |
| | — PTE Sector (eg Australia Post) | PTE Sector (eg Australia Post) |

Commonwealth Budget Sector

Traditionally, the budget and mid-year statements have mainly presented transactions between the Commonwealth budget sector and other sectors of the economy, including transactions with non-budget Commonwealth entities. The Commonwealth budget sector consists of those departments and agencies whose day-to-day transactions are recorded in the Official Commonwealth Public Account (CPA), whether via the Consolidated Revenue Fund, Loan Fund, Commercial Activities Fund or the Reserved Money Fund.

Transactions between budget sector agencies — such as payments of fringe benefits tax, customs duty and interdepartmental charges — are identified but netted out when calculating total budget outlays or revenue. Only transactions into and out of the CPA impact on budget outlays and revenue.

Excluded from the budget sector are many Commonwealth government authorities, such as CSIRO and the ABC, that operate outside the CPA through their own bank accounts. Although they may depend on appropriations from the Commonwealth budget in some cases, they are classified as part of the non-budget sector. Budget payments to them are classified as transfers to the non-budget sector. The ABS refers to this budget/non-budget distinction as the administrative sector classification.

ABS Government Sectors

The ABS GFS provides an alternative classification which allocates government units according to their role in providing market or non-market services. This approach recognises the different organisational focus of market oriented units by separating general government units that supply mainly non-market services from PTEs and PFEs, which provide market goods and services.

This standardised classification system facilitates direct comparisons between governments in Australia and allows the impact of total government activity to be measured relative to other sectors of the economy.

PFEs are currently regarded as outside the scope of ABS GFS. However, under the UPF, historical financial enterprise statistics will be phased in by all jurisdictions once the ABS has included PFE information in the GFS (currently proposed from 1998-99). This will provide a more complete coverage of the public sector. Associated with this change is the reclassification of State central borrowing authorities to the PFE sector.

The ABS has reclassified universities from the general government sector of the relevant jurisdiction to a new multi-jurisdictional general government category. This change was introduced in the *1997-98 Government Financial Estimates* (Cat. No. 5501.0) published in November 1997. The data in Appendix F and Statement 7 reflect the new classification.

Since 1989-90, effectively all budget sector activity has been classified to general government. The general government sector also includes non-commercial government agencies that operate through private sector bank accounts, such as the ABC and CSIRO (referred to as the general government non-budget sector).

Outlays, Revenue and Financing Transactions

Government sector transactions can be viewed from an economic perspective and categorised into underlying outlays, revenue, net advances and financing transactions.

Underlying outlays exclude net advances (ie net policy lending and net equity transactions) from headline outlays. Except in relation to PTEs, underlying outlays measure the net cost of providing goods and services generally allocated through collective political choice rather than through the operation of the market.

User charges are offset against relevant payments in calculating underlying outlays. The alternative treatment of classifying user charges as revenue would increase both underlying outlays and revenue and inflate the reported cost of providing public goods and services.

Revenue is the primary means of funding government activities, with any shortfall funded through borrowings or a rundown of financial assets (financing transactions). It comprises tax receipts (net of refunds) and non-tax receipts (interest, dividends etc) but excludes receipts from user charging, sale of assets and repayments of advances (loans and equity). Revenue therefore measures the value of the resources, other than borrowings, raised by a government to fund outlays.

The difference between total underlying outlays and revenue is the level of the reported underlying balance. The difference between headline outlays and revenue is the headline balance. The rationale for focussing on underlying outlays and balance measures is included in *1997-98 Budget Paper No. 1*.

Financing transactions do not affect the balance and are referred to as below-the-line transactions. (Underlying outlays and revenue transactions are referred to as above-the-line transactions.) Financing transactions are undertaken to finance the deficit or invest the surplus. They consist of borrowings and changes in holdings of financial assets such as cash or investments (excluding advances).

Other Classifications

Information in the Budget Papers is also classified in the following three ways:

- the *functional* classification brings together outlays directed towards like objectives or purposes. It thus facilitates presentation of information on the basic purposes of Government activities and on the total resources devoted by the Commonwealth to those purposes;
- the *economic* type classification is designed to facilitate the study of the economic impact of Commonwealth transactions and to provide the means of grouping transactions for inclusion in ABS GFS and the Australian National Accounts. This classification scheme defines the concepts of outlays, revenue, financing transactions and the budget balance. Outlays are further divided into current and capital classifications; and
- the *portfolio* classification refers to the aggregation of outlays according to the Minister who has prime administrative responsibility. Because portfolio responsibilities change over time, it is not possible to provide information in an historical series.

CONSISTENCY WITH EXTERNAL REPORTING STANDARDS

The Budget Papers have been developed to accord with public sector accounting standards and GFS concepts and methodology. The Charter of Budget Honesty requires that departures from these external reporting standards be identified.

Data consistent with GFS are provided in tables contained in Appendix F. However, the recent ABS reclassification of net advances from capital outlays to financing transactions has not been incorporated in these tables.⁶ Consequently, these tables show a separate adjustment for net advances to derive outlays and deficit estimates comparable to those provided in the ABS GFS.

The Budget Papers focus mainly on budget sector data which depart from GFS or public sector accounting standards in the following respects.

- As indicated above, budget sector data are not equivalent to general government data, as they omit non-budget agencies such as the ABC.
- Exclusion of net advances (paid) from outlays in ABS GFS is consistent with the exclusion of net advances (paid) in the underlying budget outlays data, but not in the headline budget outlays data.
- To maintain consistency with the public net lending concept in the National Accounts, underlying balance measures used in the Budget Papers do not take account of certain payments such as PTE superannuation provisions by the

⁶ The ABS reclassification of net advances to financing transactions was first reflected in the 1996-97 *Government Finance Statistics, Australia* (Cat. No. 5512.0) published by the ABS in April 1998.

Commonwealth budget sector. These items — increases in provisions — are classified as financing transactions. While ABS GFS statistics also classify these payments as financing transactions (ie not as outlays), they do take account of these transactions to derive their deficit estimates.

- The treatment of finance leases in budget sector data differs from that set out in *Australian Accounting Standard 17*. Under that standard, the asset and liability associated with a finance lease are brought to account in the financial records of the lessee. A finance lease is recognised where substantially all of the risks and benefits of ownership pass to the lessee.

Budget sector data have been adjusted for these differences to derive the general government sector data presented in Appendix F.

Safety Net Revenues

The ABS has decided that the Commonwealth taxes introduced to replace the State franchise fees invalidated by the High Court decision on 5 August 1997 should be treated as State and Territory taxes for the purposes of GFS. This reflects the fact that the safety net arrangements represent a State and Territory tax imposed and collected by the Commonwealth at the request, and on behalf of, the States and Territories. This classification has been used in the Budget Papers. These taxes are netted out of the Commonwealth sector and attributed to the relevant State and Territory sectors. The safety net arrangements have no net impact on budget revenue apart from administrative costs. Any refunds by the States and Territories to producers or wholesalers are treated as corrective (negative tax) transactions.

CLASSIFICATION CHANGES FOR THE 1998-99 BUDGET

Budget classification changes can affect historical reporting. Consequently, comparisons between budget publications from different years can be misleading, and these data need to be treated with caution. All changes to the application of the functional and economic type classifications for the 1997-98 Budget are outlined in Table E1 and Table E2. As can be seen from these tables, historical data published in this document is broadly consistent with previous publications. The major changes are listed in the footnotes.

From 1 July 1998, it is proposed that payments under the AUSTUDY programme will be replaced by the Youth Allowance (for students aged under 25 years). This involves a transfer, rather than a reclassification, of outlays estimates from the Education function to the Social Security and Welfare function and therefore this transfer is not reflected in Table E1.

Table E1: Effect of Reclassification by Function since the 1997-98 Budget (\$m)

| | 1990-91 | 1991-92 | 1992-93 | 1993-94 | 1994-95 | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Published 1997-98 Revenue | 98093 | 93509 | 95062 | 100747 | 110430 | 121688 | 129625 | 133351 | 142383 | 150330 | 158911 |
| Classification Changes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 1 |
| 1997-98 Revenue on 1998-99 Classification Basis | 98093 | 93509 | 95062 | 100747 | 110430 | 121688 | 129625 | 133352 | 142383 | 150331 | 158912 |
| Published 1997-98 Underlying Outlays | 97690 | 104973 | 112059 | 117810 | 123559 | 131961 | 136481 | 137204 | 140786 | 144947 | 148219 |
| Legislative and Executive Affairs(a) | -71 | -15 | -2 | -3 | 9 | 7 | 8 | 10 | 5 | 5 | 5 |
| Financial and Fiscal Affairs(b) | -13 | -3 | -2 | 1 | -4 | 1 | 0 | 2 | -1 | -1 | -1 |
| Foreign Economic Aid | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 |
| General Services(a)(b)(c)(e) | 50 | -7 | -27 | -25 | -30 | -32 | -37 | -37 | -26 | -25 | -25 |
| Social Security and Welfare(d) | 2 | 3 | 3 | 4 | 4 | 5 | 4 | 5 | 5 | 5 | 6 |
| Fuel and Energy(e) | 0 | 0 | 1 | 3 | 4 | 5 | 5 | 0 | -4 | -4 | -4 |
| Transport and Communication(f) | 0 | 0 | 0 | 0 | 0 | 1 | 3 | 4 | 4 | 4 | 4 |
| Other Economic Affairs, nec(c)(f) | 33 | 25 | 30 | 25 | 21 | 18 | 21 | 21 | 22 | 22 | 22 |
| Asset Sales(g) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -30 | -75 | 0 | 0 |
| Total Underlying Outlays Classification Changes | 2 | 3 | 3 | 4 | 4 | 5 | 4 | -25 | -69 | 6 | 6 |
| Of which: | | | | | | | | | | | |
| Classification changes as at 1997-98 MYEFO | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -46 | -11 | 0 | 0 |
| Other classification changes post-1997-98 MYEFO | 2 | 3 | 3 | 4 | 4 | 5 | 4 | 21 | -58 | 6 | 6 |
| 1997-98 Underlying Outlays on 1998-99 Classification Basis | 97692 | 104976 | 112062 | 117814 | 123563 | 131966 | 136485 | 137179 | 140717 | 144953 | 148225 |
| Memorandum items | | | | | | | | | | | |
| Classification changes to net advances | -2 | -3 | -3 | -4 | -4 | -5 | -4 | 25 | 69 | -6 | -6 |
| Classification changes to headline outlays | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

- (a) Comcar operations reclassified from General Services to Legislative and Executive Affairs.
(b) Australian Valuation Office operations reclassified from General Services to Financial and Fiscal Affairs.
(c) AUSLIG operations reclassified from General Services to Other Economic Affairs, nec.
(d) Refugee-assisted passage costs reclassified from Net Advances within the same function.
(e) Receipts for electricity generation on the Indian Ocean Territories reclassified from Fuel and Energy to General Services.
(f) Petroleum Products Freight Subsidy reclassified from Other Economic Affairs, nec to Transport and Communication.
(g) Asset sales reclassified from Net Advances within the same function.

Table E2: Effect of Reclassification by Economic Type since the 1997-98 Budget (\$m)

| | 1990-91 | 1991-92 | 1992-93 | 1993-94 | 1994-95 | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Published 1997-98 Revenue | 98093 | 93509 | 95062 | 100747 | 110430 | 121688 | 129625 | 133351 | 142383 | 150330 | 158911 |
| Classification Changes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 1 |
| 1997-98 Revenue on 1998-99 Classification Basis | 98093 | 93509 | 95062 | 100747 | 110430 | 121688 | 129625 | 133352 | 142383 | 150331 | 158912 |
| Published 1997-98 Underlying Outlays | 97690 | 104973 | 112059 | 117810 | 123559 | 131961 | 136481 | 137204 | 140786 | 144947 | 148219 |
| Final Consumption Expenditure(a)(c) | 23 | 30 | 28 | 34 | 34 | 38 | 44 | 23 | 78 | 82 | 82 |
| Subsidies(b) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 20 | 0 | 0 |
| Current Grants Paid(b)(c) | -24 | -29 | -32 | -36 | -36 | -34 | -41 | -15 | -47 | -26 | -27 |
| Capital Outlays on Goods, Land and Intangibles(d) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -30 | -75 | 0 | 0 |
| Capital Transfer Payments(a) | 3 | 3 | 7 | 7 | 6 | 0 | 1 | -3 | -45 | -51 | -50 |
| Total Underlying Outlays Classification Changes | 2 | 3 | 3 | 4 | 4 | 5 | 4 | -25 | -69 | 6 | 6 |
| Of which: | | | | | | | | | | | |
| Classification changes as at 1997-98 MYEFO | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -46 | -11 | 0 | 0 |
| Other classification changes post-1997-98 MYEFO | 2 | 3 | 3 | 4 | 4 | 5 | 4 | 21 | -58 | 6 | 6 |
| 1997-98 Underlying Outlays on 1998-99 Classification Basis | 97692 | 104976 | 112062 | 117814 | 123563 | 131966 | 136485 | 137179 | 140717 | 144953 | 148225 |
| Memorandum items | | | | | | | | | | | |
| Classification changes to net advances | -2 | -3 | -3 | -4 | -4 | -5 | -4 | 25 | 69 | -6 | -6 |
| Classification changes to headline outlays | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

(a) Payment to National System of Reserves and National Rivercare reclassified from Capital Transfer Payments to Final Consumption Expenditure, and refugee-assisted passage costs reclassified from Net Advances to Final Consumption Expenditure.

(b) Payment to Sydney Organising Committee for the Olympic Games reclassified from Current Grants Paid to Subsidies.

(c) National Vegetation Initiative reclassified from Final Consumption Expenditure to Current Grants Paid.

(d) Asset Sales reclassified from Net Advances to Capital Outlays on Goods, Land and Intangibles.

APPENDIX F: COMMONWEALTH GOVERNMENT SECTOR STATISTICS

In accordance with the requirements of the Charter of Budget Honesty, and the UPF for the consistent presentation of financial information, this appendix provides, on a GFS consistent basis:

- budget and forward estimates for the Commonwealth general government underlying balance and its major components;
- equivalent budget year data for the Commonwealth PTE sector and consolidated non-financial public sector; and
- budget year data showing outlays by purpose and taxes, fees and fines for the consolidated non-financial public sector.

COMMONWEALTH GENERAL GOVERNMENT SECTOR

This section presents estimates of the underlying balance — and the revenue and outlays components — for the Commonwealth general government sector. A description of this sector and its relationship to the budget sector can be found in Appendix E.

Table F1 is presented on the same basis as the budget sector estimates provided elsewhere in the Budget papers so as to provide an estimate of the underlying balance broadly consistent with the ‘public net lending’ concept in the national accounts. Estimates for underlying balances in Table F1 will differ from the deficit estimates in Table F2 because the former do not take account of increases in provisions (see discussion in Appendix E).

Table F1: Summary of General Government Aggregates (\$m)

| | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---------------------------|--------------|-------------|-------------|-------------|--------------|
| | Revised | Estimate | Projection | Projection | Projection |
| Revenue | 135502 | 144321 | 151348 | 160278 | 171175 |
| <i>Per cent of GDP</i> | 24.9 | 25.0 | 24.7 | 24.7 | 24.9 |
| Underlying outlays | 136528 | 141543 | 146518 | 151665 | 156549 |
| <i>Per cent of GDP</i> | 25.1 | 24.6 | 24.0 | 23.4 | 22.8 |
| Underlying balance | -1026 | 2778 | 4830 | 8613 | 14626 |
| <i>Per cent of GDP</i> | -0.2 | 0.5 | 0.8 | 1.3 | 2.1 |
| <i>Memorandum items:</i> | | | | | |
| Net advances | -13806 | -15991 | -18709 | -12793 | 519 |
| Headline balance | 12780 | 18769 | 23539 | 21406 | 14107 |
| <i>Per cent of GDP</i> | 2.4 | 3.3 | 3.8 | 3.3 | 2.1 |

Table F1 shows that the Commonwealth general government sector underlying balance is expected to move into surplus in 1998-99, consistent with expected movements in the budget sector. The general government sector underlying balance is projected to strengthen further in the following years with the surpluses continuing to grow as a percentage of GDP.

GOVERNMENT FINANCE STATISTICS

This section presents Commonwealth financial data on a GFS basis, consistent with the UPF. Five statistical tables are presented below, showing:

- transactions by economic type for the Commonwealth general government, PTE and consolidated non-financial public sectors;
- Commonwealth consolidated current and capital outlays by purpose; and
- the taxes, fees and fines received by the Commonwealth consolidated non-financial public sector.

The tables were produced by the Department of Finance and Administration in consultation with the ABS. The ABS sign convention is adopted, where a negative deficit represents a surplus. This is in contrast to the presentation of the budget balance elsewhere in this document where a negative balance represents a deficit.

Consistent with ABS practice, transactions between the Commonwealth general government and PTE sectors are included in Table F2 and Table F3 but are removed from Table F4 as they are internal transactions within the Commonwealth non-financial public sector. Table F4 records the net operating surplus of the PTE sector as part of the revenue of the Commonwealth government sector. This is irrespective of whether that net operating surplus is actually remitted to the parent government.

Transactions between the Commonwealth non-financial and PFE sectors are included in all tables. These transactions include income transfers such as dividends paid to general government, net advances paid by general government to PFEs and taxes paid by PFEs. Any unremitted elements of PFE net operating surplus are excluded from Table F4.

The general government deficit adjusted for net advances shown in Table F2 differs from the underlying deficit measure used elsewhere in the Budget Papers in that it is adjusted for increases in provisions in respect of PTE superannuation. The two measures also differ as a result of the different treatment of certain transactions noted in Appendix E. As noted in Appendix E, the treatment of net advances in these tables differs from GFS.

Net debt in GFS is the excess of gross debt (including deposits held, advances received and other borrowings) over selected financial assets (including cash and deposits, advances paid and other lending). The net debt measure is limited in that it does not include accrued employee liabilities, other financial assets and liabilities (particularly equity holdings), and physical assets.

The net debt data in Tables F2 to F4 are based on historical capital values, with movements driven principally by cash transactions such as borrowings and receipts of equity sales. Net debt is calculated as the stock of net debt in the previous year plus the deficit adjusted for net advances plus net equity transactions. The 1996-97 base net debt figures have been obtained from the ABS publication *Public Sector Financial Assets and Liabilities*, 30 June 1997 (Cat. No. 5513.0).

Table F2: Economic Transactions of Commonwealth Government (\$m)

| | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|--|------------------------|---------------|---------------|---------------|---------------|
| | General Government (a) | | | | |
| Outlays | | | | | |
| Current Outlays | | | | | |
| Final consumption expenditure (b) | 27032 | 28651 | 30060 | 32128 | 33809 |
| Interest payments | 8465 | 7979 | 7203 | 6346 | 4766 |
| Subsidies paid to public trading enterprises | 446 | 430 | 391 | 234 | 237 |
| Personal benefit payments | 58159 | 60442 | 63027 | 65550 | 68435 |
| Current grants | 37524 | 38244 | 39853 | 41079 | 42686 |
| Other transfer payments | 2721 | 2675 | 2683 | 2705 | 2840 |
| <i>Total current outlays</i> | <i>134346</i> | <i>138422</i> | <i>143217</i> | <i>148043</i> | <i>152773</i> |
| Capital outlays | | | | | |
| Expenditure on new fixed assets | 917 | 852 | 818 | 985 | 1121 |
| <i>Plus</i> Expenditure on secondhand assets (net) | <i>-1160</i> | <i>-525</i> | <i>-148</i> | <i>-21</i> | <i>17</i> |
| <i>Equals</i> Gross fixed capital expenditure | <i>-243</i> | <i>327</i> | <i>670</i> | <i>964</i> | <i>1138</i> |
| Expenditure on land and intangible assets (net) | -176 | 129 | 111 | 164 | 148 |
| Capital grants | 2597 | 2657 | 2522 | 2489 | 2485 |
| Advances paid (net) | -13806 | -15991 | -18709 | -12793 | 519 |
| Other capital outlays | 3 | 7 | -1 | 6 | 5 |
| <i>Total capital outlays</i> | <i>-11624</i> | <i>-12871</i> | <i>-15408</i> | <i>-9171</i> | <i>4295</i> |
| Total outlays | 122722 | 125551 | 127809 | 138872 | 157068 |
| Total outlays (excluding net advances paid) | 136528 | 141543 | 146518 | 151665 | 156549 |
| Revenue | | | | | |
| Taxes, fees and fines | 130827 | 138175 | 146374 | 155597 | 165958 |
| Interest received from public trading enterprises | 83 | 77 | 37 | 9 | 9 |
| Interest received from other enterprises | 964 | 1065 | 1857 | 2291 | 2819 |
| Other revenue | 3628 | 5005 | 3080 | 2381 | 2390 |
| Total revenue | 135502 | 144321 | 151348 | 160278 | 171175 |
| Financing and deficit measures | | | | | |
| Borrowing (net) | -10978 | -18453 | -21660 | -20376 | -12399 |
| Increase in provisions (net) | -1238 | -976 | -990 | -1006 | -1058 |
| Other financing transactions (net) | -564 | 658 | -889 | -24 | -650 |
| Total financing | -12780 | -18770 | -23539 | -21406 | -14107 |
| <i>Less</i> Increase in provisions (net) | <i>-1238</i> | <i>-976</i> | <i>-990</i> | <i>-1006</i> | <i>-1058</i> |
| <i>Equals</i> Deficit | <i>-11543</i> | <i>-17794</i> | <i>-22549</i> | <i>-20400</i> | <i>-13050</i> |
| Of which | | | | | |
| Current deficit | 82 | -4923 | -7142 | -11229 | -17345 |
| Capital deficit | -11624 | -12871 | -15408 | -9171 | 4295 |
| <i>Less</i> Advances paid (net) | <i>-13806</i> | <i>-15991</i> | <i>-18709</i> | <i>-12793</i> | <i>519</i> |
| <i>Equals</i> Deficit adjusted for net advances | 2263 | -1803 | -3840 | -7608 | -13569 |
| Net Debt | 82871 | 64582 | 43244 | 23131 | 9562 |

(a) The general government sector is the combination of the budget and non-budget sectors after elimination of transactions internal to that sector and adjustments to the budget sector as outlined in Appendix E.

(b) Includes an allowance for parameter revisions contained in the budget sector contingency reserve.

Table F3: Economic Transactions of Commonwealth Government (\$m)

| | 1997-98 | 1998-99 |
|--|----------------|-------------|
| | Public Trading | Enterprises |
| Outlays | | |
| Current outlays | | |
| Interest payments | 1027 | 1016 |
| Other current payments | 3359 | 4251 |
| <i>Total current outlays</i> | 4386 | 5267 |
| Capital outlays | | |
| Expenditure on new fixed assets | 4900 | 4439 |
| <i>Plus</i> Expenditure on secondhand assets (net) | -306 | -154 |
| <i>Equals</i> Gross fixed capital expenditure | 4594 | 4285 |
| Expenditure on land and intangible assets (net) | -41 | 36 |
| Capital grants to other levels of government | 0 | 0 |
| Advances paid (net) | 0 | 0 |
| Other capital outlays | -409 | -202 |
| <i>Total capital outlays</i> | 4145 | 4119 |
| Total outlays | 8531 | 9386 |
| Total outlays (excluding net advances paid) | 8531 | 9386 |
| Revenue | | |
| Sales of goods and services | 26463 | 27734 |
| <i>Plus</i> Subsidies received | 402 | 393 |
| <i>Less</i> Operating expenditure | 21438 | 22121 |
| <i>Equals</i> Net operating surplus | 5427 | 6006 |
| Interest received | 190 | 159 |
| Capital grants received | 4 | 20 |
| Other revenue | 28 | 21 |
| Total revenue | 5648 | 6206 |
| Financing and deficit measures | | |
| Advances received (net) | 79 | -687 |
| Borrowing (net) | 193 | 1261 |
| Increase in provisions (net) | 2692 | 3129 |
| Other financing transactions (net) | -81 | -522 |
| Total financing | 2883 | 3181 |
| <i>Less</i> Increase in provisions (net) | 2692 | 3129 |
| <i>Equals</i> Deficit | 191 | 52 |
| Of which | | |
| Current deficit | -3950 | -4047 |
| Capital deficit | 4141 | 4099 |
| <i>Less</i> Advances paid (net) | 0 | 0 |
| <i>Equals</i> Deficit adjusted for net advances | 191 | 52 |
| Net Debt | 9464 | 9516 |

Table F4: Economic Transactions of Commonwealth Government (\$m)

| | 1997-98 | 1998-99 |
|--|-----------------------------|---------------|
| | Consolidated Government (a) | |
| Outlays | | |
| Current outlays | | |
| Final consumption expenditure | 27032 | 28651 |
| Interest payments | 9410 | 8919 |
| Subsidies paid to public trading enterprises | 446 | 430 |
| Personal benefit payments | 58159 | 60442 |
| Current grants | 37524 | 38244 |
| Other current payments | 3637 | 4207 |
| <i>Total current outlays</i> | <i>136207</i> | <i>140893</i> |
| Capital outlays | | |
| Expenditure on new fixed assets | 5817 | 5291 |
| <i>Plus</i> Expenditure on secondhand assets (net) | <i>-1466</i> | <i>-679</i> |
| <i>Equals</i> Gross fixed capital expenditure | <i>4352</i> | <i>4612</i> |
| Expenditure on land and intangible assets (net) | -216 | 166 |
| Capital grants | 2593 | 2637 |
| Advances paid (net) | -13885 | -15304 |
| Other capital outlays | -406 | -195 |
| <i>Total capital outlays</i> | <i>-7562</i> | <i>-8085</i> |
| Total outlays | 128645 | 132808 |
| Total outlays (excluding net advances paid) | 142530 | 148113 |
| Revenue | | |
| Taxes, fees and fines | 129812 | 137361 |
| Net operating surplus of public trading enterprises | 5427 | 6006 |
| Interest received | 1154 | 1224 |
| Other revenue | 2228 | 3119 |
| Total revenue | 138621 | 147710 |
| Financing and Deficit measures | | |
| Borrowing (net) | -10785 | -17192 |
| Increase in provisions (net) | 1454 | 2153 |
| Other financing transactions (net) | -644 | 137 |
| Total financing | -9975 | -14902 |
| <i>Less</i> Increase in provisions (net) | <i>1454</i> | <i>2153</i> |
| <i>Equals</i> Deficit | <i>-11429</i> | <i>-17055</i> |
| Of which | | |
| Current deficit | -3867 | -8970 |
| Capital deficit | -7562 | -8085 |
| <i>Less</i> Advances paid (net) | <i>-13885</i> | <i>-15304</i> |
| <i>Equals</i> Deficit adjusted for net advances | 2455 | -1751 |
| Net Debt | 92336 | 74099 |

(a) The consolidated Commonwealth sector is the combination of the general government and PTE sectors after elimination of transactions internal to that sector.

Table F5: Outlays by Purpose of Commonwealth Government (\$m)

| | 1997-98 | 1998-99 |
|---------------------------------------|-------------------------|---------------|
| | Consolidated Government | |
| Current Outlays | | |
| General public services | 8314 | 8677 |
| Defence | 9713 | 10279 |
| Public order and safety | 1007 | 957 |
| Education (a) | 10267 | 9055 |
| Health | 20727 | 22256 |
| Social security and welfare (a) | 49706 | 53034 |
| Housing and community amenities | 91 | 157 |
| Recreation and culture | 1127 | 1161 |
| Fuel and energy | 966 | 1025 |
| Agriculture forestry and fishing | 1874 | 1844 |
| Mining manufacturing and construction | 429 | 436 |
| Transport and communications | 1876 | 2397 |
| Other economic affairs | 2927 | 2819 |
| Other purposes | 27184 | 26795 |
| Total Current Outlays | 136207 | 140893 |
| Capital Outlays | | |
| General public services | -57 | 635 |
| Defence | -13 | -212 |
| Public order and safety | 39 | 33 |
| Education | 1053 | 1143 |
| Health | 35 | 55 |
| Social security and welfare | 201 | 230 |
| Housing and community amenities | 488 | 916 |
| Recreation and culture | 64 | 93 |
| Fuel and energy | 73 | 38 |
| Agriculture forestry and fishing | -345 | -222 |
| Mining manufacturing and construction | -35 | 20 |
| Transport and communications | -7144 | -10943 |
| Other economic affairs | 131 | 96 |
| Other purposes | -2052 | 33 |
| Total Capital Outlays | -7562 | -8085 |

- (a) From 1 July 1998, it is proposed that payments under the AUSTUDY programme will be replaced by the Youth Allowance (for students aged under 25 years). This involves a transfer of outlays estimates from the Education function to the Social Security and Welfare function.

Table F6: Taxes, Fees and Fines of Commonwealth Government (\$m)

| | 1997-98 | 1998-99 |
|--|-------------------------|---------------|
| | Consolidated Government | |
| Taxes on income profits and capital gains | | |
| Income and capital gains levied on individuals | 70290 | 75010 |
| Income and capital gains levied on enterprises | 21644 | 22997 |
| Other | 1040 | 1070 |
| Total | 92975 | 99077 |
| Taxes on employers payroll and labour force | 3196 | 3316 |
| Taxes on property | 5 | 0 |
| Taxes on provision of goods and services | | |
| Sales tax | 14090 | 15090 |
| Excises and levies | 13590 | 13760 |
| Taxes on international trade | 3640 | 3670 |
| Total | 31320 | 32520 |
| Taxes on use of goods and performance of activities | 436 | 446 |
| Fees | 1848 | 1963 |
| Fines | 33 | 39 |
| Total taxes fees and fines | 129812 | 137361 |

**STATEMENT 3 — THE CURRENT ACCOUNT DEFICIT:
STRUCTURAL IMPROVEMENTS**

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STATEMENT 3 — THE CURRENT ACCOUNT DEFICIT: STRUCTURAL IMPROVEMENTS

INTRODUCTION

Australia's success in avoiding severe repercussions from the Asian financial crisis will see us grow more quickly than our trading partners in the period immediately ahead. The current account deficit will inevitably widen as growth in some of our trading partners turns down while domestic demand remains strong. This Statement compares expected developments in the current account with experiences in the 1980s and 1990s.

In the 1980s, the current account deficit came to be viewed as a constraint on Australia's economic growth — a recognition of the fact that the current account deficit itself reflected various structural weaknesses in the economy. Foremost among these was the trend deterioration in public sector finances, but there were also other factors at play which had the effect of distorting saving and investment decisions, especially in the private sector. Such structural weaknesses increased the risk of adverse sentiment among foreign investors on whom the financing of the current account deficit depended.

One of the Government's key objectives has been to reduce these risks and prevent the current account re-emerging as a constraint on sustained strong economic growth. This has not meant eliminating the current account deficit or maintaining it at some target level. Rather, the strategy has been to address the structural weaknesses that existed and ensure that the economic environment is such that the saving and investment decisions underpinning the current account deficit are soundly based. In turn, this should ensure that investor confidence is maintained and economic and employment growth is sustained.

As outlined in Budget Statement 2, the current account deficit is forecast to increase in 1998-99, largely as a result of cyclical influences on investment and saving decisions in the private sector. Continuing solid growth in private investment is expected, while saving rates will be affected by slower growth in export incomes, given the significant downturn in some of Australia's Asian export markets.

Despite the increase in prospect, the forecast current account deficit in 1998-99 in year average terms is not in the range of the three previous peaks (as a percentage of GDP) reached in the 1980s and mid-1990s. More importantly, the economic and policy environment in which the prospective rise in the current account deficit will occur has improved significantly compared with those past episodes, particularly those of the 1980s. Key improvements include a more soundly based and transparent macroeconomic policy framework aimed at achieving underlying budget surpluses following the extended period of negative public saving, the maintenance of low inflation, and an enhanced program of microeconomic and regulatory reform.

As a result of better policy and economic fundamentals, and the fact that policy is directed at their ongoing improvement, the prospective increase in the current account deficit should not place a constraint on economic growth.

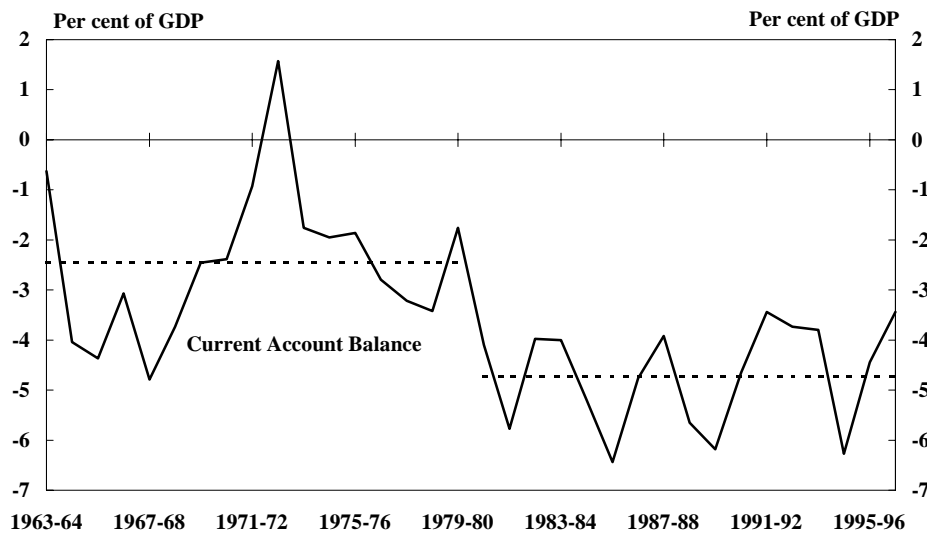
FACTORS UNDERLYING INCREASES IN THE CURRENT ACCOUNT DEFICIT

External and Domestic Influences

Australia has traditionally run a current account deficit, as investment opportunities have exceeded domestic saving. The deficit has also been quite volatile, reflecting cyclical influences on saving and investment. For example, changes in income stemming from swings in the terms of trade have mainly affected the level of saving as spending habits have been maintained. Investment cycles have also been a key driver of short term fluctuations in the current account deficit.

The level of the current account deficit increased markedly in the early 1980s and has averaged 4¾ per cent of GDP since then (Chart 1). The factors contributing to this structural increase in the current account deficit over the 1980s were discussed in the 1996-97 Budget Papers.¹

Chart 1: Long-term Movements in the Current Account Balance



Source: ABS Cat. No. 5302.0, 5206.0 and Treasury estimates.

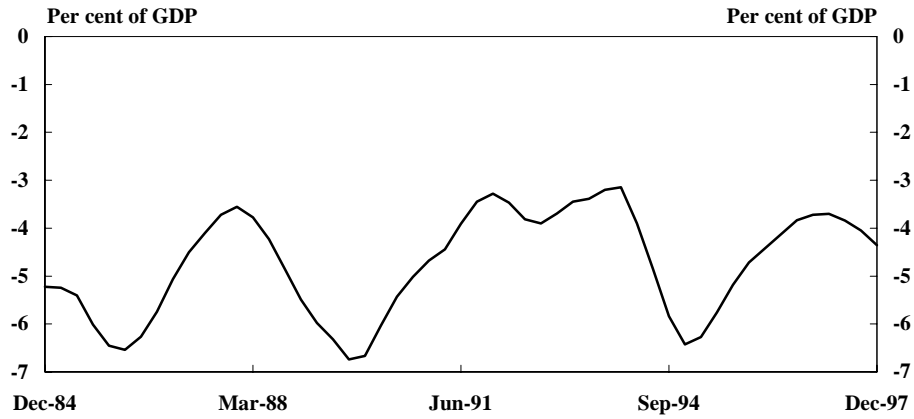
While there has been no obvious trend in the level of the current account deficit over the past decade and a half, there have been fluctuations around the average, with significant upswings in the mid-1980s, late 1980s and mid-1990s (Chart 2, Panel A).

Although showing some common elements, the proximate causes of these three earlier upswings varied.

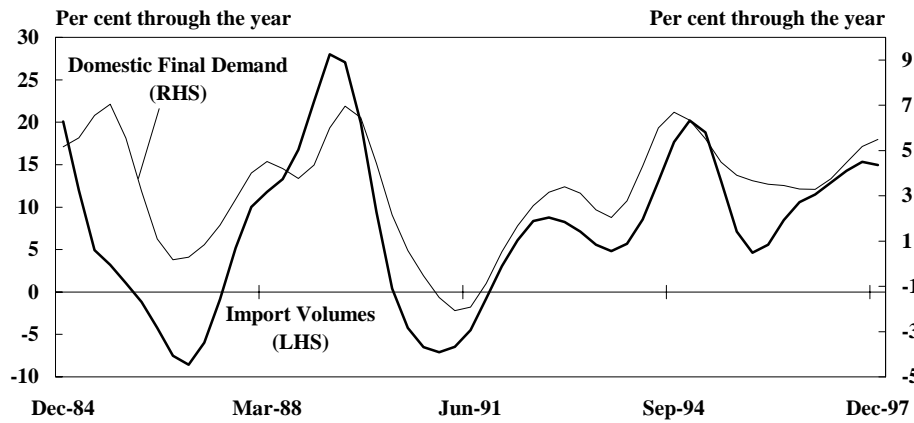
¹ See 1996-97 Budget Paper No. 1: Statement 2, pp 2-30 to 2-39.

Chart 2: Proximate Causes of Increases in the Current Account Deficit

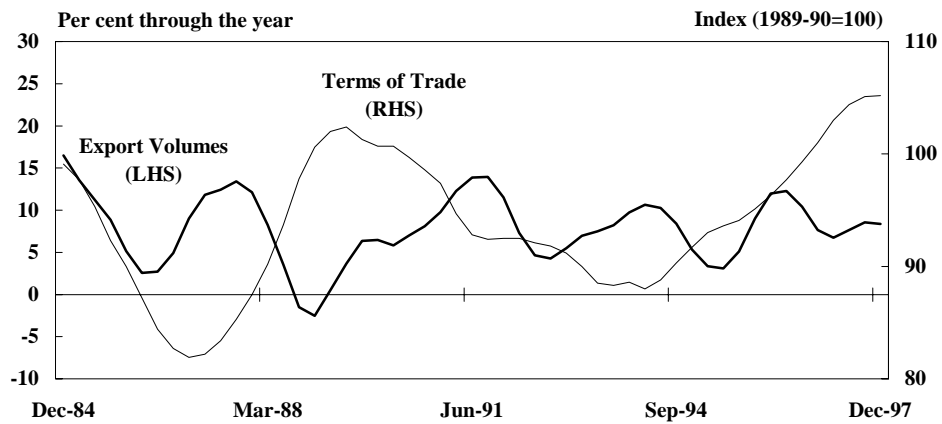
Panel A: Current Account Balance as a Proportion of GDP



Panel B: Domestic Final Demand and Import Volume Growth



Panel C: Terms of Trade and Export Volume Growth



Source: ABS Cat. Nos. 5302.0 and 5206.0 (trend data).

For example, the contribution of external factors to the rise in the current account deficit was dominant in the mid-1980s episode, with a large decline in the terms of trade and much slower growth in exports leading to a fall in domestic saving relative to investment and hence a deterioration in the trade balance (Chart 2, Panel C). While domestic demand was growing strongly at the beginning of the episode, import growth was weak reflecting the large amount of spare capacity in the economy following the recession of the early 1980s, and the progressive switching of demand towards domestic production as a result of the sharp depreciation of the exchange rate over 1985. In contrast, strong growth in import volumes fuelled by strong domestic demand growth was a major cause of the rise in the current account deficit in both the late 1980s and mid-1990s, with upswings in private sector investment figuring prominently (Chart 2, Panel B).² In these latter two episodes, the terms of trade was actually rising, although a slowing in export volume growth also played a role on each occasion (on the latter occasion drought reduced rural exports).

As outlined in Budget Statement 2, the current account deficit is forecast to rise to around 5¼ per cent of GDP in 1998-99 in year average terms, although the outcome for any particular quarter may be higher. This compares with 3.4 per cent of GDP in 1996-97 and an expected 4½ per cent of GDP in 1997-98. The relatively low 1996-97 outcome was due in part to one-off factors: abstracting from the Reserve Bank's sale of gold, the current account deficit in 1996-97 would have been around 3¾ per cent of GDP.

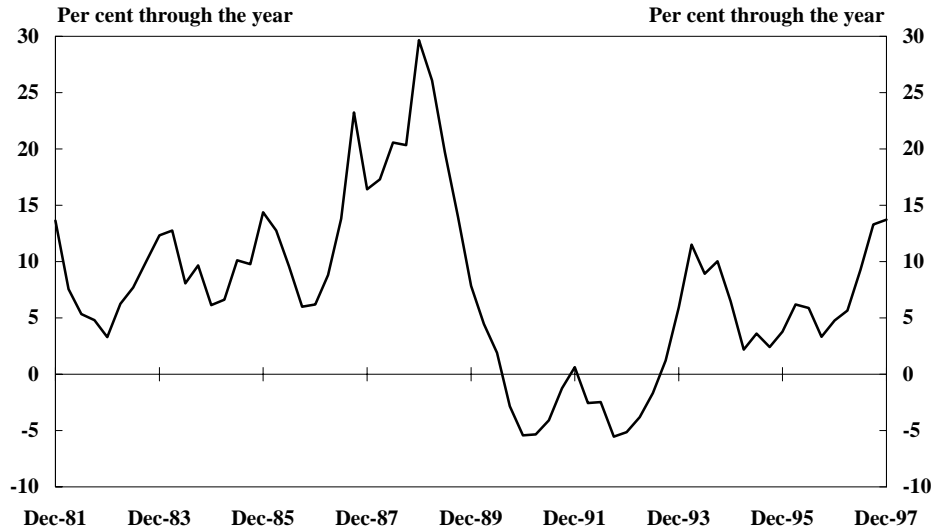
The rise in the current account deficit in prospect is the result of a combination of both domestic and external influences. Strong growth in domestic demand in 1998-99 will lead to substantial growth in import volumes, although both domestic demand and import growth are forecast to be somewhat lower than was the case in the late 1980s and mid-1990s episodes. External factors are also expected to figure prominently, although again there are some differences with the mid-1980s experience: in particular, the deterioration in external conditions is not expected to be reflected in a sharp fall in the terms of trade. The expected impact of the downturn in some of Australia's trading partners on export prices and volumes, along with other factors influencing the terms of trade, are outlined in Budget Statement 2.

Domestic Demand Growth and Inflationary Pressure

A rising current account deficit is a source of concern if it signals internal imbalances in the economy and in particular rising inflationary pressure. This has been true from time to time in Australia. In the late 1980s and in the mid-1990s strong growth in domestic demand spilled over into imports (Chart 2, Panel B) and led to a build up in domestic inflationary pressures.

² Declining relative import prices, as a result of exchange rate appreciation, also contributed to import demand in each of these episodes.

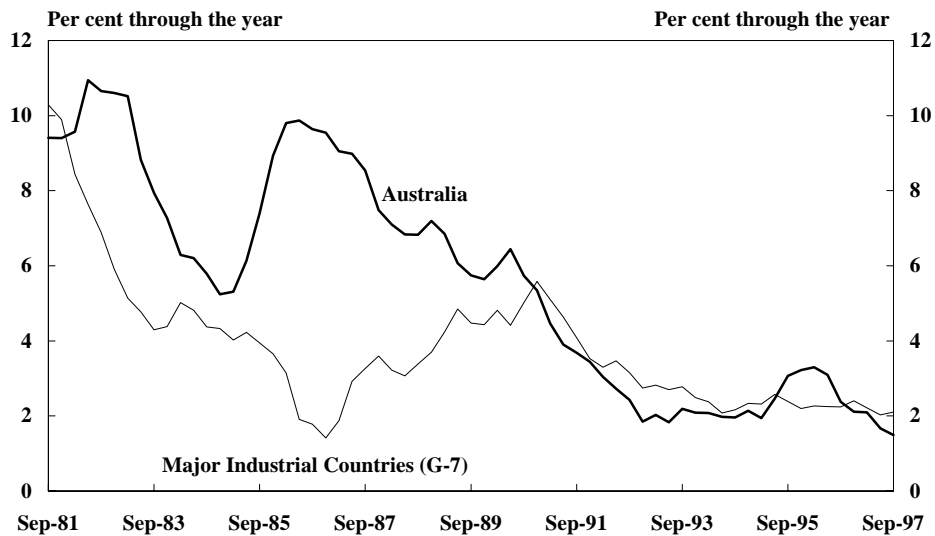
Chart 3: Asset Price Increases



Source: Treasury estimates.

In the late 1980s, these inflationary pressures became evident in particularly high rates of asset price inflation: total asset prices rose by around 55 per cent between the March quarter 1987 and September quarter 1989 (Chart 3). The build up in inflationary pressures took place against the background of an inflation rate persistently high by international standards (Chart 4).

Chart 4: Comparative Inflation Performance^(a)



(a) G-7 inflation is the change in the All Items CPI. For Australia, the Treasury measure of underlying inflation is used.
Source: OECD Main Economic Indicators database and ABS Cat. No. 6401.0.

In the mid-1990s, in the face of accelerating demand growth and wage increases, inflationary pressures built up but from a low and internationally comparable rate of inflation (Chart 4). There was also no accompanying surge in asset prices like that experienced in the late 1980s.

The current outlook for inflation is more favourable than in these earlier episodes, especially the late 1980s. The current inflation rate is very low by historical and international standards, and the data on inflationary expectations in financial markets and amongst consumers suggest low inflation is well entrenched.

The more favourable inflation outlook partly reflects the absence of excessive demand pressures. While domestic demand is forecast to grow relatively strongly in the period ahead, it will increase at a somewhat lower rate than experienced in the late 1980s and mid-1990s. More moderate domestic demand growth and rising import prices are also expected to lead to slower import growth than in the late 1980s and mid-1990s. For example, domestic demand growth in the year to the December quarter 1997 was 5.3 per cent, and import growth was 12.8 per cent; these are forecast to moderate to 3½ per cent and 8 per cent respectively in the year to the June quarter 1999. This compares with growth in domestic demand and imports of 7.7 per cent and 30 per cent respectively in the year to the June quarter 1989, and growth of 6.8 per cent and 20.6 per cent in the year to the December quarter 1994.

As discussed in Budget Statement 2, inflation is forecast to rise only gradually in 1998-99 and remain within the Reserve Bank's target band. Wages and selling margins are expected to exert little upward pressure on inflation, with rises in import prices in late 1997 and early 1998 being the main contributor to the rise in inflation in 1998-99.

A particularly important distinguishing feature of the current situation is the improvement in the monetary policy framework which gives far greater confidence in Australia's capacity to maintain low inflation. Monetary policy is now clearly focussed on maintaining low inflation and is operated in a more transparent manner. In contrast, in the 1980s there was no clearly articulated or credible inflation target as an anchor for monetary policy and financial markets remained uncertain about the goals of policy.

The monetary policy framework has been strengthened in recent years. The joint statement by the Treasurer and Governor of the Reserve Bank in August 1996 formalised the target of achieving 2 to 3 per cent underlying inflation on average over the medium term. It also provided for greater public accountability on the part of the Bank, increasing transparency in the conduct of monetary policy. This framework, along with the consistently good inflation performance in recent years, has resulted in falls in inflationary expectations in financial markets and, most notably, in the large narrowing of the differential between Australian and US bond rates in the last two years. Improvements are also evident in measures of consumer and business inflation expectations.

National Saving

For a modern market based economy with strong competitive forces, a current account deficit has traditionally been of most concern when associated with a poor, or deteriorating, public sector fiscal position: large and growing public sector deficits raise

concerns as to whether foreign savings are being used sufficiently well to generate the income necessary to meet the servicing costs involved. Markets are also becoming more discerning, and recognise that private sector investments can entail contingent risks to public finances, particularly when budget processes are not transparent and accountability is poor.

The 1996-97 Budget Papers discussed in detail the rationale for the Government's fiscal consolidation strategy. It was noted that the increase in the current account deficit since the 1970s had been associated with a structural deterioration in the Commonwealth's fiscal position. The aim of the fiscal consolidation strategy has been to reverse this structural deterioration and to place fiscal policy in a clear medium-term framework to ensure that the structural improvement is sustained. A guiding objective of the strategy is that the Commonwealth Budget should be in underlying balance, on average, over the course of the economic cycle. That is, the Commonwealth should not draw, on average, on the saving available to fund investment elsewhere in the economy.

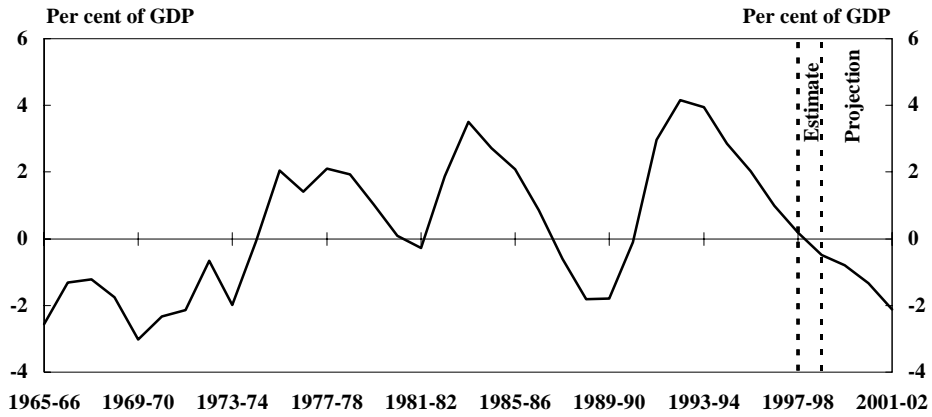
The fiscal consolidation strategy is set within the context of the Charter of Budget Honesty, which has increased the transparency and accountability of fiscal policy through improved disclosure of fiscal policy intentions and information on fiscal developments. The Charter will impose discipline on governments to maintain a responsible fiscal policy over the medium to longer term. The framework represented by this Charter is recognised as international best practice and sets standards that the International Monetary Fund is advocating for member countries.

As a result of the Commonwealth's fiscal consolidation program, the cyclical rise in the current account deficit in prospect is taking place against the background of a significant improvement in Commonwealth finances. With State and Local Government underlying fiscal positions remaining broadly in balance, the turnaround in the Commonwealth underlying budget position to surplus is being reflected in a reduction in the public sector's call on national saving of a similar magnitude (Chart 5). Importantly, a significant proportion of the improvement in Commonwealth finances is structural; that is, it is the result of discretionary measures, rather than simply being the result of rises in economic activity or the price level.

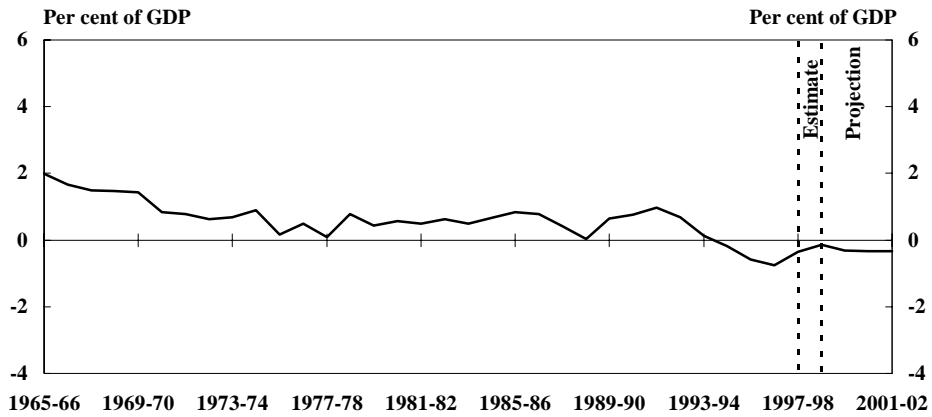
From a saving and investment perspective, the forecast rise in the current account deficit in 1998-99 reflects a deterioration in private net lending (that is, private saving minus private investment) which is more than offsetting improvements in the public net lending position. The fall in private net lending is the result of both a rise in investment, at least part of which is cyclical, and a decline in the private saving rate due in part to households and firms maintaining spending at desired levels in the face of slower income growth resulting from weaker export returns. As these cyclical influences on private net lending unwind, the ongoing improvement in public sector finances should exert downward pressure on the current account deficit.

Chart 5: General Government Underlying Deficit

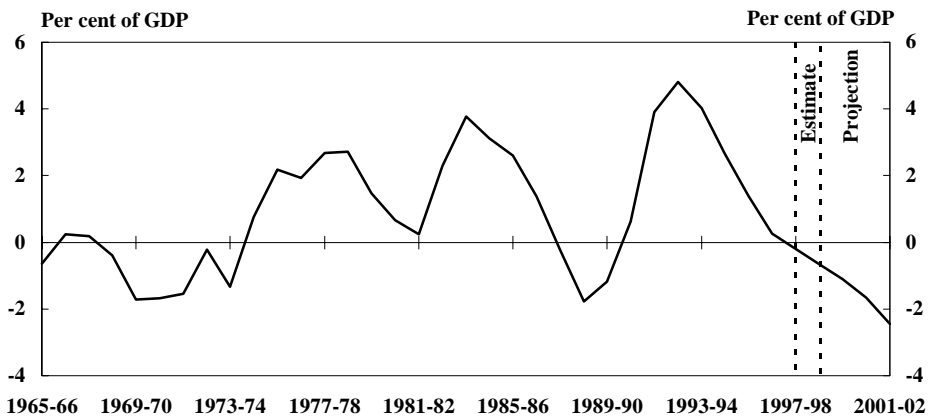
Panel A: Commonwealth



Panel B: State, Territory and Local Government



Panel C: Total General Government Sector



Source: Treasury estimates.

Another way of viewing developments in net lending is that, if there had been no improvement in public net lending, the expected deterioration in private net lending would have led to an even larger current account deficit than forecast. Alternatively, some of the private investment in prospect would have been 'crowded out', lowering growth prospects. Either way, the strengthening of the Commonwealth's fiscal position is providing a sounder and more stable growth environment for Australia in the face of considerable regional economic disruption.

There is also the prospect that the improvement in public saving at the Commonwealth level will be complemented by structural increases in private saving over the medium term.

A number of factors suggest an improved outlook for private saving.

- Low and predictable rates of inflation provide a more favourable environment for saving by encouraging long-term planning, and reducing distortions in after-tax real rates of return, other factors unchanged.
- The Superannuation Guarantee, which is scheduled to increase to 9 per cent of qualifying employee earnings by 2002-03, is estimated to add around 2.1 percentage points to private saving as a share of GDP over the next decade.³
- The savings rebate, which comes into effect in 1998-99, will enhance the incentive to save across a range of savings vehicles. More generally, the tax reform now in prospect has the potential to enhance private saving.
- Finally, quite apart from these policy influences, demographic change over the next decade or so is likely to see a rise in the proportion of the population in age groups which historically have been high savers and a decline in younger, low-saving age cohorts.

In summary, the prospective rise in the current account deficit will be taking place against the background of a structural improvement in public sector finances. This improvement should be accompanied by structural increases in private saving, helping to reduce pressures on the current account deficit over time. However, the current account outcomes will also depend importantly on structural developments in the level (and by implication quality) of investment.

The Quality of National Investment

The willingness of foreign investors to finance a current account deficit is likely to be closely related to perceptions about the quality of investment being undertaken in the economy, and whether it is expected to produce a return sufficient to meet its financing costs. The Asian economic crisis underlines this point. In the affected countries, the loss of foreign investor confidence stemmed to an important extent from the accumulation of

³ See Gallagher, P, 1997, 'Assessing the National Saving Effects of the Government's Superannuation Policies', RIM Conference Paper 97/3.

evidence that investment decisions were systematically distorted and corporate balance sheets were weak, and not supported by robust financial systems.

Concerns about the quality of investment decisions in Australia, while of a significantly lesser magnitude than those discussed above, probably added to financial market concerns during previous upswings in the current account deficit, particularly in the late 1980s. Some aspects of that earlier experience are outlined below, and contrasts are drawn with current circumstances.

The Property Price Boom in the Late 1980s

Concerns as to whether private sector investment decisions are soundly based are likely to especially arise in circumstances of a speculative property boom. In this situation, the prices of property assets far outstrip levels likely to be justified by future economic returns, leading to a temporary and unsustainable over-investment in property assets (followed by a sharp correction in prices and a collapse in investment). The rise in the current account deficit in the late 1980s was fuelled by a very strong investment boom, especially in the property sector. Property investment reached historical highs (Chart 6, Panel A), driven by rapid rises in office prices (Chart 6, Panel B).⁴ The subsequent sharp rise in vacancy rates and the associated fall in rents and office prices meant that much of this investment did not generate the level of returns which may have been anticipated at the time the investment decisions were made. At a national level, income generated by these investments was not sufficient to meet the servicing costs of the related domestic and external financing obligations.

A related concern with regard to speculative property booms is that property investment is often highly leveraged, leaving domestic investors exposed to cash flow difficulties when the inevitable correction occurs. This was true of the property investment boom in the late 1980s, which came at a time when corporate gearing levels in general were rising to reasonably high levels — corporate gearing rose from 50 per cent in the early 1980s to around 70 per cent in the late 1980s.⁵ In the latter part of this period, the rise in average gearing reflected the fact that a number of firms which were already highly leveraged continued to increase their gearing ratios. These circumstances can have an impact on the financial system. For example, the combination of highly leveraged firms and sharp falls in asset prices was one of the contributors to the relatively high level of non-performing loans recorded in the early 1990s — these were around 6 per cent of total bank assets in the March quarter 1992.

None of the factors which were evident in the late 1980s is significant in current circumstances. While there are localised pressures (in particular, in the Sydney CBD), office investment overall is currently at moderate levels and office price inflation remains relatively subdued (Chart 6, Panels A and B). In addition, corporate finances are strong.

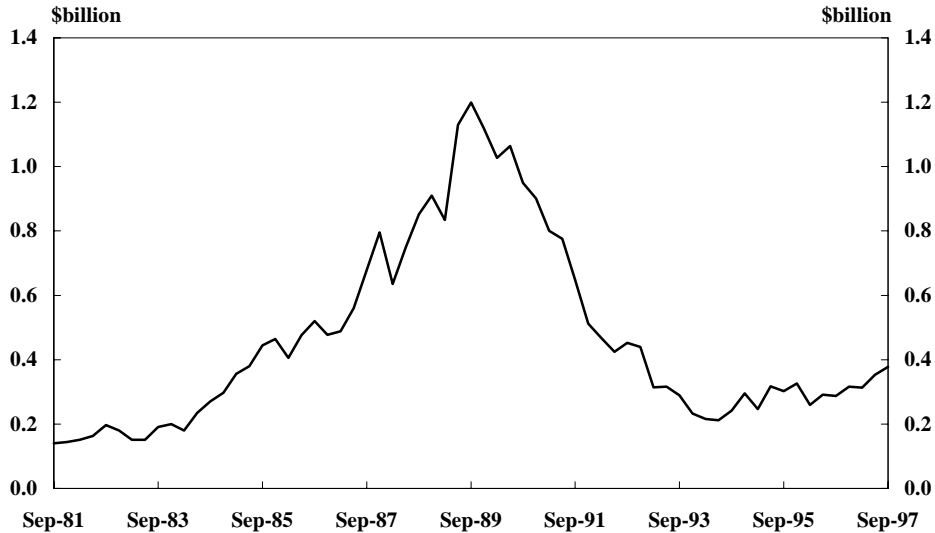
4 A high proportion of the increase in investment in the late-1980s was undertaken by 'real estate operators and developers', further suggesting speculative elements played a dominant role in the investment boom. See Kent, C. and Scott, P., 1991, *The Direction of Australian Investment from 1985/86 to 1988/89* Reserve Bank Research Discussion Paper 91/06.

5 As measured by the RBA series based on a sample of larger companies.

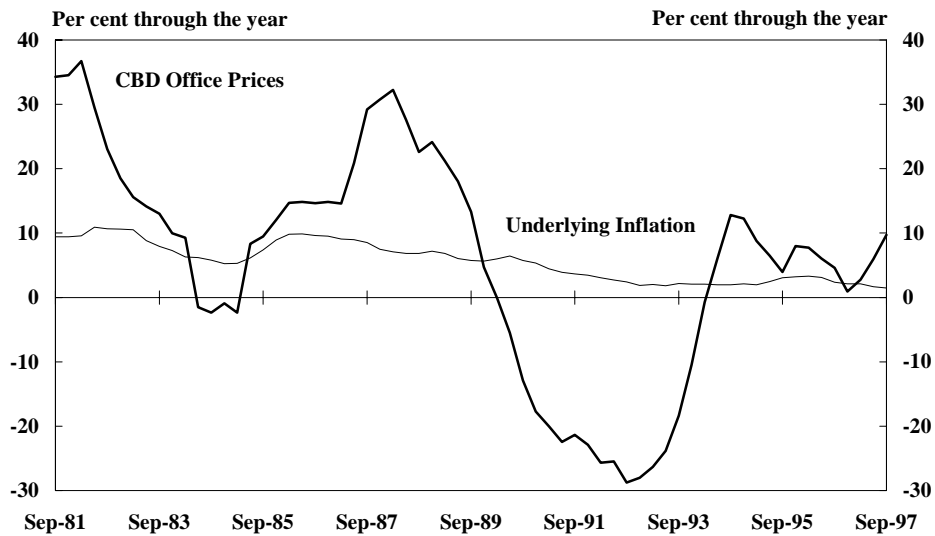
Gearing levels have fallen considerably since the late 1980s⁶ and interest cover — that is, profits divided by interest payments — is at much stronger levels than experienced in the late 1980s (Chart 7). The improvement in corporate financial positions suggests business lending has become less risky over time, adding to the soundness of the financial system. One reflection of this is that non-performing loans are now at very low levels, at around 0.6 per cent of total bank assets.

Chart 6: Office Investment and Prices

Panel A: Value of Office Construction



Panel B: Office Price Inflation



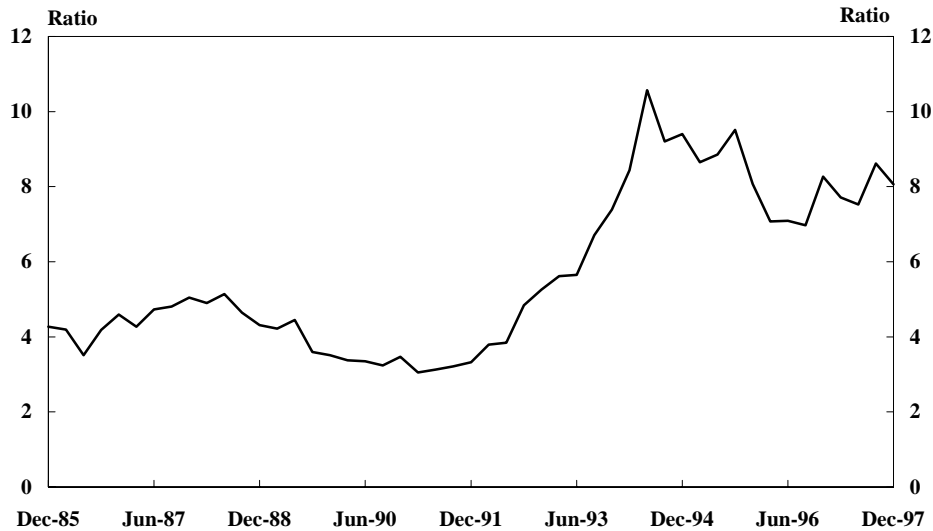
Source: ABS Cat. Nos. 8752.0 (for Panel A), RBA Bulletin (for Panel B).

⁶ Gearing had again fallen to 50 per cent by 1993-94. More recent data, while not directly comparable, suggests gearing has since remained broadly stable.

More broadly, overall asset price inflation is not occurring at rates that suggest speculative factors are dominant. Overall asset prices⁷ rose by 14 per cent in the year to the December quarter 1997, compared with a peak growth rate of 30 per cent in the year to the December quarter 1988.

These circumstances contrast strongly with those in the Asian economies in crisis, where the collapse of asset price booms has contributed to very high rates of non-performing loans, with severe consequences for financial and corporate balance sheets.

Chart 7: Interest Cover^(a)



(a) Interest cover is the ratio of gross profit to net interest paid.
Source: ABS Cat. Nos. 5651.0.

A Sound Investment Climate

The above discussion suggests that investment is not being distorted by speculative factors, and that debt financing decisions appear — on the whole — to be well based. More broadly, the overall environment for investment in Australia has improved in recent years and this should support investor confidence.

A key aspect of this improvement is the achievement of low and stable rates of inflation. Low inflation has led to sharply lower nominal interest rates and has contributed to a reduction in real interest rates in recent years because, in periods of high and variable inflation, lenders tend to seek a real premium to compensate them for uncertain future returns. Low and stable inflation also contributes to a more efficient allocation of investment, providing more certainty for long-term investment planning and, in turn, better decision making. In addition, a number of provisions of the taxation system are set in nominal terms and, to the extent these are not offset by other measures, higher rates of

⁷ Treasury estimates based on an index combining equity, residential and commercial property prices.

inflation will distort investment and financing decisions.⁸ Inflation also tends to mask relative price signals and this, in turn, can distort investment decisions. Finally, the emphasis on transparency and predictability in setting monetary policy reduces the risk of sharp adjustments in policy, including by reducing the likelihood of asset price bubbles developing, with the additional concerns which can attach to these.

The range of microeconomic reforms introduced over a number of years has also reduced distortions in the economy, with the result that investment is now more likely to flow to areas of highest economic return. Key reforms in this regard include the elimination of import quotas and the sizeable reductions in tariffs which have occurred since the early 1980s. This brought about ongoing improvements in the distribution of investment between sectors of the economy, and had a major impact on the efficiency and dynamism of the formerly heavily protected manufacturing sector.

Competition policy reforms will extend this discipline to the non-tradables sector. Aspects of the competition policy reform will also reinforce the trend towards an increased commercial focus on the part of Public Trading Enterprises (PTEs). This trend has already resulted in strong improvements in capital and labour productivity in these enterprises, due in large part to the priority that all levels of government have placed on the commercialisation and privatisation of PTEs in a competitive market framework.

The shift towards enterprise bargaining is also likely to improve capital efficiency, via a range of improved work practices such as continuous shifts. The Workplace Relations Act (1996) is accelerating this shift towards enterprise bargaining, and enhancing the scope for innovative work practices to be introduced, which will further add to productivity.

The benefits of microeconomic reform in terms of enhancing the efficiency of the capital stock are most apparent in the performance of PTEs.⁹ This improved efficiency has been reflected in both falling prices to consumers and businesses¹⁰ and a strong increase in the net rate of return on capital: the latter has improved markedly over the past decade and is now at historically high levels (Chart 8).

At the aggregate level, evidence suggests that there has been a decisive pick-up in trend total factor productivity growth in the 1990s. Growth in total factor productivity is now above Australia's long-term average growth rate of 1.5 per cent a year and well above the average growth rate of 1 per cent recorded in the 1980s (Chart 9). Ongoing improvements in total factor productivity are likely to accrue, in part, in the form of increased returns to capital and should underpin confidence in the investment environment.

One possible outcome of increased investment returns is that investment rates may increase. An increase in investment in such circumstances would be a positive

8 During periods of high inflation, the concessional tax treatment of capital gains (where only real gains are taxed on realisation) and the ability of taxpayers to immediately deduct nominal interest, reduces the incentive to invest in assets earning recurrent income and increases the incentive to carry high levels of debt.

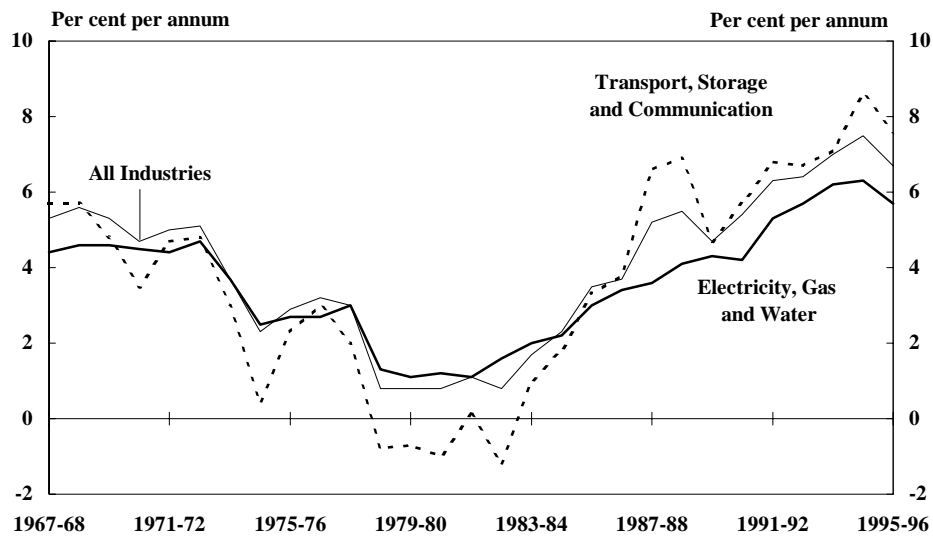
9 Industry Commission, 'Assessing Australia's Productivity Performance', AGPS, September 1997.

10 See pp 12-13 of Statement 3 of *Budget Paper No. 1* 1997-98.

development, and any resulting increase in the current account deficit would not be a cause for concern. Conversely, low investment rates arising as a result of a poor economic environment should be viewed in a different light despite the lower current account deficit which may result. Such a set of circumstances occurred in the middle to late 1970s, when a sustained weakening in private investment as a share of GDP masked for some time the effect on the current account deficit of a deterioration in public sector finances. In that period, lower productivity growth, a sharp increase in structural unemployment and an unstable macroeconomic environment all contributed to reduced investment levels.

While stronger productivity growth may lead to increased investment, it may also ultimately result in a lower investment share of GDP. International experience suggests that high rates of total factor productivity growth are associated with lower investment shares of GDP. In other words, a given amount of economic growth requires less investment.¹¹ Whatever the net impact on the investment share of GDP, an improved productivity performance enhances the capacity of the economy to service foreign liabilities.

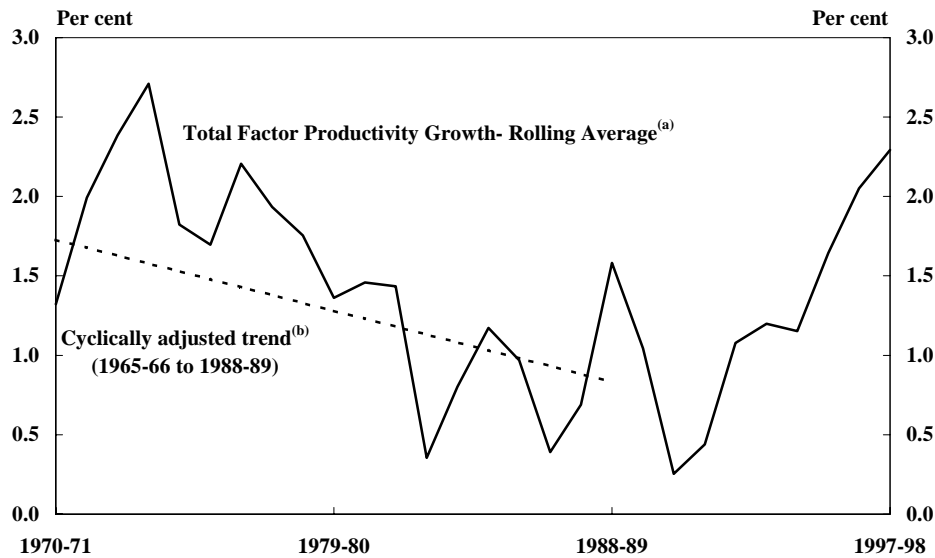
Chart 8: Net Rate of Return in Public Trading Enterprises



Source: ABS Cat. No. 5221.0.

11 See EPAC, 1996, *Tariff Reform and Economic Growth*, Commission Paper No 10, and Ferry, N. 1996, *Australia's Current Account Performance and Microeconomic Reform*, Treasury Conference Paper No. 1996-02. Ferry discusses a range of possible reasons for this observed correlation, including the increase in the share of GDP generated in the less capital intensive service sectors as real per person incomes increase.

**Chart 9: Trend Total Factor Productivity Growth
Non-Farm Market Sector**



(a) Rolling average growth rates - six years to the year shown.

(b) The cyclically adjusted trend has been derived by regressing annual total factor productivity growth for the period shown against a cyclical indicator and a time trend.

Source: ABS Cat. Nos. 5206.0, 5231.0 and Treasury estimates.

Ongoing reform efforts will further improve the investment environment. For example, reforms to the financial system and the Corporate Law Economic Reform Program, which are in the process of being implemented, bear directly on the efficiency of investment. Following the recommendations of the Wallis Inquiry, the Government is implementing substantial financial sector reforms. These are designed to encourage greater competition and hence efficiencies in the provision of financial services. The reforms will also establish a regulatory system focussed on the underlying objective of ensuring confidence in the stability and safety of the financial system, as well as being able to respond to developments such as globalisation and technological change. Reforms undertaken in the course of the Corporate Law Economic Reform Program to the rules on directors' duties, fundraising and takeovers will also establish a more favourable climate for both investors and business.

Reform of the taxation system and further reform of the labour market will also be important in enhancing Australia's investment environment. A simpler taxation system with broader bases would reduce the distortions to investment behaviour produced by the current complex system. Further reform of the labour market, apart from bringing benefits in terms of lower unemployment and higher returns to labour, would open the way for more widespread adoption of innovative work practices with consequent benefits for capital productivity.

CONCLUSION

The forecast moderate rise in the current account deficit in 1998-99 will occur against a background of a substantial improvement in Australia's economic and policy environment compared with previous larger upswings in the current account deficit, particularly in the mid and late 1980s.

In assessing the implications of an increase in the current account deficit, the lesson from events in Asia is that investors are likely to focus on the underlying causes rather than the current account deficit *per se*. In particular, the overall stability of the macroeconomy, the quality of public and private saving and investment underpinning the current account deficit, and the transparency and predictability of the macroeconomic policy framework are very significant in investor assessments. The improvement in Australia's economic fundamentals means that the expected cyclical rise in the current account deficit in 1998-99 should not be a source of concern in financial markets and will be readily financed by foreign capital inflow. The key factors supporting this assessment are:

- Macroeconomic policy operates in a sound and transparent framework.
- The forecast increase in the current account deficit is not associated with internal imbalances in the economy, in particular inflationary pressures.
- A framework is in place to ensure monetary policy is applied in a consistent fashion and will maintain low inflation over the medium term.
- The Commonwealth Government's fiscal consolidation program has delivered a structural improvement in public saving, reflected in an underlying surplus in the 1998-99 Budget and the prospect of underlying surpluses in future years. Furthermore, legislation places an ongoing discipline on fiscal policy.
- The economic environment has improved such that investment is of a higher quality than in the past, and should generally produce returns that meet its financing costs. Important aspects in this regard include the entrenchment of low inflation; the accumulated benefits of ongoing microeconomic and regulatory reform; and the soundness of the financial and prudential supervision system in Australia and further reforms to strengthen these.

However, there is no room for complacency. It is critical that a sound policy framework be sustained and enhanced if investor confidence in Australia is to be maintained and the current account deficit not pose a threat to economic growth. In particular, the structural improvements in public saving must be sustained. Over time, this will contribute to a lower structural current account deficit, reinforcing the effects of policy initiatives and demographic factors which are likely to increase private sector saving rates over the medium to long term. The ongoing improvements in the Commonwealth's budgetary position detailed in this Budget contribute to such a result. It will also be important to proceed along the path of further microeconomic and regulatory reform, including taxation reform, to enhance the climate for investment in Australia and ensure that investment decisions are based on undistorted commercial criteria.

STATEMENT 4 — OUTLAYS

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PART I. OVERVIEW OF BUDGET OUTLAYS

INTRODUCTION

Statement 4 presents the 1998-99 budget year and forward estimates of outlays of the Commonwealth Budget Sector. It provides detailed information on the allocation of Commonwealth funds to the various functions of government as well as analysis by economic type and portfolio. The Australian Bureau of Statistics (ABS) Government Purpose Classification (GPC) is used to classify transactions.

The overview discusses trends in outlays, running costs budgets and staffing levels. The Statistical Appendix tables show outlays over the last decade and the budget and forward years by function, subfunction and economic type. Outlays on running costs and staffing levels are also shown.

Refer to *Budget Paper No. 2* for details of policy decisions affecting outlays in the Budget. Refer to *Statement 2* for a discussion of outlays estimates in relation to the budget balance. *Statement 7* provides information on total public sector outlays and fulfils requirements on the Commonwealth, arising from the revised uniform presentation framework agreed at the March 1997 Loan Council meeting, to report financial statistics using ABS concepts and reporting structures.

OVERVIEW OF BUDGET OUTLAYS

The budget outlays are based on a system of rolling forward estimates, compiled by the Department of Finance and Administration in consultation with other departments and agencies. They record the cost of on-going Government policy but do not include any provision for new programmes, the expansion of existing programmes that have not been agreed by the Government or programmes that are not expected to continue.

Table 1 provides an overview of underlying outlays by portfolio. Detailed data by function and economic type are contained in the Statistical Appendix to this *Statement*.

TRENDS IN OUTLAYS

For the first time this year, the *Statement 4* presentation is in terms of underlying outlays. Underlying outlays comprise total headline outlays less net advances. Headline outlays data can be found in Table XI of the statistical appendix to this statement.

Underlying outlays provide a more reliable guide to overall trends in Commonwealth finances than headline outlays as they exclude transactions which simply involve the transfer or exchange of financial assets. In recent years, differences between headline and underlying outlays mainly reflect the removal of major equity sales and repayments of State loans from headline outlays.

Between 1990-91 and 1995-96, underlying outlays grew by around 4.5 per cent a year in real terms. Underlying outlays growth slowed in 1996-97 and fell by around 1 per cent in 1997-98. Over the budget and forward estimates real growth in underlying outlays is forecasted to be relatively steady.

Real growth rates for underlying outlays over the 14 years between 1988-89 and 2001-02 are shown in Chart 1.

The ratio of underlying budget outlays to GDP shown in Chart 2 is an indicator of the share of national resources devoted to Commonwealth budget programmes. The ratio largely tracks the economic cycle, partly reflecting the operation of automatic stabilisers (for example, during periods of recession Commonwealth outlays on labour market programmes and social security and welfare rise substantially). Underlying outlays are also significantly affected by discretionary policy decisions, which alter the structural budgetary position. Following policy decisions in this and the previous two Budgets, outlays as a proportion of GDP are expected to decline through the budget and forward years.

Underlying outlays are also affected by allowances made in the Contingency Reserve. Such allowances include provision for the established tendency for spending on existing government policy to be higher than is estimated, an allowance for economic parameter variations received too late to be incorporated in programme estimates and commercial-in-confidence items which cannot be disclosed separately.

Table 1. Underlying Outlays by Portfolio

| | 1997-98 Estimate \$m | 1998-99 Budget \$m | Change % | 1999-00 Estimate \$m | 2000-01 Estimate \$m | 2001-02 Estimate \$m |
|---|----------------------------|--------------------------|-------------|----------------------------|----------------------------|----------------------------|
| Parliament | 156.4 | 161.9 | 3.5 | 156.3 | 156.7 | 157.9 |
| Attorney-General's | 1038.1 | 1009.9 | -2.7 | 886.6 | 903.4 | 900.4 |
| Communications and the Arts | 1197.8 | 1233.8 | 3.0 | 1221.4 | 1239.9 | 1248.0 |
| Defence | 11467.8 | 12142.7 | 5.9 | 12064.0 | 12279.0 | 12508.4 |
| Veterans' Affairs | 6739.4 | 7250.6 | 7.6 | 7529.1 | 7698.3 | 7861.2 |
| Employment, Education, Training and Youth Affairs | 13199.8 | 11544.3 | -12.5 | 11413.1 | 11437.6 | 11639.1 |
| Environment | 570.4 | 685.2 | 20.1 | 690.3 | 691.6 | 320.6 |
| Finance and Administration | 493.6 | 929.3 | 88.3 | 980.8 | 1307.2 | 1320.0 |
| Foreign Affairs and Trade | 2083.0 | 2118.8 | 1.7 | 2132.3 | 2150.9 | 2213.8 |
| Health and Family Services | 21866.9 | 23169.9 | 6.0 | 24281.2 | 25612.2 | 26933.9 |
| Immigration and Multicultural Affairs | 515.3 | 546.1 | 6.0 | 503.4 | 513.1 | 515.9 |
| Industry, Science and Tourism | 3374.2 | 3534.6 | 4.8 | 3484.3 | 3474.6 | 3595.4 |
| Primary Industries and Energy | 1796.1 | 1644.8 | -8.4 | 1482.3 | 1165.0 | 1110.9 |
| Prime Minister and Cabinet | 1126.9 | 1294.9 | 14.9 | 1421.0 | 1544.6 | 1668.3 |
| Social Security | 41528.7 | 44847.8 | 8.0 | 46380.0 | 48071.2 | 50119.2 |
| Transport and Regional Development | 2547.9 | 2538.9 | -0.4 | 2512.8 | 2570.9 | 2562.7 |
| Treasury | 26794.1 | 26820.2 | 0.1 | 26780.7 | 26417.8 | 25911.0 |
| Workplace Relations and Small Business | 462.2 | 482.9 | 4.5 | 474.3 | 476.6 | 478.7 |
| Contingency Reserve | -355.1 | -386.5 | 8.9 | 2172.3 | 3875.7 | 5442.2 |
| TOTAL | 136603.4 | 141570.3 | 3.6 | 146565.9 | 151586.4 | 156507.8 |

Chart 1. Real Growth in Underlying Outlays

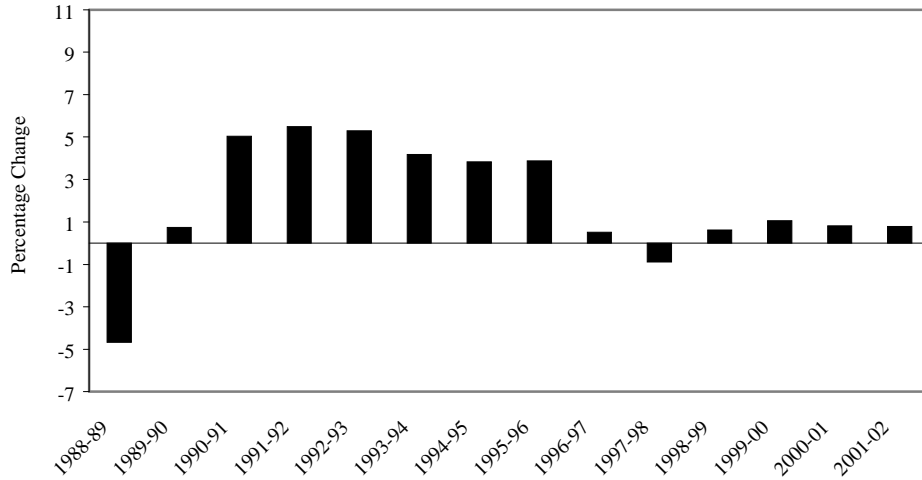
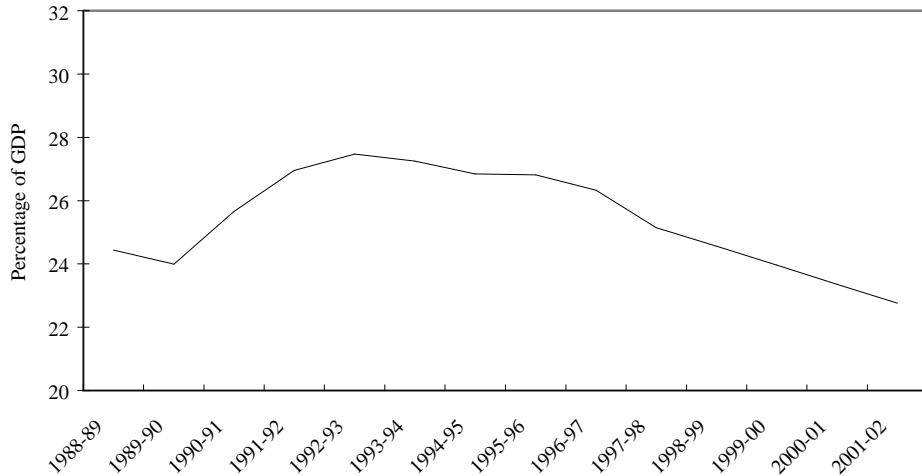


Chart 2. Underlying Outlays as a Proportion of GDP



The ratio of underlying outlays to GDP increased in the early 1990s partly because of the operation of the automatic stabilisers during the recession and also due to spending packages provided to stimulate growth. Between 1992-93 and 1996-97 the ratio of underlying outlays fell slowly from its peak level of 27.5 per cent to around 26.3 per cent. This ratio is forecast to fall sharply in 1997-98 with a similar trend expected to continue in 1998-99 and the forward years. Underlying outlays as a percentage of GDP is expected to fall to around 22.8 per cent of GDP by 2001-02. The projected reduction in the ratio of underlying outlays to GDP over the next four years is consistent with the reduction over the past four years.

RUNNING COSTS BUDGETS

Running Costs are the recurrent and minor capital costs incurred by a department or agency within the budget sector in providing the Government services for which it is responsible. They include salary costs, administrative expenses, employer superannuation costs and property operating expenses. Table 2 shows the 1998-99 Budget and forward estimates of running costs for all portfolios. Running costs are expected to decrease by 17.5 per cent from 1997-98 to 1998-99. This decrease is largely due to establishment of the Commonwealth Services Delivery Agency which will be mostly funded using s31 receipts (s31 receipts are not included in the budget and forward estimates running costs figuring).

Approximately \$400 million is being carried forward from 1997-98 running costs budgets into 1998-99. Based on this and previous historical trends, a further \$450 million has been included in the Contingency Reserve for carryover of running costs from 1998-99 to 1999-00.

The decision by the AIRC on 29 April 1998 to grant access to a wage increase under the safety net arrangements results in increased outlays where there is a wage cost component associated with expenditure. The AIRC decision is a multi-tiered adjustment depending on the level of award wages. The budget figuring incorporates a safety net allowance of \$10 per week or 1.4 per cent of average weekly ordinary time earnings.

Staffing Levels

Commonwealth departments and agencies are continuing to undergo substantial restructuring to achieve more efficient operations. No staffing targets have been set by the Government. Portfolios are expected to address staffing levels in accordance with resources made available under running costs.

Consistent with practice in previous years, Table 2 in this section and Table XII in the Statistical Appendix include estimates provided by each portfolio on Average Staffing Levels (ASL). The total ASL is forecast to decline by 8,984 in 1998-99 compared with 1997-98. ASL is expected to decline in most agencies, with the most significant reductions occurring in DEETYA (with the establishment of the Employment Services Market and the closure of the CES network) and Defence (with the implementation of the Defence reform programme).

ASL is the average number of employees receiving salary or wages over the financial year, with adjustments for casual and part-time employees to show the full time equivalent. This measure of employment allows for comparison between employment in particular financial years, rather than reflecting the actual number of staff being employed at the end of the successive financial years or at specific points in time. ASL numbers are the most significant for funding purposes but do not reflect the total change in staff numbers from the end of one financial year to the next in the Australian Public Service. Movements in ASL as compared to point-in-time figures vary due to the difference in the coverage of the two series (particularly in the Defence portfolio where all staff are covered in ASL figures but only civilian staff are covered in point-in-time figures). Comparisons between the two series are also made difficult because of the partial ASL effect of staffing changes during the financial year (for example with the

establishment of Employment National on 1 May 1998), the amalgamations of agencies and variations in contracted employment.

Based on point-in-time figures provided by Public Service Act agencies to the Public Service and Merit Protection Commission, it is expected that the total number of people employed (full time and part-time permanent and temporary staff) under the Public Service Act will decline by around 9000 between 30 June 1998 and 30 June 1999. This compares to a reduction of 12,200 now expected by Public Service Act agencies to occur between 30 June 1997 and 30 June 1998; in last year's Budget papers, portfolios predicted a reduction of 16,500 over the same period.

Table 2. Total Running Costs Budgets by Portfolio (a)

| | 1997-98 Estimate \$m | 1998-99 Budget \$m | Change % | 1999-00 Estimate \$m | 2000-01 Estimate \$m | 2001-02 Estimate \$m |
|---|----------------------------|--------------------------|--------------|----------------------------|----------------------------|----------------------------|
| Parliament | 127.1 | 129.4 | 1.8 | 123.7 | 124.0 | 124.9 |
| Attorney-General's | 687.7 | 660.8 | -3.9 | 607.3 | 613.7 | 600.4 |
| Communication and the Arts | 119.5 | 128.1 | 7.1 | 120.4 | 124.0 | 113.9 |
| Defence | 5569.8 | 5536.4 | -0.6 | 5403.2 | 5321.7 | 5526.6 |
| Veteran's Affairs | 221.4 | 219.5 | -0.9 | 203.7 | 204.2 | 205.1 |
| Employment, Education, Training, Youth Affairs (b) | 718.6 | 465.1 | -35.3 | 312.1 | 312.4 | 313.5 |
| Environment | 284.9 | 287.5 | 0.9 | 254.5 | 251.6 | 253.5 |
| Finance and Administration | 387.7 | 320.8 | -17.3 | 263.0 | 260.3 | 262.8 |
| Foreign Affairs and Trade | 631.1 | 564.0 | -10.6 | 565.1 | 560.2 | 563.5 |
| Health and Family Services | 320.1 | 278.2 | -13.1 | 250.2 | 250.8 | 249.3 |
| Immigration and Multicultural Affairs | 368.1 | 394.0 | 7.0 | 363.9 | 370.6 | 375.9 |
| Industry Science and Tourism | 518.1 | 602.0 | 16.2 | 539.8 | 546.4 | 550.1 |
| Primary Industries and Energy | 203.5 | 163.9 | -19.5 | 154.3 | 151.5 | 147.5 |
| Prime Minister and Cabinet | 88.5 | 87.7 | -1.0 | 78.1 | 78.4 | 79.0 |
| Social Security (b) | 1713.5 | 124.1 | -92.8 | 85.0 | 89.0 | 87.8 |
| Transport and Regional Development | 97.9 | 94.8 | -3.2 | 91.1 | 92.2 | 92.4 |
| Treasury | 1690.9 | 1641.2 | -2.9 | 1561.2 | 1604.7 | 1693.3 |
| Workplace Relations and Small Business | 127.1 | 117.6 | -7.5 | 113.3 | 113.1 | 111.3 |
| Contingency Reserve (Allowance for Net carryover/borrowings) | -100.0 | -450.0 | na | 0.0 | 0.0 | 0.0 |
| TOTAL | 13775.7 | 11364.9 | -17.5 | 11090.0 | 11069.0 | 11350.9 |
| TOTAL (excluding Contingency Reserve) | 13875.7 | 11814.9 | -14.9 | 11090.0 | 11069.0 | 11350.9 |
| Portfolio ASL (c) | 163296.5 | 154312.9 | -5.5 | na | na | na |

- (a) Section 31 deemed appropriations are not included in the Budget and forward estimates of running costs. For 1998-99 these add some \$1.9 billion of which the Commonwealth Services Delivery Agency accounts for approximately \$1.5 billion.
- (b) The significant reductions in these portfolios are largely due to the establishment of Employment National Ltd and the Commonwealth Services Delivery Agency.
- (c) ASL figures are as provided by portfolios.

PART II: FUNCTION OUTLAYS

1. GENERAL PUBLIC SERVICES

1A. LEGISLATIVE AND EXECUTIVE AFFAIRS

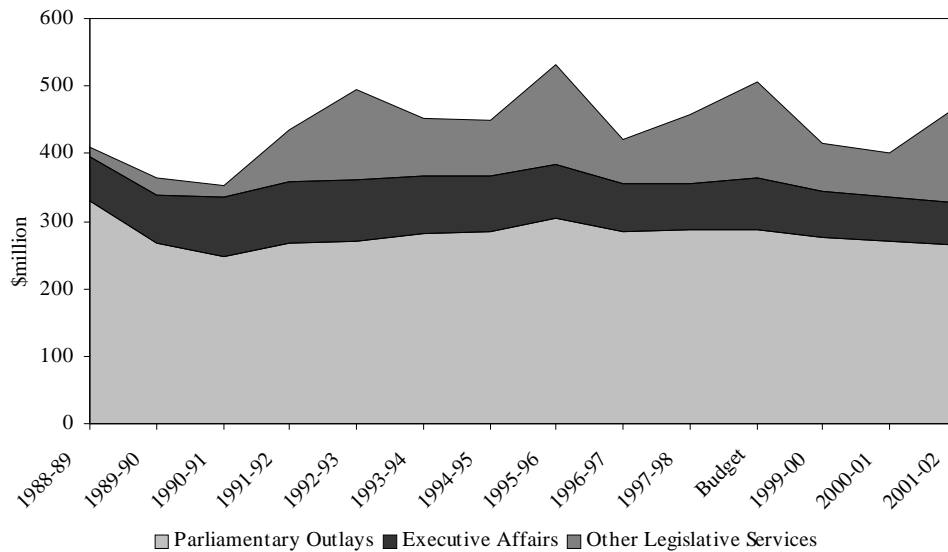
NATURE OF OUTLAYS

This function principally includes outlays of:

- the Parliamentary Departments (the Senate, House of Representatives, Parliamentary Library, Parliamentary Reporting Staff and Joint House);
- the Finance and Administration portfolio, including the Australian Electoral Commission (AEC), and Ministerial and Parliamentary Services;
- the Prime Minister and Cabinet portfolio,

and minor outlays from the Attorney-General's portfolio.

**Chart 1. Overview of Commonwealth Outlays on
Legislative and Executive Affairs
(1989-90 prices)**



TRENDS IN LEGISLATIVE AND EXECUTIVE AFFAIRS OUTLAYS

Parliamentary outlays have been relatively stable since the move to the new Parliament House in 1988-89. These outlays include ongoing running costs, capital and provision of remuneration and services to Members and Senators.

Spending on Other Legislative Services reflects the impact on outlays of Federal elections. The 1997-98 estimated outcome includes the cost of the election of delegates to the Constitutional Convention. There is provision for future Federal elections in the 1998-99 Budget and in the 2001-02 estimate.

Commonwealth outlays on Executive Affairs remain largely stable after 1998-99 at a level which reflects the ongoing impact of the Prime Minister and Cabinet portfolio savings announced in the 1996-97 Budget. The higher level of outlays in 1998-99 compared to the forward years is the result of carryovers from 1997-98 into 1998-99.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|------|----------------------------|-----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| 1A.1 | Parliamentary Outlays | \$m 336.0 | 346.6 | 341.0 | 343.1 | 346.0 |
| | | % | 3.2 | -1.6 | 0.6 | 0.8 |
| 1A.2 | Other Legislative Services | \$m 120.9 | 173.6 | 90.9 | 83.0 | 182.1 |
| | | % | 43.6 | -47.6 | -8.7 | 119.4 |
| 1A.3 | Executive Affairs | \$m 80.0 | 92.2 | 83.6 | 84.0 | 81.0 |
| | | % | 15.3 | -9.3 | 0.5 | -3.6 |
| | TOTAL | \$m 536.8 | 612.4 | 515.6 | 510.1 | 609.1 |
| | | % | 14.1 | -15.8 | -1.1 | 19.4 |

1A.1 PARLIAMENTARY OUTLAYS

Parliamentary outlays cover services to Senators and Members by the Parliamentary Departments and the Department of Finance and Administration. These include: Hansard; advisory, procedural, research and administrative support; library; communications support; building and facilities management; Members' and Ministers' staff salaries; electorate office costs; and travel within Australia and overseas. The costs of superannuation benefits for Senators and Members of Parliament appear in *1F.2 Civilian Schemes*.

1A.2 OTHER LEGISLATIVE SERVICES

Other Legislative Services covers the cost of car-with-driver services for Government leaders, Parliamentarians and dignitaries, the funding of elections, the cost of the AEC and drafting of Bills by the Office of Parliamentary Counsel within the Attorney-General's portfolio.

1A.3 EXECUTIVE AFFAIRS

The Executive Affairs subfunction covers the running costs and other outlays of the Department of the Prime Minister and Cabinet (including support services for former Governors-General and the Prime Minister's official residences), the Office of the Commonwealth and Defence Force Ombudsman, the Office of the Official Secretary to the Governor-General, and the Public Service and Merit Protection Commission.

1B. FINANCIAL AND FISCAL AFFAIRS

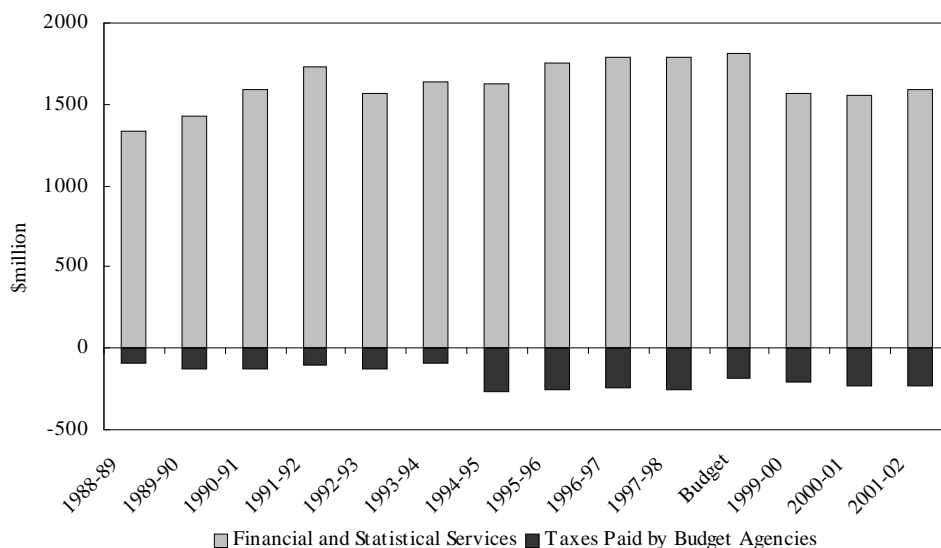
NATURE OF OUTLAYS

This function comprises outlays on administrative processes of government covering tasks such as collecting taxes, collecting and reporting statistical information, raising and managing the public debt of the Commonwealth, overseeing disbursement and efficient use of public funds, auditing Commonwealth entities, supervising insurance and superannuation, and providing economic, financial and other policy advice to government.

This function includes outlays of the following portfolios:

- Treasury;
- Finance and Administration; and
- Industry, Science and Tourism.

Chart 1. Overview of Commonwealth Outlays on Financial and Fiscal Affairs (1989-90 prices)



TRENDS IN OUTLAYS ON FINANCIAL AND FISCAL AFFAIRS

Outlays for this function have historically included a base level of funding significantly augmented by a series of specific funding initiatives.

The significant trends affecting Financial and Statistical Services to 1997-98 were:

- growth over the four years to 1991-92 due to a strengthening of the Australian Taxation Office (ATO) resource base, including introduction of the Tax File Number System from 1988-89 and the modernisation of IT systems which commenced in 1989-90. Growth over the period also reflected additional funding for the Australian Bureau of Statistics (ABS) to carry out the 1991 Census of Population and Housing; and
- growth over the six years to 1997-98 was due to increased compliance enforcement and debt management activities in the ATO commencing in 1994-95. The data for this period also reflects the cessation by the Australian National Audit Office in 1995-96 of charging budget-funded departments and agencies for audits of their financial statements. The 1996 Census of Population and Housing was funded through additional resources provided to the ABS and is also reflected in this period.

There is a net increase in outlays in the Budget year, reflecting:

- one-off seed funding provided through the Office of Government Information Technology to assist Commonwealth agencies for remediation of technical problems in achieving Year 2000 compliance (\$120 million);
- interim funding provided to the ATO for development of a proposed tax reform programme and ATO running costs carried forward from 1997-98; and
- partial offsets resulting from a reduction in outlays of the Department of the Treasury for 1998-99 and forward years to reflect the recording of tax equivalent and debt neutrality payments to be made by Commonwealth businesses under competitive neutrality arrangements.

The lower level of outlays in the forward years reflects primarily the removal of one-off effects and the return to ongoing base funding for the function.

The significant trend affecting Taxes paid by Budget Agencies from 1994-95 to 1997-98 was an increase in Fringe Benefits Tax (FBT) payments. Such payments increased significantly from 1994-95 as a result of legislation which effectively raised the FBT liability of departments and budget sector agencies from 48.25 per cent to around 93 per cent. Departments and agencies are tax exempt employers and therefore not eligible for tax deductions for any FBT costs.

The reduction in the Taxes paid by Budget Agencies for the Budget year reflects a decrease in payments by Defence (partly arising from a decrease in Defence personnel) and the increase through the forward years reflects increased effective assistance following the expected revaluation of Defence Housing Authority housing stock.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|------|------------------------------------|------------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| 1B.1 | Financial and Statistical Services | \$m 2104.3 | 2194.2 | 1944.4 | 1977.3 | 2067.3 |
| | | % | 4.3 | -11.4 | 1.7 | 4.6 |
| 1B.2 | Taxes Paid by Budget Agencies | \$m -300.8 | -230.1 | -259.3 | -301.3 | -300.8 |
| | | % | -23.5 | 12.7 | 16.2 | -0.2 |
| | TOTAL | \$m 1803.5 | 1964.1 | 1685.1 | 1675.9 | 1766.5 |
| | | % | 8.9 | -14.2 | -0.5 | 5.4 |

1B.1 FINANCIAL AND STATISTICAL SERVICES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|--|--|------------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| | Department of the Treasury | \$m 62.8 | 13.6 | 0.3 | 1.4 | 2.2 |
| | | % | -78.3 | -97.8 | na | 57.1 |
| | Australian Taxation Office | \$m 1312.1 | 1250.4 | 1180.9 | 1195.4 | 1204.2 |
| | | % | -4.7 | -5.6 | 1.2 | 0.7 |
| | Australian Bureau of Statistics | \$m 220.3 | 214.9 | 215.7 | 241.5 | 317.8 |
| | | % | -2.5 | 0.4 | 12.0 | 31.6 |
| | Department of Finance and Administration | \$m 86.9 | 194.5 | 74.5 | 74.7 | 75.3 |
| | | % | 123.8 | -61.7 | 0.3 | 0.8 |
| | Australian National Audit Office | \$m 33.3 | 40.8 | 36.2 | 37.0 | 37.4 |
| | | % | 22.5 | -11.3 | 2.2 | 1.1 |
| | Australian Customs Service | \$m 352.6 | 418.5 | 378.2 | 372.1 | 374.9 |
| | | % | 18.7 | -9.6 | -1.6 | 0.8 |
| | Insurance & Superannuation Commission | \$m 36.3 | 61.5 | 58.8 | 55.2 | 55.6 |
| | | % | 69.4 | -4.4 | -6.1 | 0.7 |
| | TOTAL | \$m 2104.3 | 2194.2 | 1944.4 | 1977.3 | 2067.3 |
| | | % | 4.3 | -11.4 | 1.7 | 4.6 |

Department of the Treasury is responsible for advising and assisting the Government in the management of the Australian economy.

Australian Taxation Office is responsible for ensuring the collection of revenue payable under the laws administered by the Commissioner of Taxation.

Australian Bureau of Statistics is responsible for the collection of statistics Australia wide including the five yearly Census of Population and Housing as well as other cyclical surveys.

Department of Finance and Administration (DoFA) programmes reported under the sub-function are responsible for advising and assisting the Government manage its finances in a sustainable manner and delivering good government by promoting efficient, effective and ethical financial management and accountability practices within Commonwealth agencies. Outlays relating to the Office of Government Information Technology are also included against this item.

Australian National Audit Office (ANAO) is responsible for audits of Commonwealth departments and authorities. The ANAO charges fees for audits of financial statements of Commonwealth authorities and companies and those fee receipts are treated as offsets within outlays.

Australian Customs Service is involved in facilitating the movement of people and goods into and out of Australia, the delivery of industry assistance programmes and the collection of customs duty and excise.

Insurance and Superannuation Commission (ISC) is responsible for prudential supervision of the insurance (including life insurance) and superannuation industries. The Government has decided that the ISC will be replaced by the Australian Prudential Regulation Authority (APRA) and will bring all prudential regulation under the control of a single national authority. The APRA is planned to take effect from 1 July 1998.

1B.2 TAXES PAID BY BUDGET AGENCIES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---------------------|-----|---------------|---------------|---------------|---------------|---------------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| Fringe Benefits Tax | \$m | -298.7 | -228.0 | -257.1 | -299.1 | -298.6 |
| | % | | -23.7 | 12.8 | 16.3 | -0.2 |
| Customs Duty | \$m | -2.1 | -2.1 | -2.2 | -2.2 | -2.3 |
| | % | | na | 4.8 | na | 4.5 |
| TOTAL | \$m | -300.8 | -230.1 | -259.3 | -301.3 | -300.8 |
| | % | | -23.5 | 12.7 | 16.2 | -0.2 |

Taxes and levies received from budget sector agencies and classified as offsets within outlays are reported under this subfunction whereas the payments made by agencies are reported under the functions to which the paying departments and agencies are classified. These items, combined with their offsets in other functions, have no net effect on aggregate budget outlays.

1C. FOREIGN ECONOMIC AID

NATURE OF OUTLAYS

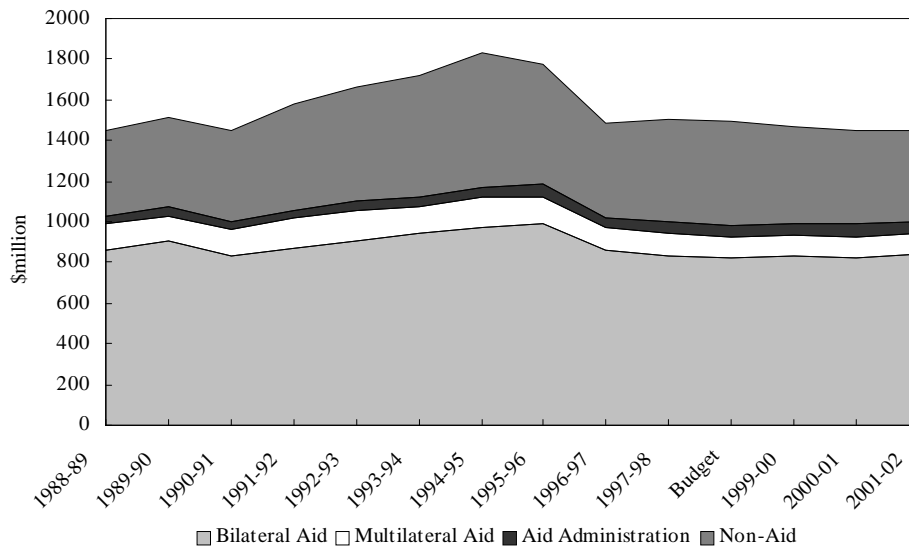
Foreign Economic Aid outlays include both aid and non-aid components. The Overseas Aid component covers outlays for which the primary purpose is to fund concessional and non-concessional assistance to other countries. The Foreign Affairs Non-Aid component covers outlays used for the conduct of foreign and international trade relations (excluding trade promotion activities) and for making contributions to international organisations such as the United Nations (UN), including for its peacekeeping operations.

As the definition of aid used in this document is different to that adopted by the OECD in its definition of Official Development Assistance (ODA), the level and composition of ODA is not reported here.

This function principally includes outlays of the following portfolios:

- Foreign Affairs and Trade;
- Finance and Administration; and
- Treasury.

Chart 1. Overview of Commonwealth Outlays on Foreign Economic Aid (1989-90 prices)



TRENDS IN FOREIGN ECONOMIC AID OUTLAYS

Increases in Overseas Aid outlays between 1988-89 and 1995-96 were primarily due to decisions taken to increase aid funding in real terms. The reduction in these outlays in 1996-97 reflects savings made in Overseas Aid, including the abolition of the Development Import Finance Facility. Overseas Aid outlays are projected to remain relatively stable in real terms from 1997-98 to 2001-02.

Growth in Foreign Affairs Non-Aid over the period since 1988-89 has largely been influenced by Australian contributions to UN peacekeeping operations and by overseas property outlays. UN peacekeeping contributions have decreased in recent years and are projected to remain at this lower level. The fluctuations between 1997-98 and 1999-2000 for Non-Aid outlays primarily reflect greater than average overseas property sales over the period, including non-representational staff housing, devolution of overseas property rental funding from the Department of Finance and Administration, and the reduction in capital works projects overseas.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|------|--------------------------|------------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| 1C.1 | Bilateral Aid | \$m 972.1 | 998.1 | 1030.7 | 1049.8 | 1097.4 |
| | | % | 2.7 | 3.3 | 1.9 | 4.5 |
| 1C.2 | Multilateral Aid | \$m 132.3 | 118.5 | 126.8 | 129.2 | 132.5 |
| | | % | -10.4 | 7.0 | 1.9 | 2.6 |
| 1C.3 | Aid Administration | \$m 65.2 | 72.6 | 73.6 | 74.7 | 76.2 |
| | | % | 11.3 | 1.4 | 1.5 | 2.0 |
| | Sub-total - Overseas Aid | \$m 1169.6 | 1189.2 | 1231.1 | 1253.8 | 1306.1 |
| | | % | 1.7 | 3.5 | 1.8 | 4.2 |
| 1C.4 | Foreign Affairs Non-Aid | \$m 597.5 | 621.6 | 582.8 | 582.4 | 584.0 |
| | | % | 4.0 | -6.2 | -0.1 | 0.3 |
| | TOTAL | \$m 1767.2 | 1810.8 | 1813.9 | 1836.2 | 1890.1 |
| | | % | 2.5 | 0.2 | 1.2 | 2.9 |

1C.1 BILATERAL AID

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|--|---|-----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| | Papua New Guinea - Budget Support | \$m 106.6 | 71.0 | 35.5 | - | - |
| | | % | -33.4 | -50.0 | -100.0 | na |
| | Projects, Technical Cooperation and Related Activities | \$m 573.9 | 629.1 | 680.0 | 721.1 | 749.4 |
| | | % | 9.6 | 8.1 | 6.0 | 3.9 |
| | Training | \$m 108.6 | 115.2 | 124.7 | 132.4 | 137.7 |
| | | % | 6.1 | 8.2 | 6.2 | 4.0 |
| | Emergency Aid | \$m 40.7 | 33.8 | 34.7 | 35.5 | 39.4 |
| | | % | -17.0 | 2.7 | 2.3 | 11.0 |
| | Refugee Relief | \$m 70.0 | 67.2 | 70.9 | 72.7 | 78.5 |
| | | % | -4.0 | 5.5 | 2.5 | 8.0 |
| | Non-government Organisations | \$m 32.1 | 40.4 | 42.4 | 44.5 | 47.6 |
| | | % | 25.9 | 5.0 | 5.0 | 7.0 |
| | Australian Centre for International Agricultural Research | \$m 40.1 | 41.5 | 42.6 | 43.6 | 44.7 |
| | | % | 3.5 | 2.7 | 2.3 | 2.5 |
| | TOTAL | \$m 972.1 | 998.1 | 1030.7 | 1049.8 | 1097.4 |
| | | % | 2.7 | 3.3 | 1.9 | 4.5 |

Bilateral Aid supports development assistance programmes provided to specific countries, such as technical and other training, education, health and other humanitarian programmes. The principal recipients of Australia's bilateral aid are countries in the Asia-Pacific region, with Papua New Guinea being the largest.

Papua New Guinea - Budget Support

Under the Papua New Guinea-Australia Treaty on Development Cooperation, Budget Support is being phased out and substituted with programmed aid.

1C.2 MULTILATERAL AID

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|-----------------------------------|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| United Nations Organisations | \$m | 67.5 | 58.1 | 59.6 | 61.1 | 62.6 |
| | % | | -13.9 | 2.6 | 2.5 | 2.5 |
| Commonwealth Organisations | \$m | 8.8 | 9.7 | 10.0 | 10.2 | 10.5 |
| | % | | 10.2 | 3.1 | 2.0 | 2.9 |
| Other International Organisations | \$m | 23.3 | 18.2 | 22.0 | 20.5 | 20.5 |
| | % | | -21.9 | 20.9 | -6.8 | na |
| Regional Organisations | \$m | 32.7 | 32.5 | 35.2 | 37.4 | 38.9 |
| | % | | -0.6 | 8.3 | 6.2 | 4.0 |
| TOTAL | \$m | 132.3 | 118.5 | 126.8 | 129.2 | 132.5 |
| | % | | -10.4 | 7.0 | 1.9 | 2.6 |

Multilateral aid outlays encompass contributions to UN development agencies and other international, regional and multinational organisations such as the Global Environment Facility.

1C.3 AID ADMINISTRATION

Aid Administration outlays provide for the administration costs of the Australian aid programme, including the operational costs of AusAID.

1C.4 FOREIGN AFFAIRS NON-AID

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| Membership of International Organisations | \$m | 76.7 | 82.5 | 81.0 | 81.0 | 81.0 |
| | % | | 7.6 | -1.8 | na | na |
| United Nations Peacekeeping Operations | \$m | 31.0 | 31.3 | 31.3 | 31.3 | 31.3 |
| | % | | 1.0 | na | na | na |
| Other Activities | \$m | 9.8 | 8.6 | 8.6 | 8.7 | 8.7 |
| | % | | -12.2 | na | 1.2 | na |
| General Administration | \$m | 480.0 | 499.3 | 461.9 | 461.5 | 463.0 |
| | % | | 4.0 | -7.5 | -0.1 | 0.3 |
| TOTAL | \$m | 597.5 | 621.6 | 582.8 | 582.4 | 584.0 |
| | % | | 4.0 | -6.2 | -0.1 | 0.3 |

Foreign Affairs Non-Aid outlays cover the promotion of Australia's interests through diplomatic relations with other countries, both bilaterally and through our participation in, and contributions to, international organisations and fora including UN peacekeeping operations.

Because of the nature of the events covered, the contributions for UN Peacekeeping activities are uneven and not easy to predict. The forward years, therefore, reflect a provision based on previous experience.

General administration outlays include the major part of the Department of Foreign Affairs and Trade administration costs (other than a small proportion of the Department's costs which relate to 3. *Public Order and Safety*) and the administration costs of the Department of Finance and Administration's Overseas Property Group.

1D. GENERAL RESEARCH

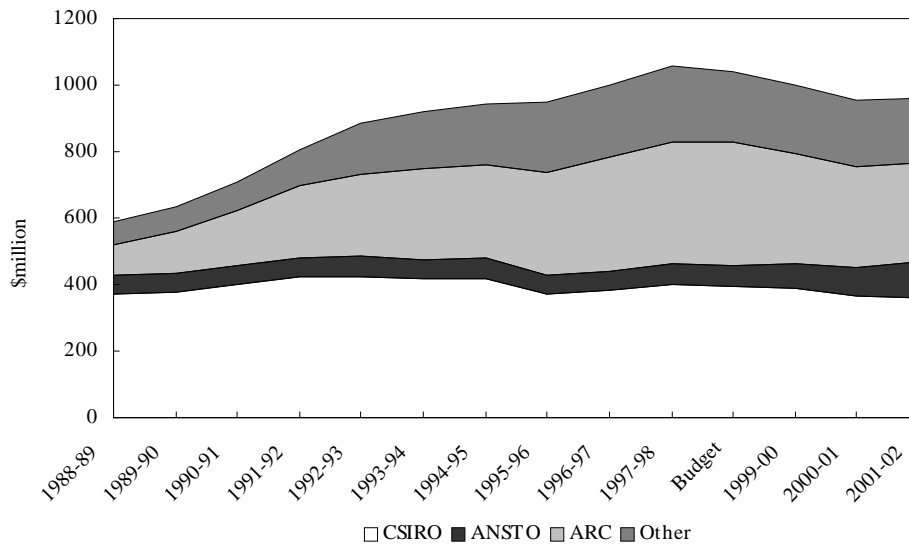
NATURE OF OUTLAYS

General Research outlays aim to increase scientific knowledge and its application. They fund: the Commonwealth research authorities (the Commonwealth Scientific and Industrial Research Organisation (CSIRO), the Australian Nuclear Science and Technology Organisation (ANSTO), the Australian Research Council (ARC) and the Australian Institute of Marine Science (AIMS)); elements of the national research infrastructure; Antarctic research stations and associated research; and general research programmes including grants for higher education research and contributions to Cooperative Research Centres (CRC). Programmes supporting research in specific sectors are generally included under the relevant function, for example health research is included in 5. *Health*.

This function includes outlays mainly from the following portfolios:

- Industry, Science and Tourism;
- Employment, Education, Training and Youth Affairs; and
- Environment.

Chart 1. Overview of Commonwealth Outlays on General Research (1989-90 prices)



TRENDS IN GENERAL RESEARCH OUTLAYS

The growth in outlays from 1988-89 to 1997-98 reflects a significant real increase in funding for the ARC, and the establishment of the CRC and Major National Research Facilities programmes.

Total outlays decline slightly over the forward estimates. This is largely explained by a decline in ARC funding for research infrastructure, collaborative research grants and the High Performance Computing and Communications Programme. The increase in ANSTO's outlays over the forward estimates reflects funding for a replacement research reactor and the shipment of spent nuclear fuel rods overseas for processing. There is also a decrease in CSIRO funding from the cessation of specific funding for research purposes.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|------|--|------------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| ID.1 | Commonwealth Scientific and Industrial Research Organisation | \$m 466.8 | 475.4 | 482.1 | 463.4 | 467.3 |
| | | % | 1.8 | 1.4 | -3.9 | 0.8 |
| ID.2 | Australian Nuclear Science and Technology Organisation | \$m 76.7 | 80.0 | 91.7 | 110.1 | 140.8 |
| | | % | 4.3 | 14.6 | 20.1 | 27.9 |
| ID.3 | Australian Research Council | \$m 430.3 | 445.7 | 412.2 | 383.6 | 390.4 |
| | | % | 3.6 | -7.5 | -6.9 | 1.8 |
| ID.4 | Other General Research, nec | \$m 267.2 | 254.5 | 253.2 | 252.2 | 248.9 |
| | | % | -4.8 | -0.5 | -0.4 | -1.3 |
| | TOTAL | \$m 1241.1 | 1255.6 | 1239.2 | 1209.3 | 1247.4 |
| | | % | 1.2 | -1.3 | -2.4 | 3.2 |

1D.1 COMMONWEALTH SCIENTIFIC AND INDUSTRIAL RESEARCH ORGANISATION

The CSIRO, an independent statutory authority, is Australia's largest and most diverse scientific research organisation. Its primary role is to undertake scientific research which is of direct value to the community and industry. CSIRO has strong international links and maintains a substantial part of the national research infrastructure, including biological collections and some major national research facilities such as the Australia Telescope, the Australian Animal Health Laboratory, the National Measurement Laboratory and the Research Vessel *Franklin*. CSIRO contributes to Government policy formulation through the provision of expert advice on scientific and technological issues.

1D.2 AUSTRALIAN NUCLEAR SCIENCE AND TECHNOLOGY ORGANISATION

ANSTO is Australia's major centre of nuclear science research and development. It contributes to the development of nuclear science and technology and its application in industries which include health, mining, environment and advanced materials. ANSTO also assists with the development of Australia's nuclear non-proliferation safeguards and wider technology policies and interests.

1D.3 AUSTRALIAN RESEARCH COUNCIL

The ARC advises the Government on national research priorities and the coordination of research policy. It also makes recommendations to the Minister for Employment, Education, Training and Youth Affairs on the allocation of Commonwealth funding in a range of research schemes, including postgraduate scholarships, fellowships, research centres, infrastructure and research grants to higher education institutions and individuals.

1D.4 OTHER GENERAL RESEARCH, NEC

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|--|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| Policy, Coordination and Promotion | \$m | 8.8 | 9.6 | 6.6 | 6.7 | 6.7 |
| | % | | 9.1 | -31.3 | 1.5 | na |
| Cooperative Research Centres | \$m | 146.9 | 137.9 | 140.2 | 145.5 | 146.9 |
| | % | | -6.1 | 1.7 | 3.8 | 1.0 |
| Antarctic Division | \$m | 61.7 | 62.9 | 62.7 | 63.2 | 63.7 |
| | % | | 1.9 | -0.3 | 0.8 | 0.8 |
| Australian Institute of Marine Science | \$m | 16.4 | 18.5 | 19.7 | 20.4 | 19.9 |
| | % | | 12.8 | 6.5 | 3.6 | -2.5 |
| International and Other Research | \$m | 33.5 | 25.5 | 23.9 | 16.4 | 11.7 |
| | % | | -23.9 | -6.3 | -31.4 | -28.7 |
| TOTAL | \$m | 267.2 | 254.5 | 253.2 | 252.2 | 248.9 |
| | % | | -4.8 | -0.5 | -0.4 | -1.3 |

Cooperative Research Centres

The CRC programme provides support for long-term collaborative research ventures between universities, public research organisations, Government agencies and private enterprises. It aims to promote high quality research, strengthen links between research and its commercial and other applications, and provide a training ground for Australia's future researchers.

Antarctic Division

The Antarctic Division (of the Department of the Environment) maintains an Australian presence at three stations on the Antarctic continent and one on Macquarie Island. The Division's main research effort is directed at building up a systematic knowledge of the Antarctic and its environment, and understanding the role that this region has in relation to global climate change.

Australian Institute of Marine Science

AIMS undertakes research directed towards improving the understanding of the marine environment in the coastal and continental shelf regions of Australia and assists with the development, conservation and management of marine resources including the environmental sustainability of offshore resource industries and of Great Barrier Reef management plans.

International and Other Research

This subgroup includes funding for the Major National Research Facilities Programme, the Technology Diffusion Programme's international science and technology collaboration activities, the Anglo-Australian Telescope and the management of Australia's halon gas bank.

1E. GENERAL SERVICES

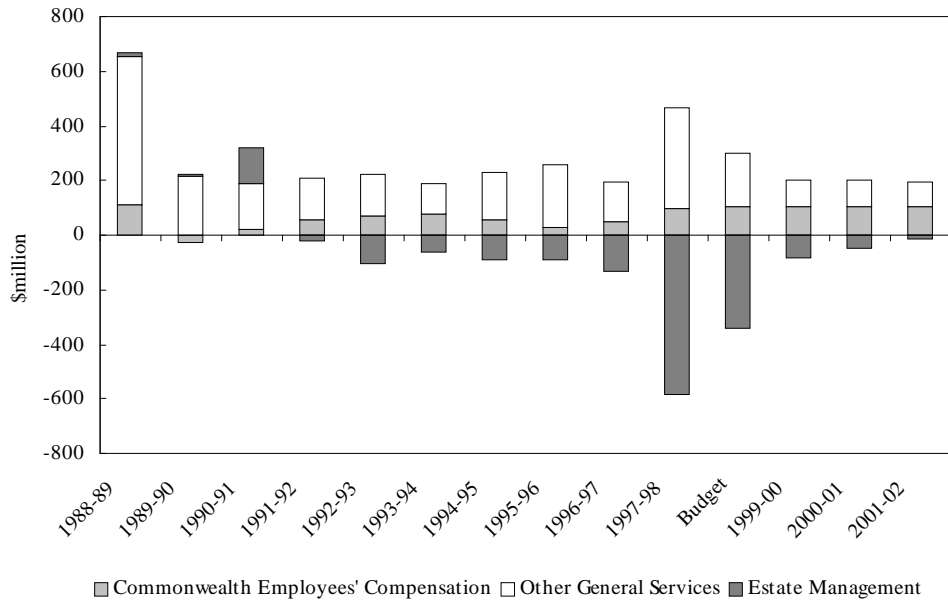
NATURE OF OUTLAYS

This function covers outlays relating to the administrative processes of Government not classified elsewhere including the provision of real property, centralised employee compensation and support services to Government departments and agencies.

This function mainly includes outlays of the following portfolios:

- Finance and Administration;
- Workplace Relations and Small Business;
- Transport and Regional Development; and
- Attorney-General's.

Chart 1. Overview of Commonwealth Outlays on General Services (1989-90 prices)



TRENDS IN GENERAL SERVICES OUTLAYS

Variations in outlays in the subfunctions reflect the following significant policy changes:

- Commonwealth Employee Compensation – the introduction of revised arrangements for funding this programme including the payment of premiums (an offset within outlays) by agencies from 1989-90;
- Estate Management – positive net outlays from 1988-89 to 1991-92 are as a result of spending on the estate, and particularly in 1990-91 with spending on major developments in Sydney and Melbourne. The level of net outlays then progressively declined from 1991-92 as these major projects were completed. The increase in outlays from 1993-94 to 1994-95 reflects spending on projects in Brisbane and Canberra. The reduction in outlays from 1996-97 to 1999-2000 reflect receipts from property sales following a substantial property rationalisation programme commenced in 1996-97, with a resultant reduction in rent receipts by the end of the decade.
- Other General Services - the pattern of outlays reflects:
 - ACT self-government in May 1989;
 - the progressive introduction from the late 1980s of the commercialisation of support services (such as property and vehicles) to government departments and agencies (which has generally transferred outlays under this function to other functions); and
 - the cost of rationalisation of the former Department of Administrative Services businesses in 1996-97. The decline in 1998-99 and 1999-2000 reflects the progressive wind down of the surplus staff and property programmes as well as the other costs associated with business sale/closure. The decline in 1999-2000 also reflects savings generated from restructuring the Department, realising ongoing savings to the budget.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|-------|-------------------------|------------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| 1E.1 | Commonwealth Employees' | \$m 110.4 | 125.9 | 125.8 | 129.5 | 132.0 |
| | Compensation | % | 14.0 | -0.1 | 2.9 | 1.9 |
| 1E.2 | Estate Management | \$m -687.7 | -411.3 | -104.6 | -60.6 | -20.7 |
| | | % | -40.2 | -74.6 | -42.1 | -65.8 |
| 1E.3 | Other General Services | \$m 435.9 | 237.4 | 122.6 | 123.6 | 124.0 |
| | | % | -45.5 | -48.4 | 0.8 | 0.3 |
| TOTAL | | \$m -141.4 | -48.1 | 143.7 | 192.4 | 235.3 |
| | | % | -66.0 | na | 33.9 | 22.3 |

1E.1 COMMONWEALTH EMPLOYEES' COMPENSATION

Comcare collects annual premiums which are paid into the Consolidated Revenue Fund. Agency premiums for any one year reflect the full cost of all compensation liabilities

expected to be incurred in that premium year and for the full life of each claim. Agency premiums include a component for the administrative costs of Comcare.

1E.2 ESTATE MANAGEMENT

This covers management by the Department of Finance and Administration of the Commonwealth's ownership of Australian real property for non-defence purposes. Outlays include funding for new property developments, receipts from sale of property and rent received on the existing estate.

The Government has agreed on a set of Commonwealth Property Principles which will have the effect of restricting Commonwealth ownership of property to cases where there are strong public interest or financial reasons for ownership, or market failure. As a result, major sales are forecast to continue through until 1999-2000. No new developments are planned, although some properties may be refurbished. The Government has outsourced the management of its office estate.

1E.3 OTHER GENERAL SERVICES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|--|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| Department of Transport and Regional Development | \$m | 18.7 | 33.4 | 26.4 | 27.0 | 27.5 |
| | % | | 78.6 | -21.0 | 2.3 | 1.9 |
| Department of Finance and Administration | \$m | 393.2 | 177.7 | 71.5 | 72.4 | 72.1 |
| | % | | -54.8 | -59.8 | 1.3 | -0.4 |
| Other | \$m | 24.0 | 26.3 | 24.7 | 24.2 | 24.4 |
| | % | | 9.6 | -6.1 | -2.0 | 0.8 |
| TOTAL | \$m | 435.9 | 237.4 | 122.6 | 123.6 | 124.0 |
| | % | | -45.5 | -48.4 | 0.8 | 0.3 |

Department of Transport and Regional Development (DoTARD) outlays in this subfunction are running costs and other programmes administered by DoTARD that are not elsewhere classified. Government policy is to bring the laws, standards and infrastructure on the Indian Ocean Territories of the Cocos (Keeling) Islands and Christmas Island into line with those on mainland Australia.

Department of Finance and Administration (DoFA) programmes reported under this subfunction cover running costs and other outlays on non-financial services and commercial businesses, including Removals and AusInfo (formerly the Australian Government Publishing Service).

Other programmes in this function include outlays on the Administrative Appeals Tribunal and other small agencies not elsewhere classified.

1F. GOVERNMENT SUPERANNUATION BENEFITS

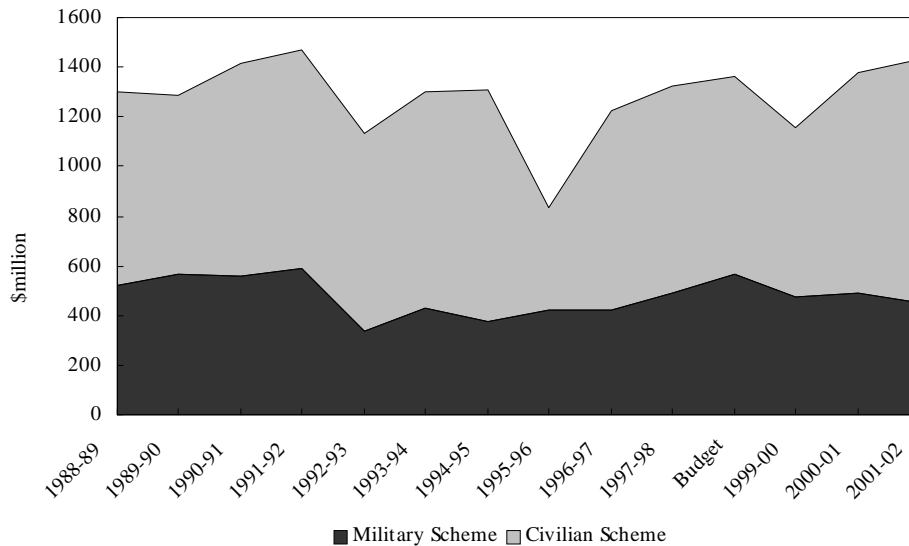
NATURE OF OUTLAYS

This function relates to outlays of the Finance and Administration and Defence portfolios associated with the Commonwealth's provision of superannuation schemes for its employees, military personnel and members of Parliament. The function also includes reimbursements to certain State schemes in respect of former State railway employees.

The major Commonwealth civilian superannuation schemes are the Public Sector Superannuation Scheme (PSS) and the Commonwealth Superannuation Scheme (CSS), while the Parliamentary Contributory Superannuation Scheme exists for members of Parliament. The Military Superannuation and Benefits Scheme and the Defence Force Retirement and Death Benefits Scheme provide benefits to military personnel.

New arrangements for funding the administration of the civilian and military schemes will apply from 1 July 1998. The Commonwealth Superannuation Administration (ComSuper) will become a component of the Commercial Activities Fund and will charge the relevant Boards of Trustees for administration services. The Boards will recover these costs from Departments and agencies.

Chart 1. Overview of Commonwealth Outlays on Government Superannuation Benefits (1989-90 prices)



TRENDS IN GOVERNMENT SUPERANNUATION OUTLAYS

Major features of Chart 1 are:

- decreased outlays in 1992-93 reflecting the commencement of payment by the Department of Defence of employer superannuation contributions to the Consolidated Revenue Fund;
- decreased outlays in 1995-96, due to the commencement of employer superannuation contributions by running cost departments and agencies;
- a large increase in net superannuation outlays over 1996-97 and 1997-98 due to lump sum benefit payments associated with public sector redundancies;
- an expected decrease in net superannuation outlays from 1 July 1999 due to restrictions on the payment of cash lump sum redundancy benefits; and
- an expected increase in outlays from 1 July 2000 as current members exercise an option to cease membership in the CSS and PSS from this date and employer superannuation payments to Consolidated Revenue decrease accordingly.

1997-98 AND FORWARD ESTIMATES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|------|------------------|------------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| IF.1 | Military Schemes | \$m 572.0 | 685.5 | 588.2 | 624.6 | 591.4 |
| | | % | 19.8 | -14.2 | 6.2 | -5.3 |
| IF.2 | Civilian Schemes | \$m 986.8 | 965.6 | 841.0 | 1131.5 | 1275.0 |
| | | % | -2.1 | -12.9 | 34.5 | 12.7 |
| | TOTAL | \$m 1558.8 | 1651.0 | 1429.1 | 1756.1 | 1866.4 |
| | | % | 5.9 | -13.4 | 22.9 | 6.3 |

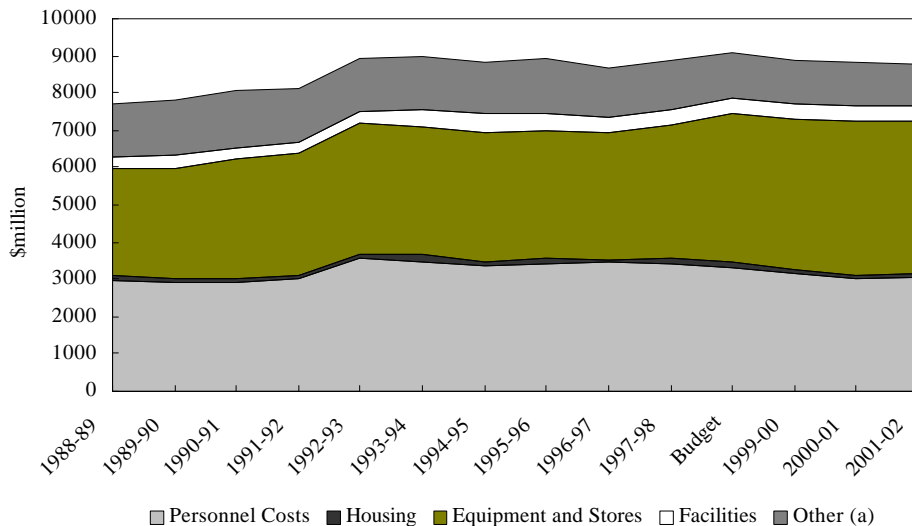
2. DEFENCE

NATURE OF OUTLAYS

The Defence function covers outlays on military equipment and technology, stores, Defence personnel and related benefits, Defence industry support and Defence administration.

Up to 1996-97, this function included outlays of the Defence and Finance and Administration portfolios. From 1997-98, all underlying Defence function outlays are transacted through the Defence portfolio.

**Chart 1. Overview of Commonwealth Outlays on Defence
(1989-90 prices)**



(a) 'Other' includes Defence Industry and Defence Science.

TRENDS IN DEFENCE OUTLAYS

Defence outlays grew between 1988-89 and 1991-92, reflecting the impact of the introduction of user charging by Commonwealth agencies, the provision of supplementary resources for Defence participation in peacekeeping activities and funding for special communications projects. The inclusion of employer superannuation costs for Defence staff who are members of Commonwealth superannuation schemes resulted in an increase in Defence outlays from 1992-93. Following 1992-93, Defence outlays reflect the 1993-94 Budget decision to apply year on year reductions to the Defence outlays base up to 1996-97. Estimates for 1997-98 onwards reflect zero real growth in Defence base outlays. However, the depreciation of the Australian dollar in 1997-98 combined with some large one-off funding adjustments results in an increase in Defence estimates for 1998-99.

Savings arising from the Commercial Support Programme have been allocated by Defence to higher priority areas. Defence also retains the proceeds from the sale of most surplus or under-utilised properties. The Government's policy is to reallocate funds from lower priority and support areas to enhance Defence's combat capabilities. This strategic policy objective is being reinforced by the Defence Reform Programme (DRP), which is implementing the agreed recommendations of the 1997 Defence Efficiency Review report, *Future Directions for the Management of Australia's Defence*.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|-----|------------------------------|---------------------|-------------------|---------------------|---------------------|---------------------|
| 2.1 | Personnel Costs | \$m 4034.2 | 4032.0 | 3900.4 | 3821.5 | 4004.7 |
| | | % | -0.1 | -3.3 | -2.0 | 4.8 |
| 2.2 | Defence Equipment and Stores | \$m 4214.7 | 4848.7 | 5005.3 | 5298.8 | 5335.8 |
| | | % | 15.0 | 3.2 | 5.9 | 0.7 |
| 2.3 | Defence Facilities | \$m 474.0 | 490.9 | 478.9 | 490.2 | 488.0 |
| | | % | 3.6 | -2.4 | 2.4 | -0.4 |
| 2.4 | Defence Housing | \$m 156.4 | 134.0 | 132.8 | 118.9 | 114.8 |
| | | % | -14.3 | -0.9 | -10.5 | -3.4 |
| 2.5 | Defence Industry | \$m 23.4 | 19.5 | 18.1 | 17.6 | 17.9 |
| | | % | -16.7 | -7.2 | -2.8 | 1.7 |
| 2.6 | Defence Science | \$m 186.6 | 187.4 | 193.1 | 204.8 | 207.7 |
| | | % | 0.4 | 3.0 | 6.1 | 1.4 |
| 2.7 | Other Defence Outlays | \$m 1325.3 | 1268.5 | 1284.2 | 1249.2 | 1271.1 |
| | | % | -4.3 | 1.2 | -2.7 | 1.8 |
| | TOTAL | \$m 10414.4 | 10981.0 | 11012.8 | 11201.1 | 11440.0 |
| | | % | 5.4 | 0.3 | 1.7 | 2.1 |

2.1 PERSONNEL COSTS

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|--|-------------------------|---------------------|-------------------|---------------------|---------------------|---------------------|
| | Defence Force Personnel | \$m 3271.2 | 3253.9 | 3109.9 | 3018.3 | 3183.6 |
| | | % | -0.5 | -4.4 | -2.9 | 5.5 |
| | Civilian Personnel | \$m 762.9 | 778.0 | 790.5 | 803.2 | 821.1 |
| | | % | 2.0 | 1.6 | 1.6 | 2.2 |
| | TOTAL | \$m 4034.2 | 4032.0 | 3900.4 | 3821.5 | 4004.7 |
| | | % | -0.1 | -3.3 | -2.0 | 4.8 |

Personnel costs include both the payment of normal salaries and allowances to Defence military and civilian staff and payments of employer contributions for accruing superannuation entitlements.

These superannuation contributions include fortnightly payments to ComSuper, the receipts for which are shown in *IF. Government Superannuation Benefits*. Actual superannuation pension payments to former employees are shown in *IF. Government Superannuation Benefits*.

2.2 DEFENCE EQUIPMENT AND STORES

Outlays largely provide for an ongoing equipment procurement programme undertaken in accordance with strategic priorities. Outlays on equipment are expected to rise over the budget and forward estimates period and beyond as savings from the DRP become available for new investment.

The subfunction also provides for the acquisition of stores, including ammunition and fuel, required to maintain the operations of the Australian Defence Force (ADF).

2.3 DEFENCE FACILITIES

This subfunction covers the development of bases, airfields, communications, training and other facilities. It also includes the provision of live-in accommodation for single ADF personnel and repairs and maintenance projects costing \$0.25 million or more. It excludes housing provided through the Defence Housing Authority (DHA) under *2.4 Defence Housing*.

2.4 DEFENCE HOUSING

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|--|-----|---------------------|-------------------|---------------------|---------------------|---------------------|
| Rent Payments to Defence Housing Authority | \$m | 253.6 | 233.2 | 239.1 | 230.4 | 231.5 |
| | % | | -8.0 | 2.5 | -3.6 | 0.5 |
| Rent Recoveries | \$m | -100.9 | -104.7 | -112.7 | -119.0 | -124.2 |
| | % | | 3.8 | 7.6 | 5.6 | 4.4 |
| Other Housing Payments | \$m | 3.7 | 5.5 | 6.5 | 7.5 | 7.5 |
| | % | | 48.6 | 18.2 | 15.4 | na |
| TOTAL | \$m | 156.4 | 134.0 | 132.8 | 118.9 | 114.8 |
| | % | | -14.3 | -0.9 | -10.5 | -3.4 |

This subfunction covers the cost of providing housing for eligible ADF personnel and their families, largely through payment of rent to the DHA which currently administers and maintains some 22,100 dwellings. Market rents charged by DHA are reviewed annually to reflect current market conditions.

Recoveries of rent paid by ADF members under the Group Rent Scheme are based on rank entitlements. Service personnel receive significant rental assistance reflected in the difference between rent payments by the Department of Defence to the DHA and rent recoveries from personnel.

2.5 DEFENCE INDUSTRY

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|-------------------------------------|-----|---------------------|-------------------|---------------------|---------------------|---------------------|
| Defence Production | \$m | 17.8 | 17.9 | 18.0 | 17.5 | 17.9 |
| | % | | 0.6 | 0.6 | -2.8 | 2.3 |
| AeroSpace Technologies of Australia | \$m | 4.4 | 1.6 | - | - | - |
| | % | | -63.6 | -100.0 | na | na |
| ADI Limited | \$m | 1.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| | % | | -91.7 | na | na | na |
| TOTAL | \$m | 23.4 | 19.5 | 18.1 | 17.6 | 17.9 |
| | % | | -16.7 | -7.2 | -2.8 | 1.7 |

Defence Production

The item assists defence industry development projects and the participation of Australian industry at various defence exhibitions in Australia and overseas.

Payments to Australian defence industries for goods and services supplied to the Department of Defence on a commercial basis are included under 2.2 *Defence Equipment and Stores*.

AeroSpace Technologies of Australia

In 1994-95, the bulk of AeroSpace Technologies of Australia Limited (ASTA) was sold by the Commonwealth. Payments arising from the Sale and Purchase Agreement for ASTA are included under this item.

ADI Limited

This item provides for assistance to ADI Limited.

2.6 DEFENCE SCIENCE

This item covers the cost of the Defence Science and Technology Organisation (DSTO), which gives advice on the application of science and technology best suited to Australia's defence and security needs.

DSTO seeks to enhance Australian use of future developments in defence-relevant technologies through developing new capabilities where Australia has special needs, and supporting existing capabilities by increasing operational performance and reducing costs of ownership. DSTO also undertakes some commercial activities and participates in a number of Cooperative Research Centres.

2.7 OTHER DEFENCE OUTLAYS

| | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|-------------------------------|---------------------|-------------------|---------------------|---------------------|---------------------|
| Defence Cooperation Programme | \$m 63.6 | 67.4 | 67.4 | 68.3 | 72.1 |
| | % | 6.0 | na | 1.3 | 5.6 |
| General Administration | \$m 1597.6 | 1555.5 | 1554.4 | 1552.5 | 1582.4 |
| | % | -2.6 | -0.1 | -0.1 | 1.9 |
| Recoveries and Repayments | \$m -335.9 | -354.4 | -337.5 | -371.5 | -383.4 |
| | % | 5.5 | -4.8 | 10.1 | 3.2 |
| TOTAL | \$m 1325.3 | 1268.5 | 1284.2 | 1249.2 | 1271.1 |
| | % | -4.3 | 1.2 | -2.7 | 1.8 |

Defence Cooperation Programme

This programme aims to promote a favourable strategic environment for Australia through the promotion of shared security interests in the Asia-Pacific region. The programme includes training of regional students, professional exchanges, exercises and equipment and facilities projects.

General Administration

This category includes Fringe Benefits Tax, rent, office requisites, compensation and legal expenses, postage and telephones, fuel (but not fuel for Service operational activities) and payments for medical, dental and computer services.

Recoveries and Repayments

Recoveries and repayments include charges made for meals and accommodation at Defence establishments, defence-related recoveries from other governments, proceeds from the sale of under-utilised or surplus properties and reimbursements from the United Nations for part of the costs of overseas peacekeeping deployments. Receipts from sales of former Defence properties that are not attributable to the Defence function are shown under *1E. General Services* and *14E. Asset Sales*.

3. PUBLIC ORDER AND SAFETY

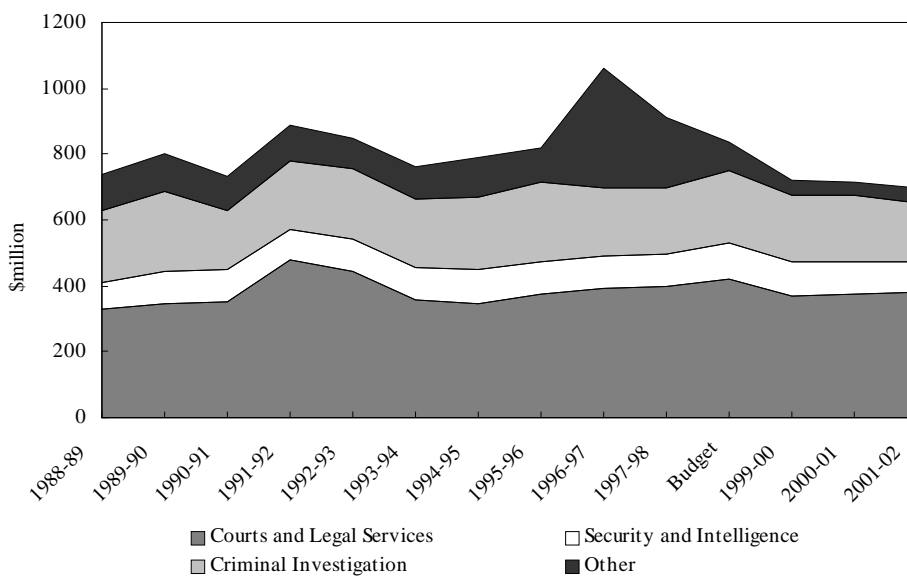
NATURE OF OUTLAYS

The purpose of these outlays is to provide the Australian community with appropriate legal services and protection under the law. They cover courts and related legal services (other than those concerned with industrial relations), legal aid, law enforcement, security and intelligence services and a range of other public safety activities.

This function includes outlays of the following portfolios:

- Attorney-General's;
- Finance and Administration;
- Foreign Affairs and Trade;
- Industry, Science and Tourism;
- Primary Industries and Energy;
- Prime Minister and Cabinet; and
- Transport and Regional Development.

Chart 1. Overview of Commonwealth Outlays on Public Order and Safety (1989-90 prices)



TRENDS IN PUBLIC ORDER AND SAFETY OUTLAYS

Outlays on Public Order and Safety increased in 1991-92, largely due to the purchase of land for the Brisbane Court Building, the installation of the Legal Office Information System (LOIS) within the Attorney-General's Department and the preparation of war crimes legislation.

The transfer of funding for legal services to other functions in 1992-93 led to a reduction in outlays in this function. This trend continued in 1993-94 as projects under the Courts Construction Programme and LOIS were completed. Outlays rose again in 1995-96 as the first initiatives of the Justice Statement commenced.

The peak over the period 1996-97 to 1997-98 reflects the Commonwealth Government's contribution to the National Firearms Programme. These costs mainly constituted the Commonwealth's reimbursement of payments made by the States and Territories to firearm owners, dealers and collectors who surrendered guns as part of the compensation-for-surrender scheme. The reimbursement was funded from the gun levy collected as a one-off increase in 1996-97 of 0.2 per cent in the Medicare levy, raising approximately \$500 million. It is now estimated that \$40 million of the \$500 million will be expended in 1998-99. The gun amnesty expired in September 1997 and Commonwealth reimbursements to the States will be completed in 1998-99.

The budget and forward estimates indicate that the real value of outlays will continue to decline from a peak in 1996-97. The measures that most affect the forward estimates include: the winding down of the National Firearms Programme; changes to the financing arrangements for the construction of the Melbourne Law Courts building; the limiting of Commonwealth legal aid contributions to matters arising under Commonwealth law; and divestment and restructuring of commercial business units in the Attorney-General's portfolio.

These reductions have been partly offset by increases in funding to the Federal Court of Australia for native title matters, to the National Crime Authority to target fraud against the Commonwealth and other related crime, and two stages of the National Illicit Drugs Strategy.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|-----|------------------------------------|------------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| 3.1 | Courts and Legal Services | \$m 465.0 | 508.6 | 461.0 | 480.3 | 497.7 |
| | | % | 9.4 | -9.4 | 4.2 | 3.6 |
| 3.2 | Security and Intelligence Services | \$m 118.1 | 131.8 | 125.7 | 120.0 | 115.1 |
| | | % | 11.6 | -4.6 | -4.5 | -4.1 |
| 3.3 | Criminal Investigation | \$m 239.5 | 267.7 | 250.6 | 254.2 | 239.2 |
| | | % | 11.8 | -6.4 | 1.4 | -5.9 |
| 3.4 | Other Public Order and Safety | \$m 247.0 | 101.9 | 57.6 | 57.8 | 59.0 |
| | | % | -58.7 | -43.5 | 0.3 | 2.1 |
| | TOTAL | \$m 1069.6 | 1010.0 | 894.8 | 912.3 | 911.1 |
| | | % | -5.6 | -11.4 | 2.0 | -0.1 |

3.1 COURTS AND LEGAL SERVICES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|----------------------------|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| High Court | \$m | 10.1 | 10.6 | 9.4 | 9.5 | 9.6 |
| | % | | 5.0 | -11.3 | 1.1 | 1.1 |
| Other Commonwealth Courts | \$m | 170.2 | 185.9 | 170.8 | 188.6 | 206.4 |
| | % | | 9.2 | -8.1 | 10.4 | 9.4 |
| Legal Services | \$m | 136.3 | 165.2 | 139.3 | 141.1 | 140.2 |
| | % | | 21.2 | -15.7 | 1.3 | -0.6 |
| Legal Aid | \$m | 130.8 | 133.6 | 130.0 | 129.5 | 129.9 |
| | % | | 2.1 | -2.7 | -0.4 | 0.3 |
| Protection of Human Rights | \$m | 17.6 | 13.2 | 11.5 | 11.6 | 11.7 |
| | % | | -25.0 | -12.9 | 0.9 | 0.9 |
| TOTAL | \$m | 465.0 | 508.6 | 461.0 | 480.3 | 497.7 |
| | % | | 9.4 | -9.4 | 4.2 | 3.6 |

Outlays under this subfunction include payments for:

- the High Court, the Federal Court of Australia, the Family Court of Australia and the Human Rights and Equal Opportunity Commission;
- the regulation and administration of bankruptcies by the Insolvency and Trustee Service, Australia;
- property lease termination costs associated with the Australian Government Solicitor's rationalisation, the operational expenses of the Australian Law Reform Commission and the running costs of the Office of the Director of Public Prosecutions; and
- the Commonwealth's contribution to funding for State Legal Aid Commissions for general legal aid services and specific legal aid programmes including the defence of claims under the *Native Title Act 1993*. The Commonwealth's funding arrangements for legal aid have been negotiated with each State and Territory and aim to better target legal aid funding to matters arising under Commonwealth law.

3.2 SECURITY AND INTELLIGENCE SERVICES

Outlays under this subfunction include the operations of the Australian Security Intelligence Organization, the Australian Secret Intelligence Service and the Office of National Assessments. These agencies collect and assess information relevant to protection against threats to Australia's national interests. Other activities include the physical and technical security at overseas posts, counter-terrorist training and equipment, and the operations of the Office of the Inspector-General of Intelligence and Security.

3.3 CRIMINAL INVESTIGATION

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|------------------------------|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| Australian Federal Police | \$m | 180.8 | 202.4 | 188.3 | 197.9 | 182.8 |
| | % | | 11.9 | -7.0 | 5.1 | -7.6 |
| Other Criminal Investigation | \$m | 58.7 | 65.3 | 62.3 | 56.3 | 56.4 |
| | % | | 11.2 | -4.6 | -9.6 | 0.2 |
| TOTAL | \$m | 239.5 | 267.7 | 250.6 | 254.2 | 239.2 |
| | % | | 11.8 | -6.4 | 1.4 | -5.9 |

These outlays provide for law enforcement and associated investigation activities and include:

- the Australian Federal Police's enforcement of the law in relation to drug trafficking, organised crime, fraud against the Commonwealth, counter terrorism, and community policing in the ACT; and
- police and criminology support activities such as those provided by the Australian Bureau of Criminal Intelligence, the Australian Institute of Criminology, the National Crime Authority and Australian Transaction Reports and Analysis Centre.

3.4 OTHER PUBLIC ORDER AND SAFETY

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|-----------------------------|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| General Administration | \$m | 26.7 | 22.3 | 22.3 | 22.2 | 22.5 |
| | % | | -16.5 | na | -0.4 | 1.4 |
| Coastwatch | \$m | 34.9 | 35.1 | 35.7 | 36.3 | 37.0 |
| | % | | 0.6 | 1.7 | 1.7 | 1.9 |
| National Firearms Programme | \$m | 129.0 | 40.0 | - | - | - |
| | % | | -69.0 | -100.0 | na | na |
| Other | \$m | 56.3 | 4.5 | -0.4 | -0.8 | -0.4 |
| | % | | -92.0 | -108.9 | 100.0 | -50.0 |
| TOTAL | \$m | 247.0 | 101.9 | 57.6 | 57.8 | 59.0 |
| | % | | -58.7 | -43.5 | 0.3 | 2.1 |

This subfunction incorporates all other outlays on Public Order and Safety activities such as:

- the residual general administration costs of the Attorney-General's Department, grants and payments to Australian and overseas bodies, and the costs of publishing legislation;
- the Coastwatch unit of the Australian Customs Service, which is responsible for the aerial surveillance of Australian Coastal and Fishing Zone areas, for the purposes of detecting smuggling, illegal entry, unauthorised fishing and quarantine breaches;
- the National Firearms Programme which provides compensation to gun owners, dealers and collectors for the surrender of certain categories of firearms;
- provision of community policing in the Territories of Christmas Island and Cocos (Keeling) Islands; and
- the protection of Commonwealth property.

4. EDUCATION

NATURE OF OUTLAYS

The bulk of Commonwealth education funding is provided as grants to the suppliers of services, namely:

- higher education institutions;
- Vocational Education and Training (VET) providers including Technical and Further Education (TAFE) institutions; and
- government (State and Territory) and non-government schools.

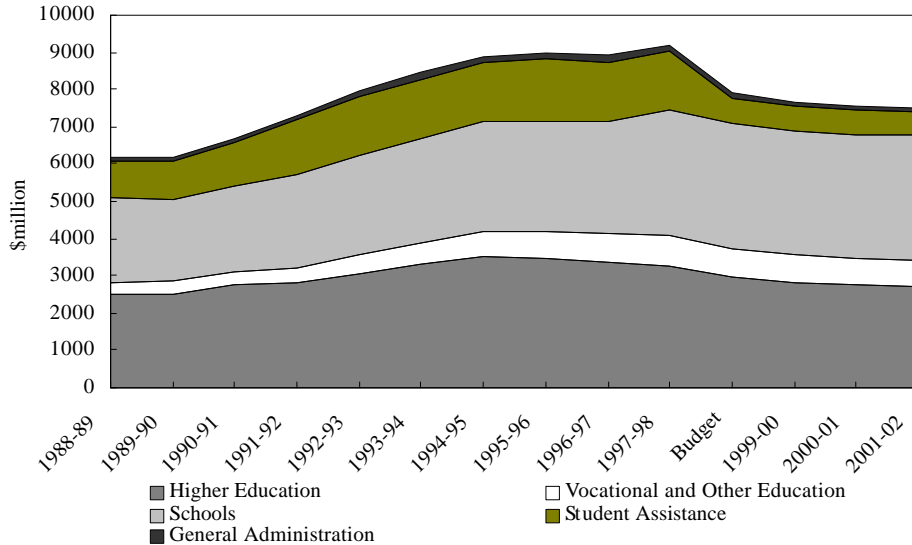
Other funds, sourced from general purpose grants to the States, which also flow to the schools and VET sectors, are reported in *14B. General Purpose Inter-Government Transactions*.

Outlays under this function also include the Aboriginal Student Assistance Scheme (ABSTUDY), Assistance for Isolated Children (AIC), English language tuition for recently arrived migrants, running costs associated with the education function within the Employment, Education, Training and Youth Affairs portfolio and income support for students over 25 years of age through the new Austudy Payment.

This function includes outlays of the following portfolios:

- Employment, Education, Training and Youth Affairs;
- Immigration and Multicultural Affairs;
- Social Security;
- Communications and the Arts;
- Transport and Regional Development; and
- Veterans' Affairs.

**Chart 1. Overview of Commonwealth Outlays on Education
(1989-90 prices)**



TRENDS IN EDUCATION OUTLAYS

Education outlays have increased in real terms for all sectors over the period 1989-90 to 1997-98, with increases coming from:

- an expansion of the higher education sector from around 416,000 places in 1989 to 564,600 (excluding overseas students) in 1997;
- enhanced Commonwealth support for schools, particularly since the early 1990s; and
- major increases in funding for vocational education from 1991.

The Budget and forward years reflect a decline in outlays resulting predominantly from the former AUSTUDY programme being subsumed within the new Youth Allowance, which is classified under 6. *Social Security and Welfare*.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|-----|--------------------------------|-------------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| 4.1 | Higher Education | \$m 3851.4 | 3578.2 | 3482.2 | 3476.6 | 3491.7 |
| | | % | -7.1 | -2.7 | -0.2 | 0.4 |
| 4.2 | Vocational and Other Education | \$m 952.7 | 931.2 | 939.5 | 956.4 | 972.1 |
| | | % | -2.3 | 0.9 | 1.8 | 1.6 |
| 4.3 | Schools | \$m 3932.3 | 4083.5 | 4121.4 | 4216.9 | 4339.7 |
| | | % | 3.8 | 0.9 | 2.3 | 2.9 |
| 4.4 | Student Assistance | \$m 1858.8 | 782.7 | 784.7 | 804.8 | 820.7 |
| | | % | -57.9 | 0.3 | 2.6 | 2.0 |
| 4.5 | General Administration | \$m 193.1 | 160.6 | 153.8 | 149.0 | 149.3 |
| | | % | -16.8 | -4.2 | -3.1 | 0.2 |
| | TOTAL | \$m 10788.2 | 9536.2 | 9481.6 | 9603.8 | 9773.5 |
| | | % | -11.6 | -0.6 | 1.3 | 1.8 |

4.1 HIGHER EDUCATION

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|--|--|------------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| | Higher Education Grants to Institutions | \$m 3742.7 | 3467.5 | 3362.9 | 3350.0 | 3364.8 |
| | | % | -7.4 | -3.0 | -0.4 | 0.4 |
| | Net Payments from Higher Education Contribution Scheme Reserve | \$m 75.8 | 85.1 | 93.4 | 100.0 | 100.0 |
| | | % | 12.3 | 9.8 | 7.1 | na |
| | Open Learning Initiative | \$m 7.7 | 5.3 | 5.4 | 5.5 | 5.5 |
| | | % | -31.2 | 1.9 | 1.9 | na |
| | Other Higher Education | \$m 15.6 | 15.3 | 15.3 | 15.8 | 15.9 |
| | | % | -1.9 | na | 3.3 | 0.6 |
| | Sub-total | \$m 3841.9 | 3573.1 | 3477.0 | 3471.3 | 3486.2 |
| | | % | -7.0 | -2.7 | -0.2 | 0.4 |
| | International Education | \$m 9.6 | 5.1 | 5.2 | 5.3 | 5.5 |
| | | % | -46.9 | 2.0 | 1.9 | 3.8 |
| | TOTAL | \$m 3851.4 | 3578.2 | 3482.2 | 3476.6 | 3491.7 |
| | | % | -7.1 | -2.7 | -0.2 | 0.4 |

Higher Education Grants to Institutions and Net Payments from the Higher Education Contribution Scheme Reserve

Support for higher education institutions is provided under the *Higher Education Funding Act 1988* as well as through payments from the Higher Education Contribution Scheme Reserve. Funding is legislated for three forward years on a calendar year basis. Research grants are reported under *ID. General Research*.

Unless specifically exempt, all Australian citizens, New Zealand citizens and Australian permanent residents enrolled in higher education student places funded by the Commonwealth, are required to make a contribution to the cost of their course through the Higher Education Contribution Scheme (HECS). Since the introduction of HECS in 1989, part of the total operating grants for publicly funded higher education institutions come from students' contributions under HECS. An amount equal to the contribution by students who elect to defer payment and the discount provided to students who pay up front is paid through the Higher Education Contribution Scheme Reserve.

4.2 VOCATIONAL AND OTHER EDUCATION

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| Vocational Education and Training | \$m | 933.0 | 910.9 | 919.0 | 935.7 | 951.2 |
| Grants | % | | -2.4 | 0.9 | 1.8 | 1.7 |
| Other Vocational Education and Training | \$m | 19.7 | 20.2 | 20.5 | 20.7 | 21.0 |
| | % | | 2.5 | 1.5 | 1.0 | 1.4 |
| TOTAL | \$m | 952.7 | 931.2 | 939.5 | 956.4 | 972.1 |
| | % | | -2.3 | 0.9 | 1.8 | 1.6 |

Vocational Education and Training Grants

The Commonwealth's primary funding for vocational education and training is provided to the States and territories through the Australian National Training Authority (ANTA) under the Commonwealth-State ANTA Agreement current from 1998 to 2000.

Other Vocational Education and Training

The Commonwealth also provides funds to the States to operate the Advanced English for Migrants Programme, for ANTA's operating expenses and for developing innovative approaches to vocational education and training programmes.

4.3 SCHOOLS (a)

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|--|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| Schools in the States and Territories | | | | | | |
| Government | \$m | 1283.5 | 1289.1 | 1293.4 | 1324.7 | 1360.6 |
| | % | | 0.4 | 0.3 | 2.4 | 2.7 |
| Non-Government | \$m | 2108.4 | 2243.7 | 2322.2 | 2433.8 | 2516.4 |
| | % | | 6.4 | 3.5 | 4.8 | 3.4 |
| Targeted Programmes | \$m | 398.1 | 425.5 | 393.9 | 365.6 | 369.0 |
| | % | | 6.9 | -7.4 | -7.2 | 0.9 |
| Indigenous Education Strategic Initiatives Programme | \$m | 135.0 | 118.5 | 106.0 | 86.9 | 87.5 |
| | % | | -12.2 | -10.5 | -18.0 | 0.7 |
| Other Assistance | \$m | 7.3 | 6.7 | 6.0 | 6.0 | 6.1 |
| | % | | -8.2 | -10.4 | na | 1.7 |
| TOTAL | \$m | 3932.3 | 4083.5 | 4121.4 | 4216.9 | 4339.7 |
| | % | | 3.8 | 0.9 | 2.3 | 2.9 |

(a) The majority of the outlays in "Other Assistance" have been reclassified under "Targeted Programmes" from 1998-99.

Government and Non-Government Schools

The majority of Commonwealth funding for schools is provided on a calendar year basis under the *States Grants (Primary and Secondary Education Assistance) Act 1996*. The Act provides funding for the 1997 to 2000 quadrennium and includes funding for recurrent and capital grants.

Commonwealth grants represent about 12 per cent of total spending on government schools with the balance being met by State governments either from General Purpose Grants or from their own revenue sources. About 38 per cent of total support for non-government schools is provided by the Commonwealth with the balance being met by other governments (19 per cent) and private sources (43 per cent).

Targeted Programmes

Commonwealth targeted programmes for schools are grouped into five priority areas: Literacy, Languages, Special Learning Needs, School-to-Work and Quality Outcomes. Programmes funded under these priority areas aim to enhance educational outcomes across both government and non-government schools.

For example, funding under the literacy programme assists schools to improve literacy outcomes for students from educationally disadvantaged backgrounds, including students from poor socio-economic backgrounds and those needing to improve their English language competency.

Indigenous Education Strategic Initiatives Programme

The Indigenous Education Strategic Initiatives Programme provides supplementary funding assistance to pre-schools, government and non-government school systems, TAFE authorities and independent Indigenous education providers to improve educational outcomes for Indigenous people.

Other Assistance

The Commonwealth also provides other assistance through its Framework for Open Learning programme and its Grants and Awards programme, which includes Grants in Aid, the Australian Students Prize and grants to the Asia Education Foundation, Language Australia and the Curriculum Corporation.

4.4 STUDENT ASSISTANCE

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|--|-----|---------------------|-------------------|---------------------|---------------------|---------------------|
| AUSTUDY | \$m | 1456.7 | - | - | - | - |
| | % | | -100.0 | na | na | na |
| Austudy Payment | \$m | - | 297.5 | 305.0 | 315.7 | 326.4 |
| | % | | na | 2.5 | 3.5 | 3.4 |
| ABSTUDY and Other Assistance to Aboriginals | \$m | 186.5 | 192.7 | 192.9 | 198.1 | 203.9 |
| | % | | 3.3 | 0.1 | 2.7 | 2.9 |
| Migrant Education | \$m | 96.0 | 95.0 | 83.5 | 86.2 | 82.8 |
| | % | | -1.0 | -12.1 | 3.2 | -3.9 |
| Other Assistance | \$m | 119.7 | 197.5 | 203.4 | 204.9 | 207.6 |
| | % | | 65.0 | 3.0 | 0.7 | 1.3 |
| TOTAL | \$m | 1858.8 | 782.7 | 784.7 | 804.8 | 820.7 |
| | % | | -57.9 | 0.3 | 2.6 | 2.0 |

AUSTUDY

From 1 July 1998 the new Youth Allowance will replace the AUSTUDY programme for students aged 16 to 24. For a description of the Youth Allowance see 6. *Social Security and Welfare*.

Austudy Payment

From 1 July 1998 the new Austudy Payment will replace the AUSTUDY programme for students aged 25 or over. The Austudy Payment will be administered by the Department

of Social Security under the *Social Security Act 1991*. The introduction of this payment arises from the introduction of the new Youth Allowance from 1 July 1998.

ABSTUDY and Other Assistance to Indigenous Students

ABSTUDY assists Aboriginal and Torres Strait Islander full time secondary and tertiary students and some primary school students by providing income support and other supplementary benefits tailored to their needs. Some supplementary benefits are also available to part-time students.

The Aboriginal Tutorial Assistance Scheme provides students with contracted tutorial assistance and assists the establishment and operation of homework centres. The Aboriginal Student Support and Parental Awareness programme funds school-based parents' committees to undertake activities aimed at increasing education participation. The Vocational Education Guidance for Aboriginals Scheme provides grants to conduct projects for Indigenous students and/or their parents and for prisoners in lawful custody.

Migrant Education

The Adult Migrant English Programme provides access to tuition in English as a second language for all recently arrived migrants without functional English.

Other Student Assistance

The Pensioner Education Supplement, Fares Allowances, Student Loan Supplement and the Assistance for Isolated Children (AIC) scheme also assist students. Supplementary Loans are available to tertiary students who are eligible for Youth Allowance, the Austudy Payment, ABSTUDY or the Pensioner Education Supplement. Eligible students can trade in up to \$3,500 of their grant for a Supplementary Loan of twice that amount. The interest charges are met by the Commonwealth Government. Repayments do not start for at least five years and then not until the person's taxable income exceeds average earnings.

The AIC provides financial assistance to the families of students who do not have reasonable daily access to an appropriate government school.

4.5 GENERAL ADMINISTRATION

Outlays under this subfunction consist almost entirely of running costs associated with the administration of the Education function.

5. HEALTH

NATURE OF OUTLAYS

The Health function covers outlays on facilities or services for the surveillance, prevention and treatment of human illness, setting standards for safety and efficacy of therapeutic goods and services, support for health research and the promotion of better health. Lower level residential aged care and most outlays directed towards Aboriginal and Torres Strait Islander people are classified to 6. *Social Security and Welfare*.

The major purpose of Commonwealth health outlays is to ensure that all Australians have access to necessary health services without excessive price barriers.

Universal health cover under Medicare includes subsidised medical and pharmaceutical services and public hospital services. Other Commonwealth assistance in the health area includes subsidised residential aged care services and certain allied health services (eg hearing services). Assistance is also provided through a number of tax measures (eg sales tax exemptions on a range of medical related goods and tax rebates under the private health insurance incentives).

Medical and pharmaceutical benefits under Medicare are provided directly by the Commonwealth. Financial assistance for State hospitals under the Medicare/Australian Health Care Agreements ensures public hospital patients have free shared ward accommodation and treatment for both inpatient and outpatient services.

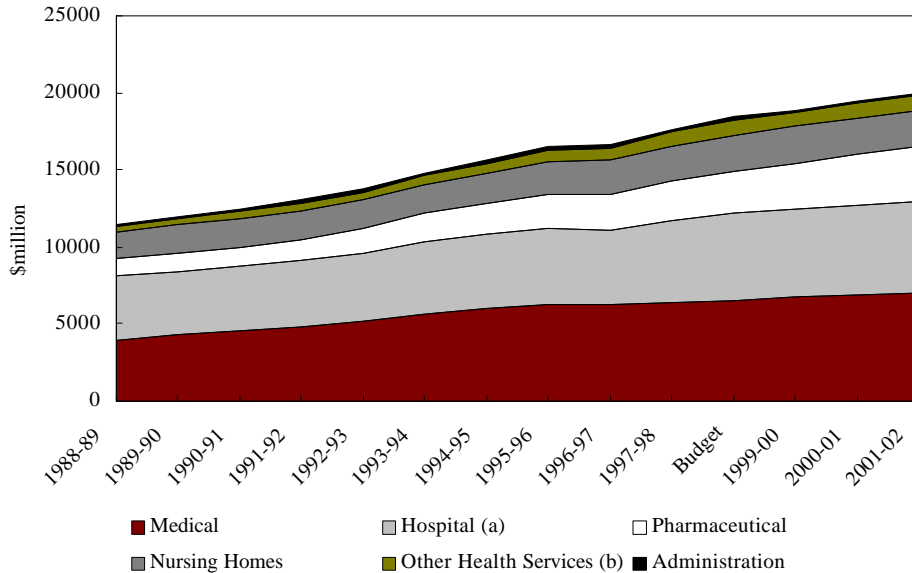
The Commonwealth promotes access of Aboriginal and Torres Strait Islander people to a range of health services through its own programmes and by working with the States in the planning and funding of mainstream health services.

The National Public Health Programme (a major component of 5.6 *Other Health Services*) provides for the promotion of better health, health research and direct responses to national health issues such as HIV/AIDS and drug abuse.

This function includes outlays from the following portfolios:

- Health and Family Services; and
- Veterans' Affairs.

**Chart 1. Overview of Commonwealth Outlays on Health
(1989-90 prices)**



TRENDS IN HEALTH OUTLAYS

Growth in Commonwealth health outlays over the decade to 1997-98 has averaged 4 per cent a year in real terms (refer Chart 1). The growth mainly reflects a steady increase in utilisation of medical services and pharmaceutical services over the period and a drift towards more costly drugs and medical services.

In the Budget and forward years, real growth in Commonwealth health outlays is expected to average 3 per cent a year. Two sub-functions mainly contribute to the lower growth. Firstly, Medical Services and Benefits are expected to record lower growth in outlays than the 10 year trend as a result of a range of measures taken over a number of years. Secondly, lower expected growth in outlays for Residential Care Subsidies and Domiciliary Care Services reflects a lower projected increase in the population over 70 years of age in the next five years. These factors will be partly offset by continuing strong outlays growth in pharmaceutical benefits. Hospital funding is expected to increase over the Budget and forward years at about the average rate for total health outlays.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 | 1998-99 | 2000-01 | 2001-02 |
|-----|--------------------------------------|------------|---------|----------|----------|
| | | Estimate | | Estimate | Estimate |
| 5.1 | Medical Services and Benefits | 7587.6 | 7961.4 | 8743.2 | 9139.9 |
| | | | 4.9 | 5.0 | 4.5 |
| 5.2 | | \$m 6092.0 | | 7058.4 | 7395.3 |
| | | % | 10.6 | 4.8 | 3.8 |
| | Pharmaceutical Services and Benefits | \$m | 3295.1 | 3710.3 | 4630.1 |
| | | % | | 12.6 | 12.2 |
| 5.4 | Nursing Home Subsidies and | 2705.1 | 2859.4 | 3045.6 | 3122.2 |
| | | % | 5.7 | 3.2 | 2.5 |
| | Aboriginal and Torres Strait | \$m | 156.1 | 157.4 | 161.5 |
| | Islander Health | | 23.0 | 0.8 | 3.7 |
| 5.6 | | \$m 935.8 | | 1000.4 | 998.8 |
| | | % | 10.9 | -0.2 | 0.8 |
| | General Administration | \$m | 227.3 | 184.3 | 184.7 |
| | | % | | -18.9 | 0.9 |
| | TOTAL | \$m | 22273.0 | 23418.7 | 25922.8 |
| | | % | | 5.1 | 5.4 |

MEDICAL SERVICES AND

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|--|-----------------------------|------------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| | Medical Benefits | \$m 6387.4 | 6523.3 | 6801.2 | 7075.6 | 7378.4 |
| | | % | 2.1 | 4.3 | 4.0 | 4.3 |
| | Health Insurance Commission | \$m 250.7 | 282.2 | 278.1 | 280.8 | 288.5 |
| | Administrative Costs | % | 12.6 | -1.5 | 1.0 | 2.7 |
| | Veterans and Dependants | \$m 637.3 | 717.5 | 805.4 | 866.9 | 929.9 |
| | | % | 12.6 | 12.3 | 7.6 | 7.3 |
| | Other Services | \$m 312.1 | 438.4 | 473.3 | 520.0 | 543.1 |
| | | % | 40.5 | 8.0 | 9.9 | 4.4 |
| | TOTAL | \$m 7587.6 | 7961.4 | 8358.0 | 8743.2 | 9139.9 |
| | | % | 4.9 | 5.0 | 4.6 | 4.5 |

The purpose of these outlays is to achieve high quality health outcomes for people by enabling access to timely and appropriate health care services at reasonable cost.

Medical Benefits

The Commonwealth provides assistance under Medicare towards the cost of out-of-hospital medical services (85 per cent of the schedule fee with a limit on the gap between the benefit and schedule fee for individual claims) and towards the cost of medical services provided to patients under private care in hospital (75 per cent of the schedule fee with no limit on the gap between the benefit and schedule fee on individual claims). A safety net applies to out-of-hospital medical services.

For medical services rendered to private patients in either public or private hospitals, registered health insurers are required to offer insurance in their hospital tables to cover the difference between 75 per cent and the full amount of the schedule fee. Insurers are not permitted to provide cover for payments above the schedule fee, unless they have an agreement with the hospital which also has an agreement with the medical practitioner providing the service.

Medical practitioners may direct-bill the Commonwealth on behalf of any patient and accept the Medicare benefit as full payment for their services.

Health Insurance Commission - Administration of Medicare Benefits

The Health Insurance Commission (HIC) is a budget-funded agency which pays Medicare benefits in respect of services listed in the Medicare Benefits Schedule to the *Health Insurance Act 1973*. Medicare benefits may be claimed through Medicare shopfronts, direct billing and also through pharmacies in some regional and metropolitan areas. Electronic claiming for patient billed services is currently being trialed through some medical practices.

Veterans and Dependants

The Commonwealth meets the costs, for eligible veterans and their dependants, of local medical officer, specialist, paramedical and dental services, the supply and maintenance of surgical aids and travelling and other expenses incurred in obtaining medical treatment.

Other Services

The largest item under this category is the General Practice Strategy designed to improve the service quality of general practice and address the structural issues contributing to growth in Medicare benefits outlays.

5.2 HOSPITAL SERVICES

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|-------------------------------------|-----|---------------------|-------------------|---------------------|---------------------|---------------------|
| Public Hospitals | \$m | 5015.5 | 5348.3 | 5589.0 | 5902.9 | 6167.7 |
| | % | | 6.6 | 4.5 | 5.6 | 4.5 |
| Veterans and Dependants | \$m | 831.9 | 1070.2 | 1159.8 | 1188.3 | 1216.0 |
| | % | | 28.6 | 8.4 | 2.5 | 2.3 |
| Private Health Insurance Incentives | \$m | 243.6 | 316.4 | 309.0 | 301.3 | 293.4 |
| | % | | 29.9 | -2.3 | -2.5 | -2.6 |
| Other Hospital Services | \$m | 1.0 | 0.7 | 0.7 | 2.8 | 0.7 |
| | % | | -30.0 | na | na | -75.0 |
| TOTAL | \$m | 6092.0 | 6734.0 | 7058.2 | 7394.8 | 7676.7 |
| | % | | 10.5 | 4.8 | 4.8 | 3.8 |

Outlays under this subfunction are designed to ensure efficient and effective delivery of hospital care under Medicare, which entitles all Australian residents to free shared ward accommodation and treatment, and free outpatient, accident and emergency treatment at public hospitals. Those electing to have 'doctor-of-choice' or private ward accommodation in a public hospital must bear the cost or take out appropriate hospital insurance cover. Since July 1997, the Commonwealth has provided incentives to people to take out private health insurance through the Private Health Insurance Incentive Programme.

Public Hospitals

To support free hospital care under Medicare, the Commonwealth provides financial assistance to the States through hospital funding agreements amounting currently to

about half the cost of public hospitals. The current Medicare Agreements cover the period 1 July 1993 to 30 June 1998 and focus on increasing public patient access and improving the efficiency and effectiveness of service delivery.

The replacement Australian Health Care Agreements are in the process of being negotiated with the States. The Commonwealth offer reflected in these estimates provides for automatic adjustments for costs of population increases, ageing of the population and changes to private health insurance. There is provision for expected increases in demand as new and better medical services become available.

Veterans and Dependants

Veterans are treated under the Repatriation Private Patient Scheme which allows them to be treated at public hospitals or private hospitals with which the Department of Veterans' Affairs has a contract. Consequently, veterans can be treated closer to home and linked into their local health care networks, rather than at specific Repatriation General Hospitals.

Private Health Insurance Incentives

The Private Health Insurance Incentives Scheme, which commenced on 1 July 1997, provides an income-tested financial incentive to families and individuals to take out and maintain private health insurance cover. The amount of incentive paid depends on the type and level of private health insurance coverage held. Recipients have the choice of claiming the incentives through their health insurance fund in the form of reduced premiums or as an income tax rebate, claimable after the end of the income year.

5.3 PHARMACEUTICAL SERVICES AND BENEFITS

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|--|-----|---------------------|-------------------|---------------------|---------------------|---------------------|
| Pharmaceutical Benefits Scheme | | | | | | |
| General | \$m | 495.9 | 528.5 | 588.3 | 661.1 | 736.9 |
| | % | | 6.6 | 11.3 | 12.4 | 11.5 |
| Concessional | \$m | 2016.3 | 2163.1 | 2421.4 | 2721.9 | 3035.2 |
| | % | | 7.3 | 11.9 | 12.4 | 11.5 |
| Sub-total | \$m | 2512.2 | 2691.7 | 3009.6 | 3383.0 | 3772.2 |
| | % | | 7.1 | 11.8 | 12.4 | 11.5 |
| Repatriation Pharmaceutical Benefits Scheme | \$m | 211.1 | 243.2 | 289.0 | 322.2 | 358.4 |
| | % | | 15.2 | 18.8 | 11.5 | 11.2 |
| Alternative Arrangements for the Supply of Drugs | \$m | 283.8 | 314.1 | 363.9 | 407.3 | 451.9 |
| | % | | 10.7 | 15.9 | 11.9 | 11.0 |
| Pharmacy Restructuring | \$m | 7.5 | 11.5 | 11.7 | 11.6 | 9.0 |
| | % | | 53.3 | 1.7 | -0.9 | -22.4 |
| Health Insurance Commission Administrative Costs | \$m | 37.0 | 34.6 | 36.1 | 37.3 | 38.7 |
| | % | | -6.5 | 4.3 | 3.3 | 3.8 |
| TOTAL | \$m | 3051.7 | 3295.1 | 3710.3 | 4161.4 | 4630.1 |
| | % | | 8.0 | 12.6 | 12.2 | 11.3 |

Through Pharmaceutical Services and Benefits, the Commonwealth aims to ensure access by the Australian community to necessary, cost-effective medicines at the lowest cost to Government and consumers, consistent with reliable supply.

Pharmaceutical Benefits Scheme and the Repatriation Pharmaceutical Benefits Scheme

Under the Pharmaceutical Benefits Scheme (PBS), the Commonwealth provides assistance towards the cost of pharmaceuticals. Concessional patients (pensioners, the unemployed and low income families) are entitled to a higher subsidy than the general public. A safety net applies to both the general public and concessionals on a calendar year basis.

Under the Repatriation Pharmaceutical Benefits Scheme (RPBS), beneficiaries (veterans with recognised war or service related disabilities) have access to both pharmaceuticals under the PBS and a supplementary Repatriation list, at the same cost as patients entitled to the concessional payment.

Patient contributions and safety net levels are indexed annually in accordance with movements in the Consumer Price Index (CPI).

The Commonwealth presently has an agreement with retail pharmacies under which pharmacists are approved to supply benefits under these schemes, and remuneration levels for pharmacists in respect of pharmaceutical benefits are determined.

Alternative Arrangements for the Supply of Drugs

In certain circumstances, some pharmaceuticals are not suitable for the normal supply arrangements under the PBS and alternative arrangements are made. These include:

- supply of influenza vaccine free of charge through doctors and targeted to older Australians;
- human growth hormone which is supplied free of charge through doctors, mainly paediatricians;
- selected highly specialised drugs (including drugs for the treatment of HIV/AIDS), which are supplied by States through hospitals to outpatients as they require administration via specialised hospital clinics. The Commonwealth funds the costs of these drugs through grants to the States, with additional costs met by patient contributions; and
- some essential vaccines will be provided free of charge through doctors and other immunisation providers as part of the Immunise Australia Programme in the broadbanded National Public Health Programme.

Health Insurance Commission - Administration of Pharmaceutical Benefits

The Health Insurance Commission (HIC) administers the PBS. It reimburses pharmacists for the difference between the Commonwealth price of pharmaceuticals and patient contributions. It also undertakes measures to ensure that benefits are supplied correctly and only to eligible people.

5.4 RESIDENTIAL CARE SUBSIDIES AND DOMICILIARY CARE SERVICES

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|--|-----|---------------------|-------------------|---------------------|---------------------|---------------------|
| Residential Care Subsidies for the Aged (High Care Needs) | \$m | 2238.0 | 2261.7 | 2309.6 | 2373.5 | 2425.8 |
| | % | | 1.1 | 2.1 | 2.8 | 2.2 |
| Nursing Care for Veterans and Dependants | \$m | 249.3 | 342.4 | 345.6 | 348.1 | 350.7 |
| | % | | 37.3 | 0.9 | 0.7 | 0.7 |
| Domiciliary Nursing Care Benefit | \$m | 71.6 | 98.6 | 129.9 | 146.7 | 155.3 |
| | % | | 37.7 | 31.7 | 12.9 | 5.9 |
| Home Nursing Service | \$m | 146.3 | 156.7 | 164.9 | 177.2 | 190.4 |
| | % | | 7.1 | 5.2 | 7.5 | 7.4 |
| TOTAL | \$m | 2705.1 | 2859.4 | 2950.0 | 3045.6 | 3122.2 |
| | % | | 5.7 | 3.2 | 3.2 | 2.5 |

The Commonwealth provides funding for aged persons living in residential care facilities and receiving care in the community. In 1997-98 nursing homes and hostels were brought together under one set of arrangements for residential care. The outlays shown here relate to the higher levels of care provided by services previously classified as nursing homes. Hostel-type facilities and community based care funding are covered under 6. *Social Security and Welfare*.

Access to residential care services and Community Aged Care Packages follows identification of care needs by Aged Care Assessment Teams which are administered by the States with recurrent funding provided by the Commonwealth.

Residential Care Subsidies for the Aged (High Care Needs)

The Commonwealth pays subsidies for residents of aged care facilities, based on their care needs. All residents pay a basic daily fee. Those residents who enter care from 1 March 1998 may be asked to pay an additional income tested fee, depending on their income and level of care, and this reduces the subsidy paid by the Commonwealth. The subsidies and fees in combination provide for the nursing and personal care costs of residents.

An accommodation charge was introduced from November 1997 for new residents entering nursing home level care. This charge will provide the principal funding source for the construction, extension and upgrading of these facilities.

Nursing Care for Veterans and Dependants

Nursing care for veterans and dependants is funded through the Department of Veterans' Affairs. Funds are made available to the Department of Health and Family Services which acts as the agent in making payments.

Domiciliary Nursing Care Benefit

The Commonwealth pays a fortnightly benefit (adjusted by the Consumer Price Index each January) to eligible persons who provide care at home for persons aged 16 years or more who would otherwise be eligible for a high level of residential care. Domiciliary Nursing Care Benefit will be combined with the Child Disability Allowance and renamed Carer Allowance. This new payment will be delivered by Centrelink.

Home Nursing Service

Home nursing services are part of a range of services offered through the Home and Community Care programme. Others include respite care, home help and dementia projects (see also 6. *Social Security and Welfare*).

5.5 ABORIGINAL AND TORRES STRAIT ISLANDER HEALTH

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|---|-----|---------------------|-------------------|---------------------|---------------------|---------------------|
| Aboriginal and Torres Strait Islander Health | \$m | 126.9 | 156.1 | 157.4 | 155.8 | 161.5 |
| | % | | 23.0 | 0.8 | -1.0 | 3.7 |
| TOTAL | \$m | 126.9 | 156.1 | 157.4 | 155.8 | 161.5 |
| | % | | 23.0 | 0.8 | -1.0 | 3.7 |

The Commonwealth funds a network of community controlled primary health care services for Aboriginal and Torres Strait Islander people. Commonwealth funding also supports a range of specialist services, including mental health, sexual health and hearing services. These services complement mainstream health services. The Commonwealth works with the States and other stakeholders in the planning and funding of mainstream and Aboriginal and Torres Strait Islander specific health services to ensure Indigenous Australians have access to necessary services.

5.6 OTHER HEALTH SERVICES

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|--|-----|---------------------|-------------------|---------------------|---------------------|---------------------|
| Health Research | \$m | 169.3 | 194.2 | 179.5 | 183.4 | 185.0 |
| | % | | 14.7 | -7.6 | 2.2 | 0.9 |
| Health Promotion and Disease Prevention | \$m | 276.5 | 345.8 | 333.0 | 338.2 | 336.4 |
| | % | | 25.1 | -3.7 | 1.6 | -0.5 |
| Health Support Services | \$m | 432.1 | 439.3 | 455.0 | 465.6 | 473.9 |
| | % | | 1.7 | 3.6 | 2.3 | 1.8 |
| Other | \$m | 58.0 | 58.6 | 33.0 | 11.6 | 11.4 |
| | % | | 1.0 | -43.7 | -64.8 | -1.7 |
| TOTAL | \$m | 935.8 | 1037.9 | 1000.4 | 998.8 | 1006.6 |
| | % | | 10.9 | -3.6 | -0.2 | 0.8 |

The Commonwealth, in partnership with other levels of government and the non-government sector, aims to support an improvement in the health of all Australians and help reduce the health disparities between social groups.

Health Research

Commonwealth support for health research activities includes funding for health and medical research administered by the National Health and Medical Research Council. Funding is also provided for the Australian Institute of Health and Welfare and for capital works at medical research institutes.

Health Promotion and Disease Prevention

The bulk of funding under the National Public Health Programme, provided as both Commonwealth own-purpose outlays and Specific Purpose Payments, is for public

health activities aimed at promoting and protecting the health of all Australians, and minimising the incidence and severity of preventable illness, injury and disability. Under the Public Health Outcome Funding Agreements, the specific purpose payments for eight Public Health Programme areas have been broadbanded into a single specific purpose payment.

The Commonwealth's role in public health is to provide national coordination and leadership in research and information, education campaigns, service delivery, evaluation and redevelopment of legislation, and public health education and training. Particular focus is given to the Government's identified core public health priority areas of childhood immunisation, HIV/AIDS and related diseases, the national drug strategy, cancer control and injury prevention.

The National Youth Suicide Prevention Strategy provides funding for counselling services, information programmes, education and research. The Commonwealth also provides funding under the National Mental Health Strategy to accelerate the transfer of mental health services out of stand-alone psychiatric institutions into the acute hospital and community care systems, and for innovative mental health projects of national significance.

Health Support Services

These services include:

- provision of a range of blood products from Australian sourced plasma, through a commercial contract with CSL Limited;
- operating and capital costs of the Red Cross Society's Blood Transfusion Service which are shared by the States and the Commonwealth;
- health support services under the National Rural and Remote Health Support programme:
 - aero-medical services to rural and remote communities by the Royal Flying Doctor Service;
 - training of medical professionals under the Advanced Specialist Training Post programme and university departments of rural health;
 - innovative delivery of health services to rural and remote communities, and
 - rural health research;
- the provision of a range of hearing services to eligible pensioners and all people under the age of 21 years. On 1 November 1997, consumer choice in hearing services increased through the introduction of the Hearing Services Voucher system. The voucher system entitles eligible pensioners to subsidised hearing services through the Australian Hearing Services (AHS) and private sector providers. AHS continues to provide hearing services to people under the age of 21 years;

- the Therapeutic Goods Administration (TGA), which is responsible for ensuring the safety and effectiveness of therapeutic goods available in Australia. The TGA currently recovers a large proportion of its costs from the therapeutic goods industry. This will increase to 100 per cent from 1 July 1998; and
- the development and maintenance of appropriate food standards for Australia and New Zealand by the Australia New Zealand Food Authority.

5.7 GENERAL ADMINISTRATION

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|--|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| Department of Health and Family Services | \$m | 201.0 | 196.2 | 154.1 | 155.2 | 153.3 |
| | % | | -2.4 | -21.5 | 0.7 | -1.2 |
| Department of Veterans' Affairs | \$m | 34.1 | 31.1 | 30.2 | 30.8 | 31.3 |
| | % | | -8.8 | -2.9 | 2.0 | 1.6 |
| TOTAL | \$m | 235.1 | 227.3 | 184.3 | 186.0 | 184.7 |
| | % | | -3.3 | -18.9 | 0.9 | -0.7 |

Outlays under this subfunction comprise part of the general administrative and capital expenses of the Department of Health and Family Services (DHFS) and the Department of Veterans' Affairs.

Department of Health and Family Services

This item comprises a proportion of the operating costs of DHFS. The balance of the operating costs of DHFS is classified under *6. Social Security and Welfare*.

6. SOCIAL SECURITY AND WELFARE

NATURE OF OUTLAYS

Most social security assistance is provided in the form of benefits paid directly to recipients and/or families who satisfy eligibility criteria. Payments are generally indexed to movements in the Consumer Price Index to maintain their real value. In addition, the maximum single rate of pension is maintained at 25 per cent of Male Total Average Weekly Earnings, with associated flow-ons to the married rate of pension and the above minimum rate of Family Allowance.

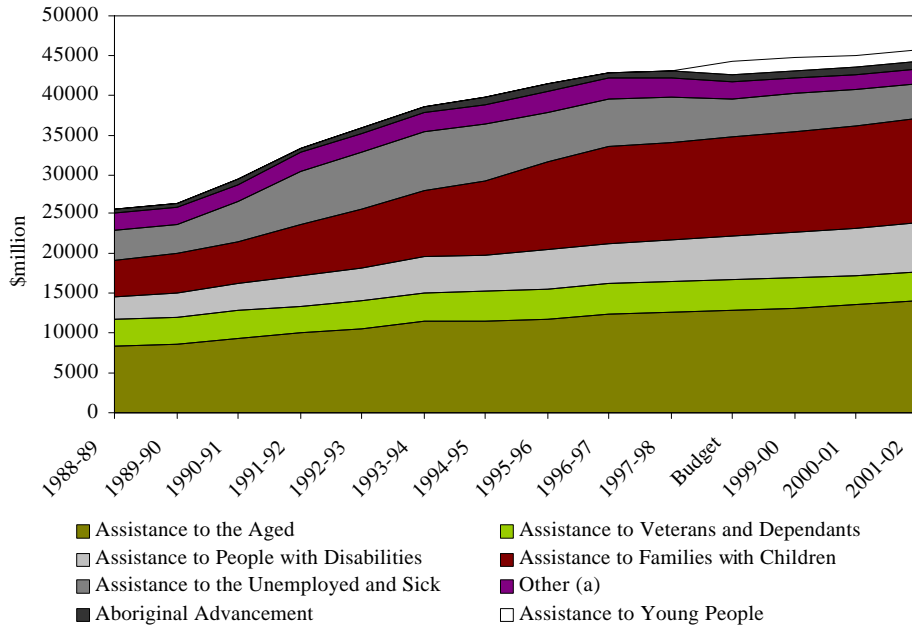
This function also includes funding for a wide range of welfare services for people with special needs. Social security and welfare assistance is provided through the Commonwealth Service Delivery Agency, Centrelink, or through other Commonwealth, State and local government authorities and voluntary agencies. It includes services to the aged and people with disabilities, a variety of child care services and advancement programmes for Aboriginal and Torres Strait Islander peoples.

Not included under this function is assistance provided indirectly through the personal income tax system. This assistance includes concessional income tax rebates for pensioners and beneficiaries; dependent spouse rebates, family tax assistance and sole parent rebates which mainly assist low to middle income families; and deductions allowed for gifts to certain welfare bodies which provide indirect assistance to the organisations concerned. Details of these are provided in the *Tax Expenditures Statement 1996-97* released by the Treasury in December 1997.

This function mainly includes outlays of the following portfolios:

- Social Security;
- Veterans' Affairs;
- Health and Family Services;
- Treasury;
- Immigration and Multicultural Affairs;
- Transport and Regional Development;
- Employment, Education, Training and Youth Affairs; and
- Prime Minister and Cabinet (Aboriginal and Torres Strait Islander Affairs).

Chart 1. Overview of Commonwealth Outlays on Social Security (1989-90 prices)



(a) 'Other' includes Other Welfare Programmes; General Administration; and Recoveries and Repayments

TRENDS IN SOCIAL SECURITY AND WELFARE OUTLAYS

Priorities within the Social Security and Welfare function have over time moved away from universal provision of benefits towards means tested benefits targeted to those most in need. At the same time, measures have been introduced to increase the adequacy of payments and to enhance incentives for self-help.

Policy changes have sought to:

- improve incentives for people to meet their own needs by better utilising their assets and maximising their private income;
- provide an additional benchmark for pension adjustment by maintaining the maximum single rate of pension at 25 per cent of Male Total Average Weekly Earnings;
- provide for spending in areas of greatest need, for example, increased assistance to families with children, focusing in particular on low income families;
- rationalise and simplify income support payments through the introduction of Youth Allowance and the Parenting Payment;

- improve the flexibility of the Child Support Scheme and provide greater equity within the payment structure for parents and more regular financial support for children;
- minimise incorrect payment of entitlements through initiatives such as data matching between the Department of Social Security and the Australian Taxation Office and measures to tighten administration of the activity test for receipt of Newstart Allowance;
- encourage sole parents and the unemployed to enter or re-enter the labour market, particularly through the provision of assistance for child care, and the introduction of specific programmes for the long-term unemployed, the young unemployed and sole parents; and
- improve the workforce attachment of people with disabilities and make better provision for their carers.

The major factors contributing to growth in outlays over the past decade have been the indexation of pensions and benefits, growth in client numbers in demand driven programmes, and changes in outlays resulting from Government policy initiatives.

The main contributors to this growth were:

- increases in the real level of assistance, such as higher rates of payment and the introduction of supplementary payments for clients such as families with children; and
- an increase in client numbers, particularly among the aged and people with disabilities.

Over the budget and forward years the outlays expected to contribute most to growth are:

- assistance to the aged (mainly due to maintaining the single rate of pension at 25 per cent of Male Total Average Weekly Earnings);
- assistance to families with children (including the Family Tax Payment component of the Family Tax Initiative and child care assistance); and
- assistance to people with disabilities.

The apparent decline in unemployment outlays over the forward years largely reflects the transfer of the young unemployed to the new Youth Allowance payment. Youth Allowance, which also includes significant funding which previously appeared under the Education Function, is shown in the new subfunction *6.6 Assistance to Young People*.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|------|--|-------------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| 6.1 | Assistance to the Aged | \$m 14767.8 | 15654.9 | 16326.8 | 17342.0 | 18470.8 |
| | % | | 6.0 | 4.3 | 6.2 | 6.5 |
| 6.2 | Assistance to Veterans and Dependants | \$m 4507.6 | 4563.4 | 4639.2 | 4682.9 | 4715.3 |
| | % | | 1.2 | 1.7 | 0.9 | 0.7 |
| 6.3 | Assistance to People with Disabilities | \$m 6263.5 | 6740.1 | 7235.9 | 7562.7 | 7964.9 |
| | % | | 7.6 | 7.4 | 4.5 | 5.3 |
| 6.4 | Assistance to Families with Children | \$m 14305.8 | 14845.2 | 15708.7 | 16425.0 | 17155.5 |
| | % | | 3.8 | 5.8 | 4.6 | 4.4 |
| 6.5 | Assistance to the Unemployed and Sick | \$m 6760.7 | 5853.1 | 5784.4 | 5624.9 | 5569.9 |
| | % | | -13.4 | -1.2 | -2.8 | -1.0 |
| 6.6 | Assistance to Young People | \$m - | 1994.3 | 1975.6 | 1969.9 | 1990.7 |
| | % | | na | -0.9 | -0.3 | 1.1 |
| 6.7 | Other Welfare Programmes | \$m 967.9 | 918.3 | 910.5 | 914.0 | 944.6 |
| | % | | -5.1 | -0.8 | 0.4 | 3.3 |
| 6.8 | Aboriginal Advancement Programmes nec | \$m 1057.9 | 1119.2 | 1153.1 | 1176.4 | 1203.3 |
| | % | | 5.8 | 3.0 | 2.0 | 2.3 |
| 6.9 | General Administration | \$m 1843.6 | 1836.2 | 1615.8 | 1604.7 | 1613.6 |
| | % | | -0.4 | -12.0 | -0.7 | 0.6 |
| 6.10 | Recoveries and Repayments | \$m -55.0 | -66.7 | -65.8 | -65.8 | -65.8 |
| | % | | 21.3 | -1.3 | na | na |
| | TOTAL | \$m 50419.9 | 53458.1 | 55284.3 | 57236.8 | 59562.7 |
| | % | | 6.0 | 3.4 | 3.5 | 4.1 |

6.1 ASSISTANCE TO THE AGED

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|--|---|-------------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| | Age Pension and Allowances | \$m 13400.4 | 14136.4 | 14662.4 | 15523.2 | 16502.5 |
| | % | | 5.5 | 3.7 | 5.9 | 6.3 |
| | Residential Care Subsidies for the Aged (Low Care Needs) | \$m 694.1 | 722.5 | 757.6 | 798.9 | 845.3 |
| | % | | 4.1 | 4.9 | 5.5 | 5.8 |
| | Home and Community Care and Community Aged Care Packages | \$m 456.0 | 519.0 | 575.9 | 640.3 | 705.6 |
| | % | | 13.8 | 11.0 | 11.2 | 10.2 |
| | Partner Allowance | \$m 217.4 | 277.0 | 330.9 | 379.6 | 417.3 |
| | % | | 27.4 | 19.5 | 14.7 | 9.9 |
| | TOTAL | \$m 14767.8 | 15654.9 | 16326.8 | 17342.0 | 18470.8 |
| | % | | 6.0 | 4.3 | 6.2 | 6.5 |

Outlays provide income support for aged people and their dependants, residential care for those aged people who are unable to live at home but who do not require intensive nursing care, and community care alternatives for those frail aged and younger people with a disability for whom long-term residential accommodation would be inappropriate.

Age Pension and Allowances

Age Pension is payable to women aged 61 years and over (increasing to 65 years by 2014) and to men aged 65 years and over, subject to residency requirements and income and assets tests. Pensioners may also qualify for Rent Assistance if they are renting privately.

Residential Care Subsidies for the Aged (Low Care Needs)

The Commonwealth pays subsidies for personal care and respite care for aged or disabled persons in approved residential care facilities. In 1997-98, nursing homes and hostels were brought together under one set of residential care service arrangements. The expenditures shown here are those related to the lower levels of personal care provided by services previously known as hostels. Funding for more intensive assistance is shown under the Health Function (see *5.4 Residential Care Subsidies and Domiciliary Care Services*).

Home and Community Care and Community Aged Care Packages

The Commonwealth, in conjunction with the States, funds a range of services for frail aged, and younger people with a disability who are at risk of institutionalisation, to enable them to continue to live in their own homes. Funding for Home and Community Care (HACC) is shared with the States (see also *5.4 Residential Care Subsidies and Domiciliary Care Services*). The level of Commonwealth funds made available for the HACC programme each year increases by six per cent (in real terms), with some adjustment of this rate for expected changes in the level of user charging. Funding for Community Aged Care Packages is growing at an even higher rate, as the number of packages grows towards the target of 10 per thousand people aged 70 and over.

Partner Allowance

Partner Allowance is paid to partners of pensioners and allowees born on or before 1 July 1955 who have no recent workforce experience and no dependent children (see *6.5 Assistance to the Unemployed and Sick* for information on allowees). Wife Pension is paid to the wife of a pensioner if the wife does not receive a pension in her own right. There have been no new grants of Wife Pension since 1 July 1995.

6.2 ASSISTANCE TO VETERANS AND DEPENDANTS

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|---|-----|---------------------|-------------------|---------------------|---------------------|---------------------|
| Disability Pensions and Allowances and War Widows' Pension | \$m | 1896.9 | 1991.6 | 2091.0 | 2174.7 | 2254.2 |
| | % | | 5.0 | 5.0 | 4.0 | 3.7 |
| Service Pensions | \$m | 2588.4 | 2558.0 | 2537.3 | 2500.0 | 2451.9 |
| | % | | -1.2 | -0.8 | -1.5 | -1.9 |
| Other | \$m | 22.3 | 13.8 | 10.9 | 8.2 | 9.2 |
| | % | | -38.1 | -21.0 | -24.8 | 12.2 |
| TOTAL | \$m | 4507.6 | 4563.4 | 4639.2 | 4682.9 | 4715.3 |
| | % | | 1.2 | 1.7 | 0.9 | 0.7 |

These outlays provide income support and compensation, in the form of pensions, to veterans and their dependants for incapacity or death resulting from war or defence service. The number of veterans is declining, resulting in reduced outlays on Service Pensions. However, due to veterans' increased mortality and worsening of their war-caused disabilities, outlays on War Widows' Pensions and on Disability Pensions and Allowances are increasing.

For other significant outlays on veterans see *5. Health*.

Disability Pensions and Allowances and War Widows' Pension

Disability pensions and allowances are paid to ex-service men and women for service-related incapacities at rates which vary with the level of incapacity. War Widows' Pension is payable to the widow(er)s of veterans, peacekeepers, mariners and defence personnel whose death was service-related (and in certain other limited circumstances). Disability Pension and Allowances and War Widows' Pension are not subject to personal income tax or income and assets tests.

Service Pensions

These are payable to veterans who have qualifying service, and are of qualifying age (56 years for women, increasing to age 60 by 2014, and 60 years for men), or who are incapacitated for work. Service Pension carries the same rates and range of additional payments as the Age Pension. It also has the same income test as the Age Pension, except that any Disability Pension and related allowances received are not regarded as income for these purposes.

Other

This item includes grants to veterans' associations and to community groups in relation to non-institutional care and hostel accommodation for veterans.

6.3 ASSISTANCE TO PEOPLE WITH DISABILITIES

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|---|-----|---------------------|-------------------|---------------------|---------------------|---------------------|
| Disability Support Pension and Allowances | \$m | 5559.1 | 5989.4 | 6468.8 | 6766.1 | 7142.9 |
| | % | | 7.7 | 8.0 | 4.6 | 5.6 |
| Other Payments to People with Disabilities | \$m | 44.4 | 47.5 | 51.7 | 55.7 | 59.9 |
| | % | | 7.0 | 8.8 | 7.7 | 7.5 |
| Disability and Rehabilitation Services | \$m | 660.0 | 703.2 | 715.4 | 740.9 | 762.0 |
| | % | | 6.5 | 1.7 | 3.6 | 2.8 |
| TOTAL | \$m | 6263.5 | 6740.1 | 7235.9 | 7562.7 | 7964.9 |
| | % | | 7.6 | 7.4 | 4.5 | 5.3 |

These outlays provide means tested income support to people with disabilities as well as partners, parents and other carers of people with disabilities, assistance with labour force related transport costs, and services which increase the independence and employment opportunities of people with disabilities. Payments are made to the States under the Commonwealth State Disability Agreement (CSDA) for accommodation and related services, and directly to non-government agencies for employment and related services.

Disability Support Pension and Allowances

Eligibility for the Disability Support Pension requires a minimum level of medical impairment and a continuing inability to work full-time or to undertake educational or vocational training within the following two years. Disability support pensioners may be assessed with a view to their undertaking suitable training, rehabilitation or job search (where appropriate), to increase their chances of employment.

Other Payments to People with Disabilities

The main payment under this item is Mobility Allowance, which is payable to people with a disability who are in employment, vocational training, a combination of work or training, or voluntary work and who are unable to use public transport without substantial assistance. In December 1997 the Government announced a clarification of policy, putting beyond doubt that payment of Mobility Allowance could be made to participants undertaking independent living skills training.

Disability and Rehabilitation Services

The CSDA defines the roles and responsibilities of the Commonwealth and the States for service provision. The States provide accommodation support and related services with funding assistance from the Commonwealth through Specific Purpose Payments. Assistance directed at helping people with a disability to gain employment is provided by the Commonwealth under this agreement through the Disability Services Programme. The Commonwealth Rehabilitation Service (CRS) provides vocational rehabilitation programmes to people with disabilities who are of working age. In December 1997 the Government announced that the CRS will be established as a company limited by shares during 1998, as a preliminary step to the introduction of competition for these services. Once competition is introduced, a wider choice of rehabilitation services is likely to become available to prospective clients.

6.4 ASSISTANCE TO FAMILIES WITH CHILDREN

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|-------------------------------------|-----|---------------------|-------------------|---------------------|---------------------|---------------------|
| Family Allowance | \$m | 6383.9 | 6512.1 | 6742.6 | 7053.0 | 7326.0 |
| | % | | 2.0 | 3.5 | 4.6 | 3.9 |
| Sole Parent Pensions and Allowances | \$m | 2230.4 | - | - | - | - |
| | % | | -100.0 | na | na | na |
| Parenting Allowance | \$m | 1577.5 | - | - | - | - |
| | % | | -100.0 | na | na | na |
| Parenting Payment | \$m | 1458.7 | 5578.8 | 6012.1 | 6316.6 | 6664.7 |
| | % | | na | 7.8 | 5.1 | 5.5 |
| Family Tax Payment | \$m | 560.2 | 577.0 | 582.8 | 581.5 | 584.9 |
| | % | | 3.0 | 1.0 | -0.2 | 0.6 |
| Other Child Payments | \$m | 249.4 | 255.0 | 281.9 | 301.6 | 320.3 |
| | % | | 2.2 | 10.5 | 7.0 | 6.2 |
| Maternity Allowance | \$m | 193.5 | 182.3 | 232.5 | 232.7 | 233.8 |
| | % | | -5.8 | 27.5 | 0.1 | 0.5 |
| Child Care | \$m | 973.7 | 1037.9 | 1129.8 | 1187.7 | 1267.1 |
| | % | | 6.6 | 8.9 | 5.1 | 6.7 |
| Other | \$m | 678.6 | 702.2 | 727.0 | 752.0 | 758.6 |
| | % | | 3.5 | 3.5 | 3.4 | 0.9 |
| TOTAL | \$m | 14305.8 | 14845.2 | 15708.7 | 16425.0 | 17155.5 |
| | % | | 3.8 | 5.8 | 4.6 | 4.4 |

Outlays under this subfunction are mainly to ensure that families with children receive financial assistance towards the support of their children. Assistance is also provided to sole parents in recognition of the difficulties they face in combining responsibility for dependent children with paid employment, and of the additional cost of children in sole parent families.

Family Allowance

Family Allowance (formerly Family Payment) is a non-taxable means tested payment to families with children under 16 years of age and dependent secondary students up to 18 years of age (if they do not receive an education payment). A higher rate Family Allowance is paid for each child to families with lower incomes and a minimum rate Family Allowance is paid to families with higher incomes (for example, to families with incomes up to \$65,941 a year with one child). The higher rate varies according to age of children as well as other family circumstances. (Low income recipients may also qualify for additional payment such as Rent Assistance and/or Guardian Allowance.)

Sole Parent Pensions and Allowances and Parenting Allowance

Sole Parent Pension and Parenting Allowance were subsumed into Parenting Payment on 20 March 1998.

Parenting Payment

Parenting Payment (PP) is available to sole and partnered parents caring for children under 16 years of age. However a sole parent who is caring for a child over 16 years of age in receipt of a Child Disability Allowance is also eligible for PP.

Sole parents receive single rate PP which is taxable. Members of a couple (of which only one can claim PP) receive partnered rate PP which is made up of two components. The basic component of partnered rate PP is non-taxable and is subject to an income test on the claimant's income only. The additional component of partnered rate PP is a taxable payment which supplements the basic PP and is subject to income tests on both partners' income.

Family Tax Payment

The Family Tax Initiative provides additional assistance to families with children through tax concessions (Family Tax Assistance), or fortnightly cash payments (Family Tax Payment) for low income families, subject to a family income test.

Family Tax Payment is paid as a non-taxable payment to families with dependent children up to the age of 16 years and in certain circumstances dependent secondary students up to 18 years of age. It is available as a fortnightly cash payment to all families whose taxable income entitles them to the higher rate of Family Allowance and/or basic partnered rate Parenting Payment.

Other Child Payments

This item covers outlays on Child Disability Allowance and Double Orphan Pension. (Double Orphan Pension is paid to a person who has care of a child whose parents have both died, and in certain other limited circumstances). These non-means tested, non-taxable payments are made fortnightly with Family Allowance.

From 1 July 1999 Child Disability Allowance will be combined with the Domiciliary Nursing Care Benefit and renamed Carer Allowance.

Maternity Allowance

Maternity Allowance is a non-taxable lump sum amount paid on the birth of a child to families who meet the eligibility requirements for Family Allowance. Maternity Allowance is paid in two instalments, one upon the birth of a child, and a further instalment at 18 months, receipt of which is linked to the immunisation of the child.

Child Care

The main forms of Commonwealth assistance for child care are:

- income tested Childcare Assistance for eligible families using approved services including long day care centres, Commonwealth family day care schemes, occasional care services and outside school hours care services. To ensure assistance is targeted to working parents, Childcare Assistance for non-work related care has been limited to 20 hours per week per child, from 27 April 1998;
- a Childcare Cash Rebate for families using formal or informal child care for work-related purposes;
- operational subsidies to support family day care services and subsidies for community based long day care centres and outside school hours care services in disadvantaged areas, primarily those in rural and remote locations;
- child care for parents participating in the Jobs Education and Training (JET) programme;
- capital funding to support non-profit community based services; and
- funding to assist other special needs groups.

There will continue to be real growth in the child care outlays through the payment of child care subsidies to eligible families (see table below). The growth rate has been influenced by the introduction of a planning system which will ensure child care is located where it is most needed. This, combined with changed patterns of demand, has led to a more moderate estimate of the growth in child care outlays than in previous years.

Child Care - Outlays by Funding Type

| | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|--|--------------|---------------|---------------|---------------|---------------|
| | \$m | \$m | \$m | \$m | \$m |
| Childcare Assistance | 639.3 | 703.6 | 794.4 | 858.4 | 929.0 |
| Childcare Cash Rebate | 123.0 | 131.2 | 146.1 | 146.8 | 153.6 |
| Operational Subsidies | 94.7 | 93.9 | 95.4 | 96.6 | 99.3 |
| Child care for eligible parents undergoing JET | 5.2 | 9.6 | 10.0 | 10.1 | 10.3 |
| Capital Funding | 14.7 | 26.0 | 16.1 | 5.8 | 3.3 |
| Other (a) | 96.8 | 73.6 | 67.8 | 70.0 | 71.6 |
| TOTAL | 973.7 | 1037.9 | 1129.8 | 1187.7 | 1267.1 |

(a) Mainly payment for special services, supplementary services, programme support, accreditation and innovative service strategy.

Other

Outlays provided for the Child Support Agency (CSA) within the Australian Taxation Office include expected payments from the Child Support Trust Account to parents with custody of children. Child Support payments collected from non-custodial parents are paid into this Trust Account and are classified as revenue.

Funding is also provided to the Australian Institute of Family Studies for research into matters affecting family well-being.

6.5 ASSISTANCE TO THE UNEMPLOYED AND SICK

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|--------------------|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| Newstart Allowance | \$m | 6345.8 | 5437.6 | 5359.4 | 5195.1 | 5130.1 |
| | % | | -14.3 | -1.4 | -3.1 | -1.3 |
| Sickness Allowance | \$m | 94.6 | 88.2 | 89.6 | 90.1 | 92.4 |
| | % | | -6.8 | 1.6 | 0.6 | 2.6 |
| Partner Allowance | \$m | 320.3 | 327.2 | 335.4 | 339.7 | 347.5 |
| | % | | 2.2 | 2.5 | 1.3 | 2.3 |
| TOTAL | \$m | 6760.7 | 5853.1 | 5784.4 | 5624.9 | 5569.9 |
| | % | | -13.4 | -1.2 | -2.8 | -1.0 |

Income support is provided to persons who are unemployed, or unable to work because of temporary incapacity, and who have limited alternative means of support. The decline in outlays for Newstart Allowance and Sickness Allowance in 1998-99 largely reflects the transfer of the young unemployed to the new Youth Allowance payment (involving outlays of around \$750 million).

Newstart Allowance

Newstart Allowance (NSA) is available to men and women aged from 21 years up to Age Pension age who are unemployed, actively seeking, and willing to take up any suitable work. Partners of recipients are required to test their eligibility for a payment in their own right. The aim of NSA is to support and require job search, training and other activity obligations designed to overcome difficulties in returning to work.

Other payments included under Newstart Allowance in the above table are the Mature Age Allowance and until June 1998 the Youth Training Allowance (YTA). The Mature Age Allowance allows unemployed people aged from 60 to Age Pension age, who have no recent workforce experience, to transfer to an allowance with no job search requirements. YTA is currently paid to young unemployed people under the age of 18 years, but above minimum school leaving age, who are undertaking approved education, training or job search activities.

From July 1998 YTA will be merged into a new payment called Youth Allowance that will also replace NSA for those aged under 21 years old and AUSTUDY for students aged under 25 years (see 6.6 *Assistance to Young People*).

Sickness Allowance

Sickness Allowance is paid to people who are employed (or studying full-time) and have suffered a loss of income due to temporary illness or incapacity. Sickness Allowance payments are generally limited to 12 months.

Partner Allowance

Partner Allowance is paid to partners of income support allowance recipients who were born on or before 1 July 1955, who have no dependent children aged under 16 years and have no recent workforce experience.

6.6 ASSISTANCE TO YOUNG PEOPLE

| | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|----------------------------|----------|---------|----------|----------|----------|
| | Estimate | Budget | Estimate | Estimate | Estimate |
| Assistance to Young People | \$m | - | 1994.3 | 1975.6 | 1969.9 |
| | % | na | -0.9 | -0.3 | 1.1 |

Outlays under this subfunction provide means tested income support to young people.

Youth Allowance

Youth Allowance is an income support payment for students under 25 years of age and for the unemployed under 21 years of age. Youth Allowance commences on 1 July 1998 and will replace AUSTUDY for students under 25 years of age; Youth Training, Newstart and Sickness Allowance for under 21 year olds; and the higher rate Family Allowance for secondary students aged 16-18 years. All young people receiving Youth Allowance will be subject to parental means tests unless considered independent. Youth Allowance will extend rent assistance to students living away from home and abolish the minimum payment threshold of \$1,000 a year for students.

Of payments for 1998-99, approximately 60 per cent comprise the transfer of AUSTUDY for students under 25 years of age (around \$1,250 million) with the balance of around \$750 million reflecting the transfer of Youth Training, Newstart and Sickness Allowances for those under 21 years of age.

Prior to July 1998, assistance to students under 25 years of age was shown under the Education Function (see 4.4 *Student Assistance*) and payments to Youth Training, Newstart and Sickness allowees under 21 years of age were shown under 6.5 *Assistance to the Unemployed and Sick*.

6.7 OTHER WELFARE PROGRAMMES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| Special Benefit | \$m | 103.8 | 98.0 | 104.5 | 106.2 | 109.4 |
| | % | | -5.6 | 6.6 | 1.6 | 3.0 |
| Other Assistance to Widows | \$m | 331.0 | 326.3 | 318.5 | 334.3 | 353.9 |
| | % | | -1.4 | -2.4 | 5.0 | 5.9 |
| Accommodation Assistance | \$m | 196.9 | 196.7 | 195.8 | 196.2 | 197.7 |
| | % | | -0.1 | -0.5 | 0.2 | 0.8 |
| Asylum Seeker Assistance | \$m | 11.0 | 10.0 | 3.9 | 4.0 | 4.1 |
| | % | | -9.1 | -61.0 | 2.6 | 2.5 |
| Migrant Settlement Support | \$m | 59.0 | 60.0 | 60.6 | 61.6 | 62.5 |
| | % | | 1.7 | 1.0 | 1.7 | 1.5 |
| Communication Allowances and Postal Concessions | \$m | 25.5 | 26.2 | 26.3 | 26.4 | 26.6 |
| | % | | 2.7 | 0.4 | 0.4 | 0.8 |
| Other | \$m | 240.7 | 201.1 | 200.9 | 185.5 | 190.4 |
| | % | | -16.5 | -0.1 | -7.7 | 2.6 |
| TOTAL | \$m | 967.9 | 918.3 | 910.5 | 914.0 | 944.6 |
| | % | | -5.1 | -0.8 | 0.4 | 3.3 |

This subfunction comprises a number of related programme elements which provide for:

- income support to people in special circumstances;
- income supplements and/or concessions for people facing certain additional costs;
- increased access to accommodation for low income earners and the homeless through the provision of recurrent and capital funds in conjunction with the States and Territories; and
- emergency relief funds paid through charitable agencies for people who are in financial crisis.

Special Benefit

This item comprises Special Benefit and Disaster Relief Payment. Special Benefit is paid to people who are unable to earn a sufficient livelihood for themselves and their dependants, who are ineligible for any other pension or allowance and who can prove hardship. Disaster Relief Payment is a one-off payment available to victims of declared major disasters.

Other Assistance to Widows

This item comprises the Class B Widow Pension, the Widow Allowance and the Bereavement Allowance. Class B Widow Pension is payable to previously married women who do not have dependent children and who were aged 50 years or more, or were sole parent pensioners aged 45 years or more, at 1 July 1987. Widow Allowance is payable to women 50 years or over who become widowed, divorced or separated after reaching 40, and who have no recent workforce experience. Bereavement Allowance is payable to recently widowed persons who do not have dependent children.

Accommodation Assistance

Accommodation Assistance comprises a number of programmes targeted at those in short-term housing crisis, including programmes to assist those escaping domestic violence. The Supported Accommodation Assistance Programme (SAAP), in conjunction with the States, funds transitional support services for those who are homeless as a result of a crisis.

The Crisis Accommodation Programme (CAP) provides for the purchase, construction, renovation or leasing of dwellings to provide transitional accommodation for SAAP clients. CAP is funded under the Commonwealth-State Housing Agreement (see *7. Housing and Community Amenities*).

The Emergency Relief Programme provides grants to non-government community welfare agencies for distribution as short-term emergency assistance to people in financial crisis.

Asylum Seeker Assistance

Assistance is provided to destitute onshore refugee applicants awaiting a primary decision from six months after initial lodgement of their application.

Migrant Settlement Support

The Government provides settlement support for migrants including assistance to relevant community organisations for provision of services, on-arrival accommodation, translator and interpreter services, funding for migrant resource centres, maintenance of humanitarian children without parents in Australia and assistance to voluntary agencies under the Community Refugee Settlement Scheme.

Communication Allowances and Postal Concessions

This item includes allowances to assist pensioners with the cost of a telephone connected in their own name or their partner's name and postal concessions which provide access to free postal services for persons receiving a pension on account of blindness and organisations sending material specifically for such persons.

Other

Included under this heading is compensation to the States and Territories for extension of fringe benefits to pensioners and reimbursement to Great Southern Railway Limited for concessional passenger fares provided to pensioners. Also included are wage 'top-up' payments for apprentices and trainees employed under the new industrial arrangements which provide for the wage to be paid only for productive time. The top-up payments ensure that apprentice and trainee incomes are at guaranteed levels.

6.8 ABORIGINAL ADVANCEMENT PROGRAMMES NEC

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| Aboriginal and Torres Strait Islander Commission | \$m | 889.5 | 927.5 | 950.5 | 976.5 | 1008.4 |
| | % | | 4.3 | 2.5 | 2.7 | 3.3 |
| Torres Strait Regional Authority | \$m | 34.8 | 40.3 | 41.6 | 42.9 | 39.0 |
| | % | | 15.8 | 3.2 | 3.1 | -9.1 |
| Indigenous Land Corporation | \$m | 48.3 | 49.7 | 51.0 | 52.3 | 53.6 |
| | % | | 2.9 | 2.6 | 2.5 | 2.5 |
| Aboriginal Hostels Limited | \$m | 28.4 | 28.6 | 28.9 | 29.2 | 29.5 |
| | % | | 0.7 | 1.0 | 1.0 | 1.0 |
| Aboriginals Benefit Reserve | \$m | 27.1 | 33.1 | 30.1 | 30.1 | 30.1 |
| | % | | 22.1 | -9.1 | na | na |
| Australian Institute of Aboriginal and Torres Strait Islander Studies | \$m | 5.7 | 6.0 | 6.0 | 6.1 | 6.1 |
| | % | | 5.3 | na | 1.7 | na |
| National Native Title Tribunal | \$m | 21.0 | 23.8 | 21.9 | 22.0 | 22.3 |
| | % | | 13.3 | -8.0 | 0.5 | 1.4 |
| Other | \$m | 3.1 | 10.2 | 23.2 | 17.3 | 14.4 |
| | % | | 229.0 | 127.5 | -25.4 | -16.8 |
| TOTAL | \$m | 1057.9 | 1119.2 | 1153.1 | 1176.4 | 1203.3 |
| | % | | 5.8 | 3.0 | 2.0 | 2.3 |

This subfunction mainly covers programmes funded through a number of indigenous agencies, the largest of which is the Aboriginal and Torres Strait Islander Commission (ATSIC). Many of the programmes are intended to supplement, support or accelerate the delivery of services where prime responsibility rests with other Commonwealth agencies and/or State, Territory and local governments.

For other significant outlays on Aboriginal programmes see *4. Education, 5. Health, 7. Housing and Community Amenities and 13B. Labour and Employment Affairs.*

Aboriginal and Torres Strait Islander Affairs Portfolio

The Government has guaranteed that funding for the Aboriginal and Torres Strait Islander Affairs portfolio will be maintained in real terms for the period 1997-98 to 2000-01. ATSIC and the Torres Strait Regional Authority each receive a large part of their funding through a largely discretionary global appropriation. The only major constraint on flexibility is the Government's requirement that ATSIC maintain average annual allocations for housing and infrastructure at a level at least equivalent in real terms to its 1995-96 allocation. The programmes which are separately appropriated are the Community Development Employment Projects (CDEP) Scheme and Native Title Claims Assistance.

ATSIC's Economic Programme aims to increase the economic empowerment and relative economic status of Aboriginal and Torres Strait Islander peoples by providing opportunities for employment, acquisition of productive assets, income generation and the development of commercial skills.

The major sub-programme is CDEP. Under CDEP, members of indigenous communities agree to forgo their entitlement to unemployment benefits in return for the opportunity to

engage in paid employment in community managed projects. The projects are funded for the equivalent of the benefits forgone, plus loadings for administration and capital needs.

Another sub-programme is the Aboriginal and Torres Strait Islander Commercial Development Corporation (CDC). The CDC assists the economic advancement of indigenous Australians by utilising its capital base to facilitate Aboriginal and Torres Strait Islander equity involvement in commercial ventures. In performing its functions the CDC is required to act in accordance with sound business principles and to have regard to the desirability of facilitating indigenous participation in its commercial activities.

ATSIC's Social and Cultural Programme aims to enable Aboriginal and Torres Strait Islander peoples to lead independent and healthy lives with full recognition of their cultural heritage and rights to land. The programme incorporates policies and programmes in the areas of community housing and infrastructure, housing loans, legal services, cultural development and the administration of native title, land rights and heritage protection legislation. (For other Aboriginal housing assistance see 7. *Housing and Community Amenities.*)

Torres Strait Regional Authority

The Torres Strait Regional Authority delivers programmes in the Torres Strait region which, prior to 1994-95, were delivered by ATSIC. As with ATSIC, the major activities are community housing and infrastructure projects and CDEP.

Indigenous Land Corporation

The Indigenous Land Corporation (ILC) assists indigenous people to acquire land and to manage and maintain it in a sustainable way in order to provide economic, social and cultural benefits for future generations. The ILC is funded by special appropriation from the Aboriginal and Torres Strait Islander Land Reserve, a reserved moneys fund, administered by ATSIC, to provide a secure and ongoing source of funds to the ILC. The Land Reserve is accumulating by way of annual transfers within the Commonwealth Public Account until 2003-04, after which time the reserve is to be self-sustaining. Moneys of the Land Reserve must be invested in accordance with s39 of the *Financial Management and Accountability Act 1997*.

Aboriginal Hostels Limited

Aboriginal Hostels Limited (AHL) aims to assist Aboriginal and Torres Strait Islander people to satisfy their health, employment, training, education and aged care needs by providing a low-cost, temporary accommodation service through a network of hostels. These hostels may be either owned and operated directly by AHL or funded through grants to other organisations.

Aboriginals Benefit Reserve

The Aboriginals Benefit Reserve is established under the *Aboriginal Land Rights (NT) Act 1976* to receive the equivalent of royalty moneys received from mining operations on Aboriginal land in the Northern Territory. Payments are made from the reserve for the benefit of Aboriginal people directly affected by mining operations, for other

Aboriginal groups in the Northern Territory and to cover the administrative costs of Northern Territory land councils.

Australian Institute of Aboriginal and Torres Strait Islander Studies

The Australian Institute of Aboriginal and Torres Strait Islander Studies is funded to undertake and promote Aboriginal and Torres Strait Islander studies, to conduct and assist relevant research and the publication of results, to maintain a cultural resource collection and to encourage community understanding of Aboriginal and Torres Strait Islander societies.

National Native Title Tribunal

The National Native Title Tribunal is established under the *Native Title Act 1993* to receive, register, accept and notify native title claims, identify parties whose interests may be affected and to mediate between the parties in relation to claims, compensation issues and negotiations over proposed future acts.

Other

Other includes outlays for activities of the Aboriginal Reconciliation Unit within the Department of Prime Minister and Cabinet, and financial assistance to the States, pursuant to the *Native Title Act 1993*, for compensation liabilities and the administration of State native title regimes.

6.9 GENERAL ADMINISTRATION

| | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|--|------------|---------|----------|----------|----------|
| | Estimate | Budget | Estimate | Estimate | Estimate |
| Social Security Portfolio | \$m 1509.8 | 1498.9 | 1304.4 | 1293.5 | 1301.5 |
| | % | -0.7 | -13.0 | -0.8 | 0.6 |
| Department of Veterans' Affairs | \$m 184.2 | 192.8 | 175.2 | 174.9 | 175.1 |
| | % | 4.7 | -9.1 | -0.2 | 0.1 |
| Department of Health and Family Services | \$m 149.6 | 144.6 | 136.2 | 136.2 | 137.0 |
| | % | -3.3 | -5.8 | na | 0.6 |
| TOTAL | \$m 1843.6 | 1836.2 | 1615.8 | 1604.7 | 1613.6 |
| | % | -0.4 | -12.0 | -0.7 | 0.6 |

Social Security Portfolio

Most of the outlays under this category are for Centrelink, which began operating from 1 July 1997. Centrelink forms the administrative framework for integrating access to Commonwealth services by consolidating services so that, where possible, people can get the help they need in one place.

Centrelink has become the delivery agency for income support, student assistance, Farm Family Restart and Exceptional Circumstance Relief (formerly Drought Relief) payments as well as a range of services including the registration, assessment and referral functions for people seeking employment and income assessment for people in receipt of child care and aged care subsidies. As from 1 July 1998, Centrelink will also be responsible for the delivery of Childcare Assistance.

Department of Veterans' Affairs

This item comprises general administration costs for the Department of Veterans' Affairs.

Department of Health and Family Services

This item comprises a proportion of the operating costs of the Department of Health and Family Services (HFS). HFS operating costs include funds for the purchase of services from Centrelink and the Health Insurance Commission, for the delivery of Childcare Assistance and the Childcare Cash Rebate. The balance of the operating costs of HFS is classified under 5. *Health*.

6.10 RECOVERIES AND REPAYMENTS

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---------------------------|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| Recoveries and Repayments | \$m | -55.0 | -66.7 | -65.8 | -65.8 | -65.8 |
| | % | | 21.3 | -1.3 | na | na |

This item includes payments under the Social Security Agreement between Australia and New Zealand and Miscellaneous Receipts.

7. HOUSING AND COMMUNITY AMENITIES

NATURE OF OUTLAYS

Outlays for Housing and Community Amenities are to improve the access to appropriate housing for those whose needs are inadequately met through the private rental market.

Housing assistance is provided through the Commonwealth-State Housing Agreement (CSHA). This, in conjunction with contributions from the States, assists in funding the expansion and maintenance of the public rental housing stock by State governments.

Eligible former and serving members of the Defence Force who enlisted prior to May 1985 are provided with home purchase assistance in the form of a home loan interest subsidy.

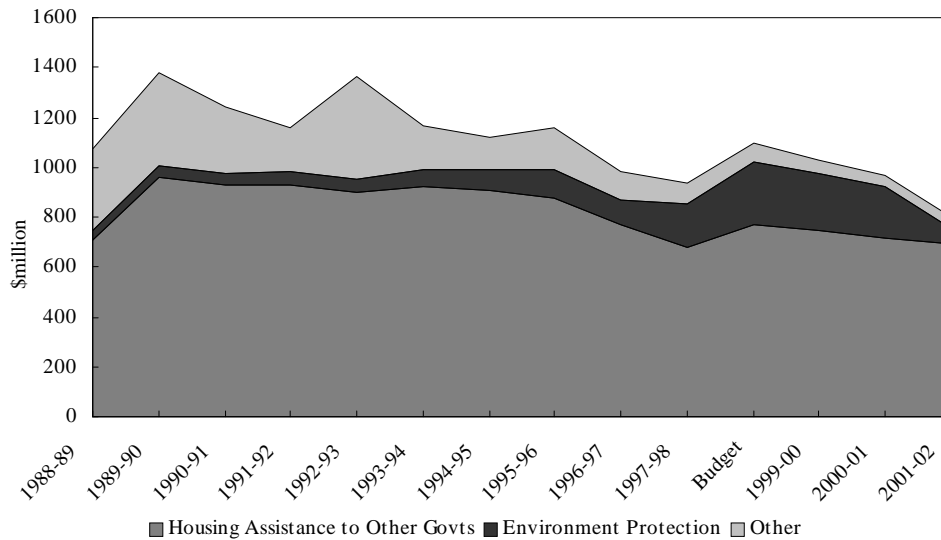
Excluded from this function is housing assistance for income support recipients who rent privately. This is paid through Rent Assistance and transitional support, which is provided to those who are homeless as a result of crisis (see 6. *Social Security and Welfare*).

Community Amenities includes outlays on general promotion and assistance for urban and regional planning and development and on promotion of national environmental objectives.

This function includes outlays for the following portfolios:

- Social Security;
- Environment;
- Transport and Regional Development;
- Veterans' Affairs;
- Industry, Science and Tourism;
- Primary Industries and Energy;
- Treasury; and
- Finance and Administration.

Chart 1. Overview of Commonwealth Outlays on Housing and Community Amenities (1989-90 prices)



TRENDS IN HOUSING AND COMMUNITY AMENITIES OUTLAYS

There has been a real decrease in outlays on Housing and Community Amenities over the last decade, mainly reflecting:

- lower real outlays under the CSHA, as well as decisions by some States to use the CSHA to meet their State Fiscal Contributions in 1996-97 and 1997-98; and
- changes in the level of assistance for home ownership (provided through the First Home Owners Scheme and included in Other), with outlays phasing out by 1995-96.

These declines have been partly offset by increasing outlays for environmental protection as a result of new programmes introduced under the Natural Heritage Trust of Australia. The increase in outlays in the Budget year largely reflects additional funding for environmental protection programmes under the Natural Heritage Trust of Australia. The decline in outlays from 2000-01 largely reflects the expected completion of the rehabilitation of the Maralinga Atomic Test Site and completion of the \$1.25 billion Natural Heritage Trust expenditure package.

Outlays were high in 1992-93 due to funding for a short-term programme to improve the social and economic infrastructure of local government areas with above-average unemployment.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|-----|---|------------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| 7.1 | Housing Assistance to Other Governments | \$m 793.1 | 932.3 | 921.7 | 912.1 | 902.7 |
| | | % | 17.6 | -1.1 | -1.0 | -1.0 |
| 7.2 | Defence Service Homes | \$m 17.9 | 21.7 | 21.3 | 21.4 | 21.5 |
| | | % | 21.2 | -1.8 | 0.5 | 0.5 |
| 7.3 | Urban and Regional Development | \$m 67.2 | 42.1 | 28.6 | 26.3 | 24.5 |
| | | % | -37.4 | -32.1 | -8.0 | -6.8 |
| 7.4 | Environment Protection | \$m 208.5 | 305.4 | 288.4 | 257.1 | 80.9 |
| | | % | 46.5 | -5.6 | -10.9 | -68.5 |
| 7.5 | Other Housing and Community Amenities | \$m -2.1 | 20.2 | 5.3 | 1.8 | 2.8 |
| | | % | na | -73.8 | -66.0 | 55.6 |
| 7.6 | General Administration | \$m 16.2 | 8.5 | 7.3 | 7.3 | 7.4 |
| | | % | -47.5 | -14.1 | na | 1.4 |
| | TOTAL | \$m 1100.7 | 1330.1 | 1272.5 | 1226.0 | 1039.8 |
| | | % | 20.8 | -4.3 | -3.7 | -15.2 |

7.1 HOUSING ASSISTANCE TO OTHER GOVERNMENTS

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|--|----------------------------------|-----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| | CSHA Grants to States | \$m 785.4 | 924.7 | 914.0 | 904.5 | 895.1 |
| | | % | 17.7 | -1.2 | -1.0 | -1.0 |
| | Social Housing Subsidy Programme | \$m 2.1 | 2.1 | 2.1 | 2.1 | 2.1 |
| | | % | na | na | na | na |
| | Other Grants for Housing | \$m 5.5 | 5.5 | 5.5 | 5.5 | 5.5 |
| | | % | na | na | na | na |
| | TOTAL | \$m 793.1 | 932.3 | 921.7 | 912.1 | 902.7 |
| | | % | 17.6 | -1.1 | -1.0 | -1.0 |

Commonwealth-State Housing Agreement Grants to States

Grants under the Commonwealth-State Housing Agreement (CSHA) cover the acquisition, maintenance and upgrade of public housing, rental subsidies for low income tenants in public housing, support for home ownership assistance, and repayments of principal and interest on Commonwealth loans for public housing purposes as well as specific programmes, such as the Aboriginal Rental Housing Programme and the Crisis Accommodation Programme (the latter is excluded from the above table and is reported under *6.7 Other Welfare Programmes*). The Agreement also specifies that Commonwealth grants are to be supplemented by State contributions. Grants to States under the CSHA are lower in 1997-98 as some States have used grants to cover their State Fiscal Contributions.

The 1996 CSHA runs to the end of the 1998-99 financial year. Funding for years beyond 1998-99 will be negotiated during the remainder of this agreement.

7.2 DEFENCE SERVICE HOMES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---------------------------------|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| Home Acquisition Assistance | \$m | 20.4 | 22.3 | 21.9 | 22.0 | 22.1 |
| | % | | 9.3 | -1.8 | 0.5 | 0.5 |
| Defence Service Homes Insurance | \$m | -2.6 | -0.7 | -0.7 | -0.7 | -0.7 |
| | % | | -73.1 | na | na | na |
| TOTAL | \$m | 17.9 | 21.7 | 21.3 | 21.4 | 21.5 |
| | % | | 21.2 | -1.8 | 0.5 | 0.5 |

The Defence Service Homes scheme (DSH) provides home ownership assistance in the form of subsidised low interest loans to eligible former and serving members of the Defence Forces who enlisted prior to May 1985, or who have certain qualifying service. Housing assistance for service personnel who enlisted after May 1985 is classified in 2. *Defence*.

Home Acquisition Assistance

Since 1988-89, the Veterans' Affairs' mortgage portfolio and the authority to make new loans under the scheme has been owned by the Westpac Banking Corporation. Under the programme, Westpac receives a subsidy to bridge the difference between the concessional interest rate paid by DSH borrowers and an agreed benchmark mortgage rate based on the standard bank interest rate for new owner-occupied housing.

7.3 URBAN AND REGIONAL DEVELOPMENT

In 1996-97 the Commonwealth terminated regional development programmes to eliminate duplication of Commonwealth, State and local government activities in this area. Residual administrative costs and other payments made under the programmes, including repayments of loans from State and local governments and receipts from the Albury-Wodonga Development Corporation, are included in this item.

7.4 ENVIRONMENT PROTECTION

The Commonwealth has a number of programmes, primarily administered by the Department of the Environment, for protection of the environment, including specific measures to monitor and control the impact of pollution, and for the rehabilitation of former atomic test sites. Financial assistance is provided to various international and national bodies concerned with environmental and conservation issues.

Additional funding for the conservation, sustainable use and repair of Australia's natural environment is being provided through the Natural Heritage Trust. Additional funding for this purpose is also provided through 8.4 *National Estate and Parks* and 10.7 *Natural Resources Development and Management*.

7.5 OTHER HOUSING AND COMMUNITY AMENITIES

The main items in this subfunction are the Housing Loans Insurance Corporation and the Christmas Island Rebuilding Programme.

The Housing Loans Insurance Corporation was restructured, and a new Commonwealth company, Housing Loans Insurance Corporation Limited, commenced operations at the end of 1997. The company was subsequently sold. Outlays in this function relate to payments arising out of mortgage insurance policies held by the Housing Loans Insurance Corporation prior to the restructure and sale. The Christmas Island Rebuilding Programme was implemented in 1992-93 to improve the standard of public housing and to upgrade the island's infrastructure to the level of comparable communities in the rest of Australia.

7.6 GENERAL ADMINISTRATION

Outlays provide for the administration costs for this function across portfolios, mainly Environment and Industry, Science and Tourism.

8. RECREATION AND CULTURE

NATURE OF OUTLAYS

Funding for broadcasting represents the majority of recreation and culture outlays (see Chart 1).

Other activities in this function involving outlays include:

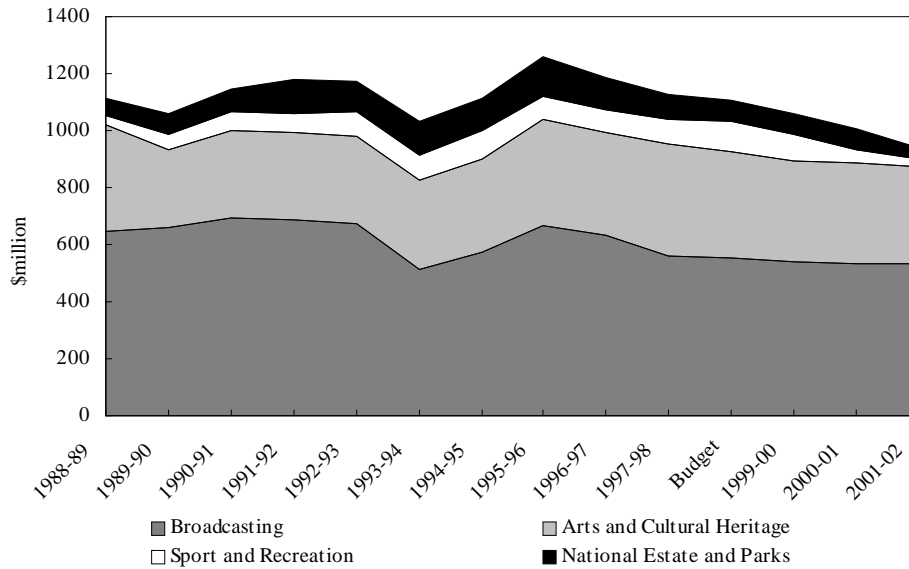
- managing Australia's cultural heritage through national collection institutions;
- direct financial assistance for the arts and other cultural activities including the film and television industries;
- assistance to sport and recreation activities;
- the operations of statutory authorities to manage and protect, amongst other places, the world heritage areas of Uluru-Kata Tjuta and Kakadu National Parks and the Great Barrier Reef; and
- joint management and funding arrangements for other world heritage areas in Tasmania and Queensland.

This function mainly includes outlays for the following portfolios:

- Communications and the Arts;
- Industry, Science and Tourism; and
- Environment.

Outlays for this function mainly arise from direct outlays by Commonwealth agencies. Other avenues of support include grants programmes, payments to the States (shown in *Budget Paper No. 3*) and taxation expenditures such as concessions on investments in new films under Division 10BA of the *Income Tax Assessment Act 1936*.

Chart 1. Overview of Commonwealth Outlays on Recreation and Culture (1989-90 prices)



TRENDS IN RECREATION AND CULTURE OUTLAYS

Over the period 1988-89 to 2001-02, the trends in outlays are primarily influenced by:

- the effect of one-off receipts in 1993-94 from the sale of satellite subscription television licences (\$199 million), and receipts in 1994-95 from the sale of the Multipoint Distribution Service Licences (\$100 million), which were partially offset by expenditure relating to the *Creative Nation* policy statement;
- the effect of reduced budget funding for the ABC in 1996-97 and 1997-98 onwards which is partly offset from 1998-99 by additional funding provided to the national broadcasters for digital conversion;
- the reduction in outlays since 1997-98 on the National Estate and Parks which primarily reflects a transfer of corporate functions from National Parks and Wildlife and the Australian Heritage Commission into the Department of the Environment;
- outlays for Sport and Recreation increase substantially in 1998-99 due to a number of Commonwealth initiatives to assist with the staging of the Olympic and Paralympic Games in 2000; and
- reduced budget funding for Sport and Recreation is expected from 2000-01 as two programmes run by the Australian Sports Commission, *Maintaining the Momentum* and the *Olympic Athlete Preparation Programme*, conclude in 1999-2000.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|-----|----------------------------|------------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| 8.1 | Broadcasting | \$m 653.6 | 665.5 | 669.0 | 679.9 | 696.0 |
| | | % | 1.8 | 0.5 | 1.6 | 2.4 |
| 8.2 | Arts and Cultural Heritage | \$m 467.9 | 458.0 | 440.3 | 448.5 | 440.4 |
| | | % | -2.1 | -3.9 | 1.9 | -1.8 |
| 8.3 | Sport and Recreation | \$m 97.7 | 127.8 | 112.6 | 58.0 | 31.7 |
| | | % | 30.8 | -11.9 | -48.5 | -45.3 |
| 8.4 | National Estate and Parks | \$m 106.5 | 83.4 | 89.5 | 93.1 | 56.9 |
| | | % | -21.7 | 7.3 | 4.0 | -38.9 |
| | TOTAL | \$m 1325.7 | 1334.8 | 1311.5 | 1279.5 | 1225.1 |
| | | % | 0.7 | -1.7 | -2.4 | -4.3 |

8.1 BROADCASTING

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|--|-------------------------------------|-----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| | Australian Broadcasting Corporation | \$m 468.5 | 474.8 | 480.3 | 490.9 | 504.3 |
| | | % | 1.3 | 1.2 | 2.2 | 2.7 |
| | Special Broadcasting Service | \$m 83.0 | 87.7 | 87.2 | 89.8 | 91.1 |
| | | % | 5.7 | -0.6 | 3.0 | 1.4 |
| | National Transmitting Facilities | \$m 83.8 | 82.0 | 85.0 | 82.7 | 84.0 |
| | | % | -2.1 | 3.7 | -2.7 | 1.6 |
| | Planning and Regulation | \$m 18.7 | 21.2 | 16.5 | 16.5 | 16.6 |
| | | % | 13.4 | -22.2 | na | 0.6 |
| | Sale of Broadcasting Rights | \$m -0.5 | -0.1 | -0.1 | - | - |
| | | % | -80.0 | na | -100.0 | na |
| | TOTAL | \$m 653.6 | 665.5 | 669.0 | 679.9 | 696.0 |
| | | % | 1.8 | 0.5 | 1.6 | 2.4 |

The majority of outlays on broadcasting are to fund the operating and capital needs of the Australian Broadcasting Corporation (ABC) and the Special Broadcasting Service (SBS) and national transmitting facilities.

Australian Broadcasting Corporation

The ABC's activities include domestic radio services, a national television network, and overseas broadcasting services.

Special Broadcasting Service

The SBS operates a multilingual radio network and a multicultural television service.

National Transmitting Facilities

National transmitting facilities are owned and operated by the Commonwealth for the delivery of ABC and SBS radio and television services and some regional commercial services. The Government is expected to sell the national transmission facilities in 1998-99.

Planning and Regulation

The Australian Broadcasting Authority issues radio and television broadcast licences, and formulates and monitors broadcast standards.

8.2 ARTS AND CULTURAL HERITAGE

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| National Collections | \$m | 116.1 | 119.9 | 116.4 | 120.0 | 120.6 |
| | % | | 3.3 | -2.9 | 3.1 | 0.5 |
| Assistance to the Film, TV and Multimedia Industries | \$m | 84.2 | 70.2 | 70.4 | 70.7 | 70.9 |
| | % | | -16.6 | 0.3 | 0.4 | 0.3 |
| Arts and Heritage | \$m | 161.7 | 159.5 | 149.6 | 150.5 | 151.9 |
| | % | | -1.4 | -6.2 | 0.6 | 0.9 |
| Administration | \$m | 105.8 | 108.4 | 103.8 | 107.3 | 97.1 |
| | % | | 2.5 | -4.2 | 3.4 | -9.5 |
| TOTAL | \$m | 467.9 | 458.0 | 440.3 | 448.5 | 440.4 |
| | % | | -2.1 | -3.9 | 1.9 | -1.8 |

National Collections

Outlays include funding for the operating and capital costs of collecting institutions such as the National Library of Australia, the National Gallery of Australia, the Australian National Maritime Museum, the National Museum of Australia and the Australian War Memorial.

Assistance to the Film, Television and Multimedia Industries

Financial assistance is provided through the Australian Film Finance Corporation Limited, the Australian Film Commission and Film Australia Pty Limited.

Arts and Heritage

Outlays are dominated by funding to the Australia Council and to Symphony Australia Holdings Pty Ltd. Other outlays include funding for the Australian National Opera, Orchestras and the Office of Australian War Graves.

Administration

These outlays fund administrative support for recreation and cultural activities, mainly through the Departments of Communications and the Arts, and the Environment.

8.3 SPORT AND RECREATION

The Commonwealth provides financial assistance to encourage community interest and participation in sport and recreational activities and to facilitate preparation for the Olympic Games by Australian athletes. The Australian Sports Commission, which incorporates the Australian Institute of Sport, promotes and facilitates the pursuit of excellence in sport, sports development and participation.

8.4 NATIONAL ESTATE AND PARKS

The Commonwealth is involved in the identification and protection of Australia's natural environment through arrangements such as the Register of the National Estate, management of national parks and world heritage listings. The Commonwealth discharges many of its management responsibilities through various statutory authorities and arrangements with the States.

Additional funding for the conservation, sustainable use and repair of Australia's natural environment is being provided through the Natural Heritage Trust which also relates to *7.4 Environment Protection* and *10.7 Natural Resources Development and Management*.

9. FUEL AND ENERGY

NATURE OF OUTLAYS

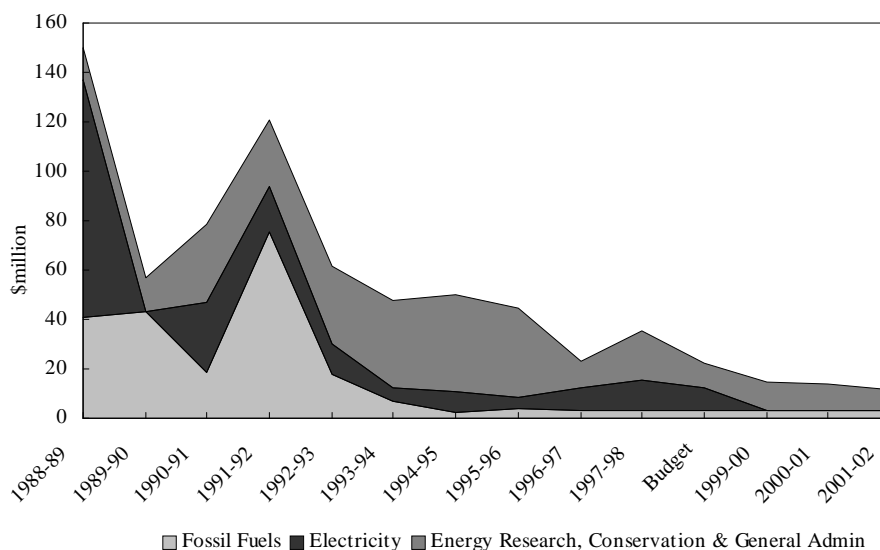
Fuel and Energy covers outlays on coal, petroleum, gas, electricity and other energy including alternative fuels. It includes research and measures designed to reduce consumption or increase production and support in the form of advances, grants or subsidies. It excludes outlays on the transportation of petroleum and gas which are classified to *12. Transport and Communication* and *13.C. Other Economic Affairs, nec* and the disposal of radioactive waste which is classified to *7. Housing and Community Amenities*.

Commonwealth outlays in respect of this function include: payments to support micro-economic reform of electricity supply; payments to State government departments for administration of petroleum production within the Commonwealth's jurisdiction; funding for Commonwealth outcomes in relation to promoting energy efficiencies for the benefit of industry and the community generally, and for the alternative energy industry specifically (ie renewable energy and energy conservation).

Not included under this function are the fuel and energy purchases of government departments and agencies used for operational purposes.

This function mainly includes outlays of the Primary Industries and Energy portfolio.

Chart 1. Overview of Commonwealth Outlays on Fuel and Energy (1989-90 prices)



TRENDS IN FUEL AND ENERGY OUTLAYS

Fuel and energy outlays have declined significantly since the late 1980s (Chart 1) primarily through reduced Commonwealth involvement in the coal industry and sale of the Gladstone Power Station to Queensland.

The decline in outlays in 1989-90 is largely attributable to cessation of an operational assistance grant to the Northern Territory Electricity Commission which was resumed in 1990-91.

The peak in 1991-92 represents payments totalling \$60 million made to Victoria to ameliorate gas price increases associated with the application of the Resources Rent Tax to Bass Strait oil and gas production.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|-----|---|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| 9.1 | Fossil Fuels | \$m 3.6 | 3.5 | 3.5 | 3.5 | 3.5 |
| | | % | -2.8 | na | na | na |
| 9.2 | Electricity | \$m 14.4 | 11.0 | - | - | - |
| | | % | -23.6 | -100.0 | na | na |
| 9.3 | Energy Research, Conservation and General Administration | \$m 23.9 | 12.6 | 14.3 | 13.7 | 11.3 |
| | | % | -47.3 | 13.5 | -4.2 | -17.5 |
| | TOTAL | \$m 41.8 | 27.1 | 17.8 | 17.3 | 14.8 |
| | | % | -35.2 | -34.3 | -2.8 | -14.5 |

9.1 FOSSIL FUELS

Outlays provide reimbursement to State government departments for administration of petroleum exploration and production leases within Commonwealth jurisdiction.

9.2 ELECTRICITY

Outlays in 1998-99 primarily represent payments to the Snowy Mountains Hydroelectric Authority for the shortfall in its cost recovery after trading by Snowy Hydro Pty Limited of the Commonwealth's share of electricity generated by the Authority.

9.3 ENERGY RESEARCH, CONSERVATION AND GENERAL ADMINISTRATION

Outlays for this classification decline over the Budget and forward years primarily due to the winding up of the Energy Research and Development Corporation in 1997-98.

Energy efficiency and climate change programmes comprise the remainder of outlays.

10. AGRICULTURE, FORESTRY AND FISHING

NATURE OF OUTLAYS

The Agriculture, Forestry and Fishing function covers outlays on: land management; water resources; rural adjustment designed to improve farm productivity, profitability and sustainability; quarantine services; diesel fuel rebates for primary producers; contributions to research and promotion, price support arrangements and subsidies (including where the cost of services provided by departments and agencies is borne by Government in whole or in part); efforts to conserve, extend or rationalise exploitation of forest resources; forest pest and disease control activities; forest firefighting and fire prevention services; freshwater, ocean and coastal fishing and fish farming; and research into fish management and related problems of the fish industry. Outlays on sport fishing are classified to 8. *Recreation and Culture*.

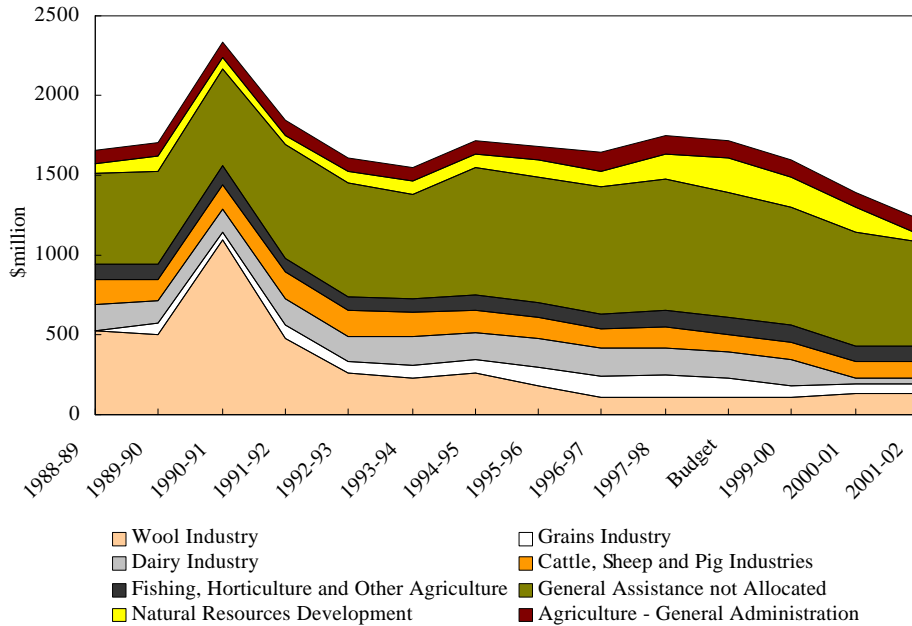
A large proportion of outlays in this function correspond to various levies and charges collected by Government on behalf of industry. These industry contributions are classified as revenue, ie not offsets within outlays (see Other Taxes, Fees and Fines in *Statement 5*).

Outlays in other functions also assist agricultural industries, eg outlays on transport infrastructure and services, and by agencies such as the Commonwealth Scientific and Industrial Research Organisation. In addition, taxation legislation provides concessional treatment of research and development costs, and for the averaging of income from primary production.

This function includes outlays of the following portfolios:

- Environment;
- Industry, Science and Tourism; and
- Primary Industries and Energy.

**Chart 1. Overview of Commonwealth Outlays on
Agriculture, Forestry and Fishing
(1989-90 prices)**



TRENDS IN AGRICULTURE, FORESTRY AND FISHING OUTLAYS

As shown in Chart 1, the major impact on function outlays over the period between 1988-89 and 1998-99 was the 1990-91 peak in wool outlays associated with the management of the wool stockpile and associated debt. The increase for Natural Resources Development from 1997-98 results from the commencement of the Natural Heritage Trust.

The increase in 1994-95 principally reflects additional outlays to the rural sector on exceptional circumstances drought assistance. Outlays decreased from 1997-98 and are expected to continue to decline as assistance to the dairy industry through the Domestic Market Support Scheme is terminated.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---------------------|----------------------------------|------------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| Specific Industries | | | | | | |
| 10.1 | Wool | \$m 128.8 | 135.0 | 136.3 | 161.0 | 164.9 |
| | | % | 4.8 | 1.0 | 18.1 | 2.4 |
| 10.2 | Grains | \$m 162.4 | 144.5 | 88.4 | 81.3 | 81.3 |
| | | % | -11.0 | -38.8 | -8.0 | na |
| 10.3 | Dairy | \$m 202.0 | 200.8 | 203.3 | 50.5 | 52.3 |
| | | % | -0.6 | 1.2 | -75.2 | 3.6 |
| 10.4 | Cattle, Sheep and Pig | \$m 147.7 | 123.1 | 135.4 | 128.4 | 128.0 |
| | | % | -16.7 | 10.0 | -5.2 | -0.3 |
| 10.5 | Fishing, Horticulture and Other | \$m 128.1 | 132.0 | 128.0 | 126.1 | 127.2 |
| | Agriculture | % | 3.0 | -3.0 | -1.5 | 0.9 |
| | Sub-total | \$m 768.9 | 735.4 | 691.4 | 547.3 | 553.6 |
| | | % | -4.4 | -6.0 | -20.8 | 1.2 |
| 10.6 | General Assistance not Allocated | \$m 962.6 | 946.3 | 916.4 | 899.1 | 864.3 |
| | to Specific Industries | % | -1.7 | -3.2 | -1.9 | -3.9 |
| 10.7 | Natural Resources Development | \$m 189.9 | 258.3 | 238.8 | 198.2 | 48.3 |
| | and Management | % | 36.0 | -7.5 | -17.0 | -75.6 |
| 10.8 | General Administration | \$m 129.2 | 132.6 | 130.3 | 128.2 | 123.3 |
| | | % | 2.6 | -1.7 | -1.6 | -3.8 |
| | TOTAL | \$m 2050.6 | 2072.5 | 1977.0 | 1772.8 | 1589.4 |
| | | % | 1.1 | -4.6 | -10.3 | -10.3 |

10.1 WOOL INDUSTRY

Outlays consist of payments to Wool International to manage the stockpile and repay the wool industry's debt, and to the Australian Wool Research and Promotion Organisation for industry promotion and management of wool research and development. These payments are funded by the wool tax. The Government also provides a matching contribution for research and development of up to 0.5 per cent of the Gross Value of Production.

10.2 GRAINS INDUSTRY

Outlays predominantly relate to wheat. The wheat levy funds the trading and value adding activities of the Australian Wheat Board, with the Government providing a matching contribution for research and development of up to 0.5 per cent of the Gross Value of Production.

10.3 DAIRY INDUSTRY

Outlays consist of contributions to the dairy industry for promotion, administration, market support, and research and development. Payments to the Australian Dairy Corporation and the Australian Dairy Research and Development Corporation are funded primarily through dairy levies, with the Government providing a matching contribution for research and development of up to 0.5 per cent of the Gross Value of Production.

10.4 CATTLE, SHEEP AND PIG INDUSTRIES

Outlays consist of contributions to the meat industry for promotion, research and development and control of cattle diseases. Payments to the Australian Meat and Livestock Corporation and the Australian Pork Corporation for promotion, administrative and operational expenses are funded primarily through industry levies, with the Government providing a matching contribution for research and development of up to 0.5 per cent of the Gross Value of Production.

10.5 FISHING, HORTICULTURE AND OTHER AGRICULTURE

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|--|-----|---------------------|-------------------|---------------------|---------------------|---------------------|
| Fishing Industry | \$m | 43.2 | 40.2 | 41.6 | 38.1 | 38.3 |
| | % | | -6.9 | 3.5 | -8.4 | 0.5 |
| Horticulture and Other Agricultural Industries | \$m | 84.9 | 91.8 | 86.4 | 88.0 | 88.9 |
| | % | | 8.1 | -5.9 | 1.9 | 1.0 |
| TOTAL | \$m | 128.1 | 132.0 | 128.0 | 126.1 | 127.2 |
| | % | | 3.0 | -3.0 | -1.5 | 0.9 |

Fishing Industry

Outlays include funding for fisheries management by the Australian Fisheries Management Authority (AFMA) and for fisheries research. AFMA recovers costs attributable to the industry while the Budget funds community service obligations.

Horticulture and Other Agricultural Industries

Industry levies fully pay for the activities of the Australian Wine and Brandy Corporation. The Australian Horticultural Corporation is funded through industry levies and Government matching grants.

10.6 GENERAL ASSISTANCE NOT ALLOCATED TO SPECIFIC INDUSTRIES

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|------------------------------------|-----|---------------------|-------------------|---------------------|---------------------|---------------------|
| Rural Adjustment | \$m | 105.7 | 55.6 | 21.9 | 8.0 | 2.1 |
| | % | | -47.4 | -60.6 | -63.5 | -73.8 |
| Agriculture Advancing Australia | \$m | 5.5 | 21.6 | 22.5 | 18.8 | - |
| | % | | na | 4.2 | -16.4 | -100.0 |
| Quarantine and Inspection Services | \$m | 185.4 | 176.8 | 159.8 | 146.6 | 126.0 |
| | % | | -4.6 | -9.6 | -8.3 | -14.1 |
| Diesel Fuel Rebate Scheme | \$m | 617.8 | 636.4 | 658.8 | 681.9 | 705.8 |
| | % | | 3.0 | 3.5 | 3.5 | 3.5 |
| Other | \$m | 48.2 | 55.9 | 53.5 | 43.8 | 30.3 |
| | % | | 16.0 | -4.3 | -18.1 | -30.8 |
| TOTAL | \$m | 962.6 | 946.3 | 916.4 | 899.1 | 864.3 |
| | % | | -1.7 | -3.2 | -1.9 | -3.9 |

Rural Adjustment

The Rural Adjustment Scheme provides assistance, through interest subsidies and grants for training and consultancy services, to farmers in need who are commercially viable in

the long term. Further major outlays for drought assistance appear under *6.7 Other Welfare Programmes*. Other minor drought related outlays measures are shown under *4.4 Student Assistance*.

Agriculture Advancing Australia

This classification includes funding for Agriculture Advancing Australia (AAA) (announced in the 1997-98 Budget as the Integrated Rural Policy Package). The AAA aims to promote a self-reliant, productive rural sector supported by targeted Government measures which focus on building the skills and capacity of rural industries and communities to manage effectively in an uncertain environment.

Australian Quarantine and Inspection Service

The Australian Quarantine and Inspection Service (AQIS) conducts inspection services for the export and import of animals, animal products, plants and plant products, and the quarantine surveillance of arriving vessels, persons and goods.

Diesel Fuel Rebate Scheme - Primary Production

The Diesel Fuel Rebate Scheme provides for a rebate of excise or customs duty on diesel fuel used for eligible primary production activities.

Other Programmes

This classification includes outlays for a range of programmes to address issues in the rural sector, including the Farm Family Restart Scheme and programmes addressing animal diseases and chemical usage.

10.7 NATURAL RESOURCES DEVELOPMENT AND MANAGEMENT

This classification covers water, land and forest management programmes primarily within the Department of Primary Industries and Energy, and includes the Government's contribution towards the Murray-Darling Basin Initiative. Land and water programmes are now integrated within the National Landcare Programme under the *Natural Resource Management (Financial Assistance) Act 1992*.

10.8 GENERAL ADMINISTRATION

This classification comprises running costs for the Department of Primary Industries and Energy.

11. MINING AND MINERAL RESOURCES, OTHER THAN FUELS; MANUFACTURING; AND CONSTRUCTION

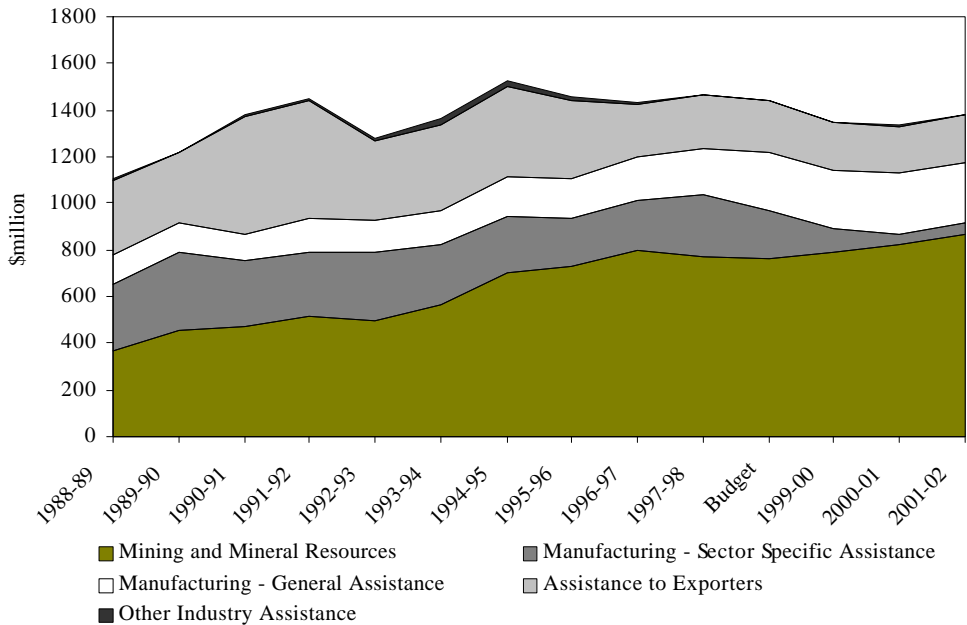
NATURE OF OUTLAYS

Outlays under this function provide assistance to the mining, manufacturing and export sectors, and are designed to improve the efficiency and competitiveness of Australian industries. Assistance is provided in the form of grants, subsidies, rebates, bounties, direct project involvement, and the provision of some services either free of charge or at charges less than the costs involved. All activities relating to mineral fuels, and manufacturing relating to the production of fuel and energy, are classified to 9. *Fuel and Energy*.

This function includes outlays of the following portfolios:

- Foreign Affairs and Trade;
- Industry, Science and Tourism; and
- Primary Industries and Energy.

Chart 1. Overview of Commonwealth Outlays on Mining and Mineral Resources, Other Than Fuels; Manufacturing; and Construction (1989-90 prices)



TRENDS IN MINING AND MINERAL RESOURCES, OTHER THAN FUELS; MANUFACTURING; AND CONSTRUCTION OUTLAYS

Between 1988-89 and 1994-95 outlays increased over the period as a whole. The major factor contributing to this growth was payments to mining operators under the Diesel Fuel Rebate Scheme (DFRS) as a result of growth in the mining sector and widening coverage of the Scheme, reflecting Administrative Appeals Tribunal and Federal Court rulings.

The decline in outlays between 1991-92 and 1992-93 is almost entirely due to reductions in assistance to exporters, as revisions to the eligibility criteria for the Export Market Development Grants Scheme (EMDGS) narrowed the coverage of the Scheme.

Between 1994-95 and 1997-98 outlays decreased in most years. This decline is projected to continue until 2000-01. Major factors contributing to the decline include:

- a move in government policy away from sector specific assistance through the termination of production bounties under the manufacturing subfunction;
- the expiry of some enterprise improvement programmes established in 1994-95, under the general assistance classification; and
- the capping of the EMDGS and abolition of several programmes under the assistance to exporters subfunction.

These reductions have been partially offset by significant increases in funding for the R&D START and other industry innovation programmes announced by the Government in *Investing for Growth*.

The increase in outlays between 2000-01 and 2001-02 is largely due to projected increases in rebates to mining operators under DFRS.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|------|------------------------------|---------------------|-------------------|---------------------|---------------------|---------------------|
| 11.1 | Mining and Mineral Resources | \$m 905.1 | 920.5 | 971.9 | 1046.6 | 1127.3 |
| | | % | 1.7 | 5.6 | 7.7 | 7.7 |
| 11.2 | Manufacturing | \$m 542.2 | 551.5 | 442.7 | 393.1 | 405.4 |
| | | % | 1.7 | -19.7 | -11.2 | 3.1 |
| 11.3 | Assistance to Exporters | \$m 271.0 | 266.7 | 247.9 | 253.1 | 260.3 |
| | | % | -1.6 | -7.0 | 2.1 | 2.8 |
| 11.4 | Other Industry Assistance | \$m 1.7 | 2.8 | 2.8 | 1.7 | 1.8 |
| | | % | 64.7 | na | -39.3 | 5.9 |
| | TOTAL | \$m 1719.9 | 1741.5 | 1665.3 | 1694.5 | 1794.8 |
| | | % | 1.3 | -4.4 | 1.8 | 5.9 |

11.1 MINING AND MINERAL RESOURCES

| | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|------------------------------------|-----------|---------|----------|----------|----------|
| | Estimate | Budget | Estimate | Estimate | Estimate |
| Mining-International Involvement | \$m 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| | % | na | na | na | na |
| Diesel Fuel Rebate Scheme | \$m 815.7 | 865.7 | 934.4 | 1008.3 | 1088.0 |
| | % | 6.1 | 7.9 | 7.9 | 7.9 |
| Other Mining and Mineral Resources | \$m 89.0 | 54.5 | 37.2 | 38.0 | 39.0 |
| | % | -38.8 | -31.7 | 2.2 | 2.6 |
| TOTAL | \$m 905.1 | 920.5 | 971.9 | 1046.6 | 1127.3 |
| | % | 1.7 | 5.6 | 7.7 | 7.7 |

Diesel Fuel Rebate Scheme

Funding under this Scheme provides for a rebate of excise or customs duty on diesel fuel for eligible activities. Information on aggregate revenue from the petroleum products excise duty and customs duty is presented in Table 4 of Statement 5 - Revenue. Revenue collected in total from the sector as pre-paid excise or customs duty exceeds the rebate paid.

Legislation to modify the operation of the Scheme received Royal Assent on 30 June 1997. The legislation, which came into effect in two stages, aims to reduce overclaiming of the rebate, restrict eligibility, and contain potential growth in outlays associated with decisions by the Administrative Appeals Tribunal and the Federal Court which had the effect of widening eligibility under the Scheme. The first stage, effective from 1 August 1997, dealt with changes to the eligibility criteria of the Scheme's mining category. The second stage, effective from 1 January 1998, dealt with administration and accountability of the whole scheme.

Other Mining and Mineral Resources

Outlays under this classification mainly comprise the operating costs of the Australian Geological Survey Organisation.

11.2 MANUFACTURING

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|-------------------------------------|-----|---------------------|-------------------|---------------------|---------------------|---------------------|
| Sector Specific Assistance | | | | | | |
| Textiles, Clothing and Footwear | \$m | 21.1 | 19.6 | 5.8 | 4.0 | 4.1 |
| | % | | -7.1 | -70.4 | -31.0 | 2.5 |
| Shipbuilding (Bounty) | \$m | 22.1 | 22.3 | 1.0 | - | - |
| | % | | 0.9 | -95.5 | -100.0 | na |
| Printing (Bounty) | \$m | 7.9 | 1.0 | - | - | - |
| | % | | -87.3 | -100.0 | na | na |
| Information Technology | \$m | 84.1 | 47.1 | 6.0 | 6.0 | 6.1 |
| | % | | -44.0 | -87.3 | na | 1.7 |
| Automotive and Engineering | \$m | 5.2 | 2.0 | - | - | - |
| | % | | -61.5 | -100.0 | na | na |
| Pharmaceutical and Food | \$m | 175.1 | 159.3 | 120.2 | 48.6 | 55.6 |
| | % | | -9.0 | -24.5 | -59.6 | 14.4 |
| Sub-total | \$m | 315.5 | 251.3 | 133.1 | 58.7 | 65.8 |
| | % | | -20.3 | -47.0 | -55.9 | 12.1 |
| General Assistance | | | | | | |
| Industrial Research and Development | \$m | 109.6 | 142.2 | 191.3 | 209.4 | 220.4 |
| | % | | 29.7 | 34.5 | 9.5 | 5.3 |
| Enterprise Development | \$m | 38.4 | 19.3 | 7.8 | 6.8 | 1.3 |
| | % | | -49.7 | -59.6 | -12.8 | -80.9 |
| Other Assistance to Manufacturing | \$m | 78.6 | 138.7 | 110.5 | 118.2 | 118.0 |
| | % | | 76.5 | -20.3 | 7.0 | -0.2 |
| Sub-total | \$m | 226.7 | 300.2 | 309.6 | 334.4 | 339.7 |
| | % | | 32.4 | 3.1 | 8.0 | 1.6 |
| TOTAL | \$m | 542.2 | 551.5 | 442.7 | 393.1 | 405.4 |
| | % | | 1.7 | -19.7 | -11.2 | 3.1 |

Sector Specific Assistance

Textiles, Clothing and Footwear

Assistance to the Textile, Clothing and Footwear (TCF) industry is provided through the TCF Development 2000 package and the post 2000 measures announced by the Government in 1997. Outlays also include specific assistance to Australian Leather Holdings Limited.

Shipbuilding, Printing and Information Technology

Assistance to the shipbuilding industry, printing and information technology industries has been provided through the payment of bounties. The application of the shipbuilding bounty has been extended to 30 June 1999. It will apply to vessels which were under construction or subject to firm commitment by 31 December 1997. The book printing bounty was terminated on 31 December 1997. The computer bounty was terminated on 1 July 1997.

Pharmaceutical and Food

Assistance to the pharmaceutical industry is provided through the Factor f Scheme. The purpose of the Scheme is to promote the development of the sector by partially compensating pharmaceutical companies for lost activity as a result of price setting arrangements under the Pharmaceutical Benefits Scheme. In return for assistance under

the Factor f Scheme, eligible companies are required to meet specified targets on their research and development expenditure and value-added activities.

The current Factor f Scheme ends on 30 June 1999 with the final payments to be made in 1999-2000. A new scheme of assistance to the pharmaceutical industry commences at a reduced level from 1 July 1999.

The Agri-food Industry Programme ceases on 30 June 1998.

General Assistance

General assistance is provided through AusIndustry, which provides an entry point for small to medium enterprises accessing different assistance programmes offered by the Commonwealth, States and Territories. AusIndustry provides direct assistance to encourage research and development through grants and commercialisation loans. AusIndustry also provides assistance through the Enterprise development program for the delivery of advice and referral services, and individual direct management for small to medium enterprises.

Industrial Research and Development

Outlays under this classification provide assistance to industry for research and development. The R&D START programme provides grants and loans for eligible R&D activities. The Innovation Investment Fund (IIF) provides venture capital to small technology based companies commercialising R&D. The Government announced significant increases for these and other innovation programmes in *Investing for Growth*.

Other Assistance to Manufacturing

Outlays consist mainly of administrative costs associated with the Department of Industry, Science and Tourism.

11.3 ASSISTANCE TO EXPORTERS

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|-----------------------------------|-----|---------------------|-------------------|---------------------|---------------------|---------------------|
| Export Development Scheme | \$m | 160.3 | 146.2 | 124.7 | 129.6 | 137.6 |
| | % | | -8.8 | -14.7 | 3.9 | 6.2 |
| Export and Trade Promotion | \$m | 106.8 | 130.1 | 117.1 | 114.8 | 114.0 |
| | % | | 21.8 | -10.0 | -2.0 | -0.7 |
| Export Finance Facility | \$m | -10.8 | -26.1 | -6.1 | -3.3 | -3.3 |
| | % | | 141.7 | -76.6 | -45.9 | na |
| National Interest Export Business | \$m | 14.7 | 16.5 | 12.2 | 12.0 | 12.0 |
| | % | | 12.2 | -26.1 | -1.6 | na |
| TOTAL | \$m | 271.0 | 266.7 | 247.9 | 253.1 | 260.3 |
| | % | | -1.6 | -7.0 | 2.1 | 2.8 |

Commonwealth assistance to exporters includes direct financial assistance for the development of export markets, information and promotional assistance, finance and insurance services, and the development of trade policy.

Outlays on general assistance to exporters are shown under this subfunction. Export assistance to specific sectors is included under the sub functions that cover those sectors.

Export Development Schemes

The Export Market Development Grants Scheme (EMDGS) administered by the Australian Trade Commission (Austrade) provides financial assistance to Australian companies to secure increased international business and to seek out and develop overseas markets by encouraging increased export promotion. EMDGS outlays are capped. The International Trade Enhancement Scheme and the Innovative Agricultural Marketing Programme, involving loans to exporters, were abolished in the 1996-97 Budget, and funds associated with these programmes are being repaid.

Export and Trade Promotion

The Commonwealth's funding of Austrade is reflected under this subfunction.

Export Finance Facility

The Export Finance and Insurance Corporation (EFIC) provides loans, insurance and other financial services to support Australian produced exports and overseas investments. Negative outlays in the years shown represent payments to the Government of net interest profits on loans provided to exporters.

National Interest Export Business

EFIC can refer applications for loans, guarantees and contracts of insurance to the Government for consideration on the Government's National Interest Account. EFIC administers the National Interest Account on a fee-for-service basis and on the terms that any revenue is remitted to the Commonwealth and the Commonwealth is liable for the payment of insurance claims or losses incurred through defaults by borrowers.

11.4 OTHER INDUSTRY ASSISTANCE

Assistance under this subfunction provides funding for the provision of obligations under the former National Space Program along with funds for a nationally coordinated programme of building regulatory reform across the Commonwealth, States and Territories.

12. TRANSPORT AND COMMUNICATION

NATURE OF OUTLAYS

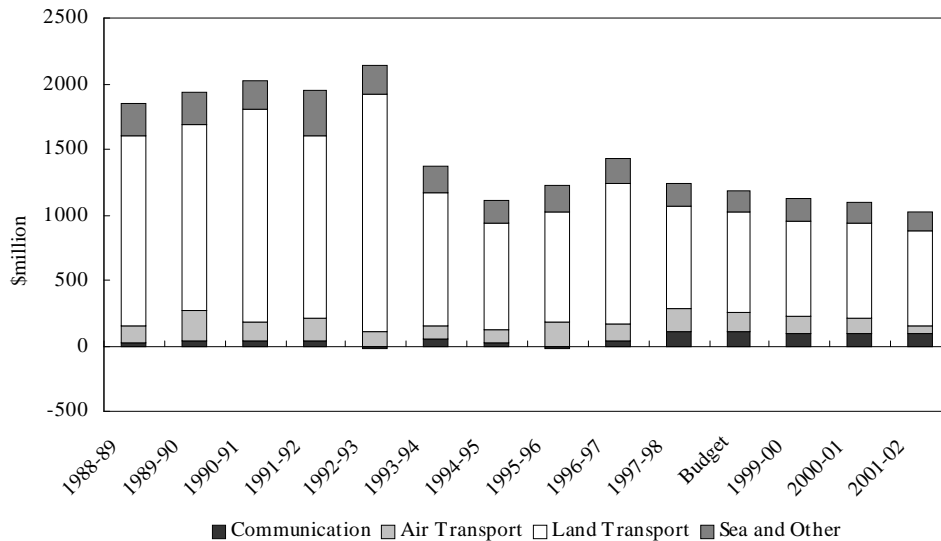
Transport and Communication outlays support the infrastructure and regulatory framework of Australia's transport and communications sectors. Outlays are provided in the form of grants, specific purpose payments, running costs, loans and advances and are offset by recoveries and repayments. The largest component of outlays relates to specific purpose payments to State governments for the construction and maintenance of the National Highway System and the construction of other roads of national importance.

Outlays relating to cultural activities and the administration of communications programmes of the Communications and the Arts portfolio are included in 8. *Recreation and Culture*. Outlays relating to the regional development and local government activities of the Transport and Regional Development portfolio are included in 7. *Housing and Community Amenities* and 14B. *General Purpose Inter-Government Transactions* respectively.

This function includes outlays of the following portfolios:

- Communications and the Arts;
- Transport and Regional Development; and
- Workplace Relations and Small Business.

Chart 1. Overview of Commonwealth Outlays on Transport and Communication (1989-90 prices)



TRENDS IN TRANSPORT AND COMMUNICATION OUTLAYS

The decline in outlays since 1992-93 reflects the completion of a number of major transport programmes and the untying of specific purpose road grants (comprising outlays of \$350 million per annum) from 1 January 1994. As a result of untying the specific purpose road grants, these outlays were reclassified under function 14B. General Purpose Inter-Government Transactions.

The increase in the Land Transport component of outlays in 1996-97 predominantly reflects funding for the sale and winding up of the Australian National Railways Commission.

Estimated outlays for all components of Transport and Communications are expected to decline slightly over the period 1998-99 to 2001-02.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|------|-----------------------------------|------------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| 12.1 | Communication | \$m 126.4 | 123.9 | 123.2 | 121.6 | 121.6 |
| | | % | -2.0 | -0.6 | -1.3 | na |
| 12.2 | Air Transport | \$m 199.5 | 177.3 | 154.4 | 138.1 | 82.3 |
| | | % | -11.1 | -12.9 | -10.6 | -40.4 |
| 12.3 | Road Transport | \$m 873.3 | 868.2 | 843.6 | 849.3 | 854.4 |
| | | % | -0.6 | -2.8 | 0.7 | 0.6 |
| 12.4 | Rail Transport | \$m 53.2 | 59.6 | 62.5 | 85.1 | 80.7 |
| | | % | 12.0 | 4.9 | 36.2 | -5.2 |
| 12.5 | Sea Transport | \$m 132.8 | 123.8 | 119.0 | 117.7 | 119.0 |
| | | % | -6.8 | -3.9 | -1.1 | 1.1 |
| 12.6 | Other Transport and Communication | \$m 77.6 | 82.1 | 80.3 | 80.7 | 80.8 |
| | | % | 5.8 | -2.2 | 0.5 | 0.1 |
| | TOTAL | \$m 1462.9 | 1434.9 | 1383.0 | 1392.5 | 1338.7 |
| | | % | -1.9 | -3.6 | 0.7 | -3.9 |

12.1 COMMUNICATION

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|--|------------------------------|-----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| | Planning and Regulation | \$m 127.4 | 124.9 | 124.2 | 122.6 | 122.6 |
| | | % | -2.0 | -0.6 | -1.3 | na |
| | Sale of Communication Rights | \$m -1.0 | -1.0 | -1.0 | -1.0 | -1.0 |
| | | % | na | na | na | na |
| | TOTAL | \$m 126.4 | 123.9 | 123.2 | 121.6 | 121.6 |
| | | % | -2.0 | -0.6 | -1.3 | na |

The Communication subfunction includes the operations of the Australian Communications Authority (ACA) and grants from the Regional Telecommunications Infrastructure Fund.

The above estimates do not include outlays for broadcasting activities, other than for radiocommunications. Broadcasting activities are covered in 8. *Recreation and Culture*.

Planning and Regulation

Planning and regulation (apart from competition regulation) of the communications industry is currently undertaken by the Department of Communications and the Arts, and the ACA. Competition regulation of the industry is the responsibility of the Australian Competition and Consumer Commission. The ACA also undertakes radiocommunications spectrum planning and administration including the allocation of spectrum.

12.2 AIR TRANSPORT

| | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|-------------------------------------|-----------|---------|----------|----------|----------|
| | Estimate | Budget | Estimate | Estimate | Estimate |
| Airport Administration and Aviation | \$m 100.1 | 96.9 | 77.2 | 59.9 | 3.1 |
| Policy | % | -3.2 | -20.3 | -22.4 | -94.8 |
| Air Safety | \$m 32.5 | 29.7 | 31.1 | 31.2 | 31.4 |
| | % | -8.6 | 4.7 | 0.3 | 0.6 |
| Avgas and Avtur Duty Paid | \$m 66.9 | 50.6 | 46.1 | 46.9 | 47.7 |
| | % | -24.4 | -8.9 | 1.7 | 1.7 |
| TOTAL | \$m 199.5 | 177.3 | 154.4 | 138.1 | 82.3 |
| | % | -11.1 | -12.9 | -10.6 | -40.4 |

Airport Administration and Aviation Policy

This item includes the provision of aviation infrastructure, and the regulation and implementation of aviation environmental and security standards and airport building and planning standards. The major outlay within this item relates to the Sydney Airport Noise Amelioration Programme which is expected to be completed in 2000-01.

Air Safety

The development, implementation and enforcement of aviation safety standards is undertaken by the Civil Aviation Safety Authority (CASA). The Bureau of Air Safety Investigation is responsible for air safety investigations and associated research action and where appropriate, making recommendations to rectify any deficiencies. Search and rescue services previously provided by Airservices Australia (Airservices) were transferred to the Australian Maritime Safety Authority in 1997-98.

Avgas and Avtur Duty Paid

Industry's contribution to aviation safety regulation is made through fees and charges, and customs duty and excise on aviation turbine fuel and aviation gasoline. Airservices receives a component of aviation gasoline duty as a contribution to the recovery of the costs of enroute and terminal navigation services from the general aviation sector. (See also Excise Duty in *Statement 5*.)

12.3 ROAD TRANSPORT

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| Road Grants | \$m | 817.3 | 799.0 | 785.6 | 805.8 | 811.3 |
| | % | | -2.2 | -1.7 | 2.6 | 0.7 |
| Interstate Road Transport Charge | \$m | 20.3 | 15.3 | 15.3 | - | - |
| | % | | -24.6 | na | -100.0 | na |
| Road Safety and Land Transport Research | \$m | 29.0 | 48.8 | 38.0 | 38.8 | 39.6 |
| | % | | 68.3 | -22.1 | 2.1 | 2.1 |
| Other | \$m | 6.7 | 5.2 | 4.7 | 4.7 | 3.5 |
| | % | | -22.4 | -9.6 | na | -25.5 |
| TOTAL | \$m | 873.3 | 868.2 | 843.6 | 849.3 | 854.4 |
| | % | | -0.6 | -2.8 | 0.7 | 0.6 |

Road Grants

The Commonwealth funds the National Highway System and contributes to the capital cost of some other roads of national importance. For roads more generally, the Commonwealth provides general revenue assistance to the States and to local government (see *14B. General Purpose Inter-Government Transactions*).

Interstate Road Transport Charge

Heavy vehicles engaged solely in interstate trade may be registered under the Federal Interstate Registration Scheme (FIRS), which is administered by the Department of Transport and Regional Development under the *Interstate Road Transport Act 1985*. All revenue is returned to the States and Territories for maintenance and construction of interstate roads and is distributed according to a Ministerial determination based on annual kilometres travelled by FIRS vehicles in each State and Territory. The Commonwealth has agreed to review the future of FIRS from the time when all States and Territories have the National Registration Scheme in place.

Road Safety and Land Transport Research

The major component of this item is a contribution for the remediation of road safety black spots through assistance to State and local governments.

Other

This item includes funding for the Petroleum Products Freight Subsidy Scheme (PPFSS). The PPFSS was previously classified under function *13.C. Other Economic Affairs, NEC*.

12.4 RAIL TRANSPORT

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| National Rail Corporation | \$m | 16.1 | - | - | - | - |
| | % | | -100.0 | na | na | na |
| Australian National Railways Commission | \$m | 33.4 | 19.9 | - | - | - |
| | % | | -40.4 | -100.0 | na | na |
| Upgrade of Rail Track | \$m | - | 35.0 | 61.5 | 84.0 | 80.7 |
| | % | | na | 75.7 | 36.6 | -3.9 |
| Other Rail Development | \$m | 3.8 | 4.7 | 1.0 | 1.0 | - |
| | % | | 23.7 | -78.7 | na | -100.0 |
| TOTAL | \$m | 53.2 | 59.6 | 62.5 | 85.1 | 80.7 |
| | % | | 12.0 | 4.9 | 36.2 | -5.2 |

National Rail Corporation

The Government has decided, in principle, to sell its shareholding in the National Rail Corporation.

Australian National Railways Commission

The Government has sold most businesses and assets of the Australian National Railways Commission with the exception of the interstate track. The interstate track is to be transferred to the newly formed Australian Rail Track Corporation (ARTC) with a provision that the Alice Springs to Tarcoola line will be made available to any successful proponent of an Alice Springs to Darwin line.

Upgrade of rail track

To ensure open access to the interstate rail network for current and potential operators, the Government negotiated arrangements with the States and others over access, including the establishment of the ARTC. Concurrent with the establishment of the ARTC the Commonwealth proposes, subject to adequate progress on harmonisation issues, to contribute to the upgrade of the interstate mainline rail track.

12.5 SEA TRANSPORT

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|--------------------------------|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| Tasmanian Equalisation Schemes | \$m | 54.4 | 53.0 | 47.2 | 47.6 | 47.6 |
| | % | | -2.6 | -10.9 | 0.8 | na |
| Maritime Services | \$m | 74.4 | 70.8 | 71.8 | 70.1 | 71.4 |
| | % | | -4.8 | 1.4 | -2.4 | 1.9 |
| Shipping Industry Reform | \$m | 4.0 | - | - | - | - |
| | % | | -100.0 | na | na | na |
| TOTAL | \$m | 132.8 | 123.8 | 119.0 | 117.7 | 119.0 |
| | % | | -6.8 | -3.9 | -1.1 | 1.1 |

Tasmanian Equalisation Schemes

This item includes both the Tasmanian Freight Equalisation Scheme (TFES) and the Bass Strait Passenger Vehicle Equalisation Scheme (BSPVES). TFES assists in alleviating the comparative interstate freight cost disadvantage incurred by shippers of

eligible non-bulk goods in transporting such goods to and from Tasmania by sea. The BSPVES addresses the transport cost disadvantage when travelling with a passenger vehicle across Bass Strait by sea.

Maritime Services

Maritime Services includes funding for the Australian Maritime Safety Authority's (AMSA) search and rescue and related activities. Its marine navigation and ship safety activities and capital needs are funded from industry levies. During 1997-98, aviation search and rescue, which was previously undertaken by Airservices, was transferred to AMSA.

Shipping Industry Reform

This item includes expenditure under the previous Government's shipping industry reforms that have now terminated. While eligibility under the Ships (Capital Grants Act) 1987 terminated in 1996-97, expenditure is expected to be completed by 1997-98.

12.6 OTHER TRANSPORT AND COMMUNICATION

Included in this item are the costs of administering relevant programmes in the Transport and Regional Development and the Communications and the Arts portfolios.

13. OTHER ECONOMIC AFFAIRS

This category covers regulation of and assistance to the private sector, direct government participation in economic activity and the provision of economic infrastructure. Other Economic Affairs is an aggregate of Tourism and Area Promotion, Labour and Employment Affairs, and other Economic Affairs not elsewhere classified.

13A. TOURISM AND AREA PROMOTION

NATURE OF OUTLAYS

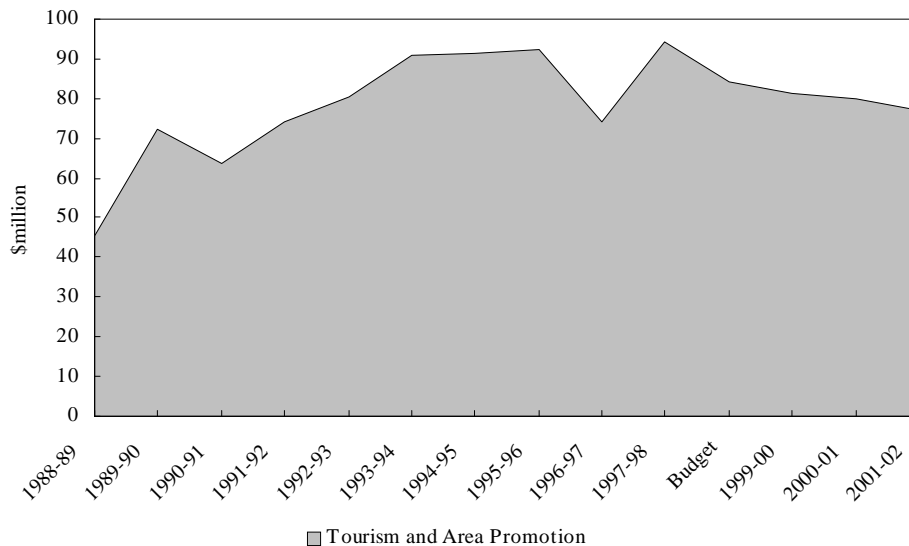
Commonwealth outlays contribute to tourism research and analysis, policy development, international tourism marketing and funding for specific tourism programmes and projects.

This function includes outlays of the following portfolios:

- Industry, Science and Tourism; and
- Transport and Regional Development.

Outlays on National Parks and Wildlife Services are classified to 8. *Recreation and Culture*.

Chart 1. Overview of Commonwealth Outlays on Tourism and Area Promotion (1989-90 prices)



TRENDS IN TOURISM AND AREA PROMOTION

Commonwealth assistance for tourism rose significantly between 1988-89 and 1995-96. The increase was principally due to significant increases in funding over the period for the Australian Tourist Commission's (ATC) international marketing activities, the establishment of a separate Department of Tourism in 1991 and the introduction of sectoral based tourism programmes in 1993-94.

Outlays fell in 1990-91 following the expiry of the Tourism Overseas Promotion Scheme and the Tourism Recovery Package.

Outlays declined in 1996-97 due to a reduction in funding for the ATC and administrative savings that resulted from the merger of the Department of Tourism with the former Department of Industry, Science and Technology. The increase in outlays in 1997-98 is largely due to funding provided over four years to the ATC for Olympics promotion. Outlays decline in 1998-99 and over the forward estimates due to the ending of a number of specialist sectoral based tourism programmes in 1997-98.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|-----|---------|-----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| 13A | Tourism | \$m 110.4 | 101.7 | 100.6 | 101.3 | 100.2 |
| | | % | -7.9 | -1.1 | 0.7 | -1.1 |

13B. LABOUR AND EMPLOYMENT AFFAIRS

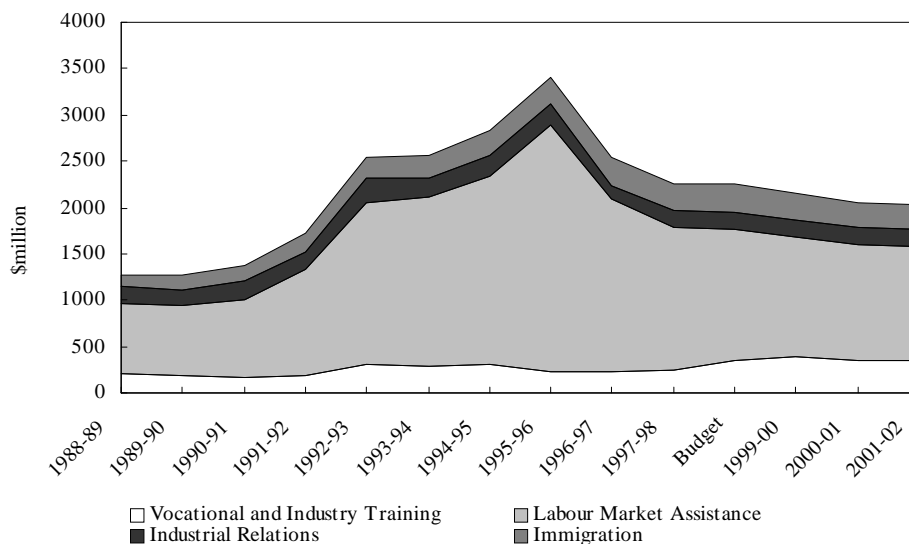
NATURE OF OUTLAYS

Outlays on Labour and Employment are mainly for training and employment assistance, facilitation of migration and temporary entry into Australia, workplace relations and the operation of associated Commonwealth agencies. Labour and Employment affairs of a particular industry are generally classified to the function which the industry serves.

This function includes outlays of the following portfolios:

- Employment, Education, Training and Youth Affairs;
- Workplace Relations and Small Business;
- Immigration and Multicultural Affairs; and
- Veterans' Affairs.

Chart 1. Overview of Commonwealth Outlays on Labour and Employment Affairs (1989-90 Prices)



TRENDS IN LABOUR AND EMPLOYMENT OUTLAYS

Outlays on Labour and Employment rose between 1989-90 and 1995-96. That increase in outlays reflected a number of policy initiatives implemented in response to the increase in unemployment at the beginning of the 1990s.

The declining trend in outlays from 1995-96 and over the budget and forward years reflects a reduction in and tighter targeting of outlays on labour market assistance to the unemployed, in the light of evidence that a large proportion of outlays were not very effective in reducing unemployment. The tighter targeting is being combined with greater emphasis on other strategies for reducing unemployment, including improved economic management, economic settings which encourage small business, structural reform and reforms to industrial relations arrangements.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|--|-----|---------------------|-------------------|---------------------|---------------------|---------------------|
| 13B.1 Vocational and Industry Training | \$m | 286.0 | 422.5 | 477.0 | 431.2 | 444.8 |
| | % | | 47.7 | 12.9 | -9.6 | 3.2 |
| 13B.2 Labour Market Assistance to Jobseekers and Industry | \$m | 1819.4 | 1707.3 | 1609.4 | 1602.1 | 1623.2 |
| | % | | -6.2 | -5.7 | -0.5 | 1.3 |
| 13B.3 Workplace Relations | \$m | 203.6 | 228.1 | 225.7 | 225.5 | 223.9 |
| | % | | 12.0 | -1.1 | -0.1 | -0.7 |
| 13B.4 Immigration | \$m | 347.6 | 379.3 | 353.6 | 359.6 | 364.6 |
| | % | | 9.1 | -6.8 | 1.7 | 1.4 |
| TOTAL | \$m | 2656.7 | 2737.2 | 2665.7 | 2618.4 | 2656.4 |
| | % | | 3.0 | -2.6 | -1.8 | 1.5 |

13B.1 VOCATIONAL AND INDUSTRY TRAINING

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|----------------------|-----|---------------------|-------------------|---------------------|---------------------|---------------------|
| Entry Level Training | \$m | 228.1 | 368.2 | 419.3 | 389.4 | 403.0 |
| | % | | 61.4 | 13.9 | -7.1 | 3.5 |
| Skills Training | \$m | 57.9 | 54.2 | 57.8 | 41.8 | 41.8 |
| | % | | -6.4 | 6.6 | -27.7 | na |
| TOTAL | \$m | 286.0 | 422.5 | 477.0 | 431.2 | 444.8 |
| | % | | 47.7 | 12.9 | -9.6 | 3.2 |

Outlays cover support for training in skills aimed at improving the productivity and competitiveness of Australian industry. Outlays on vocational education and training (mainly relating to the national Technical and Further Education (TAFE) system) are recorded under *4. Education*.

Entry Level Training

These programmes aim to develop vocational skills and improve access to training by providing wage subsidies and incentive payments to employers and allowances to individuals. They also fund pre-apprenticeship/traineeship training, group training arrangements, and activities to increase links between schools, TAFE and employers.

Skills Training

Outlays under these programmes are directed at furthering the professional development of teachers and trainers in the vocational education sector, increasing the level and quality of skills training undertaken by industry and promoting training reform. They also provide funding for language and literacy training in the workplace, the national network of tripartite Industry Training Advisory Bodies and training reform projects.

13B.2 LABOUR MARKET ASSISTANCE TO JOB SEEKERS AND INDUSTRY

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|--|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| Assistance to Job seekers and Industry | \$m | 1755.9 | 1661.6 | 1576.3 | 1575.8 | 1596.4 |
| | % | | -5.4 | -5.1 | na | 1.3 |
| Aboriginal Employment Assistance | \$m | 63.5 | 45.8 | 33.1 | 26.3 | 26.7 |
| | % | | -27.9 | -27.7 | -20.5 | 1.5 |
| TOTAL | \$m | 1819.4 | 1707.3 | 1609.4 | 1602.1 | 1623.2 |
| | % | | -6.2 | -5.7 | -0.5 | 1.3 |

Outlays cover a range of activities to improve the employment prospects of unemployed people, including the fees paid to organisations contracted by the Commonwealth to deliver employment services under the new Job Network arrangements.

Assistance to Job seekers and Industry

As foreshadowed in the 1996-97 Budget, new arrangements for delivering labour market assistance to job seekers were introduced during 1997-98. Centrelink, formerly known as the Commonwealth Services Delivery Agency was established on 1 July 1997 within the Social Security portfolio. The Job Network which comprises private, public and community based organisations contracted by the Commonwealth government to provide employment services to job seekers was established on 1 May 1998 and is funded from within the Employment, Education, Training and Youth Affairs portfolio.

Centrelink delivers income support payments, childcare assistance, student assistance and the registration, assessment and referral services formerly provided by the Commonwealth Employment Service (CES) (see 6.9 *General Administration*). The Department of Employment, Education, Training and Youth Affairs purchases services on behalf of job seekers from the market and Centrelink.

The Job Network is a competitive employment services market in which service providers place job seeker clients in jobs. Employment National Ltd (a wholly owned Commonwealth company) competes in a market of some 300 private and community sector providers. Providers are able to tailor assistance to suit the employment needs of particular clients and their payment is heavily dependent on placing clients in real jobs.

In addition to the Job Network, labour market programmes include the employment strategies element of the Training for Aboriginal and Torres Strait Islanders programme, the Advanced English for Migrants programme, the Regional Assistance programme, the Work for the Dole scheme (which is to be expanded to provide up to 25,000 places per annum from 1998-99) and the new Literacy and Numeracy programme for young people who are subject to mutual obligation requirements.

Aboriginal Employment Assistance

The Training for Aboriginals and Torres Strait Islanders programme provides subsidies for work experience and on-the-job training in the public and private sectors and formal training through vocationally oriented courses, with the aim of increasing the level of permanent employment for Aboriginals and Torres Strait Islanders.

13B.3 WORKPLACE RELATIONS

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| Workplace Relations Development and Advice | \$m | 75.0 | 78.8 | 74.1 | 73.4 | 71.3 |
| | % | | 5.1 | -6.0 | -0.9 | -2.9 |
| Aust Industrial Relations Commission & Aust Industrial Registry | \$m | 42.2 | 40.6 | 40.9 | 41.3 | 41.7 |
| | % | | -3.8 | 0.7 | 1.0 | 1.0 |
| Special Industry Services | \$m | 71.0 | 93.4 | 93.4 | 93.4 | 93.4 |
| | % | | 31.5 | na | na | na |
| Trade Union Training | \$m | -3.1 | - | - | - | - |
| | % | | -100.0 | na | na | na |
| Occupational Health and Safety | \$m | 18.5 | 15.4 | 17.3 | 17.4 | 17.6 |
| | % | | -16.8 | 12.3 | 0.6 | 1.1 |
| TOTAL | \$m | 203.6 | 228.1 | 225.7 | 225.5 | 223.9 |
| | % | | 12.0 | -1.1 | -0.1 | -0.7 |

Workplace Relations Development and Advice

Most of the outlays of this subfunction are costs incurred by the Department of Workplace Relations and Small Business in providing policy advice and assistance on industrial relations matters to departments and agencies, and in advising the Government on, and promoting and implementing, its industrial relations policies.

Australian Industrial Relations Commission and Australian Industrial Registry

Outlays under this subfunction encourage the making of agreements between employers and employees at the workplace and enterprise level, ensure a safety net of fair minimum wages and conditions and, where necessary, prevent and settle industrial disputes as far as possible by conciliation and, when appropriate and within specified limits, by arbitration.

Special Industry Services

This subfunction covers special funding and levy arrangements for employee entitlements in the stevedoring and coal mining industries. The winding up of the Stevedoring Industry Finance Committee is expected to be completed in 1998-99. The estimates have increased from 1998-99 onwards by \$25.0 million per annum for payments in connection with reform or restructuring under the proposed *Stevedoring Levy (Collection) Act 1998*.

Trade Union Training

This subfunction covers the operation of the Australian Trade Union Training Authority which was abolished in 1996 when Schedule 18 of the *Workplace Relations and Other Legislation Amendment Act 1996* was proclaimed. Its assets are to be sold in late 1997-98.

Occupational Health and Safety

This subfunction covers the operation of the National Occupational Health and Safety Commission (NOHSC) which aims to improve Occupational Health and Safety (OHS) performance by leading and coordinating strategic alliances at national and jurisdictional

levels to help industries improve their OHS performance. NOHSC's activities add value to the efforts of the jurisdictions, and integrates the needs of small business into its work.

13B.4 IMMIGRATION

Outlays on this subfunction cover those activities of the Department of Immigration and Multicultural Affairs (DIMA) concerned with management of the Migration and Humanitarian Programmes, temporary entry, entry facilitation, compliance activity and citizenship. Other DIMA outlays associated with migrant settlement are covered under *4.4 Student Assistance* and *6.7 Other Welfare Programmes*.

The Migration Programme covers settler arrivals entering Australia on the basis of family reunion or contribution to the economic development of Australia. Temporary residence policy seeks to facilitate the entry, for a maximum stay of four years, of people who can contribute to the economic and cultural development of Australia. This allows for the entry of, amongst others, skilled persons, sports men and women, entertainers and working holiday-makers. Other entry of people for short periods is for purposes such as tourism, business and family visits.

Australia also considers applications for refugee status from people in other countries (the Humanitarian Programme) and from people already in Australia. Australia responds to humanitarian concerns about, and the special needs of, people suffering discrimination or displacement.

People entering Australia, whether temporarily or permanently, are expected to comply with Australian migration laws. To encourage compliance a range of actions are taken to encourage voluntary compliance, investigate malpractice and, where necessary, remove unlawful non-citizens who have no claim to remain in Australia.

13C. OTHER ECONOMIC AFFAIRS, NEC

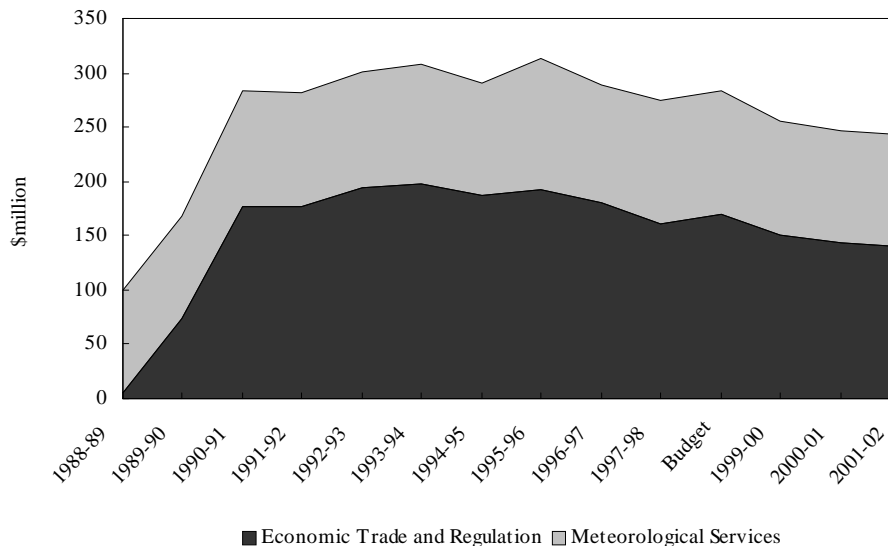
NATURE OF OUTLAYS

This function covers economic services provided by the Commonwealth which are not included in other function classifications. Outlays mainly comprise the operational costs of a number of advisory or regulatory agencies and various other agencies including the Bureau of Meteorology.

This function includes outlays of the following portfolios:

- Treasury;
- Industry, Science and Tourism; and
- Environment.

Chart 1. Overview of Commonwealth Outlays on Other Economic Affairs, nec (1989-90 Prices)



TRENDS IN OUTLAYS ON OTHER ECONOMIC AFFAIRS, NEC

The increase in outlays in 1990-91 reflects the establishment of a national scheme for the regulation of companies, and the securities and futures markets which are administered by the Australian Securities Commission (ASC). The fall in outlays, after 1995-96, is mainly due to reduced plant and equipment spending by the ASC and increased cost recovery of ASC services. Outlays decline from 1996-97 as a result of administrative savings in the ASC and the Productivity Commission, and restructuring of the Australian Government Analytical Laboratories. The peak in 1998-99 reflects the establishment

costs of the Australian Securities and Investments Commission, which will replace the Australian Securities Commission, and a carryover by IP Australia (formerly the Australian Industrial Property Organisation) of an operating surplus from 1997-98.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|-------------------------------------|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| 13C.1 Economic and Trade Regulation | \$m | 188.6 | 205.1 | 186.1 | 182.4 | 182.8 |
| | % | | 8.7 | -9.3 | -2.0 | 0.2 |
| 13C.2 Meteorological Services | \$m | 133.2 | 136.7 | 129.7 | 130.5 | 132.9 |
| | % | | 2.6 | -5.1 | 0.6 | 1.8 |
| TOTAL | \$m | 321.7 | 341.8 | 315.9 | 312.9 | 315.7 |
| | % | | 6.2 | -7.6 | -0.9 | 0.9 |

13C.1 ECONOMIC AND TRADE REGULATION

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|--------------------------------------|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| Productivity Commission | \$m | 26.6 | 19.9 | 19.9 | 21.0 | 21.1 |
| | % | | -25.2 | na | 5.5 | 0.5 |
| Trade Practices and Consumer Affairs | \$m | 42.6 | 40.0 | 39.9 | 40.2 | 39.1 |
| | % | | -6.1 | -0.3 | 0.8 | -2.7 |
| Regulation of Companies & Securities | \$m | 84.5 | 93.5 | 83.7 | 81.0 | 85.0 |
| | % | | 10.7 | -10.5 | -3.2 | 4.9 |
| Other | \$m | 34.8 | 51.7 | 42.7 | 40.2 | 37.6 |
| | % | | 48.6 | -17.4 | -5.9 | -6.5 |
| TOTAL | \$m | 188.6 | 205.1 | 186.1 | 182.4 | 182.8 |
| | % | | 8.7 | -9.3 | -2.0 | 0.2 |

Productivity Commission

On 16 April 1998 Royal assent was given to legislation to establish the Productivity Commission (PC). The PC has been created by merging the Industry Commission (IC), the Economic Planning Advisory Commission (EPAC) and the Bureau of Industry Economics. The PC's role is to promote public understanding of productivity issues and its main functions encompass public inquiries commissioned by the Government, research projects, performance monitoring, benchmarking and business regulation review.

Trade Practices and Consumer Affairs

This item provides for the running costs of the Australian Competition and Consumer Commission (ACCC). The ACCC is the major enforcement and consumer protection body responsible for the enforcement of the *Trade Practices Act 1974* and the *Prices Surveillance Act 1983*. Outlays also include the running costs of the Bureau of Consumer Affairs.

Regulation of Companies and Securities

Outlays are dominated by the operating costs of the Australian Securities Commission (ASC). During 1998-99 the ASC will be replaced by the Australian Securities and Investments Commission, which will be responsible for regulating market integrity and consumer protection. Also included is a grant to the Australian Accounting Research

Foundation, and the operating costs of the Australian Accounting Standards Board and the Companies and Securities Advisory Committee.

Other

This item covers the operations of several Commonwealth organisations. It includes the Commonwealth's contribution to the following standards organisations: the National Association of Testing Authorities; Standards Australia; and the National Standards Commission. It also includes Commonwealth funding of the Australian Surveying and Land Information Group, Australian Government Analytical Laboratories, IP Australia and the National Competition Council.

13C.2 METEOROLOGICAL SERVICES

This subfunction covers the running costs of the Bureau of Meteorology (BOM) and the Ionospheric Prediction Service (IPS), net of recoveries for services. BOM provides a range of weather and climate data, monitoring, forecasting, and warning information as well as advisory services for the general public and specialist users, such as the aviation industry and the defence force. It also undertakes research into the nature and mechanisms of the Australian and southern hemisphere climate, including greenhouse research. The IPS predicts the state of the ionosphere for users of radio communications systems, including for the defence force and telecommunications organisations.

14. OTHER PURPOSES

This category covers outlays on Public Debt Interest (PDI) and outlays to the six States, the Northern Territory, the Australian Capital Territory and local government. It also includes items classified to Natural Disaster Relief, the Contingency Reserve, and the Asset Sales functions.

14A. PUBLIC DEBT INTEREST

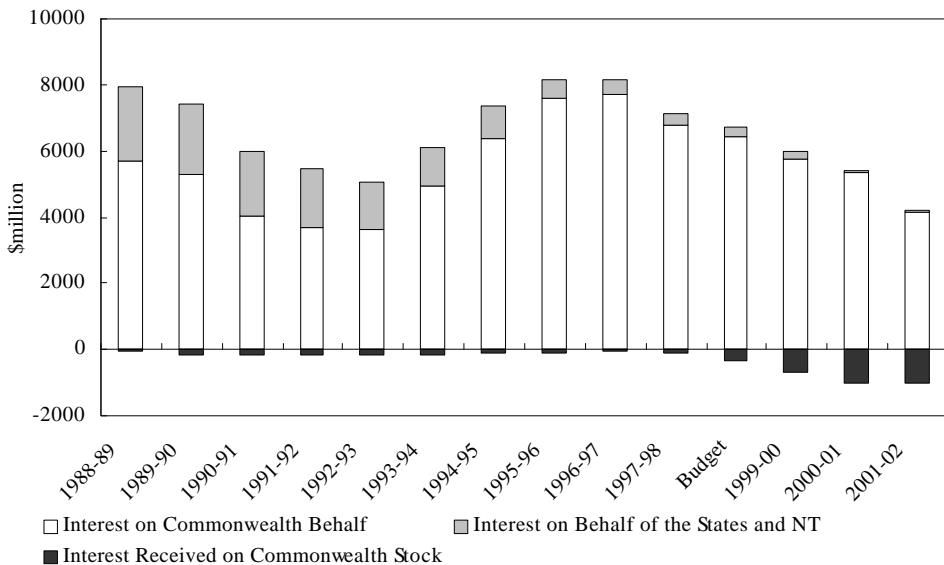
NATURE OF OUTLAYS

PDI outlays reflect the cost of servicing the stock of Commonwealth debt incurred to meet budget financing and other borrowing requirements. It does not include interest on instalment purchase of buildings, overpayment of tax and other interest not associated with borrowings.

The Commonwealth stock of long term debt is predominantly of Treasury Fixed Coupon Bonds. Interest is also incurred in relation to Treasury Indexed Bonds, and floating interest rate instruments in the form of short term securities (5, 13 and 26 week Treasury Notes) and longer term Treasury Adjustable Rate Bonds.

The bulk of outlays for this function relate to the Treasury portfolio, with a very small component coming from the Finance and Administration portfolio.

Chart 1. Overview of Commonwealth Outlays on Public Debt Interest (1989-90 Prices)



TRENDS IN PUBLIC DEBT INTEREST OUTLAYS

Trends in PDI outlays are governed by the volume of outstanding Commonwealth debt, the average cost of debt service (the net effect of interest and exchange rate movements), the mix of debt instruments and the term structure of the debt. The balance of influence of these factors on the growth of total PDI outlays in real terms will vary over time.

During the early 1990s, the falling average cost of debt service (due to falling interest rates) outweighed the rise in the volume of debt, resulting in a fall in PDI outlays. Volume and cost effects subsequently led to increases in PDI outlays until 1996-97, when lower interest rates dampened the growth in PDI outlays associated with the increased debt volume. PDI outlays are projected to fall from 1997-98 in line with projected reductions in the volume of debt on issue.

The decrease in PDI from 1997-98 to 1998-99 largely reflects the impact of the reduction in debt associated with the projected headline surpluses in both years. The State and NT component of PDI is falling progressively as Commonwealth Government security debt previously raised by the Commonwealth on their behalf are refinanced by the States and the NT on maturity.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|-------|---------------------------|------------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| 14A.1 | Gross Interest Payments - | | | | | |
| | For the Commonwealth | \$m 7975.7 | 7797.4 | 7148.5 | 6767.0 | 5414.8 |
| | | % | -2.2 | -8.3 | -5.3 | -20.0 |
| | For the States | \$m 391.2 | 319.8 | 259.0 | 117.4 | 43.9 |
| | | % | -18.3 | -19.0 | -54.7 | -62.6 |
| | Sub-total | \$m 8366.9 | 8117.2 | 7407.5 | 6884.4 | 5458.7 |
| | | % | -3.0 | -8.7 | -7.1 | -20.7 |
| 14A.2 | Interest Received | \$m -92.8 | -372.2 | -831.5 | -1325.4 | -1357.7 |
| | | % | na | 123.4 | 59.4 | 2.4 |
| | TOTAL | \$m 8274.1 | 7745.0 | 6576.0 | 5559.0 | 4101.0 |
| | | % | -6.4 | -15.1 | -15.5 | -26.2 |

14A.1 GROSS INTEREST PAYMENTS

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|------------------------------------|-----|----------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| For the Commonwealth - | | | | | | |
| Domestic and Overseas | \$m | 8164.6 | 7947.4 | 7298.5 | 6917.0 | 5564.8 |
| Borrowings (a) | % | | -2.7 | -8.2 | -5.2 | -19.5 |
| Other (b) | \$m | -188.9 | -150.0 | -150.0 | -150.0 | -150.0 |
| | % | | -20.6 | na | na | na |
| Sub-total | \$m | 7975.7 | 7797.4 | 7148.5 | 6767.0 | 5414.8 |
| | % | | -2.2 | -8.3 | -5.3 | -20.0 |
| For the States - | | | | | | |
| Borrowings for six States & NT (a) | \$m | 362.9 | 294.5 | 238.5 | 101.6 | 30.9 |
| | % | | -18.8 | -19.0 | -57.4 | -69.6 |
| Savings Bank Agreements (c) | \$m | 25.0 | 22.0 | 18.0 | 15.0 | 13.0 |
| | % | | -12.0 | -18.2 | -16.7 | -13.3 |
| Interest on Behalf of the ACT | \$m | 3.3 | 3.3 | 2.5 | 0.8 | - |
| | % | | na | -24.2 | -68.0 | -100.0 |
| Sub-total | \$m | 391.2 | 319.8 | 259.0 | 117.4 | 43.9 |
| | % | | -18.3 | -19.0 | -54.7 | -62.6 |
| TOTAL | \$m | 8366.9 | 8117.2 | 7407.5 | 6884.4 | 5458.7 |
| | % | | -3.0 | -8.7 | -7.1 | -20.7 |

14A.2 INTEREST RECEIVED

The main source of interest received is that paid to the Loan Consolidation and Investment Reserve (LCIR), an element of the Reserved Money Fund, which receives interest on its investments in Commonwealth securities. Interest paid by the Commonwealth to itself is offset against payments to provide meaningful outlay figures.

14B. GENERAL PURPOSE INTER-GOVERNMENT TRANSACTIONS

NATURE OF OUTLAYS

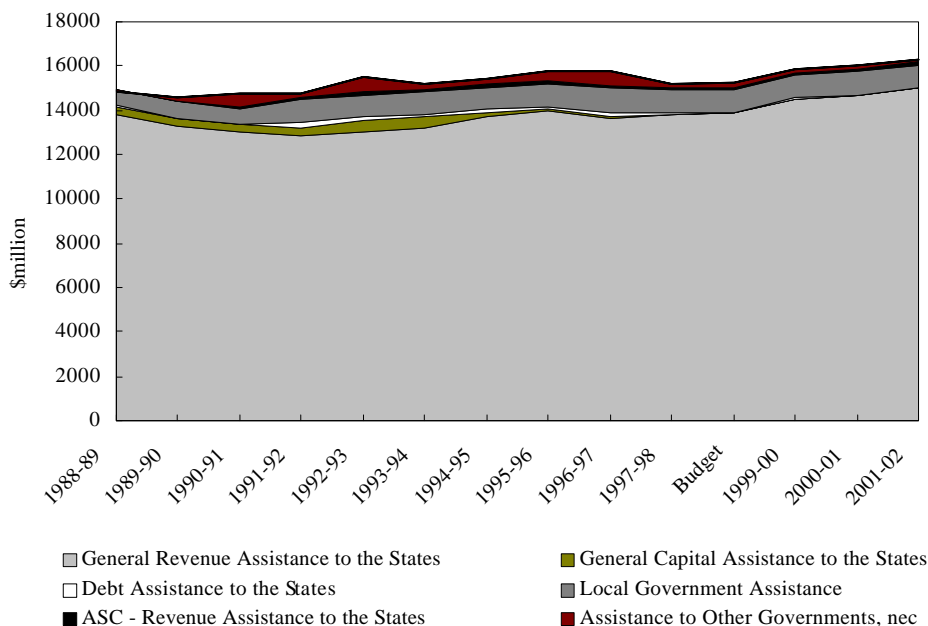
This function covers grants and advances to the States and local government authorities which are not classifiable to other functions. General revenue assistance to the States comprises untied assistance that State governments can spend according to their own budgetary priorities. This assistance is predominantly determined at the annual Premiers' Conference.

As local government is a constitutional responsibility of State governments, general revenue assistance for local government is classified by the Commonwealth as a specific purpose payment through State governments. Most specific purpose assistance to the States is classified elsewhere in *Statement 4* under the relevant function. Detailed information is provided in *Budget Paper No. 3*.

This function includes outlays of the following portfolios:

- Treasury;
- Primary Industries and Energy;
- Transport and Regional Development; and
- Finance and Administration.

Chart 1. Overview of Commonwealth Outlays on General Purpose Inter-Government Transactions (1989-90 Prices)



TRENDS IN GENERAL PURPOSE INTER-GOVERNMENT TRANSACTIONS OUTLAYS

At the March 1994 Premiers' Conference, it was agreed that Financial Assistance Grants (FAGs) to the States would be maintained in real per capita terms over the next three years. At the 1995 Council of Australian Governments (COAG) meeting, the Commonwealth agreed, as part of the agreement to implement the National Competition Policy (NCP) and related reforms, to maintain the real per capita guarantee of the FAGs pool on a rolling three year basis. The Commonwealth also agreed to provide three tranches of general purpose payments in the form of a series of Competition Payments commencing in 1997-98. The Commonwealth has subsequently extended the real per capita indexation arrangements for FAGs to 2000-01, conditional upon the States meeting their obligations under the agreement to implement the NCP and related reforms.

The 1996 Premiers' Conference decided that the States would make State Fiscal Contribution payments to the Commonwealth in the three years to 1998-99 to assist the Commonwealth's deficit reduction programme. State Fiscal Contributions in 1998-99 are estimated at \$313.4 million. The methods of payment may include nominated reductions in specific purpose payments, direct payments, or reductions in FAGs.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|-------|---|---------------------|-------------------|---------------------|---------------------|---------------------|
| 14B.1 | General Revenue Assistance to the States | \$m 16198.8 | 16782.8 | 17952.2 | 18591.9 | 19485.2 |
| | | % | 3.6 | 7.0 | 3.6 | 4.8 |
| 14B.2 | Debt Assistance to the States | \$m 72.7 | 36.4 | 91.0 | 84.3 | 40.6 |
| | | % | -49.9 | 150.0 | -7.4 | -51.8 |
| 14B.3 | General Purpose Assistance for Local Government through the States | \$m 1205.2 | 1228.8 | 1285.0 | 1331.2 | 1378.9 |
| | | % | 2.0 | 4.6 | 3.6 | 3.6 |
| 14B.4 | Australian Securities Commission - Revenue Assistance to the States | \$m 132.6 | 134.8 | 137.1 | 139.4 | 141.8 |
| | | % | 1.7 | 1.7 | 1.7 | 1.7 |
| 14B.5 | Assistance to Other Governments, nec | \$m 245.6 | 222.1 | 233.3 | 191.7 | 185.3 |
| | | % | -9.6 | 5.0 | -17.8 | -3.3 |
| | TOTAL | \$m 17854.9 | 18404.9 | 19698.5 | 20338.5 | 21231.7 |
| | | % | 3.1 | 7.0 | 3.2 | 4.4 |

14B.1 GENERAL REVENUE ASSISTANCE TO THE STATES

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|--|---------------------------------|---------------------|-------------------|---------------------|---------------------|---------------------|
| | Financial Assistance Grants (a) | \$m 15518.8 | 16540.7 | 17482.2 | 18110.2 | 18757.3 |
| | | % | 6.6 | 5.7 | 3.6 | 3.6 |
| | Special Revenue Assistance | \$m 466.8 | 25.0 | 24.3 | 24.9 | 25.5 |
| | | % | -94.6 | -2.8 | 2.5 | 2.4 |
| | Competition Payments | \$m 213.2 | 217.2 | 445.6 | 456.8 | 702.3 |
| | | % | 1.9 | 105.2 | 2.5 | 53.7 |
| | TOTAL | \$m 16198.8 | 16782.8 | 17952.2 | 18591.9 | 19485.2 |
| | | % | 3.6 | 7.0 | 3.6 | 4.8 |

(a) In the absence of State Fiscal Contributions, Financial Assistance Grants would be \$15,589.1 million in 1997-98 and \$16,854.1 million in 1998-99.

This subfunction covers general revenue assistance which is not required to be spent by the States in a specific area. It comprises Financial Assistance Grants (FAGs), Special Revenue Assistance (SRA) and Competition Payments.

Financial Assistance Grants

The level of FAGs in 1998-99 and in each of the forward years is maintained in real per capita terms. Payment of FAGs will be conditional upon the States making fiscal contribution payments of \$313.4m in 1998-99, pursuant to the agreement at the 1996 Premiers' Conference.

Special Revenue Assistance

The ACT will receive Special Revenue Assistance (SRA) totalling \$25 million in 1998-99, comprising \$11.1 million for transitional allowances and \$13.9 million for special fiscal needs. These amounts are in accordance with recommendations of the Commonwealth Grants Commission and will be funded directly by the Commonwealth rather than from the FAGs pool.

Competition Payments

Under the 1995 agreement to implement the NCP and related reforms, the Commonwealth agreed to provide three tranches of general purpose Competition Payments to the States over the period 1997-98 to 2002-03, conditional upon them meeting their obligations under the Agreement. Actual payments in 1998-99 will be determined after the National Competition Council reports in June 1998. Payments are indexed to the Consumer Price Index (CPI) and distributed to the States on a per capita basis.

14B.2 DEBT ASSISTANCE TO THE STATES

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|--------------------------------|-----|---------------------|-------------------|---------------------|---------------------|---------------------|
| Commonwealth Sinking Fund | \$m | 10.4 | 8.3 | 8.1 | 4.9 | 2.2 |
| Contributions | % | | -20.2 | -2.4 | -39.5 | -55.1 |
| Assistance for Debt Redemption | \$m | 62.3 | 28.1 | 82.9 | 79.4 | 38.4 |
| | % | | -54.9 | 195.0 | -4.2 | -51.6 |
| TOTAL | \$m | 72.7 | 36.4 | 91.0 | 84.3 | 40.6 |
| | % | | -49.9 | 150.0 | -7.4 | -51.8 |

The *Financial Agreement Act 1994* requires the Commonwealth to pay contributions into the State and NT accounts of the sinking fund, administered by the Commonwealth on their behalf. These contributions are based on their outstanding levels of Commonwealth Government Securities (CGS) at 30 June of the previous year.

The *Financial Agreement Act 1994* also provides for the Commonwealth to compensate the States and NT for the additional interest costs of replacing maturing CGS with borrowings in their own names, or through their Authorities, rather than by new CGS (which ceased to be issued on their behalf in 1989-90). In addition, assistance for debt redemption compensates the States for the lower Commonwealth sinking fund contributions which have resulted from the post 1989-90 arrangements. Similar assistance is provided in respect of CGS nominally allocated to the ACT. The variability in the estimates reflects the debt maturity profiles over the forward years.

14B.3 GENERAL PURPOSE ASSISTANCE FOR LOCAL GOVERNMENT THROUGH THE STATES

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|------------------------------|-----|---------------------|-------------------|---------------------|---------------------|---------------------|
| Financial Assistance Grants | \$m | 834.8 | 851.1 | 890.0 | 922.1 | 955.1 |
| | % | | 2.0 | 4.6 | 3.6 | 3.6 |
| Identified Local Road Grants | \$m | 370.4 | 377.7 | 394.9 | 409.1 | 423.8 |
| | % | | 2.0 | 4.6 | 3.6 | 3.6 |
| TOTAL | \$m | 1205.2 | 1228.8 | 1285.0 | 1331.2 | 1378.9 |
| | % | | 2.0 | 4.6 | 3.6 | 3.6 |

General purpose assistance is provided to local government authorities under the *Local Government (Financial Assistance) Act 1995*. The Act provides for local government financial assistance grants (FAGs) and local government road funds to be increased each year by an escalation factor which is determined by the Treasurer in light of the underlying movement in general purpose payments to the States. This assistance is paid

to the States as a specific purpose payment on the condition that the funds are passed on to local government.

Local government FAGs are distributed on an equal per capita basis, whereas untied local government road funding is distributed between the States on the basis of criteria established under the *Australian Land Transport Development Act 1988*. In both cases, the intrastate distribution of these payments to local governments is determined by Local Government Grant Commissions established in each State and the Northern Territory on the basis of fiscal equalisation.

14B.4 AUSTRALIAN SECURITIES COMMISSION - REVENUE ASSISTANCE TO THE STATES

Following the establishment of a national scheme of companies, securities and futures regulation administered by the Australian Securities Commission on 1 January 1991, the Commonwealth compensates the six States and NT through a specific purpose payment for the loss of a State revenue base.

14B.5 ASSISTANCE TO OTHER GOVERNMENTS, NEC

This subfunction consists of assistance to other levels of Government that is not elsewhere classified. This assistance includes:

- payment by the Commonwealth to Western Australia of a portion of Commonwealth royalties obtained from the North West Shelf project, under the provisions of the *Petroleum (Submerged Land) Act 1967*;
- a grant from the Commonwealth to the Northern Territory in lieu of royalties on uranium mining due to the Commonwealth's ownership of uranium in the Northern Territory. The grant is payable at the royalty rate of 1.25 per cent of net proceeds of sales; and
- compensation to the ACT for municipal expenditure and revenue disabilities (as identified by the Commonwealth Grants Commission) arising from Canberra's status as the National Capital.

Summary of Commonwealth Outlays to Other Governments

Heads of Government agreed at the Special Premiers' Conference in July 1991 to continue a practice used for the first time at the May 1991 Premiers' Conference of disaggregating net payments to the States into 'to' and 'through' payments. This approach distinguishes:

- net payments *to* State Governments which are payments made direct to those Governments and excluding those intended to be passed on to local governments, other bodies and individuals; and
- net payments *through* State Governments which are to be passed on to local governments, other bodies and individuals.

The table below provides an overview of total Commonwealth assistance 'to' and 'through' the States in 1997-98, 1998-99, and the forward years.

Further information on payments 'to' and 'through' the States can be found in *Budget Paper No. 3*.

Summary of Commonwealth Outlays to Other Governments

| | 1997-98 Estimate \$m | 1998-99 Budget \$m | 1999-00 Estimate \$m | 2000-01 Estimate \$m | 2001-02 Estimate \$m |
|---|----------------------------|--------------------------|----------------------------|----------------------------|----------------------------|
| TO STATES | | | | | |
| General Revenue Grants (a) | 16198.8 | 16782.8 | 17952.2 | 18591.9 | 19485.2 |
| Total General Revenue Assistance | 16198.8 | 16782.8 | 17952.2 | 18591.9 | 19485.2 |
| Base Hospital Funding Grants | 4100.1 | 5339.9 | 5516.7 | 5776.2 | 6054.5 |
| Education | 1617.6 | 1642.1 | 1613.4 | 1613.9 | 1651.4 |
| Roads Programmes | 837.6 | 814.2 | 800.9 | 805.8 | 811.3 |
| Housing (a) | 793.1 | 932.3 | 921.7 | 912.1 | 902.7 |
| Accommodation Support Programme | 167.3 | 168.6 | 170.8 | 171.1 | 172.0 |
| Home and Community Care | 476.3 | 500.2 | 526.1 | 568.2 | 613.2 |
| Rural Adjustment | 98.8 | 41.7 | 11.4 | 3.7 | 2.1 |
| Debt Assistance | 72.7 | 36.4 | 91.0 | 84.3 | 40.6 |
| Compensation - Companies Regulation | 132.6 | 134.8 | 137.1 | 139.4 | 141.8 |
| Other | 2862.9 | 1699.2 | 1738.3 | 1775.0 | 1831.3 |
| Total Specific Purpose Payments | 11159.0 | 11309.5 | 11527.2 | 11849.8 | 12220.9 |
| Total 'To' Payments | 27357.7 | 28092.4 | 29479.4 | 30441.7 | 31706.1 |
| THROUGH STATES | | | | | |
| Non-Government Schools | 2228.2 | 2367.7 | 2441.7 | 2552.2 | 2638.0 |
| Local Government Financial Assistance | 834.8 | 851.1 | 890.0 | 922.1 | 955.1 |
| Identified Road Grants | 370.4 | 377.7 | 394.9 | 409.1 | 423.8 |
| Other | 96.3 | 65.2 | 64.5 | 73.6 | 44.1 |
| Total 'Through' Payments | 3529.7 | 3661.7 | 3791.2 | 3957.1 | 4061.0 |
| Payments Direct to Local Government | 204.9 | 224.5 | 235.1 | 249.5 | 265.6 |
| TOTAL OUTLAYS TO/THROUGH OTHER GOVERNMENTS | 31092.4 | 31978.6 | 33505.7 | 34648.3 | 36032.7 |

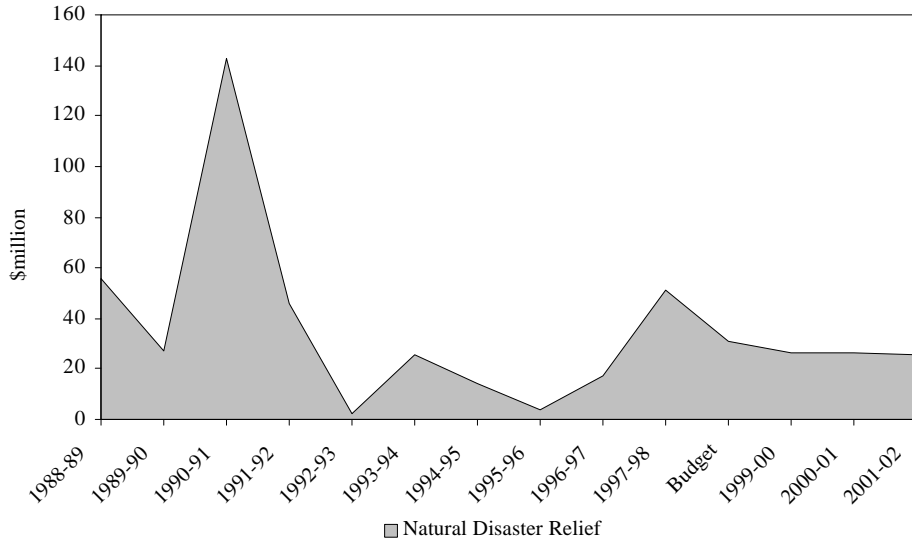
(a) The amounts shown are net of State Fiscal Contributions.

14C. NATURAL DISASTER RELIEF

NATURE OF OUTLAYS

This function comprises outlays of the Finance and Administration portfolio associated with natural disaster relief.

Chart 1. Overview of Commonwealth Outlays on Natural Disaster Relief (1989-90 Prices)



TRENDS IN NATURAL DISASTER RELIEF OUTLAYS

Commonwealth assistance towards natural disaster relief in the period reflects the unpredictability of these events in terms of incidence and severity. Outlays for 1990-91 reflect the severity and extent of flooding in NSW and QLD, a high number of cyclones in QLD and payments associated with the Newcastle earthquake. The higher than average expected outlays for 1997-98 and 1998-99 reflect the high number of floods and cyclones in QLD in 1997 and 1998 and the Katherine floods in February 1998. The forward estimates are based on a broad average of annual net payments over recent years.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 Estimate | 1998-99 Budget | 1999-00 Estimate | 2000-01 Estimate | 2001-02 Estimate |
|-----|------------------------------------|---------------------|-------------------|---------------------|---------------------|---------------------|
| 14C | Natural Disaster Relief Assistance | \$m 60.0 | 37.0 | 33.0 | 33.0 | 33.0 |
| | | % | -38.3 | -10.8 | na | na |

Under the Natural Disaster Relief Arrangements (NDRA), the Commonwealth reimburses part of the States' outlays on Personal Hardship and Distress payments and

payments for other eligible disaster relief measures where the expenditure exceeds certain funding thresholds. A large part of NDRA payments is made as partial reimbursement for the relief of personal hardship and distress and the repair and restoration of essential state and local government assets.

Some payments are made as concessional loans. The proportion is equivalent to the share of total State NDRA payments advanced as loans to individuals and organisations. NDRA payments are offset by repayments made by the States on past Commonwealth loans.

Since 1989-90 the effects of drought have not been eligible for relief. Drought assistance is included within *10.6 General Assistance Not Allocated to Specific Industries*.

14D. CONTINGENCY RESERVE

NATURE OF OUTLAYS

The Contingency Reserve is an allowance, included in aggregate outlays figuring, to reflect anticipated events which cannot be assigned to individual programmes at budget time. The Reserve is an estimating device used to ensure that the budget and forward estimates are based on the best information available at the time of the Budget. It is not a policy reserve.

While the Reserve ensures that aggregate estimates are as close as possible to expected outcomes, it has no legal status and is not appropriated in the Budget. Instead, allowances that are included in the Reserve can only be drawn upon once they have been appropriated by Parliament.

1998-99 AND FORWARD ESTIMATES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|-----|---------------------|------------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| 14D | Contingency Reserve | \$m -380.1 | -288.0 | 2372.3 | 4175.7 | 5842.2 |
| | | % | -24.2 | na | 76.0 | 39.9 |

The Contingency Reserve makes allowance in the budget and forward estimates for anticipated events including the following:

- **An allowance in the forward years for changes to forecasts of wage cost parameters.**
- **The established tendency for budget estimates of spending on existing government policy in the forward years to be revised upward.**
 - Forward year estimates, particularly for demand driven appropriations, tend to be conservative and underestimate the growth in outlays. Experience suggests that revision of the forward estimates amounts to around 1 per cent of outlays in the first year, increasing in each following year.
- **Expected running costs carryovers from 1998-99 into 1999-2000.**
 - Departments and agencies have flexibility, under the running costs arrangements, to carry forward funds from the budget year to the following. The estimated running costs outcome for 1997-98 has been adjusted to take account of carryovers into 1998-99. A negative allowance of around 3 per cent of the aggregate running costs budget has been included in the Contingency Reserve in 1998-99 to represent the effect of the expected carryover on total outlays into 1999-2000.
- **Commercial-in-confidence items which cannot be disclosed separately.**
- **The effect of economic parameter revisions for the budget and forward estimates received too late to be included in programme estimates.**

- **The established tendency for estimates of some programme expenditure to be overstated in the budget year.**
 - A small negative allowance has been included for this provision.
- **The proposed forward year expenditure for new policy relating to the Federation Fund Trust Account.**
 - Total expected expenditure from the trust account is \$1 billion over the four years to 2002-03. Approximate expenditure of \$600 million is expected between 1998-99 to 2000-01, and \$400 million over the following two years. The Fund will be used to finance a number of major projects of national significance. Refer to *Budget Paper No. 2* for more details. The measure is shown against the Prime Minister and Cabinet portfolio, and is classified against the Contingency Reserve function until the actual type of expenditure is known.
- **A provision for the Superannuation Guarantee Charge to allow for the increased rate applying from 1998-99.**
- **An allowance for the difference between possible costs of the proposed Australian Health Care Agreements being negotiated with the States and Territories and the amounts currently in the forward estimates.**

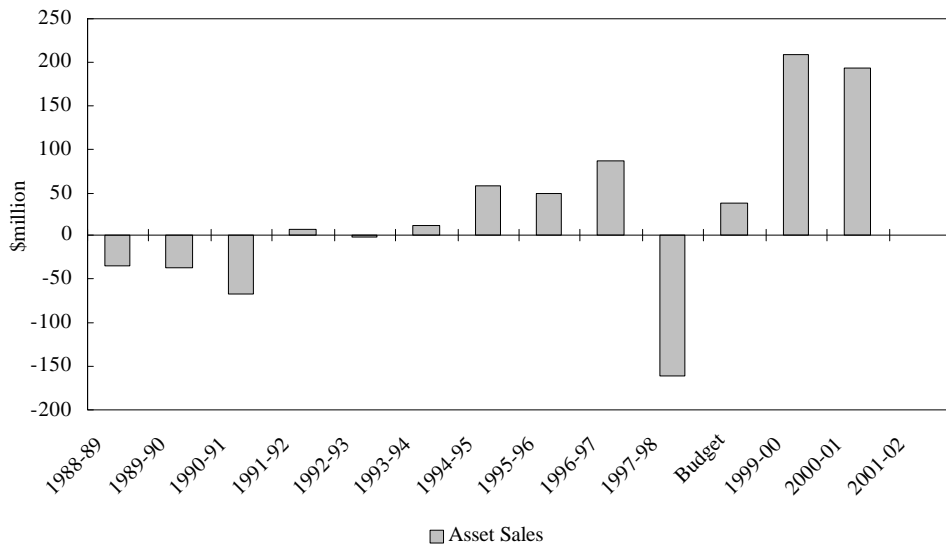
14E. ASSET SALES

NATURE OF OUTLAYS

This classification records the impact on the underlying budget balance of the Government's programme of major asset sales. This comprises project costs associated with major asset sales and the running costs of the Office of Asset Sales and Information Technology Outsourcing (OASITO). Responsibility for the Whole of Commonwealth information technology outsourcing transferred to OASITO in November 1997 and are also reported under this function.

Asset sales proceeds are recorded as offsets within outlays. However, most proceeds of sale are net advances and are not included in the underlying budget balance, and therefore are not reported in this function. Proceeds derived from the normal ongoing property disposal programmes of the Departments of Finance and Administration, and Defence are reported elsewhere (see *1. General Public Services* and *2. Defence*).

Chart 1. Overview of Commonwealth Outlays on Asset Sales (1989-90 prices)



1998-99 AND FORWARD ESTIMATES

| | | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|-----|-------------|------------|---------|----------|----------|----------|
| | | Estimate | Budget | Estimate | Estimate | Estimate |
| 14E | Asset Sales | \$m -188.2 | 45.7 | 258.0 | 245.0 | - |
| | | % | na | na | -5.0 | -100.0 |

Major asset sales previously announced which are planned to be completed in the remainder of 1997-98 or in the budget and forward years include:

- Telstra Corporation (remaining Commonwealth equity);
- National Transmission Network;
- Australian Multimedia Enterprise Limited;
- ADI Limited;
- National Railway Corporation Ltd;
- ANL Limited; and
- Oversight the collection of second instalment for the sale of shares in the Telstra Corporation.

NEW MAJOR ASSET SALES

Telstra

The Government has announced that it will seek a mandate at the next election for the sale of the remaining Commonwealth equity in Telstra. Enabling legislation was introduced to the Parliament on 31 March 1998.

STATISTICAL APPENDIX

INTRODUCTION

Twelve tables are presented in this appendix covering outlays transactions of the Commonwealth budget sector.

Appendix E of Statement 2 provides a definition of the Commonwealth budget sector and defines terminology employed to describe transactions in these tables, in particular, definitions of the terms outlays and revenue and explanation of the function and economic type classifications.

A list of tables in this appendix is provided below:

- Table I Commonwealth Budget Underlying Outlays by Function (\$m)**
- Table II Commonwealth Budget Underlying Outlays by Function - Annual Percentage Change**
- Table III Commonwealth Budget Underlying Outlays by Function - Annual Percentage Change (89-90 prices) (a)**
- Table IV Commonwealth Budget Underlying Outlays by Function as a Proportion of Total Budget Underlying Outlays (per cent)**
- Table V Commonwealth Budget Underlying Outlays by Function and Subfunction (\$m)**
- Table VI Commonwealth Budget Underlying Outlays by Economic Type (\$m)**
- Table VII Commonwealth Budget Underlying Outlays by Economic Type as a Proportion of Total Budget Underlying Outlays (per cent)**
- Table VIII Commonwealth Budget Underlying Outlays by Economic Type - Annual Percentage Change (89-90 prices) (a)**
- Table IX Commonwealth Budget Portfolio Underlying Outlays by Major Function, 1998-99 (\$m)**
- Table X Commonwealth Budget Portfolio Outlays by Major Economic Type, 1998-99 (\$m)**
- Table XI Commonwealth Budget Headline Outlays by Function (\$m)**
- Table XII Commonwealth Budget Running Costs (\$m) and Estimates of Average Staffing Levels (ASL) of Agencies Operating on the Commonwealth Public Account**

Table I - Commonwealth Budget Underlying Outlays by Function (\$m)

| | 1988-89 | 89-90 | 90-91 | 91-92 | 92-93 | 93-94 | 94-95 | 95-96 | 96-97 | 97-98 | 98-99 | 99-00 | 00-01 | 01-02 |
|--|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| 1. Total General Public Services | 5317 | 5305 | 5971 | 6491 | 6194 | 6608 | 6629 | 6508 | 6665 | 6766 | 7246 | 6827 | 7180 | 7615 |
| A. Legislative and Executive Affairs | 386 | 365 | 368 | 464 | 533 | 491 | 495 | 601 | 489 | 537 | 612 | 516 | 510 | 609 |
| B. Financial and Fiscal Affairs | 1165 | 1307 | 1537 | 1734 | 1554 | 1688 | 1499 | 1697 | 1804 | 1803 | 1964 | 1685 | 1676 | 1766 |
| C. Foreign Economic Aid | 1360 | 1517 | 1513 | 1680 | 1790 | 1876 | 2015 | 2007 | 1718 | 1767 | 1811 | 1814 | 1836 | 1890 |
| D. General Research | 554 | 634 | 738 | 855 | 958 | 999 | 1035 | 1071 | 1158 | 1241 | 1256 | 1239 | 1209 | 1247 |
| E. General Services | 629 | 198 | 337 | 195 | 134 | 136 | 148 | 189 | 77 | -141 | -48 | 144 | 192 | 235 |
| F. Government Superannuation Benefits | 1222 | 1284 | 1478 | 1564 | 1225 | 1418 | 1437 | 944 | 1419 | 1559 | 1651 | 1429 | 1756 | 1866 |
| 2. Defence | 7223 | 7827 | 8411 | 8652 | 9601 | 9753 | 9727 | 10069 | 10054 | 10414 | 10981 | 11013 | 11201 | 11440 |
| 3. Public Order and Safety | 693 | 803 | 768 | 945 | 914 | 829 | 868 | 924 | 1226 | 1070 | 1010 | 895 | 912 | 911 |
| 4. Education (a) | 5796 | 6151 | 7004 | 7769 | 8570 | 9195 | 9771 | 10122 | 10321 | 10788 | 9536 | 9482 | 9604 | 9774 |
| 5. Health | 10762 | 11901 | 12935 | 13830 | 14811 | 16092 | 17126 | 18616 | 19196 | 20734 | 22273 | 23419 | 24686 | 25923 |
| 6. Social Security and Welfare | 23997 | 26395 | 30656 | 35504 | 38627 | 42026 | 43605 | 46753 | 49602 | 50420 | 53458 | 55284 | 57237 | 59563 |
| 7. Housing and Community Amenities | 1010 | 1376 | 1299 | 1235 | 1474 | 1265 | 1230 | 1306 | 1138 | 1101 | 1330 | 1272 | 1226 | 1040 |
| 8. Recreation and Culture | 1046 | 1063 | 1198 | 1253 | 1267 | 1122 | 1225 | 1426 | 1375 | 1326 | 1335 | 1312 | 1280 | 1225 |
| 9. Fuel and Energy | 141 | 57 | 82 | 129 | 67 | 52 | 55 | 51 | 27 | 42 | 27 | 18 | 17 | 15 |
| 10. Agriculture, Forestry and Fishing | 1552 | 1699 | 2441 | 1963 | 1729 | 1684 | 1884 | 1902 | 1903 | 2051 | 2073 | 1977 | 1773 | 1589 |
| 11. Mining and Mineral Resources, other than Fuels; Manufacturing; and Construction | 1040 | 1218 | 1442 | 1540 | 1376 | 1480 | 1676 | 1651 | 1653 | 1720 | 1741 | 1665 | 1694 | 1795 |
| 12. Transport and Communication | 1743 | 1936 | 2115 | 2070 | 2273 | 1497 | 1219 | 1357 | 1655 | 1463 | 1435 | 1383 | 1393 | 1339 |
| 13. Total Other Economic Affairs | 1341 | 1515 | 1801 | 2211 | 3158 | 3213 | 3524 | 4309 | 3366 | 3089 | 3181 | 3082 | 3033 | 3072 |
| A. Tourism and Area Promotion | 43 | 72 | 66 | 79 | 87 | 99 | 101 | 104 | 86 | 110 | 102 | 101 | 101 | 100 |
| B. Labour and Employment Affairs | 1204 | 1276 | 1439 | 1833 | 2747 | 2780 | 3104 | 3850 | 2945 | 2657 | 2737 | 2666 | 2618 | 2656 |
| C. Other Economic Affairs, nec | 94 | 168 | 295 | 299 | 325 | 335 | 319 | 354 | 335 | 322 | 342 | 316 | 313 | 316 |
| 14. Total Other Purposes | 21381 | 21868 | 21570 | 21387 | 21999 | 22997 | 25024 | 26974 | 27752 | 25621 | 25945 | 28938 | 30351 | 31208 |
| A. Public Debt Interest | 7397 | 7276 | 6063 | 5626 | 5288 | 6465 | 7994 | 9126 | 9402 | 8274 | 7745 | 6576 | 5559 | 4101 |
| B. General Purpose Inter-Government Transactions | 13964 | 14602 | 15428 | 15704 | 16710 | 16491 | 16952 | 17790 | 18229 | 17855 | 18405 | 19698 | 20338 | 21232 |
| C. Natural Disaster Relief | 52 | 27 | 149 | 49 | 3 | 27 | 15 | 4 | 20 | 60 | 37 | 33 | 33 | 33 |
| D. Contingency Reserve | - | - | - | - | - | - | - | - | - | -380 | -288 | 2372 | 4176 | 5842 |
| E. Asset Sales | -32 | -37 | -70 | 8 | -1 | 14 | 63 | 55 | 101 | -188 | 46 | 258 | 245 | - |
| Total Underlying Outlays | 83040 | 89113 | 97692 | 104976 | 112061 | 117814 | 123563 | 131966 | 135933 | 136603 | 141570 | 146566 | 151586 | 156508 |

(a) From 1 July 1998, it is proposed that payments under the AUSTUDY programme will be replaced by Youth Allowance (for students aged under 25 years). This involves a transfer of outlays estimates from the Education function to the Social Security and Welfare function.

Table II - Commonwealth Budget Underlying Outlays by Function - Annual Percentage Change

| | 1988-89 | 89-90 | 90-91 | 91-92 | 92-93 | 93-94 | 94-95 | 95-96 | 96-97 | 97-98 | 98-99 | 99-00 | 00-01 | 01-02 |
|--|---------|-------|-------|--------|--------|-------|-------|-------|-------|-------|--------|-------|-------|--------|
| 1. Total General Public Services | 4.4 | -0.2 | 12.6 | 8.7 | -4.6 | 6.7 | 0.3 | -1.8 | 2.4 | 1.5 | 7.1 | -5.8 | 5.2 | 6.1 |
| A. Legislative and Executive Affairs | -25.2 | -5.4 | 0.9 | 26.0 | 15.0 | -8.0 | 1.0 | 21.4 | -18.7 | 9.8 | 14.1 | -15.8 | -1.1 | 19.4 |
| B. Financial and Fiscal Affairs | 5.9 | 12.2 | 17.6 | 12.8 | -10.4 | 8.6 | -11.2 | 13.2 | 6.3 | .. | 8.9 | -14.2 | -0.5 | 5.4 |
| C. Foreign Economic Aid | 6.1 | 11.6 | -0.3 | 11.0 | 6.6 | 4.8 | 7.4 | -0.4 | -14.4 | 2.9 | 2.5 | 0.2 | 1.2 | 2.9 |
| D. General Research | 1.9 | 14.4 | 16.4 | 15.8 | 12.1 | 4.3 | 3.7 | 3.4 | 8.2 | 7.1 | 1.2 | -1.3 | -2.4 | 3.2 |
| E. General Services | 15.3 | -68.5 | 70.0 | -42.0 | -31.7 | 2.2 | 8.6 | 27.3 | -59.4 | na | -66.0 | na | 33.9 | 22.3 |
| F. Government Superannuation Benefits | 10.8 | 5.0 | 15.1 | 5.8 | -21.7 | 15.8 | 1.3 | -34.3 | 50.4 | 9.8 | 5.9 | -13.4 | 22.9 | 6.3 |
| 2. Defence | 4.8 | 8.4 | 7.5 | 2.9 | 11.0 | 1.6 | -0.3 | 3.5 | -0.1 | 3.6 | 5.4 | 0.3 | 1.7 | 2.1 |
| 3. Public Order and Safety | 7.4 | 16.0 | -4.4 | 23.1 | -3.2 | -9.3 | 4.7 | 6.5 | 32.6 | -12.8 | -5.6 | -11.4 | 2.0 | -0.1 |
| 4. Education (a) | 2.0 | 6.1 | 13.9 | 10.9 | 10.3 | 7.3 | 6.3 | 3.6 | 2.0 | 4.5 | -11.6 | -0.6 | 1.3 | 1.8 |
| 5. Health | 7.1 | 10.6 | 8.7 | 6.9 | 7.1 | 8.7 | 6.4 | 8.7 | 3.1 | 8.0 | 7.4 | 5.1 | 5.4 | 5.0 |
| 6. Social Security and Welfare | 5.5 | 10.0 | 16.1 | 15.8 | 8.8 | 8.8 | 3.8 | 7.2 | 6.1 | 1.6 | 6.0 | 3.4 | 3.5 | 4.1 |
| 7. Housing and Community Amenities | -1.8 | 36.2 | -5.6 | -4.9 | 19.4 | -14.2 | -2.7 | 6.2 | -12.9 | -3.3 | 20.8 | -4.3 | -3.7 | -15.2 |
| 8. Recreation and Culture | 0.6 | 1.6 | 12.7 | 4.6 | 1.2 | -11.5 | 9.2 | 16.4 | -3.6 | -3.6 | 0.7 | -1.7 | -2.4 | -4.2 |
| 9. Fuel and Energy | 19.1 | -59.7 | 44.6 | 56.4 | -48.1 | -22.3 | 5.3 | -7.1 | -47.7 | 57.8 | -35.1 | -34.4 | -3.1 | -14.2 |
| 10. Agriculture, Forestry and Fishing | -4.0 | 9.5 | 43.7 | -19.6 | -11.9 | -2.6 | 11.9 | 0.9 | 0.1 | 7.8 | 1.1 | -4.6 | -10.3 | -10.3 |
| 11. Mining and Mineral Resources, other than Fuels; Manufacturing; and Construction | 3.6 | 17.2 | 18.4 | 6.8 | -10.6 | 7.5 | 13.2 | -1.5 | 0.1 | 4.0 | 1.3 | -4.4 | 1.8 | 5.9 |
| 12. Transport and Communication | -5.1 | 11.1 | 9.2 | -2.1 | 9.8 | -34.1 | -18.6 | 11.3 | 22.0 | -11.6 | -1.9 | -3.6 | 0.7 | -3.9 |
| 13. Total Other Economic Affairs | -1.7 | 13.0 | 18.8 | 22.8 | 42.9 | 1.7 | 9.7 | 22.3 | -21.9 | -8.2 | 3.0 | -3.1 | -1.6 | 1.3 |
| A. Tourism and Area Promotion | -9.2 | 68.6 | -8.0 | 18.8 | 9.9 | 14.2 | 1.8 | 3.7 | -17.7 | 28.5 | -7.9 | -1.0 | 0.7 | -1.1 |
| B. Labour and Employment Affairs | -0.9 | 5.9 | 12.8 | 27.4 | 49.9 | 1.2 | 11.7 | 24.0 | -23.5 | -9.8 | 3.0 | -2.6 | -1.8 | 1.5 |
| C. Other Economic Affairs, nec | -7.1 | 78.5 | 76.0 | 1.3 | 8.5 | 3.0 | -4.5 | 10.8 | -5.4 | -3.9 | 6.3 | -7.6 | -1.0 | 0.9 |
| 14. Total Other Purposes | 1.7 | 2.3 | -1.4 | -0.9 | 2.9 | 4.5 | 8.8 | 7.8 | 2.9 | -7.7 | 1.3 | 11.5 | 4.9 | 2.8 |
| A. Public Debt Interest | -5.9 | -1.6 | -16.7 | -7.2 | -6.0 | 22.3 | 23.6 | 14.2 | 3.0 | -12.0 | -6.4 | -15.1 | -15.5 | -26.2 |
| B. General Purpose Inter-Government Transactions | 3.1 | 4.6 | 5.7 | 1.8 | 6.4 | -1.3 | 2.8 | 4.9 | 2.5 | -2.1 | 3.1 | 7.0 | 3.2 | 4.4 |
| C. Natural Disaster Relief | na | -48.6 | na | -67.1 | -94.7 | na | -44.4 | -74.2 | na | 194.8 | -38.3 | -10.8 | .. | .. |
| D. Contingency Reserve | na | na | na | na | na | na | na | na | na | na | -24.2 | na | 76.0 | 39.9 |
| E. Asset Sales | -91.9 | 15.2 | 90.5 | -111.4 | -115.5 | na | na | -13.1 | 84.7 | na | -124.3 | na | -5.0 | -100.0 |
| Total Underlying Outlays | 3.6 | 7.3 | 9.6 | 7.5 | 6.7 | 5.1 | 4.9 | 6.8 | 3.0 | 0.5 | 3.6 | 3.5 | 3.4 | 3.2 |

(a) From 1 July 1998, it is proposed that payments under the AUSTUDY programme will be replaced by Youth Allowance (for students aged under 25 years). This involves a transfer of outlays estimates from the Education function to the Social Security and Welfare function.

Table III - Commonwealth Budget Underlying Outlays by Function - Annual Percentage Change (89-90 prices) (a)

| | 1988-89 | 89-90 | 90-91 | 91-92 | 92-93 | 93-94 | 94-95 | 95-96 | 96-97 | 97-98 | 98-99 | 99-00 | 00-01 | 01-02 |
|--|---------|-------|-------|--------|--------|-------|-------|-------|-------|-------|--------|-------|-------|--------|
| 1. Total General Public Services | -3.9 | -6.3 | 7.8 | 6.7 | -5.9 | 5.7 | -0.7 | -4.5 | -0.1 | 0.1 | 4.0 | -8.0 | 2.5 | 3.5 |
| A. Legislative and Executive Affairs | -31.2 | -11.2 | -3.4 | 23.7 | 13.5 | -8.8 | -0.1 | 18.0 | -20.6 | 8.3 | 10.8 | -17.8 | -3.6 | 16.6 |
| B. Financial and Fiscal Affairs | -2.6 | 5.3 | 12.7 | 10.7 | -11.6 | 7.6 | -12.1 | 10.1 | 3.7 | -1.4 | 5.7 | -16.3 | -3.1 | 2.9 |
| C. Foreign Economic Aid | -2.4 | 4.7 | -4.5 | 9.0 | 5.2 | 3.8 | 6.4 | -3.1 | -16.5 | 1.4 | -0.5 | -2.2 | -1.3 | 0.5 |
| D. General Research | -6.2 | 7.4 | 11.5 | 13.7 | 10.5 | 3.4 | 2.6 | 0.6 | 5.5 | 5.7 | -1.8 | -3.7 | -4.9 | 0.7 |
| E. General Services | 6.0 | -70.5 | 62.9 | -43.0 | -32.6 | 1.3 | 7.5 | 23.8 | -60.4 | na | -67.0 | na | 30.5 | 19.4 |
| F. Government Superannuation Benefits | 1.9 | -1.4 | 10.3 | 3.9 | -22.8 | 14.8 | 0.3 | -36.1 | 46.8 | 8.3 | 2.8 | -15.5 | 19.8 | 3.8 |
| 2. Defence | -3.6 | 1.7 | 3.0 | 1.0 | 9.4 | 0.7 | -1.3 | 0.7 | -2.6 | 2.1 | 2.4 | -2.1 | -0.9 | -0.3 |
| 3. Public Order and Safety | -1.2 | 8.9 | -8.4 | 20.8 | -4.6 | -10.1 | 3.6 | 3.6 | 29.4 | -14.0 | -8.3 | -13.5 | -0.6 | -2.5 |
| 4. Education (b) | -6.2 | -0.4 | 9.1 | 8.9 | 8.8 | 6.3 | 5.2 | 0.7 | -0.5 | 3.1 | -14.2 | -2.9 | -1.3 | -0.7 |
| 5. Health | -1.5 | 3.8 | 4.1 | 5.0 | 5.6 | 7.7 | 5.4 | 5.7 | 0.6 | 6.5 | 4.3 | 2.6 | 2.8 | 2.5 |
| 6. Social Security and Welfare | -3.0 | 3.3 | 11.3 | 13.7 | 7.3 | 7.8 | 2.7 | 4.3 | 3.5 | 0.2 | 2.9 | 0.9 | 0.9 | 1.6 |
| 7. Housing and Community Amenities | -9.6 | 27.9 | -9.6 | -6.7 | 17.7 | -15.0 | -3.7 | 3.3 | -15.0 | -4.6 | 17.3 | -6.6 | -6.1 | -17.2 |
| 8. Recreation and Culture | -7.5 | -4.6 | 8.0 | 2.7 | -0.2 | -12.3 | 8.1 | 13.2 | -5.9 | -4.9 | -2.2 | -4.1 | -4.9 | -6.5 |
| 9. Fuel and Energy | 9.6 | -62.1 | 38.5 | 53.5 | -48.8 | -23.0 | 4.3 | -9.7 | -49.0 | 55.6 | -37.0 | -35.9 | -5.5 | -16.2 |
| 10. Agriculture, Forestry and Fishing | -11.7 | 2.8 | 37.7 | -21.1 | -13.1 | -3.5 | 10.8 | -1.8 | -2.3 | 6.3 | -1.9 | -6.9 | -12.6 | -12.5 |
| 11. Mining and Mineral Resources, other than Fuels; Manufacturing; and Construction | -4.7 | 10.0 | 13.4 | 4.8 | -11.8 | 6.6 | 12.1 | -4.2 | -2.3 | 2.6 | -1.7 | -6.7 | -0.8 | 3.4 |
| 12. Transport and Communication | -12.7 | 4.3 | 4.7 | -3.9 | 8.3 | -34.7 | -19.4 | 8.3 | 19.1 | -12.9 | -4.8 | -5.9 | -1.8 | -6.2 |
| 13. Total Other Economic Affairs | -9.6 | 6.1 | 13.9 | 20.5 | 40.9 | 0.8 | 8.6 | 18.9 | -23.8 | -9.5 | .. | -5.4 | -4.1 | -1.1 |
| A. Tourism and Area Promotion | -16.4 | 58.3 | -11.8 | 16.6 | 8.4 | 13.2 | 0.8 | 0.9 | -19.7 | 26.8 | -10.6 | -3.4 | -1.8 | -3.5 |
| B. Labour and Employment Affairs | -8.9 | -0.6 | 8.1 | 25.0 | 47.8 | 0.3 | 10.5 | 20.6 | -25.4 | -11.0 | .. | -4.9 | -4.2 | -1.0 |
| C. Other Economic Affairs, nec | -14.6 | 67.6 | 68.6 | -0.6 | 7.1 | 2.1 | -5.5 | 7.8 | -7.7 | -5.3 | 3.2 | -9.8 | -3.5 | -1.5 |
| 14. Total Other Purposes | -6.4 | -4.0 | -5.5 | -2.7 | 1.5 | 3.6 | 7.7 | 4.8 | 0.4 | -9.0 | -1.7 | 8.9 | 2.2 | 0.4 |
| A. Public Debt Interest | -13.4 | -7.7 | -20.2 | -8.9 | -7.3 | 21.2 | 22.4 | 11.0 | 0.5 | -13.2 | -9.1 | -17.1 | -17.6 | -28.0 |
| B. General Purpose Inter-Government Transactions | -5.2 | -1.8 | 1.2 | -0.1 | 5.0 | -2.2 | 1.8 | 2.1 | .. | -3.4 | 0.1 | 4.5 | 0.6 | 1.9 |
| C. Natural Disaster Relief | na | -51.8 | na | -67.7 | -94.8 | na | -44.9 | -75.0 | na | 190.7 | -40.1 | -12.9 | -2.5 | -2.4 |
| D. Contingency Reserve | na | na | na | na | na | na | na | na | na | na | -26.4 | na | 71.6 | 36.6 |
| E. Asset Sales | -92.5 | 8.1 | 82.5 | -111.2 | -115.2 | na | na | -15.5 | 80.2 | na | -123.6 | na | -7.4 | -100.0 |
| Total Underlying Outlays | -4.7 | 0.8 | 5.0 | 5.4 | 5.4 | 4.2 | 3.8 | 3.9 | 0.5 | -0.9 | 0.6 | 1.0 | 0.8 | 0.8 |

(a) The Non-farm GDP (NFGDP) deflator is used as a general measure of price change.

(b) From 1 July 1998, it is proposed that payments under the AUSTUDY programme will be replaced by Youth Allowance (for students aged under 25 years). This involves a transfer of outlays estimates from the Education function to the Social Security and Welfare function.

Table IV - Commonwealth Budget Underlying Outlays by Function as a Proportion of Total Budget Underlying Outlays (per cent)

| | 1988-89 | 89-90 | 90-91 | 91-92 | 92-93 | 93-94 | 94-95 | 95-96 | 96-97 | 97-98 | 98-99 | 99-00 | 00-01 | 01-02 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| 1. Total General Public Services | 6.4 | 6.0 | 6.1 | 6.2 | 5.5 | 5.6 | 5.4 | 4.9 | 4.9 | 5.0 | 5.1 | 4.7 | 4.7 | 4.9 |
| A. Legislative and Executive Affairs | 0.5 | 0.4 | 0.4 | 0.4 | 0.5 | 0.4 | 0.4 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 0.4 |
| B. Financial and Fiscal Affairs | 1.4 | 1.5 | 1.6 | 1.7 | 1.4 | 1.4 | 1.2 | 1.3 | 1.3 | 1.3 | 1.4 | 1.1 | 1.1 | 1.1 |
| C. Foreign Economic Aid | 1.6 | 1.7 | 1.5 | 1.6 | 1.6 | 1.6 | 1.6 | 1.5 | 1.3 | 1.3 | 1.3 | 1.2 | 1.2 | 1.2 |
| D. General Research | 0.7 | 0.7 | 0.8 | 0.8 | 0.9 | 0.8 | 0.8 | 0.8 | 0.9 | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 |
| E. General Services | 0.8 | 0.2 | 0.3 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | -0.1 | .. | 0.1 | 0.1 | 0.2 |
| F. Government Superannuation Benefits | 1.5 | 1.4 | 1.5 | 1.5 | 1.1 | 1.2 | 1.2 | 0.7 | 1.0 | 1.1 | 1.2 | 1.0 | 1.2 | 1.2 |
| 2. Defence | 8.7 | 8.8 | 8.6 | 8.2 | 8.6 | 8.3 | 7.9 | 7.6 | 7.4 | 7.6 | 7.8 | 7.5 | 7.4 | 7.3 |
| 3. Public Order and Safety | 0.8 | 0.9 | 0.8 | 0.9 | 0.8 | 0.7 | 0.7 | 0.7 | 0.9 | 0.8 | 0.7 | 0.6 | 0.6 | 0.6 |
| 4. Education (a) | 7.0 | 6.9 | 7.2 | 7.4 | 7.6 | 7.8 | 7.9 | 7.7 | 7.6 | 7.9 | 6.7 | 6.5 | 6.3 | 6.2 |
| 5. Health | 13.0 | 13.4 | 13.2 | 13.2 | 13.2 | 13.7 | 13.9 | 14.1 | 14.1 | 15.2 | 15.7 | 16.0 | 16.3 | 16.6 |
| 6. Social Security and Welfare | 28.9 | 29.6 | 31.4 | 33.8 | 34.5 | 35.7 | 35.3 | 35.4 | 36.5 | 36.9 | 37.8 | 37.7 | 37.8 | 38.1 |
| 7. Housing and Community Amenities | 1.2 | 1.5 | 1.3 | 1.2 | 1.3 | 1.1 | 1.0 | 1.0 | 0.8 | 0.8 | 0.9 | 0.9 | 0.8 | 0.7 |
| 8. Recreation and Culture | 1.3 | 1.2 | 1.2 | 1.2 | 1.1 | 1.0 | 1.0 | 1.1 | 1.0 | 1.0 | 0.9 | 0.9 | 0.8 | 0.8 |
| 9. Fuel and Energy | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| 10. Agriculture, Forestry and Fishing | 1.9 | 1.9 | 2.5 | 1.9 | 1.5 | 1.4 | 1.5 | 1.4 | 1.4 | 1.5 | 1.5 | 1.3 | 1.2 | 1.0 |
| 11. Mining and Mineral Resources, other than Fuels; Manufacturing; and Construction | 1.3 | 1.4 | 1.5 | 1.5 | 1.2 | 1.3 | 1.4 | 1.3 | 1.2 | 1.3 | 1.2 | 1.1 | 1.1 | 1.1 |
| 12. Transport and Communication | 2.1 | 2.2 | 2.2 | 2.0 | 2.0 | 1.3 | 1.0 | 1.0 | 1.2 | 1.1 | 1.0 | 0.9 | 0.9 | 0.9 |
| 13. Total Other Economic Affairs | 1.6 | 1.7 | 1.8 | 2.1 | 2.8 | 2.7 | 2.9 | 3.3 | 2.5 | 2.3 | 2.2 | 2.1 | 2.0 | 2.0 |
| A. Tourism and Area Promotion | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| B. Labour and Employment Affairs | 1.5 | 1.4 | 1.5 | 1.7 | 2.5 | 2.4 | 2.5 | 2.9 | 2.2 | 1.9 | 1.9 | 1.8 | 1.7 | 1.7 |
| C. Other Economic Affairs, nec | 0.1 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| 14. Total Other Purposes | 25.7 | 24.5 | 22.1 | 20.4 | 19.6 | 19.5 | 20.3 | 20.4 | 20.4 | 18.8 | 18.3 | 19.7 | 20.0 | 19.9 |
| A. Public Debt Interest | 8.9 | 8.2 | 6.2 | 5.4 | 4.7 | 5.5 | 6.5 | 6.9 | 6.9 | 6.1 | 5.5 | 4.5 | 3.7 | 2.6 |
| B. General Purpose Inter-Government | 16.8 | 16.4 | 15.8 | 15.0 | 14.9 | 14.0 | 13.7 | 13.5 | 13.4 | 13.1 | 13.0 | 13.4 | 13.4 | 13.6 |
| C. Natural Disaster Relief | 0.1 | .. | 0.2 | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| D. Contingency Reserve | .. | .. | .. | .. | .. | .. | .. | .. | .. | -0.3 | -0.2 | 1.6 | 2.8 | 3.7 |
| E. Asset Sales | .. | .. | -0.1 | .. | .. | .. | 0.1 | .. | 0.1 | -0.1 | .. | 0.2 | 0.2 | .. |
| Total Underlying Outlays | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

(a) From 1 July 1998, it is proposed that payments under the AUSTUDY programme will be replaced by Youth Allowance (for students aged under 25 years). This involves a transfer of outlays estimates from the Education function to the Social Security and Welfare function.

Table V - Commonwealth Budget Underlying Outlays by Function and Subfunction (\$m)

| | 1988-89 | 89-90 | 90-91 | 91-92 | 92-93 | 93-94 | 94-95 | 95-96 | 96-97 | 97-98 | 98-99 | 99-00 | 00-01 | 01-02 |
|--|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <i>Total General Public Services</i> | 5317 | 5305 | 5971 | 6491 | 6194 | 6608 | 6629 | 6508 | 6665 | 6766 | 7246 | 6827 | 7180 | 7615 |
| Legislative and Executive Affairs | | | | | | | | | | | | | | |
| Parliamentary Outlays | 309 | 266 | 259 | 285 | 292 | 307 | 313 | 345 | 330 | 336 | 347 | 341 | 343 | 346 |
| Other Legislative Services | 14 | 27 | 17 | 82 | 145 | 91 | 92 | 167 | 77 | 121 | 174 | 91 | 83 | 182 |
| Executive Affairs | 63 | 72 | 91 | 97 | 96 | 93 | 90 | 89 | 81 | 80 | 92 | 84 | 84 | 81 |
| Total Legislative and Executive Affairs | 386 | 365 | 368 | 464 | 533 | 491 | 495 | 601 | 489 | 537 | 612 | 516 | 510 | 609 |
| Financial and Fiscal Affairs | | | | | | | | | | | | | | |
| Financial and Statistical Services | 1249 | 1430 | 1667 | 1843 | 1691 | 1784 | 1789 | 1984 | 2079 | 2104 | 2194 | 1944 | 1977 | 2067 |
| Taxes Paid by Budget Agencies | -84 | -123 | -129 | -109 | -137 | -95 | -290 | -287 | -275 | -301 | -230 | -259 | -301 | -301 |
| Total Financial and Fiscal Affairs | 1165 | 1307 | 1537 | 1734 | 1554 | 1688 | 1499 | 1697 | 1804 | 1803 | 1964 | 1685 | 1676 | 1766 |
| Foreign Economic Aid | | | | | | | | | | | | | | |
| Bilateral Aid | 809 | 902 | 866 | 921 | 976 | 1022 | 1070 | 1123 | 996 | 972 | 998 | 1031 | 1050 | 1097 |
| Multilateral Aid | 122 | 129 | 141 | 158 | 167 | 150 | 158 | 145 | 126 | 132 | 118 | 127 | 129 | 132 |
| Aid Administration | 35 | 41 | 41 | 43 | 47 | 51 | 54 | 69 | 59 | 65 | 73 | 74 | 75 | 76 |
| Foreign Affairs-Non Aid | 394 | 445 | 465 | 558 | 601 | 652 | 733 | 670 | 536 | 598 | 622 | 583 | 582 | 584 |
| Total Foreign Economic Aid | 1360 | 1517 | 1513 | 1680 | 1790 | 1876 | 2015 | 2007 | 1718 | 1767 | 1811 | 1814 | 1836 | 1890 |
| General Research | | | | | | | | | | | | | | |
| CSIRO | 348 | 376 | 416 | 448 | 453 | 451 | 459 | 418 | 445 | 467 | 475 | 482 | 463 | 467 |
| ANSTO | 54 | 58 | 63 | 64 | 68 | 64 | 66 | 66 | 64 | 77 | 80 | 92 | 110 | 141 |
| Australian Research Council | 86 | 126 | 173 | 231 | 267 | 300 | 312 | 351 | 402 | 430 | 446 | 412 | 384 | 390 |
| Other General Research, nec | 66 | 75 | 87 | 111 | 169 | 183 | 198 | 237 | 248 | 267 | 255 | 253 | 252 | 249 |
| Total General Research | 554 | 634 | 738 | 855 | 958 | 999 | 1035 | 1071 | 1158 | 1241 | 1256 | 1239 | 1209 | 1247 |
| General Services | | | | | | | | | | | | | | |
| Commonwealth Employees' Compensation | 102 | -24 | 24 | 62 | 74 | 85 | 63 | 33 | 54 | 110 | 126 | 126 | 129 | 132 |
| Estate Management | 16 | 5 | 143 | -24 | -109 | -68 | -101 | -100 | -153 | -688 | -411 | -105 | -61 | -21 |
| Other General Services | 511 | 218 | 171 | 157 | 168 | 118 | 186 | 255 | 176 | 436 | 237 | 123 | 124 | 124 |
| Total General Services | 629 | 198 | 337 | 195 | 134 | 136 | 148 | 189 | 77 | -141 | -48 | 144 | 192 | 235 |
| Government Superannuation Benefits | | | | | | | | | | | | | | |
| Net Superannuation Payments | 1222 | 1284 | 1478 | 1564 | 1225 | 1418 | 1437 | 944 | 1419 | 1559 | 1651 | 1429 | 1756 | 1866 |

Table V - Commonwealth Budget Underlying Outlays by Function and Subfunction (\$m) - continued

| | 1988-89 | 89-90 | 90-91 | 91-92 | 92-93 | 93-94 | 94-95 | 95-96 | 96-97 | 97-98 | 98-99 | 99-00 | 00-01 | 01-02 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Defence | | | | | | | | | | | | | | |
| Personnel & Retirement Benefit Costs | 2806 | 2900 | 3038 | 3191 | 3849 | 3768 | 3681 | 3863 | 4004 | 4034 | 4032 | 3900 | 3822 | 4005 |
| Defence Equipment and Stores | 2708 | 2957 | 3354 | 3499 | 3755 | 3730 | 3806 | 3866 | 3958 | 4215 | 4849 | 5005 | 5299 | 5336 |
| Defence Facilities | 295 | 357 | 324 | 286 | 352 | 492 | 542 | 528 | 474 | 474 | 491 | 479 | 490 | 488 |
| Defence Housing | 97 | 106 | 113 | 119 | 138 | 206 | 148 | 147 | 89 | 156 | 134 | 133 | 119 | 115 |
| Defence Industry | 306 | 258 | 177 | 150 | 84 | 76 | 39 | 41 | 32 | 23 | 20 | 18 | 18 | 18 |
| Defence Science | 210 | 225 | 227 | 232 | 231 | 239 | 229 | 248 | 268 | 187 | 187 | 193 | 205 | 208 |
| Defence Other | 801 | 1024 | 1177 | 1176 | 1190 | 1242 | 1281 | 1377 | 1229 | 1325 | 1269 | 1284 | 1249 | 1271 |
| Total Defence | 7223 | 7827 | 8411 | 8652 | 9601 | 9753 | 9727 | 10069 | 10054 | 10414 | 10981 | 11013 | 11201 | 11440 |
| Public Order and Safety | | | | | | | | | | | | | | |
| Courts and Legal Services | 310 | 344 | 369 | 508 | 481 | 390 | 379 | 421 | 451 | 465 | 509 | 461 | 480 | 498 |
| Security and Intelligence Services | 76 | 102 | 99 | 100 | 106 | 104 | 117 | 116 | 116 | 118 | 132 | 126 | 120 | 115 |
| Criminal Investigations | 202 | 241 | 186 | 218 | 227 | 228 | 242 | 268 | 242 | 239 | 268 | 251 | 254 | 239 |
| Other Public Order and Safety | 104 | 116 | 113 | 119 | 100 | 108 | 129 | 119 | 417 | 247 | 102 | 58 | 58 | 59 |
| Total Public Order and Safety | 693 | 803 | 768 | 945 | 914 | 829 | 868 | 924 | 1226 | 1070 | 1010 | 895 | 912 | 911 |
| Education | | | | | | | | | | | | | | |
| Higher Education | 2326 | 2508 | 2856 | 2976 | 3274 | 3585 | 3857 | 3941 | 3913 | 3851 | 3578 | 3482 | 3477 | 3492 |
| Vocational and Other Education | 330 | 340 | 376 | 421 | 563 | 638 | 748 | 810 | 894 | 953 | 931 | 939 | 956 | 972 |
| Schools | 2142 | 2184 | 2418 | 2689 | 2884 | 3067 | 3246 | 3344 | 3470 | 3932 | 4083 | 4121 | 4217 | 4340 |
| Student Assistance | 913 | 1018 | 1237 | 1555 | 1683 | 1720 | 1740 | 1902 | 1853 | 1859 | 783 | 785 | 805 | 821 |
| General Administration | 85 | 100 | 117 | 128 | 166 | 184 | 180 | 124 | 192 | 193 | 161 | 154 | 149 | 149 |
| Total Education (a) | 5796 | 6151 | 7004 | 7769 | 8570 | 9195 | 9771 | 10122 | 10321 | 10788 | 9536 | 9482 | 9604 | 9774 |
| Health | | | | | | | | | | | | | | |
| Medical Services and Benefits | 3742 | 4285 | 4761 | 5128 | 5604 | 6109 | 6640 | 7107 | 7209 | 7588 | 7961 | 8358 | 8743 | 9140 |
| Hospital Services | 3862 | 4071 | 4399 | 4570 | 4795 | 5177 | 5323 | 5492 | 5628 | 6092 | 6736 | 7058 | 7395 | 7678 |
| Pharmaceutical Services and Benefits | 1134 | 1298 | 1297 | 1414 | 1623 | 1920 | 2133 | 2564 | 2705 | 3052 | 3295 | 3710 | 4161 | 4630 |
| Nursing Home Subsidies and Domiciliary Care | 1609 | 1796 | 1932 | 2025 | 2068 | 2028 | 2119 | 2324 | 2514 | 2705 | 2859 | 2950 | 3046 | 3122 |
| Aboriginal and Torres Strait Islander Health | - | - | - | - | - | - | - | 115 | 112 | 127 | 156 | 157 | 156 | 161 |
| Other Health Services | 260 | 318 | 409 | 508 | 543 | 667 | 727 | 796 | 842 | 936 | 1038 | 1000 | 999 | 1007 |
| General Administration | 156 | 133 | 137 | 185 | 177 | 193 | 184 | 218 | 186 | 235 | 227 | 184 | 186 | 185 |
| Total Health | 10762 | 11901 | 12935 | 13830 | 14811 | 16092 | 17126 | 18616 | 19196 | 20734 | 22273 | 23419 | 24686 | 25923 |

(a) From 1 July 1998, it is proposed that payments under the AUSTUDY programme will be replaced by Youth Allowance (for students aged under 25 years). This involves a transfer of outlays estimates from the Education function to the Social Security and Welfare function.

Table V - Commonwealth Budget Underlying Outlays by Function and Subfunction (\$m) - continued

| | 1988-89 | 89-90 | 90-91 | 91-92 | 92-93 | 93-94 | 94-95 | 95-96 | 96-97 | 97-98 | 98-99 | 99-00 | 00-01 | 01-02 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Social Security and Welfare | | | | | | | | | | | | | | |
| Assistance to the Aged | 7854 | 8621 | 9722 | 10575 | 11306 | 12488 | 12711 | 13333 | 14370 | 14768 | 15655 | 16327 | 17342 | 18471 |
| Assistance to Veterans and Dependants | 3182 | 3396 | 3677 | 3785 | 3848 | 3906 | 4019 | 4357 | 4493 | 4508 | 4563 | 4639 | 4683 | 4715 |
| Assistance to People with Disabilities | 2736 | 3021 | 3509 | 3967 | 4361 | 4905 | 5140 | 5584 | 5903 | 6263 | 6740 | 7236 | 7563 | 7965 |
| Assistance to Families with Children | 4138 | 5004 | 5605 | 6853 | 8020 | 9149 | 10202 | 12518 | 13884 | 14306 | 14845 | 15709 | 16425 | 17155 |
| Assistance to the Unemployed and Sick | 3689 | 3679 | 5212 | 7181 | 7862 | 8102 | 7831 | 7016 | 7171 | 6761 | 5853 | 5784 | 5625 | 5570 |
| Other Welfare Programmes | 979 | 1063 | 1135 | 1190 | 1103 | 1229 | 1257 | 1328 | 1084 | 968 | 918 | 911 | 914 | 945 |
| Aboriginal Advancement Programmes nec | 464 | 529 | 603 | 673 | 840 | 916 | 1042 | 1051 | 973 | 1058 | 1119 | 1153 | 1176 | 1203 |
| General Administration | 966 | 1087 | 1200 | 1300 | 1319 | 1403 | 1456 | 1616 | 1786 | 1844 | 1836 | 1616 | 1605 | 1614 |
| Recoveries and Repayments | -11 | -6 | -8 | -20 | -31 | -73 | -53 | -50 | -61 | -55 | -67 | -66 | -66 | -66 |
| Assistance to Young People | - | - | - | - | - | - | - | - | - | - | 1994 | 1976 | 1970 | 1991 |
| Total Social Security and Welfare | 23997 | 26395 | 30656 | 35504 | 38627 | 42026 | 43605 | 46753 | 49602 | 50420 | 53458 | 55284 | 57237 | 59563 |
| Housing and Community Amenities | | | | | | | | | | | | | | |
| Housing Assistance to Other Governments | 670 | 963 | 970 | 986 | 966 | 1001 | 997 | 990 | 894 | 793 | 932 | 922 | 912 | 903 |
| Defence Service Homes | 58 | 179 | 150 | 92 | 53 | 41 | 43 | 52 | 28 | 18 | 22 | 21 | 21 | 21 |
| Urban and Regional Development | 23 | 40 | 21 | 26 | 335 | 101 | 48 | 77 | 71 | 67 | 42 | 29 | 26 | 25 |
| Environment Protection | 35 | 46 | 52 | 64 | 63 | 73 | 87 | 131 | 113 | 208 | 305 | 288 | 257 | 81 |
| Other Housing and Community Amenities | 205 | 120 | 72 | 33 | 22 | 22 | 16 | 20 | 15 | -2 | 20 | 5 | 2 | 3 |
| General Administration | 19 | 28 | 35 | 34 | 35 | 27 | 39 | 37 | 17 | 16 | 8 | 7 | 7 | 7 |
| Total Housing and Community Amenities | 1010 | 1376 | 1299 | 1235 | 1474 | 1265 | 1230 | 1306 | 1138 | 1101 | 1330 | 1272 | 1226 | 1040 |
| Recreation and Culture | | | | | | | | | | | | | | |
| Broadcasting | 605 | 661 | 721 | 728 | 724 | 561 | 628 | 754 | 730 | 654 | 666 | 669 | 680 | 696 |
| Arts and Cultural Heritage | 351 | 275 | 323 | 327 | 332 | 338 | 361 | 418 | 422 | 468 | 458 | 440 | 448 | 440 |
| Sport and Recreation | 34 | 53 | 71 | 75 | 93 | 96 | 113 | 91 | 92 | 98 | 128 | 113 | 58 | 32 |
| National Estate and Parks | 55 | 73 | 83 | 123 | 118 | 127 | 123 | 163 | 131 | 107 | 83 | 90 | 93 | 57 |
| Total Recreation and Culture | 1046 | 1063 | 1198 | 1253 | 1267 | 1122 | 1225 | 1426 | 1375 | 1326 | 1335 | 1312 | 1280 | 1225 |
| Fuel and Energy | | | | | | | | | | | | | | |
| Fossil Fuels | 38 | 43 | 19 | 80 | 19 | 7 | 3 | 5 | 3 | 4 | 4 | 4 | 4 | 4 |
| Electricity | 91 | - | 30 | 20 | 13 | 6 | 9 | 5 | 11 | 14 | 11 | - | - | - |
| Energy Research, Conservation & Gen Admin | 12 | 14 | 33 | 29 | 35 | 38 | 43 | 42 | 12 | 24 | 13 | 14 | 14 | 11 |
| Total Fuel and Energy | 141 | 57 | 82 | 129 | 67 | 52 | 55 | 51 | 27 | 42 | 27 | 18 | 17 | 15 |

Table V - Commonwealth Budget Underlying Outlays by Function and Subfunction (\$m) - continued

| | 1988-89 | 89-90 | 90-91 | 91-92 | 92-93 | 93-94 | 94-95 | 95-96 | 96-97 | 97-98 | 98-99 | 99-00 | 00-01 | 01-02 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Agriculture, Forestry and Fishing | | | | | | | | | | | | | | |
| Wool | 489 | 496 | 1148 | 504 | 277 | 242 | 293 | 197 | 121 | 129 | 135 | 136 | 161 | 165 |
| Grains | 3 | 76 | 48 | 93 | 83 | 97 | 83 | 142 | 157 | 162 | 144 | 88 | 81 | 81 |
| Dairy | 157 | 145 | 142 | 172 | 171 | 189 | 187 | 199 | 205 | 202 | 201 | 203 | 50 | 52 |
| Cattle, Sheep and Pig | 144 | 130 | 170 | 182 | 179 | 168 | 152 | 143 | 141 | 148 | 123 | 135 | 128 | 128 |
| Fishing, Horticulture and Other Agriculture | 87 | 99 | 115 | 88 | 87 | 92 | 102 | 107 | 108 | 128 | 132 | 128 | 126 | 127 |
| General Assistance not Allocated to Specific Industries | 539 | 576 | 638 | 753 | 762 | 720 | 881 | 899 | 926 | 963 | 946 | 916 | 899 | 864 |
| Natural Resources Development & Management | 54 | 92 | 77 | 64 | 79 | 84 | 95 | 109 | 106 | 190 | 258 | 239 | 198 | 48 |
| General Administration | 79 | 85 | 103 | 106 | 90 | 93 | 90 | 105 | 140 | 129 | 133 | 130 | 128 | 123 |
| Total Agriculture, Forestry and Fishing | 1552 | 1699 | 2441 | 1963 | 1729 | 1684 | 1884 | 1902 | 1903 | 2051 | 2073 | 1977 | 1773 | 1589 |
| Mining and Mineral Resources, Other Than Fuels; Manufacturing; and Construction | | | | | | | | | | | | | | |
| Mining and Mineral Resources | 347 | 455 | 495 | 543 | 540 | 614 | 770 | 821 | 920 | 905 | 921 | 972 | 1047 | 1127 |
| Manufacturing - Sector Specific Assistance | 262 | 336 | 289 | 300 | 310 | 280 | 268 | 236 | 253 | 316 | 251 | 133 | 59 | 66 |
| Manufacturing - General Assistance | 125 | 125 | 124 | 149 | 148 | 158 | 185 | 195 | 216 | 227 | 300 | 310 | 334 | 340 |
| Assistance to Exporters | 299 | 300 | 529 | 542 | 370 | 402 | 424 | 375 | 260 | 271 | 267 | 248 | 253 | 260 |
| Other Industry Assistance | 6 | 2 | 6 | 6 | 8 | 25 | 30 | 24 | 4 | 2 | 3 | 3 | 2 | 2 |
| Total Mining and Mineral Resources, other than Fuels; Manufacturing; and Construction | 1040 | 1218 | 1442 | 1540 | 1376 | 1480 | 1676 | 1651 | 1653 | 1720 | 1741 | 1665 | 1694 | 1795 |
| Transport and Communication | | | | | | | | | | | | | | |
| Communication | 19 | 30 | 38 | 42 | -24 | 61 | 23 | -20 | 47 | 126 | 124 | 123 | 122 | 122 |
| Air Transport | 130 | 242 | 148 | 189 | 121 | 99 | 112 | 198 | 149 | 200 | 177 | 154 | 138 | 82 |
| Road Transport | 1305 | 1359 | 1585 | 1359 | 1815 | 1045 | 851 | 875 | 870 | 873 | 868 | 844 | 849 | 854 |
| Rail Transport | 51 | 61 | 111 | 118 | 137 | 62 | 36 | 80 | 373 | 53 | 60 | 63 | 85 | 81 |
| Sea Transport | 38 | 64 | 104 | 258 | 143 | 140 | 111 | 132 | 137 | 133 | 124 | 119 | 118 | 119 |
| Other Transport and Communication | 200 | 180 | 128 | 104 | 81 | 91 | 85 | 91 | 79 | 78 | 82 | 80 | 81 | 81 |
| Total Transport and Communication | 1743 | 1936 | 2115 | 2070 | 2273 | 1497 | 1219 | 1357 | 1655 | 1463 | 1435 | 1383 | 1393 | 1339 |
| Total Other Economic Affairs | 1341 | 1515 | 1801 | 2211 | 3158 | 3213 | 3524 | 4309 | 3366 | 3089 | 3181 | 3082 | 3033 | 3072 |
| Tourism and Area Promotion | | | | | | | | | | | | | | |
| Tourism | 43 | 72 | 66 | 79 | 87 | 99 | 101 | 104 | 86 | 110 | 102 | 101 | 101 | 100 |

Table V - Commonwealth Budget Underlying Outlays by Function and Subfunction (\$m) - continued

| | 1988-89 | 89-90 | 90-91 | 91-92 | 92-93 | 93-94 | 94-95 | 95-96 | 96-97 | 97-98 | 98-99 | 99-00 | 00-01 | 01-02 |
|--|---------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Labour and Employment Affairs | | | | | | | | | | | | | | |
| Vocational and Industry Training | 197 | 192 | 178 | 200 | 338 | 318 | 336 | 264 | 265 | 286 | 422 | 477 | 431 | 445 |
| Labour Market Assist to Jobseekers and Industry | 714 | 754 | 877 | 1208 | 1866 | 1978 | 2228 | 3013 | 2147 | 1819 | 1707 | 1609 | 1602 | 1623 |
| Industrial Relations | 159 | 171 | 201 | 215 | 302 | 219 | 261 | 239 | 188 | 204 | 228 | 226 | 226 | 224 |
| Immigration | 134 | 159 | 183 | 210 | 242 | 265 | 280 | 334 | 346 | 348 | 379 | 354 | 360 | 365 |
| Employment Services | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Labour and Employment Affairs | 1204 | 1276 | 1439 | 1833 | 2747 | 2780 | 3104 | 3850 | 2945 | 2657 | 2737 | 2666 | 2618 | 2656 |
| Other Economic Affairs, nec | | | | | | | | | | | | | | |
| Economic Trade and Regulation | 6 | 73 | 185 | 187 | 209 | 216 | 206 | 217 | 208 | 189 | 205 | 186 | 182 | 183 |
| Meteorological Services | 88 | 95 | 110 | 112 | 116 | 119 | 114 | 137 | 127 | 133 | 137 | 130 | 130 | 133 |
| Total Other Economic Affairs, nec | 94 | 168 | 295 | 299 | 325 | 335 | 319 | 354 | 335 | 322 | 342 | 316 | 313 | 316 |
| Total Other Purposes | 21381 | 21868 | 21570 | 21387 | 21999 | 22997 | 25024 | 26974 | 27752 | 25621 | 25945 | 28938 | 30351 | 31208 |
| Public Debt Interest | | | | | | | | | | | | | | |
| Gross Interest on Behalf of the Commonwealth | 5360 | 5293 | 4221 | 3934 | 3881 | 5373 | 7002 | 8566 | 8952 | 7976 | 7797 | 7149 | 6767 | 5415 |
| Gross Interest on Behalf of the States | 2082 | 2124 | 2032 | 1861 | 1566 | 1242 | 1117 | 676 | 472 | 391 | 320 | 259 | 117 | 44 |
| Interest Received on Commonwealth Stock | -45 | -141 | -190 | -168 | -160 | -150 | -125 | -116 | -23 | -93 | -372 | -832 | -1325 | -1358 |
| Total Public Debt Interest | 7397 | 7276 | 6063 | 5626 | 5288 | 6465 | 7994 | 9126 | 9402 | 8274 | 7745 | 6576 | 5559 | 4101 |
| General Purpose Inter-Government Transactions | | | | | | | | | | | | | | |
| General Revenue Assistance to the States | 12973 | 13278 | 13601 | 13704 | 14087 | 14355 | 15066 | 15777 | 15821 | 16199 | 16783 | 17952 | 18592 | 19485 |
| General Purpose Capital Assistance to the States | 357 | 342 | 330 | 372 | 498 | 543 | 224 | 140 | 52 | - | - | - | - | - |
| Debt Assistance to the States | 51 | 50 | 54 | 257 | 160 | 113 | 144 | 92 | 233 | 73 | 36 | 91 | 84 | 41 |
| Local Government Assistance | 664 | 689 | 711 | 1040 | 1080 | 1084 | 1095 | 1165 | 1216 | 1205 | 1229 | 1285 | 1331 | 1379 |
| ASC - Revenue Assistance to the States | - | - | 68 | 116 | 118 | 124 | 122 | 126 | 130 | 133 | 135 | 137 | 139 | 142 |
| Assistance to Other Governments, nec | -81 | 242 | 663 | 215 | 766 | 271 | 300 | 490 | 776 | 246 | 222 | 233 | 192 | 185 |
| Total General Purpose Inter-Government Transactions | 13964 | 14602 | 15428 | 15704 | 16710 | 16491 | 16952 | 17790 | 18229 | 17855 | 18405 | 19698 | 20338 | 21232 |
| Natural Disaster Relief | | | | | | | | | | | | | | |
| Natural Disaster Relief Assistance | 52 | 27 | 149 | 49 | 3 | 27 | 15 | 4 | 20 | 60 | 37 | 33 | 33 | 33 |
| Contingency Reserve | | | | | | | | | | | | | | |
| Contingency Reserve | - | - | - | - | - | - | - | - | - | -380 | -288 | 2372 | 4176 | 5842 |
| Asset Sales | | | | | | | | | | | | | | |
| Asset Sales | -32 | -37 | -70 | 8 | -1 | 14 | 63 | 55 | 101 | -188 | 46 | 258 | 245 | - |
| Total Underlying Outlays | 83040 | 89113 | 97692 | 104976 | 112061 | 117814 | 123563 | 131966 | 135933 | 136603 | 141570 | 146566 | 151586 | 156508 |

Table VI - Commonwealth Budget Underlying Outlays by Economic Type (\$m)

| | 1988-89 | 89-90 | 90-91 | 91-92 | 92-93 | 93-94 | 94-95 | 95-96 | 96-97 | 97-98 | 98-99 | 99-00 | 00-01 | 01-02 |
|--|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| CURRENT OUTLAYS | | | | | | | | | | | | | | |
| Final Consumption Expenditure | 14905 | 15694 | 17200 | 18230 | 19272 | 20058 | 20462 | 21525 | 21814 | 23506 | 25280 | 25003 | 25555 | 25548 |
| Defence Salaries | 3139 | 3033 | 3177 | 3339 | 3455 | 3417 | 3269 | 3372 | 3484 | 3494 | 3487 | 3379 | 3317 | 3467 |
| Non-Salaries | 3958 | 4632 | 5113 | 5220 | 6039 | 6240 | 6359 | 6575 | 6497 | 6841 | 7414 | 7553 | 7801 | 7886 |
| Non-Defence Salaries | 3308 | 3274 | 3629 | 3899 | 4130 | 4390 | 4262 | 4310 | 4271 | 4025 | 4200 | 3804 | 3836 | 3857 |
| Non-Salaries | 4500 | 4755 | 5281 | 5772 | 5647 | 6011 | 6572 | 7268 | 7562 | 9146 | 10179 | 10267 | 10601 | 10337 |
| Total Current Transfer Payments | 63930 | 68728 | 74642 | 81200 | 86433 | 93307 | 99289 | 106543 | 109967 | 111036 | 113486 | 116916 | 119697 | 122917 |
| Interest | 7475 | 7352 | 6155 | 5706 | 5357 | 6576 | 8103 | 9219 | 9562 | 8425 | 7945 | 7175 | 6323 | 4742 |
| Subsidies | 1764 | 2030 | 2666 | 2361 | 2380 | 2575 | 2586 | 2763 | 2925 | 2890 | 2806 | 2775 | 2640 | 2775 |
| Personal Benefit Payments | 25019 | 26374 | 30669 | 35276 | 38202 | 41120 | 42400 | 45541 | 47999 | 48620 | 50338 | 52273 | 54112 | 56265 |
| Grants to Non-Profit Institutions | 1093 | 1147 | 1125 | 1497 | 1817 | 1917 | 2354 | 2989 | 2775 | 2512 | 2665 | 2776 | 2893 | 3025 |
| Grants to Non-Budget Sector | 5968 | 7652 | 8549 | 9116 | 10157 | 11318 | 12550 | 13290 | 13316 | 14365 | 14818 | 15536 | 16206 | 17127 |
| Grants to State Governments | 17598 | 18630 | 19547 | 20555 | 21408 | 22090 | 22977 | 24126 | 24761 | 25258 | 25941 | 27383 | 28357 | 29625 |
| Grants Through State Governments | 3865 | 4178 | 4565 | 3864 | 2622 | 2550 | 2792 | 2935 | 3122 | 3423 | 3563 | 3700 | 3875 | 3978 |
| Grants Direct to Local Governments | 79 | 95 | 95 | 155 | 190 | 186 | 199 | 212 | 207 | 199 | 217 | 230 | 246 | 264 |
| Grants to Multi Jurisdictional Sectors | 147 | 193 | 229 | 1531 | 3062 | 3657 | 4003 | 4129 | 4126 | 4133 | 3861 | 3713 | 3672 | 3693 |
| Grants Overseas | 916 | 1070 | 1036 | 1124 | 1195 | 1257 | 1296 | 1305 | 1143 | 1189 | 1202 | 1236 | 1253 | 1302 |
| Other Transfers | 5 | 7 | 5 | 17 | 41 | 60 | 31 | 33 | 31 | 21 | 132 | 118 | 119 | 121 |
| TOTAL CURRENT OUTLAYS | 78834 | 84422 | 91841 | 99430 | 105705 | 113365 | 119751 | 128068 | 131781 | 134542 | 138766 | 141919 | 145252 | 148465 |
| CAPITAL OUTLAYS | | | | | | | | | | | | | | |
| Capital Outlays on Goods | 535 | 686 | 970 | 1089 | 778 | 634 | 536 | 662 | 489 | -399 | 165 | 506 | 683 | 831 |
| Capital Outlays on Land | -121 | 24 | -65 | 10 | -71 | -197 | -84 | -37 | 21 | -176 | 84 | 61 | 77 | 61 |
| Total Capital Transfer Payments | 3792 | 3982 | 4946 | 4448 | 5650 | 4012 | 3360 | 3273 | 3642 | 2697 | 2765 | 2630 | 2626 | 2556 |
| Grants to Non-Budget Sector | 298 | 91 | 89 | 165 | 119 | 213 | 424 | 304 | 634 | 302 | 312 | 293 | 322 | 255 |
| Grants to State Governments | 2849 | 3355 | 4063 | 3392 | 4460 | 3251 | 2580 | 2622 | 2684 | 2099 | 2152 | 2096 | 2085 | 2081 |
| Grants Through State Governments | 228 | 195 | 285 | 199 | 117 | 126 | 114 | 118 | 104 | 107 | 99 | 91 | 82 | 83 |
| Grants Direct to Local Governments | 35 | 13 | 13 | 22 | 320 | 63 | 7 | 28 | 6 | 6 | 8 | 6 | 4 | 2 |
| Grants to Multi Jurisdictional Sectors | 6 | 2 | 8 | 114 | 320 | 145 | 48 | 40 | 42 | 38 | 39 | 39 | 40 | 41 |
| Grants to Other Sectors | 374 | 326 | 488 | 556 | 314 | 213 | 187 | 161 | 171 | 145 | 155 | 106 | 94 | 95 |
| TOTAL CAPITAL OUTLAYS | 4206 | 4692 | 5851 | 5547 | 6357 | 4449 | 3812 | 3898 | 4152 | 2122 | 3014 | 3198 | 3386 | 3448 |
| Contingency Reserve | - | - | - | - | - | - | - | - | - | -60 | -210 | 1449 | 2948 | 4595 |
| TOTAL UNDERLYING OUTLAYS | 83040 | 89113 | 97692 | 104976 | 112061 | 117814 | 123563 | 131966 | 135933 | 136603 | 141570 | 146566 | 151586 | 156508 |
| <i>Memorandum Items</i> | | | | | | | | | | | | | | |
| <i>Net Advances</i> | -180 | -1210 | -1549 | -2154 | -2471 | -3442 | -1551 | -5277 | -7452 | -13920 | -16027 | -18772 | -12856 | 455 |

Table VII - Commonwealth Budget Underlying Outlays by Economic Type as a Proportion of Total Budget Underlying Outlays (per cent)

| | 1988-89 | 89-90 | 90-91 | 91-92 | 92-93 | 93-94 | 94-95 | 95-96 | 96-97 | 97-98 | 98-99 | 99-00 | 00-01 | 01-02 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| CURRENT OUTLAYS | | | | | | | | | | | | | | |
| Final Consumption Expenditure | 17.9 | 17.6 | 17.6 | 17.4 | 17.2 | 17.0 | 16.6 | 16.3 | 16.0 | 17.2 | 17.9 | 17.1 | 16.9 | 16.3 |
| Defence Salaries | 3.8 | 3.4 | 3.3 | 3.2 | 3.1 | 2.9 | 2.6 | 2.6 | 2.6 | 2.6 | 2.5 | 2.3 | 2.2 | 2.2 |
| Non-Salaries | 4.8 | 5.2 | 5.2 | 5.0 | 5.4 | 5.3 | 5.1 | 5.0 | 4.8 | 5.0 | 5.2 | 5.2 | 5.1 | 5.0 |
| Non-Defence Salaries | 4.0 | 3.7 | 3.7 | 3.7 | 3.7 | 3.7 | 3.4 | 3.3 | 3.1 | 2.9 | 3.0 | 2.6 | 2.5 | 2.5 |
| Non-Salaries | 5.4 | 5.3 | 5.4 | 5.5 | 5.0 | 5.1 | 5.3 | 5.5 | 5.6 | 6.7 | 7.2 | 7.0 | 7.0 | 6.6 |
| Total Current Transfer Payments | 77.0 | 77.1 | 76.4 | 77.4 | 77.1 | 79.2 | 80.4 | 80.7 | 80.9 | 81.3 | 80.2 | 79.8 | 79.0 | 78.5 |
| Interest | 9.0 | 8.2 | 6.3 | 5.4 | 4.8 | 5.6 | 6.6 | 7.0 | 7.0 | 6.2 | 5.6 | 4.9 | 4.2 | 3.0 |
| Subsidies | 2.1 | 2.3 | 2.7 | 2.2 | 2.1 | 2.2 | 2.1 | 2.1 | 2.2 | 2.1 | 2.0 | 1.9 | 1.7 | 1.8 |
| Personal Benefit Payments | 30.1 | 29.6 | 31.4 | 33.6 | 34.1 | 34.9 | 34.3 | 34.5 | 35.3 | 35.6 | 35.6 | 35.7 | 35.7 | 36.0 |
| Grants to Non-Profit Institutions | 1.3 | 1.3 | 1.2 | 1.4 | 1.6 | 1.6 | 1.9 | 2.3 | 2.0 | 1.8 | 1.9 | 1.9 | 1.9 | 1.9 |
| Grants to Non-Budget Sector | 7.2 | 8.6 | 8.8 | 8.7 | 9.1 | 9.6 | 10.2 | 10.1 | 9.8 | 10.5 | 10.5 | 10.6 | 10.7 | 10.9 |
| Grants to State Governments | 21.2 | 20.9 | 20.0 | 19.6 | 19.1 | 18.7 | 18.6 | 18.3 | 18.2 | 18.5 | 18.3 | 18.7 | 18.7 | 18.9 |
| Grants Through State Governments | 4.7 | 4.7 | 4.7 | 3.7 | 2.3 | 2.2 | 2.3 | 2.2 | 2.3 | 2.5 | 2.5 | 2.5 | 2.6 | 2.5 |
| Grants Direct to Local Governments | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| Grants to Multi Jurisdictional Sectors | 0.2 | 0.2 | 0.2 | 1.5 | 2.7 | 3.1 | 3.2 | 3.1 | 3.0 | 3.0 | 2.7 | 2.5 | 2.4 | 2.4 |
| Grants Overseas | 1.1 | 1.2 | 1.1 | 1.1 | 1.1 | 1.1 | 1.0 | 1.0 | 0.8 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 |
| Other Transfers | .. | .. | .. | .. | .. | 0.1 | .. | .. | .. | .. | 0.1 | 0.1 | 0.1 | 0.1 |
| TOTAL CURRENT OUTLAYS | 94.9 | 94.7 | 94.0 | 94.7 | 94.3 | 96.2 | 96.9 | 97.0 | 96.9 | 98.5 | 98.0 | 96.8 | 95.8 | 94.9 |
| CAPITAL OUTLAYS | | | | | | | | | | | | | | |
| Capital Outlays on Goods | 0.6 | 0.8 | 1.0 | 1.0 | 0.7 | 0.5 | 0.4 | 0.5 | 0.4 | -0.3 | 0.1 | 0.3 | 0.5 | 0.5 |
| Capital Outlays on Land | -0.1 | .. | -0.1 | .. | -0.1 | -0.2 | -0.1 | .. | .. | -0.1 | 0.1 | .. | 0.1 | .. |
| Total Capital Transfer Payments | 4.6 | 4.5 | 5.1 | 4.2 | 5.0 | 3.4 | 2.7 | 2.5 | 2.7 | 2.0 | 2.0 | 1.8 | 1.7 | 1.6 |
| Grants to Non-Budget Sector | 0.4 | 0.1 | 0.1 | 0.2 | 0.1 | 0.2 | 0.3 | 0.2 | 0.5 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Grants to State Governments | 3.4 | 3.8 | 4.2 | 3.2 | 4.0 | 2.8 | 2.1 | 2.0 | 2.0 | 1.5 | 1.5 | 1.4 | 1.4 | 1.3 |
| Grants Through State Governments | 0.3 | 0.2 | 0.3 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Grants Direct to Local Governments | .. | .. | .. | .. | 0.3 | 0.1 | .. | .. | .. | .. | .. | .. | .. | .. |
| Grants to Multi Jurisdictional Sectors | .. | .. | .. | 0.1 | 0.3 | 0.1 | .. | .. | .. | .. | .. | .. | .. | .. |
| Grants to Other Sectors | 0.5 | 0.4 | 0.5 | 0.5 | 0.3 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| TOTAL CAPITAL OUTLAYS | 5.1 | 5.3 | 6.0 | 5.3 | 5.7 | 3.8 | 3.1 | 3.0 | 3.1 | 1.6 | 2.1 | 2.2 | 2.2 | 2.2 |
| Contingency Reserve | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | -0.1 | 1.0 | 1.9 | 2.9 |
| TOTAL UNDERLYING OUTLAYS | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Table VIII - Commonwealth Budget Underlying Outlays by Economic Type - Annual Percentage Change (89-90 prices) (a)

| | 1988-89 | 89-90 | 90-91 | 91-92 | 92-93 | 93-94 | 94-95 | 95-96 | 96-97 | 97-98 | 98-99 | 99-00 | 00-01 | 01-02 |
|--|---------|--------|-------|--------|-------|-------|-------|-------|--------|--------|--------|-------|-------|-------|
| CURRENT OUTLAYS | | | | | | | | | | | | | | |
| Final Consumption Expenditure | -3.3 | -1.2 | 5.0 | 4.0 | 4.3 | 3.1 | 1.0 | 2.3 | -1.1 | 6.3 | 4.4 | -3.5 | -0.4 | -2.4 |
| Defence Salaries | -5.4 | -9.3 | 0.4 | 3.2 | 2.1 | -2.0 | -5.3 | 0.3 | 0.8 | -1.1 | -3.1 | -5.4 | -4.3 | 2.0 |
| Non-Salaries | -2.1 | 9.9 | 5.7 | 0.2 | 14.1 | 2.4 | 0.9 | 0.6 | -3.6 | 3.8 | 5.2 | -0.5 | 0.7 | -1.3 |
| Non-Defence Salaries | -9.9 | -7.1 | 6.2 | 5.5 | 4.5 | 5.3 | -3.9 | -1.6 | -3.3 | -7.1 | 1.3 | -11.6 | -1.7 | -1.8 |
| Non-Salaries | 2.8 | -0.8 | 6.4 | 7.3 | -3.5 | 5.5 | 8.2 | 7.6 | 1.5 | 19.3 | 8.0 | -1.5 | 0.7 | -4.8 |
| Total Current Transfer Payments | -4.5 | 0.9 | 4.1 | 6.8 | 5.0 | 7.0 | 5.3 | 4.4 | 0.7 | -0.4 | -0.8 | 0.6 | -0.2 | 0.2 |
| Interest | -13.0 | -7.7 | -19.8 | -9.0 | -7.4 | 21.7 | 22.0 | 10.7 | 1.2 | -13.1 | -8.4 | -11.8 | -14.1 | -26.8 |
| Subsidies | -13.6 | 8.0 | 25.8 | -13.1 | -0.6 | 7.2 | -0.6 | 3.9 | 3.3 | -2.6 | -5.7 | -3.5 | -7.3 | 2.6 |
| Personal Benefit Payments | -14.2 | -1.0 | 11.4 | 12.9 | 6.8 | 6.7 | 2.1 | 4.5 | 2.8 | -0.1 | 0.5 | 1.4 | 0.9 | 1.5 |
| Grants to Non-Profit Institutions | 4.7 | -1.5 | -6.0 | 30.6 | 19.7 | 4.6 | 21.5 | 23.5 | -9.4 | -10.7 | 3.0 | 1.7 | 1.6 | 2.1 |
| Grants to Non-Budget Sector | 151.1 | 20.4 | 7.0 | 4.7 | 9.9 | 10.4 | 9.8 | 3.0 | -2.2 | 6.4 | 0.1 | 2.3 | 1.7 | 3.2 |
| Grants to State Governments | -5.0 | -0.6 | 0.5 | 3.2 | 2.7 | 2.3 | 3.0 | 2.1 | 0.1 | 0.6 | -0.3 | 3.0 | 0.9 | 2.0 |
| Grants Through State Governments | -4.4 | 1.5 | 4.7 | -16.9 | -33.1 | -3.6 | 8.4 | 2.3 | 3.8 | 8.1 | 1.1 | 1.4 | 2.1 | 0.2 |
| Grants Direct to Local Governments | -16.9 | 12.7 | -4.2 | 59.9 | 21.2 | -3.2 | 5.9 | 3.8 | -4.5 | -5.3 | 5.7 | 3.4 | 4.4 | 4.8 |
| Grants to Multi Jurisdictional Sectors | -21.6 | 23.9 | 13.6 | na | 97.3 | 18.4 | 8.3 | 0.3 | -2.5 | -1.2 | -9.3 | -6.1 | -3.6 | -1.8 |
| Grants Overseas | .. | 9.6 | -7.2 | 6.5 | 4.9 | 4.2 | 2.1 | -2.0 | -14.5 | 2.5 | -1.8 | 0.4 | -1.2 | 1.4 |
| Other Transfers | 14.5 | 30.2 | -25.4 | 218.8 | 143.2 | 43.8 | -49.3 | 5.4 | -9.9 | -31.7 | na | -12.4 | -1.9 | -0.9 |
| TOTAL CURRENT OUTLAYS | -4.3 | 0.5 | 4.2 | 6.3 | 4.9 | 6.3 | 4.6 | 4.0 | 0.4 | 0.7 | 0.1 | -0.2 | -0.2 | -0.2 |
| CAPITAL OUTLAYS | | | | | | | | | | | | | | |
| Capital Outlays on Goods | -21.5 | 20.3 | 35.6 | 10.2 | -29.5 | -19.2 | -16.3 | 20.0 | -27.9 | -180.5 | -140.2 | 198.7 | 31.6 | 18.7 |
| Capital Outlays on Land | -70.5 | -118.6 | na | -115.0 | na | 174.0 | -57.6 | -57.1 | -155.4 | na | -146.3 | -28.8 | 22.2 | -22.6 |
| Total Capital Transfer Payments | -15.2 | -1.4 | 19.0 | -11.7 | 25.3 | -29.6 | -17.1 | -5.3 | 8.6 | -27.0 | -0.5 | -7.1 | -2.7 | -5.0 |
| Grants to Non-Budget Sector | -56.7 | -71.3 | -6.1 | 81.5 | -28.6 | 77.1 | 96.8 | -30.2 | 103.5 | -53.0 | 0.2 | -8.3 | 6.9 | -22.6 |
| Grants to State Governments | -5.8 | 10.6 | 16.0 | -18.0 | 29.7 | -27.8 | -21.4 | -1.2 | -0.1 | -22.9 | -0.5 | -4.9 | -3.0 | -2.6 |
| Grants Through State Governments | -27.9 | -20.0 | 40.2 | -31.6 | -42.0 | 7.2 | -10.5 | 0.7 | -13.7 | 1.0 | -10.1 | -10.3 | -12.5 | -1.2 |
| Grants Direct to Local Governments | 108.0 | -66.0 | -4.2 | 71.8 | na | -80.6 | -89.5 | na | -78.4 | -10.1 | 31.1 | -29.7 | -35.8 | -52.1 |
| Grants to Multi Jurisdictional Sectors | -58.3 | -73.7 | na | na | 177.5 | -54.9 | -67.2 | -18.7 | 0.7 | -9.7 | -1.4 | -0.7 | -0.9 | -0.7 |
| Grants to Other Sectors | -8.1 | -18.2 | 43.5 | 11.7 | -44.2 | -32.7 | -13.0 | -16.7 | 3.9 | -16.5 | 4.1 | -33.7 | -13.0 | -1.9 |
| TOTAL CAPITAL OUTLAYS | -11.3 | 4.7 | 19.5 | -6.9 | 13.0 | -30.6 | -15.2 | -0.6 | 3.9 | -49.6 | 37.9 | 3.6 | 3.2 | -0.6 |
| Contingency Reserve | na | na | na | na | na | na | na | na | na | na | 238.6 | na | 98.3 | 52.1 |
| TOTAL UNDERLYING OUTLAYS | -4.7 | 0.8 | 5.0 | 5.4 | 5.4 | 4.2 | 3.8 | 3.9 | 0.5 | -0.9 | 0.6 | 1.0 | 0.8 | 0.8 |

(a) The Non-farm GDP (NFGDP) deflator is used as a general measure of price change.

Table IX - Commonwealth Budget Portfolio Underlying Outlays by Major Function, 1998-99 (\$m)

| PORTFOLIO | General Public Services | Defence | Public Order and Safety | Education | Health | Social Security and Welfare | Housing and Community Amenities |
|---|-------------------------------|----------------|-------------------------------|---------------|----------------|-----------------------------------|---------------------------------------|
| Parliament | 161.9 | - | - | - | - | - | - |
| Attorney-General's | 36.5 | - | 912.0 | - | - | 61.3 | - |
| Communications and the Arts | 7.8 | - | - | 15.3 | - | - | - |
| Defence | 1159.9 | 10981.0 | - | - | - | - | - |
| Veterans' Affairs | - | - | - | 14.0 | 2406.1 | 4772.0 | 21.7 |
| Employment, Education, Training and Youth Affairs | 448.4 | - | - | 8966.4 | - | 1.0 | - |
| Environment | 62.9 | - | - | - | - | - | 276.5 |
| Finance and Administration | 842.5 | - | .. | - | - | - | 4.0 |
| Foreign Affairs and Trade | 1796.2 | - | 52.6 | - | - | - | - |
| Health and Family Services | 10.1 | - | - | - | 19866.9 | 3292.9 | - |
| Immigration and Multicultural Affairs | 1.0 | - | - | 95.0 | - | 70.0 | - |
| Industry, Science and Tourism | 1149.4 | - | 37.4 | - | - | 13.1 | 6.2 |
| Primary Industries and Energy | - | - | 0.6 | - | - | 27.7 | 23.7 |
| Prime Minister and Cabinet | 92.1 | - | 7.4 | - | - | 1095.4 | - |
| Social Security | - | - | - | 445.5 | - | 43466.5 | 935.9 |
| Transport and Regional Development | 33.4 | - | - | - | - | 0.2 | 65.3 |
| Treasury | 1312.4 | - | - | - | - | 657.9 | -3.0 |
| Workplace Relations and Small Business | 131.3 | - | - | - | - | - | - |
| Contingency Reserve | - | - | - | - | - | - | - |
| TOTAL | 7245.8 | 10981.0 | 1010.0 | 9536.2 | 22273.0 | 53458.1 | 1330.1 |

Table IX - Commonwealth Budget Portfolio Underlying Outlays by Major Function, 1998-99 (\$m) - continued

| PORTFOLIO | Recreation and Culture | Fuel and Energy | Agriculture, Forestry and Fishing | Mining and Mineral Resources | Transport and Communication | Other Economic Affairs | Other Purposes | TOTAL |
|---|---------------------------|--------------------|---|------------------------------------|--------------------------------|------------------------------|-------------------|-----------------|
| Parliament | - | - | - | - | - | - | - | 161.9 |
| Attorney-General's | - | - | - | - | - | - | - | 1009.9 |
| Communications and the Arts | 1088.5 | - | - | - | 123.7 | - | -1.5 | 1233.8 |
| Defence | 1.8 | - | - | - | - | - | - | 12142.7 |
| Veterans' Affairs | 35.5 | - | - | - | - | 1.3 | - | 7250.6 |
| Employment, Education, Training and Youth Affairs | - | - | - | - | - | 2128.5 | - | 11544.3 |
| Environment | 81.5 | - | 127.5 | - | - | 136.9 | - | 685.2 |
| Finance and Administration | .. | - | - | - | - | - | 82.7 | 929.3 |
| Foreign Affairs and Trade | 0.7 | - | - | 269.4 | - | - | - | 2118.8 |
| Health and Family Services | - | - | - | - | - | - | - | 23169.9 |
| Immigration and Multicultural Affairs | 0.8 | - | - | - | - | 379.3 | - | 546.1 |
| Industry, Science and Tourism | 125.3 | - | 636.4 | 1416.1 | - | 150.9 | - | 3534.6 |
| Primary Industries and Energy | - | 27.1 | 1308.7 | 54.8 | - | - | 202.2 | 1644.8 |
| Prime Minister and Cabinet | - | - | - | - | - | - | 100.0 | 1294.9 |
| Social Security | - | - | - | - | - | - | - | 44847.8 |
| Transport and Regional Development | 0.6 | - | - | - | 1188.9 | 1.9 | 1248.7 | 2538.9 |
| Treasury | - | - | - | - | - | 153.9 | 24699.0 | 26820.2 |
| Workplace Relations and Small Business | - | - | - | 1.2 | 122.2 | 228.1 | - | 482.9 |
| Contingency Reserve | - | - | - | - | - | - | -386.5 | -386.5 |
| TOTAL | 1334.8 | 27.1 | 2072.5 | 1741.5 | 1434.9 | 3180.8 | 25944.6 | 141570.3 |

Table X - Commonwealth Budget Portfolio Outlays by Major Economic Type, 1998-99 (\$m)

| PORTFOLIO | Final | Interest | Personal | Capital Outlays | Assistance | Assistance to | | Contingency Reserve nec | TOTAL |
|---|-------------------------|---------------|------------------|-------------------|----------------------|-----------------------|-----------------|-------------------------|-----------------|
| | Consumption Expenditure | | Benefit Payments | on Goods and Land | to Other Governments | Jurisdictional Sector | Other Transfers | | |
| Parliament | 155.0 | - | - | 6.9 | - | - | - | - | 161.9 |
| Attorney-General's | 799.0 | - | - | 20.9 | 90.2 | - | 99.8 | - | 1009.9 |
| Communications and the Arts | 192.4 | - | 5.5 | 24.4 | - | - | 1011.5 | - | 1233.8 |
| Defence | 12065.1 | - | 8.7 | - | - | 0.1 | 68.8 | - | 12142.7 |
| Veterans' Affairs | 2316.5 | - | 4646.4 | 10.4 | 12.7 | - | 264.6 | - | 7250.6 |
| Employment, Education, Training and Youth Affairs | 1616.1 | - | 454.7 | 20.6 | 4070.2 | 3899.5 | 1483.2 | - | 11544.3 |
| Environment | 600.5 | - | - | 24.8 | 15.7 | - | 44.2 | - | 685.2 |
| Finance and Administration | 1252.1 | 4.4 | 0.5 | -367.1 | 39.0 | - | 0.3 | - | 929.3 |
| Foreign Affairs and Trade | 678.7 | 0.1 | 0.8 | 21.1 | - | - | 1418.2 | - | 2118.8 |
| Health and Family Services | 1157.3 | - | 2346.3 | 25.3 | 7147.5 | - | 12493.6 | - | 23169.9 |
| Immigration and Multicultural Affairs | 495.7 | - | 0.1 | 6.0 | 0.1 | - | 44.2 | - | 546.1 |
| Industry, Science and Tourism | 651.9 | - | - | 49.6 | 10.8 | - | 2822.4 | - | 3534.6 |
| Primary Industries and Energy | 401.5 | 16.2 | 45.9 | 19.8 | 376.7 | - | 784.7 | - | 1644.8 |
| Prime Minister and Cabinet | 99.9 | - | - | 102.8 | 7.0 | - | 1085.3 | - | 1294.9 |
| Social Security | 1364.5 | - | 42281.5 | 74.3 | 1123.9 | - | 3.6 | - | 44847.8 |
| Transport and Regional Development | 141.0 | - | 0.2 | 141.5 | 2130.7 | - | 125.5 | - | 2538.9 |
| Treasury | 1327.1 | 7845.0 | 534.7 | 62.9 | 16954.0 | - | 96.5 | - | 26820.2 |
| Workplace Relations and Small Business | 225.7 | - | 12.5 | 1.5 | - | - | 243.3 | - | 482.9 |
| Contingency Reserve | -259.7 | 79.0 | - | 3.8 | - | - | - | -209.6 | -386.5 |
| TOTAL | 25280.1 | 7944.8 | 50337.8 | 249.4 | 31978.6 | 3899.6 | 22089.6 | -209.6 | 141570.3 |

Table XI - Commonwealth Budget Headline Outlays by Function (\$m)

| | 1988-89 | 89-90 | 90-91 | 91-92 | 92-93 | 93-94 | 94-95 | 95-96 | 96-97 | 97-98 | 98-99 | 99-00 | 00-01 | 01-02 |
|---|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| 1. Total General Public Services | 5514 | 5378 | 6169 | 6673 | 6372 | 6770 | 6769 | 6773 | 6873 | 7405 | 7999 | 7073 | 7428 | 7847 |
| A. Legislative and Executive Affairs | 386 | 365 | 368 | 464 | 533 | 491 | 495 | 601 | 489 | 537 | 612 | 516 | 510 | 609 |
| B. Financial and Fiscal Affairs | 1165 | 1307 | 1537 | 1734 | 1554 | 1688 | 1499 | 1697 | 1804 | 1803 | 1964 | 1685 | 1676 | 1766 |
| C. Foreign Economic Aid | 1555 | 1590 | 1711 | 1861 | 1963 | 2026 | 2153 | 2272 | 1937 | 2406 | 2564 | 2061 | 2085 | 2123 |
| D. General Research | 554 | 634 | 738 | 855 | 963 | 1010 | 1037 | 1070 | 1148 | 1241 | 1256 | 1239 | 1209 | 1247 |
| E. General Services | 631 | 198 | 337 | 195 | 134 | 136 | 148 | 189 | 77 | -141 | -48 | 143 | 192 | 235 |
| F. Government Superannuation Benefits | 1222 | 1284 | 1478 | 1564 | 1225 | 1418 | 1437 | 944 | 1419 | 1559 | 1651 | 1429 | 1756 | 1866 |
| 2. Defence | 7295 | 7913 | 8480 | 8731 | 9703 | 9746 | 9731 | 10011 | 9999 | 10356 | 10945 | 11010 | 11198 | 11437 |
| 3. Public Order and Safety | 693 | 803 | 768 | 945 | 914 | 829 | 868 | 924 | 1226 | 1070 | 1010 | 895 | 912 | 911 |
| 4. Education (a) | 6021 | 6576 | 7475 | 8373 | 9147 | 9769 | 10152 | 10662 | 10834 | 11258 | 10119 | 10084 | 10071 | 10310 |
| 5. Health | 10762 | 11901 | 12935 | 13830 | 14811 | 16092 | 17126 | 18616 | 19196 | 20734 | 22278 | 23419 | 24686 | 25923 |
| 6. Social Security and Welfare | 23997 | 26395 | 30656 | 35504 | 38627 | 42026 | 43606 | 46754 | 49603 | 50422 | 53478 | 55286 | 57237 | 59562 |
| 7. Housing and Community Amenities | 1214 | 1293 | 1083 | 1154 | 1394 | 1135 | 1135 | 1214 | 965 | 723 | 1240 | 1175 | 1118 | 927 |
| 8. Recreation and Culture | 1046 | 1062 | 1197 | 1253 | 1267 | 1122 | 1270 | 1425 | 1375 | 1325 | 1334 | 1311 | 1279 | 1225 |
| 9. Fuel and Energy | 128 | 46 | 72 | 117 | 54 | -19 | 46 | 42 | 18 | 33 | 18 | -896 | 17 | 15 |
| 10. Agriculture, Forestry, Fishing and Hunting | 1525 | 1673 | 2413 | 1934 | 1704 | 1642 | 1864 | 1876 | 1859 | 1990 | 2066 | 1971 | 1767 | 1584 |
| 11. Mining and Mineral Resources, other than Fuels; Manufacturing; and Construction | 1040 | 1218 | 1442 | 1540 | 1376 | 1510 | 1676 | 1651 | 1678 | 1680 | 1758 | 1698 | 1733 | 1835 |
| 12. Transport and Communication | 1719 | 1663 | 1785 | 1512 | 2404 | 1068 | 1232 | 744 | -1522 | 1467 | 1435 | 1382 | 1392 | 1338 |
| 13. Total Other Economic Affairs | 1341 | 1515 | 1801 | 2212 | 3159 | 3213 | 3524 | 4309 | 3366 | 3166 | 3233 | 3082 | 3033 | 3072 |
| A. Tourism and Area Promotion | 43 | 72 | 66 | 79 | 87 | 99 | 101 | 104 | 86 | 110 | 102 | 101 | 101 | 100 |
| B. Labour and Employment Affairs | 1205 | 1276 | 1439 | 1834 | 2747 | 2780 | 3104 | 3850 | 2945 | 2734 | 2790 | 2666 | 2618 | 2656 |
| C. Other Economic Affairs, nec | 94 | 168 | 295 | 299 | 325 | 335 | 319 | 354 | 335 | 322 | 342 | 316 | 313 | 316 |
| 14. Total Other Purposes | 20568 | 20466 | 19868 | 19045 | 18658 | 19468 | 23015 | 21689 | 23011 | 11056 | 8631 | 10303 | 16858 | 30976 |
| A. Public Debt Interest | 7397 | 7276 | 6063 | 5626 | 5288 | 6465 | 7994 | 9126 | 9402 | 8274 | 7745 | 6576 | 5559 | 4101 |
| B. General Purpose Inter-Government Transactions | 13670 | 14254 | 13828 | 13088 | 14174 | 15427 | 15068 | 13798 | 17441 | 17089 | 18328 | 18563 | 19351 | 21001 |
| C. Natural Disaster Relief | 30 | 1 | 139 | 28 | -14 | 22 | 6 | -4 | 15 | 59 | 36 | 32 | 32 | 32 |
| D. Contingency Reserve | - | - | - | - | - | - | - | - | - | -380 | -1038 | 2372 | 4176 | 5842 |
| E. Asset Sales | -528 | -1065 | -161 | 302 | -790 | -2446 | -52 | -1230 | -3847 | -13986 | -16440 | -17240 | -12260 | - |
| Total Headline Outlays | 82860 | 87903 | 96143 | 102822 | 109590 | 114372 | 122012 | 126689 | 128481 | 122684 | 125543 | 127794 | 138730 | 156963 |

(a) From 1 July 1998, it is proposed that payments under the AUSTUDY programme will be replaced by Youth Allowance (for students aged under 25 years). This involves a transfer of outlays estimates from the Education function to the Social Security and Welfare function.

Table XII - Commonwealth Budget Running Costs (\$m) and Estimates of Average Staffing Levels (ASL) of Agencies Operating on the Commonwealth Public Account

| | Running Costs Appropriations | | | | | ASL | |
|--|------------------------------|--------------------------|----------------------------|----------------------------|----------------------------|---------------------|---------------------|
| | 1997-98 Estimate \$m | 1998-99 Budget \$m | 1999-00 Estimate \$m | 2000-01 Estimate \$m | 2001-02 Estimate \$m | 1997-98 Estimate | 1998-99 Estimate |
| Parliament | | | | | | | |
| Senate | 23.7 | 26.0 | 23.9 | 24.1 | 24.3 | 235.0 | 250.0 |
| House of Representatives | 24.5 | 24.0 | 23.8 | 24.0 | 24.2 | 233.0 | 232.0 |
| Parliamentary Reporting Staff | 30.2 | 30.2 | 29.9 | 29.4 | 29.6 | 289.0 | 289.0 |
| Parliamentary Library | 14.9 | 15.3 | 15.0 | 15.1 | 15.2 | 193.0 | 192.0 |
| Joint House department | 33.8 | 34.0 | 31.1 | 31.3 | 31.5 | 271.0 | 267.0 |
| Total | 127.1 | 129.4 | 123.7 | 124.0 | 124.9 | 1221.0 | 1230.0 |
| Attorney-General's | | | | | | | |
| Attorney-General's Department | 110.2 | 113.0 | 98.8 | 99.9 | 98.9 | 828.3 | 831.0 |
| Office of Film and Literature Classification | 4.5 | 1.2 | 0.0 | 0.0 | 0.0 | 41.5 | 42.0 |
| Australian Federal Police | 246.5 | 200.3 | 186.3 | 195.8 | 180.6 | 2662.5 | 2630.5 |
| AUSTRAC | 8.4 | 7.6 | 7.7 | 7.8 | 7.8 | 43.0 | 45.0 |
| Human Rights and Equal Opportunity Commission | 18.2 | 12.3 | 10.6 | 10.7 | 10.8 | 160.0 | 115.0 |
| National Crime Authority | 42.7 | 48.8 | 46.1 | 39.8 | 40.3 | 254.0 | 268.0 |
| Office of Parliamentary Counsel | 6.7 | 6.7 | 6.0 | 6.1 | 6.1 | 42.0 | 47.0 |
| Office of Director of Public Prosecutions | 52.5 | 55.2 | 52.1 | 52.9 | 53.3 | 400.0 | 406.0 |
| Family Court of Australia | 97.2 | 107.2 | 98.4 | 99.5 | 100.4 | 809.2 | 826.3 |
| Federal Court of Australia | 48.8 | 52.9 | 50.0 | 50.3 | 50.7 | 288.7 | 288.7 |
| Administrative Appeals Tribunal | 25.5 | 27.3 | 25.6 | 25.2 | 25.4 | 162.0 | 164.0 |
| Australian Bureau of Criminal Intelligence | 5.6 | 4.5 | 3.9 | 4.0 | 4.0 | 22.0 | 21.0 |
| National Native Title Tribunal | 21.0 | 23.7 | 21.8 | 21.9 | 22.1 | 166.0 | 230.0 |
| Total | 687.7 | 660.8 | 607.3 | 613.7 | 600.4 | 5879.2 | 5914.5 |
| Communication and the Arts | | | | | | | |
| Department of Communication and the Arts | 119.5 | 128.1 | 120.4 | 124.0 | 113.9 | 1118.0 | 1104.0 |
| Defence | | | | | | | |
| Department of Defence (a) | 5569.8 | 5536.4 | 5403.2 | 5321.7 | 5526.6 | 77085.0 | 75290.0 |
| Veterans' Affairs | | | | | | | |
| Department of Veterans' Affairs | 221.4 | 219.5 | 203.7 | 204.2 | 205.1 | 2391.0 | 2339.0 |
| Employment, Education, Training and Youth Affairs | | | | | | | |
| Dept Employment Education Training Youth Affairs | 714.7 | 461.6 | 308.5 | 308.8 | 309.8 | 7361.1 | 3007.8 |
| National Board of Employment Education Training | 3.9 | 3.5 | 3.6 | 3.6 | 3.7 | 23.0 | 25.0 |
| Total | 718.6 | 465.1 | 312.1 | 312.4 | 313.5 | 7384.1 | 3032.8 |
| Environment | | | | | | | |
| Department of the Environment | 72.9 | 84.7 | 59.0 | 55.6 | 55.9 | 807.6 | 779.4 |
| Commonwealth Bureau of Meteorology | 149.8 | 141.0 | 133.3 | 133.4 | 134.4 | 1415.0 | 1385.0 |
| Antarctic Division | 62.2 | 61.8 | 62.2 | 62.7 | 63.2 | 322.0 | 322.0 |
| Total | 284.9 | 287.5 | 254.5 | 251.6 | 253.5 | 2544.6 | 2486.4 |
| Finance and Administration | | | | | | | |
| Department of Finance and Administration | 220.7 | 172.2 | 140.2 | 141.8 | 142.9 | 1445.0 | 1290.0 |
| Australian Electoral Commission | 62.6 | 67.6 | 60.7 | 61.1 | 62.0 | 734.0 | 775.0 |
| Office of Government Information Technology | 9.2 | 12.5 | 8.1 | 7.6 | 7.7 | 36.0 | 39.0 |
| Office of Asset Sales & Information Technology Outsourcing | 16.2 | 15.0 | 5.0 | 0.0 | 0.0 | 49.0 | 51.0 |
| Australian National Audit Office | 46.8 | 53.5 | 48.9 | 49.8 | 50.2 | 284.0 | 300.0 |
| Commonwealth Superannuation Administration (b) | 32.2 | 0.0 | 0.0 | 0.0 | 0.0 | 358.0 | 0.0 |
| Total | 387.7 | 320.8 | 263.0 | 260.3 | 262.8 | 2906.0 | 2455.0 |

Table XII - Commonwealth Budget Running Costs (\$m) and Estimates of Average Staffing Levels (ASL) of Agencies Operating on the Commonwealth Public Account - continued

| | Running Costs Appropriations | | | | | ASL | |
|---|------------------------------|--------------------------|----------------------------|----------------------------|----------------------------|---------------------|---------------------|
| | 1997-98 Estimate \$m | 1998-99 Budget \$m | 1999-00 Estimate \$m | 2000-01 Estimate \$m | 2001-02 Estimate \$m | 1997-98 Estimate | 1998-99 Estimate |
| Foreign Affairs and Trade | | | | | | | |
| Department of Foreign Affairs and Trade | 569.1 | 502.6 | 503.5 | 498.2 | 501.1 | 3604.0 | 3582.0 |
| Australia-Japan Foundation | 1.2 | 0.9 | 0.9 | 0.9 | 0.9 | 3.0 | 3.0 |
| Australian Agency for International Development | 60.7 | 60.5 | 60.7 | 61.0 | 61.5 | 526.0 | 530.0 |
| Total | 631.1 | 564.0 | 565.1 | 560.2 | 563.5 | 4133.0 | 4115.0 |
| Health and Family Services | | | | | | | |
| Department of Health and Family Services | 318.3 | 276.0 | 248.0 | 248.8 | 247.5 | 3108.0 | 3071.3 |
| Professional Services Review Scheme | 1.8 | 2.3 | 2.2 | 2.0 | 1.8 | 7.0 | 7.0 |
| Total | 320.1 | 278.2 | 250.2 | 250.8 | 249.3 | 3115.0 | 3078.3 |
| Immigration and Multicultural Affairs | | | | | | | |
| Department of Immigration and Multicultural Affairs | 346.7 | 368.9 | 340.5 | 350.6 | 356.1 | 3319.0 | 3298.0 |
| Immigration Review Tribunal (c) | 6.5 | 10.0 | 9.7 | 8.2 | 7.9 | 64.0 | 64.0 |
| Refugee Review Tribunal | 15.0 | 15.0 | 13.7 | 11.9 | 11.9 | 173.0 | 164.0 |
| Total | 368.1 | 394.0 | 363.9 | 370.6 | 375.9 | 3556.0 | 3526.0 |
| Industry, Science and Tourism | | | | | | | |
| Department of Industry Science and Tourism | 126.2 | 162.5 | 133.6 | 141.8 | 142.6 | 1402.0 | 1521.0 |
| Australian Customs Service | 390.2 | 438.8 | 406.2 | 404.6 | 407.4 | 4210.0 | 4120.0 |
| Anti Dumping Authority (d) | 1.7 | 0.6 | 0.0 | 0.0 | 0.0 | 17.0 | 5.0 |
| Total | 518.1 | 602.0 | 539.8 | 546.4 | 550.1 | 5629.0 | 5646.0 |
| Primary Industries and Energy | | | | | | | |
| Department of Primary Industries and Energy | 116.5 | 96.6 | 93.1 | 89.4 | 84.3 | 1069.0 | 1074.2 |
| Aust Bureau of Agriculture & Resource Economics | 22.5 | 15.1 | 14.7 | 14.8 | 14.9 | 216.0 | 220.0 |
| Australian Geological Survey Organisation | 64.5 | 52.2 | 46.6 | 47.3 | 48.3 | 477.0 | 460.0 |
| Total | 203.5 | 163.9 | 154.3 | 151.5 | 147.5 | 1762.0 | 1754.2 |
| Prime Minister and Cabinet | | | | | | | |
| Department of the Prime Minister and Cabinet | 45.6 | 48.3 | 43.2 | 43.3 | 43.7 | 349.0 | 380.0 |
| Commonwealth Ombudsman | 7.9 | 7.9 | 7.6 | 7.6 | 7.7 | 88.0 | 84.0 |
| Governor-General's Office and Establishments | 7.8 | 8.4 | 7.6 | 7.7 | 7.8 | 74.1 | 74.1 |
| Office of the Inspector-General Intelligence and Security | 0.6 | 0.7 | 0.6 | 0.6 | 0.6 | 4.6 | 4.6 |
| Office of National Assessments | 6.7 | 6.8 | 5.6 | 5.6 | 5.7 | 59.0 | 63.0 |
| Public Service Commissioner | 19.9 | 15.6 | 13.6 | 13.6 | 13.7 | 175.0 | 175.0 |
| Total | 88.5 | 87.7 | 78.1 | 78.4 | 79.0 | 749.7 | 780.7 |
| Social Security | | | | | | | |
| Department of Social Security | 85.5 | 97.1 | 85.0 | 89.0 | 87.8 | 738.0 | 780.0 |
| Commonwealth Services Delivery Agency (e) | 1627.9 | 27.0 | 0.0 | 0.0 | 0.0 | 20331.9 | 18938.7 |
| Total | 1713.5 | 124.1 | 85.0 | 89.0 | 87.8 | 21069.9 | 19718.7 |
| Transport and Regional Development | | | | | | | |
| Department of Transport & Regional Development | 88.0 | 85.4 | 83.5 | 84.5 | 84.7 | 712.0 | 692.0 |
| National Capital Authority | 7.1 | 5.1 | 5.1 | 5.2 | 5.2 | 59.0 | 55.0 |
| Territories | 2.8 | 4.3 | 2.5 | 2.5 | 2.6 | 21.0 | 21.0 |
| Total | 97.9 | 94.8 | 91.1 | 92.2 | 92.4 | 792.0 | 768.0 |

Table XII - Commonwealth Budget Running Costs (\$m) and Estimates of Average Staffing Levels (ASL) of Agencies Operating on the Commonwealth Public Account - continued

| | Running Costs Appropriations | | | | | ASL | |
|--|------------------------------|--------------------------|----------------------------|----------------------------|----------------------------|---------------------|---------------------|
| | 1997-98 Estimate \$m | 1998-99 Budget \$m | 1999-00 Estimate \$m | 2000-01 Estimate \$m | 2001-02 Estimate \$m | 1997-98 Estimate | 1998-99 Estimate |
| Treasury | | | | | | | |
| Department of the Treasury | 62.2 | 52.3 | 45.6 | 46.7 | 47.1 | 482.5 | 490.3 |
| Australian Bureau of Statistics | 248.8 | 212.6 | 213.6 | 235.4 | 316.2 | 3157.0 | 3057.0 |
| Australian Taxation Office | 1277.5 | 1258.0 | 1186.5 | 1209.4 | 1217.1 | 16357.0 | 15548.0 |
| Australian Competition and Consumer Commission | 35.3 | 34.5 | 34.3 | 34.4 | 33.6 | 325.0 | 336.0 |
| National Competition Council | 3.0 | 2.6 | 2.9 | 2.9 | 2.9 | 19.6 | 19.6 |
| Insurance and Superannuation Commission | 38.0 | 61.3 | 58.5 | 54.9 | 55.3 | 406.0 | 402.0 |
| Productivity Commission | 26.0 | 19.9 | 19.9 | 21.0 | 21.1 | 227.0 | 215.0 |
| Total | 1690.9 | 1641.2 | 1561.2 | 1604.7 | 1693.3 | 20974.1 | 20067.9 |
| Workplace Relations and Small Business | | | | | | | |
| Department of Workplace Relations and Small Business | 84.8 | 75.7 | 71.1 | 70.5 | 68.3 | 675.9 | 695.4 |
| Affirmative Action Agency | 2.4 | 2.0 | 2.0 | 2.0 | 2.0 | 21.0 | 21.0 |
| Australian Industrial Registry | 39.8 | 39.9 | 40.2 | 40.6 | 41.0 | 290.0 | 290.0 |
| Total | 127.1 | 117.6 | 113.3 | 113.1 | 111.3 | 986.9 | 1006.4 |
| Contingency Reserve | -100.0 | -450.0 | 0.0 | 0.0 | 0.0 | | |
| Grand Total | 13775.7 | 11364.9 | 11090.0 | 11069.0 | 11350.9 | | |
| Excluding Contingency Reserve | 13875.7 | 11814.9 | 11090.0 | 11069.0 | 11350.9 | 163296.5 | 154312.9 |
| Excluding Defence Military Salaries | 10625.3 | 8577.0 | 7998.6 | 8069.4 | 8186.5 | | |

- (a) Data for the Department of Defence aligns with data in Budget Paper No 4 (1998-99). As such it includes military personnel costs and excludes property operating estimates. Defence operates under global funding arrangements and is not subject to most running cost operating arrangements.
- (b) Commonwealth Superannuation Administration staff are no longer funded from running costs in 1998-99 and are therefore excluded from ASL figures after 1997-98.
- (c) Figures may change due to the proposed merger of the Immigration Review Tribunal with the Migration Internal Review Office.
- (d) The Anti-Dumping Authority will be abolished in 1998-99 but will have some ongoing liabilities for the remainder of that year.
- (e) The Commonwealth Service Delivery Agency will be operating on a purchaser provider arrangement in 1998-99 and is largely funded from s31 receipts which are not included in the budget and forward estimates.

SUMMARY OF OUTLAYS MEASURES

Summary of outlays measures in the 1997-98 Mid Year Economic and Fiscal Outlook

| | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---|---------|---------|---------|---------|
| | \$m | \$m | \$m | \$m |
| ATTORNEY GENERAL'S | | | | |
| Additional Legal Aid funding | 2.5 | 0.7 | 0.7 | 0.7 |
| Replacement of the High Court roof | 0.0 | 0.0 | 0.0 | 0.0 |
| Australian Protective Service - Increased rationalisation costs and establishment of an overdraft facility and business loan | 0.0 | 0.0 | 0.0 | 0.0 |
| Illicit Drugs Strategy - Supply reduction (a) | 6.1 | 6.2 | 6.3 | 6.7 |
| Commonwealth assistance to the States/Territories and Commonwealth cross portfolio projects under the national domestic violence initiative (b) | 1.5 | 1.5 | 1.6 | 0.0 |
| Government response to Fair Trading Inquiry Report - Funding to improve small business access to justice and awareness of fair trading issues (c) | 0.1 | 0.0 | 0.0 | 0.0 |
| Total | 10.2 | 8.4 | 8.5 | 7.4 |
| COMMUNICATIONS AND THE ARTS | | | | |
| Funding for Old Parliament House and the National Portrait Gallery | 3.7 | 3.7 | 3.8 | 4.7 |
| Funding for the Centenary of Federation Council | 11.8 | 15.6 | 15.6 | 3.0 |
| Establishment of the National Office of the Information Economy | 3.0 | 3.1 | 0.0 | 0.0 |
| Grants to assist the purchase of broadcasting reception equipment in remote areas to facilitate online service delivery | 0.0 | 0.0 | 0.0 | 0.0 |
| Grants for projects to assist people with disabilities to access online services | 1.7 | 1.7 | 0.0 | 0.0 |
| Community awareness raising programme on the benefits of online services | 1.6 | 0.0 | 0.0 | 0.0 |
| Grant to contribute towards the building of a replica of the 1606 Dutch ship <i>Duyfken</i> | 0.5 | 0.0 | 0.0 | 0.0 |
| Continued funding of Film Australia to maintain the National Interest Programme | 0.0 | 6.7 | 6.8 | 6.9 |
| Separated Indigenous Families - Government response to <i>Bringing Them Home</i> (d) | 0.8 | 0.9 | 0.9 | 1.1 |
| Total | 23.1 | 31.6 | 27.2 | 15.7 |
| EMPLOYMENT, EDUCATION, TRAINING AND YOUTH AFFAIRS | | | | |
| Revisions to the AUSTUDY Actual Means Test | 43.4 | 44.5 | 46.0 | 47.4 |
| Modification to the ABSTUDY measure announced in the 1997-98 Budget | 0.5 | 0.0 | 0.0 | 0.0 |
| Illicit Drugs Strategy - Education | 2.6 | 3.0 | 1.9 | 0.0 |
| Aligning rates and conditions for older commencing students with the Youth Allowance | 0.5 | 0.5 | 0.5 | 0.5 |
| Enhancing access in schools and the community to Information Technology and encouraging links between the IT industry and higher education | 1.1 | 2.0 | 3.2 | 3.5 |
| Drought Exceptional Circumstances - South Burnett (e) | 0.5 | 0.3 | 0.0 | 0.0 |
| Introduction of a Youth Allowance for students under 25 and for the unemployed under 21 (f) | 137.1 | 140.4 | 143.8 | 147.2 |
| Total | 185.7 | 190.6 | 195.4 | 198.7 |

Summary of outlays measures in the 1997-98 Mid Year Economic and Fiscal Outlook (continued)

| | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---|-------------|-------------|--------------|--------------|
| | \$m | \$m | \$m | \$m |
| ENVIRONMENT | | | | |
| Independent monitor for the Port Hinchinbrook project | 0.0 | 0.0 | 0.0 | 0.0 |
| Great Barrier Reef Marine Park Authority - Funding to offset the reduction in revenue related to a variation to the Environment Management Charge | 1.2 | 1.2 | 1.2 | 1.3 |
| Enhanced package of measures to reduce Australia's greenhouse gas emissions (g) | 29.7 | 34.7 | 37.1 | 26.6 |
| Payments to the Tasmanian State Government under the Tasmanian Regional Forests Agreement (h) | 5.3 | 0.3 | 0.0 | 0.0 |
| Total | 36.2 | 36.2 | 38.4 | 27.9 |
| FINANCE AND ADMINISTRATION | | | | |
| Proceeds from sale of the National Transmission Network | nfp | nfp | nfp | nfp |
| Cost of sale of the National Transmission Network | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from sale of the Housing Loans Insurance Corporation * | 0.0 | 0.0 | 0.0 | 0.0 |
| Cost of Sale of Housing Loans Insurance Corporation | 0.0 | 0.0 | 0.0 | 0.0 |
| Member choice and Commonwealth superannuation arrangements (i) | 12.0 | 40.0 | 290.0 | 320.0 |
| Examination of Australian Defence Industries Ltd business for potential sale | 0.0 | 0.0 | 0.0 | 0.0 |
| Revised Commonwealth purchasing arrangements | -4.0 | -4.1 | -4.1 | -4.2 |
| Proceeds of sale of Australian Defence Industries Ltd * | 0.0 | 0.0 | 0.0 | 0.0 |
| Cost of sale of Australian Defence Industries Ltd | 4.5 | 0.0 | 0.0 | 0.0 |
| Total | nfp | nfp | nfp | nfp |
| FOREIGN AFFAIRS AND TRADE | | | | |
| Extension of the Export Market Development Grants for a further two grant years | 0.0 | 0.0 | 150.0 | 150.0 |
| Extension of the Export Access Programme to the year 2001-02 | 0.9 | 3.5 | 3.5 | 3.6 |
| Tradestart - New export assistance for regional and rural Australia | 0.5 | 0.5 | 0.5 | 0.5 |
| Olympic Torch relay - The South Pacific Islands component | 0.8 | 2.8 | 0.0 | 0.0 |
| Total | 2.2 | 6.9 | 154.1 | 154.1 |
| HEALTH AND FAMILY SERVICES | | | | |
| Increased funding provided under the Commonwealth/State Disability Agreement | nfp | nfp | nfp | nfp |
| Australian Radiation Protection and Nuclear Safety Administration | 0.0 | 0.0 | 0.0 | 0.0 |
| Additional funding for the Implementation of Residential Aged Care (including the concessional resident subsidy) | 1.9 | 7.8 | 8.6 | 9.3 |
| Adjustments to the broadbanded health-related programmes | 0.0 | 0.0 | 0.0 | 0.0 |
| Coordinated Care Trials - additional expenditure for contractual agreements | 0.0 | 0.0 | 0.0 | 0.0 |
| Delay income test for residential aged care and exempt existing residents | 55.1 | 38.0 | 29.3 | 23.7 |
| Illicit Drugs Strategy - Harm minimisation | 12.4 | 12.7 | 10.4 | 7.3 |
| Health Communication Network - conversion of Commonwealth loan to equity * | 0.0 | 0.0 | 0.0 | 0.0 |

Summary of outlays measures in the 1997-98 Mid Year Economic and Fiscal Outlook (continued)

| | 1998-99 \$m | 1999-00 \$m | 2000-01 \$m | 2001-02 \$m |
|--|----------------|----------------|----------------|----------------|
| HEALTH AND FAMILY SERVICES (continued) | | | | |
| Residential Aged Care - Charges, Transitional Arrangements and Industry Restructuring (j) | 11.3 | 0.9 | 0.8 | 0.8 |
| Exemption of Certain Drugs from Therapeutic Group Premiums Policy (k) | 14.6 | 16.4 | 18.2 | 0.0 |
| Additional funding for health research | 13.3 | 0.9 | 0.0 | 0.0 |
| Changes to the Migration Programme - increased focus on skills (l) | -3.6 | -6.3 | -9.2 | -12.4 |
| Resolution of residence status for certain persons in Australia (m) | 2.3 | 1.6 | 1.1 | 0.6 |
| Drought Exceptional Circumstances - South Burnett (e) | 0.3 | 0.0 | 0.0 | 0.0 |
| Agriculture - Advancing Australia (Farm Welfare) (n) | 3.0 | 0.7 | 0.8 | 0.6 |
| Commonwealth assistance to the States/Territories and Commonwealth cross portfolio projects under the national domestic violence initiative (b) | 2.8 | 0.8 | 0.0 | 0.0 |
| Separated Indigenous Families - Government response to <i>Bringing Them Home</i> (d) | 8.7 | 10.3 | 10.5 | 10.7 |
| Reform of the Child Support Scheme - Policy and administration (o) | 0.5 | 0.5 | 0.5 | 0.6 |
| Total | 119.4 | 83.7 | 70.4 | 40.6 |
| IMMIGRATION AND MULTICULTURAL AFFAIRS | | | | |
| Changes to the Migration Programme - increased focus on skills (l) | -4.5 | -4.9 | -4.9 | -5.0 |
| Resolution of residence status for certain persons in Australia (m) | 7.5 | -1.5 | -0.8 | -1.1 |
| Commonwealth assistance to the States/Territories and Commonwealth cross portfolio projects under the national domestic violence initiative (b) | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 2.9 | -6.3 | -5.7 | -6.1 |
| INDUSTRY SCIENCE AND TOURISM | | | | |
| Shipment of spent nuclear fuel rods to USA and the UK | 0.6 | 13.0 | 10.4 | 4.3 |
| A replacement nuclear research reactor for Australia | 5.7 | 11.7 | 33.1 | 70.4 |
| Continuation of machine tools and robots bounty to 30 June 1997 | 1.1 | 0.0 | 0.0 | 0.0 |
| Continuation of book bounty to 31 December 1997 | 0.7 | 0.0 | 0.0 | 0.0 |
| Year 2000 date change - Management of risks to continuity of government services and private sector business - funding for national awareness strategy | 4.3 | 1.2 | 0.0 | 0.0 |
| Newcastle assistance package - funding for tourism activities in the Hunter Region | 0.0 | 0.0 | 0.0 | 0.0 |
| Geelong Wool Combing - discharge of loan * | 0.0 | 0.0 | 0.0 | 0.0 |
| Commonwealth administration of safety net arrangements relating to States and Territories business franchise fees | 0.0 | 0.0 | 0.0 | 0.0 |
| Additional funding for innovation programmes | 43.2 | 143.3 | 224.5 | 260.2 |
| Additional funding for investment, promotion, coordination and facilitation | 3.0 | 3.0 | 11.4 | 11.6 |
| Extend funding for APEC market integration activities | 4.4 | 4.5 | 4.6 | 4.6 |

Summary of outlays measures in the 1997-98 Mid Year Economic and Fiscal Outlook (continued)

| | 1998-99 \$m | 1999-00 \$m | 2000-01 \$m | 2001-02 \$m |
|---|----------------|----------------|----------------|----------------|
| INDUSTRY SCIENCE AND TOURISM (continued) | | | | |
| Funding for Software Quality Networks and Testing and Conformance Infrastructure | 7.0 | 7.1 | 7.2 | 7.4 |
| Commonwealth contribution towards the cost of Australia's participation at Hannover Expo 2000 | 7.0 | 1.0 | 0.0 | 0.0 |
| Assistance to the Textiles, Clothing and Footwear industries | 0.0 | 0.0 | 6.7 | 6.8 |
| Illicit Drugs Strategy - Supply reduction (a) | 7.9 | 6.5 | 4.4 | 4.5 |
| Payments to the Tasmanian State Government under the Tasmanian Regional Forests Agreement (h) | 1.0 | 1.0 | 0.0 | 0.0 |
| Government response to the Fair Trading Inquiry Report - Funding to improve small business access to justice and awareness of fair trading issues (c) | 0.3 | 0.3 | 0.3 | 0.0 |
| Total | 86.1 | 192.6 | 302.6 | 369.9 |
| PRIMARY INDUSTRIES AND ENERGY | | | | |
| Illegal fishing response initiatives | 0.0 | 0.0 | 0.0 | 0.0 |
| Exceptional Circumstances - Gippsland | 0.0 | 0.0 | 0.0 | 0.0 |
| Drought Exceptional Circumstances - South Burnett (e) | 9.8 | 0.0 | 0.0 | 0.0 |
| Agriculture - Advancing Australia (Farm Business and Community Programmes) | 25.1 | 24.4 | 21.3 | 0.0 |
| Agriculture - Advancing Australia (Farm Welfare) (n) | 41.3 | 33.0 | 16.3 | 8.2 |
| Payments to the Tasmanian State Government under the Tasmanian Regional Forests Agreement (h) | 22.0 | 22.0 | 0.0 | 0.0 |
| Snowy Mountains Hydro-electric Authority - Shortfall in cost recovery | 0.0 | 0.0 | 0.0 | 0.0 |
| Sydney-Moomba Pipeline Easement - Payments for Easement rectification | 0.0 | 0.0 | 0.0 | 0.0 |
| Australian Quarantine and Inspection Service - meat inspection fee relief | 1.4 | 0.0 | 0.0 | 0.0 |
| Australian Quarantine and Inspection Service - working capital | 0.0 | 0.0 | 0.0 | 0.0 |
| Structural adjustment assistance for the pig meat industry | 4.0 | 4.0 | 0.0 | 0.0 |
| Enhanced package of measures to reduce Australia's greenhouse gas emissions (g) | 4.4 | 4.5 | 4.4 | 3.6 |
| Commonwealth assistance to the States/Territories and Commonwealth cross portfolio projects under the national domestic violence initiative (b) | 0.1 | 0.2 | 0.1 | 0.0 |
| Total | 108.0 | 88.2 | 42.1 | 11.8 |
| PRIME MINISTER AND CABINET | | | | |
| Electronic circulation and management of Cabinet documentation | 0.0 | 0.0 | 0.0 | 0.0 |
| Commonwealth assistance to the States/Territories and Commonwealth cross portfolio projects under the national domestic violence initiative (b) | 3.8 | 3.9 | 4.0 | 0.0 |
| Separated Indigenous Families - Government response to <i>Bringing Them Home</i> (d) | 3.0 | 2.8 | 2.8 | 2.9 |
| Total | 6.8 | 6.7 | 6.8 | 2.9 |

Summary of outlays measures in the 1997-98 Mid Year Economic and Fiscal Outlook (continued)

| | 1998-99 \$m | 1999-00 \$m | 2000-01 \$m | 2001-02 \$m |
|---|----------------|----------------|----------------|----------------|
| SOCIAL SECURITY | | | | |
| New guidelines for migrant two year waiting period for social security payments | 15.2 | 18.3 | 18.8 | 19.2 |
| Introduction of a Youth Allowance for students under 25 and for the unemployed under 21 (f) | -88.5 | -106.9 | -114.8 | -117.9 |
| Reform of the Child Support Scheme - Policy and administration (o) | 16.2 | 9.2 | 9.5 | 9.8 |
| Amendment to allow rent assistance to sub-tenants in public housing where relevant State Housing Authority has been notified (p) | 55.5 | 57.0 | 58.5 | 59.9 |
| Amendment to allow payment of Family Payment above the minimum rate when a child and or parent/s go overseas for up to 13 weeks | 3.3 | 3.4 | 3.5 | 3.5 |
| Limiting Child Disability Allowance arrears to six months | 4.2 | 4.4 | 4.8 | 4.8 |
| Residential Aged Care - Charges, Transitional Arrangements and Industry Restructuring (j) | 0.7 | 4.5 | 10.1 | 13.4 |
| Changes to the Migration Programme - increased focus on skills (l) | 0.6 | -3.6 | -12.8 | -22.4 |
| Drought Exceptional Circumstances - South Burnett (e) | 0.5 | 0.0 | 0.0 | 0.0 |
| Agriculture - Advancing Australia (Farm Welfare) (n) | 6.9 | 11.5 | 11.6 | 10.5 |
| Total | 14.6 | -2.2 | -10.7 | -19.1 |
| TRANSPORT AND REGIONAL DEVELOPMENT | | | | |
| Commonwealth contribution to the Thredbo community centre | 0.0 | 0.0 | 0.0 | 0.0 |
| Newcastle Assistance Package | 0.0 | 0.0 | 0.0 | 0.0 |
| Supermarket to Asia: Export Gateways Initiative - Establishment of Sea and Air Freight Councils | 1.0 | 0.6 | 0.0 | 0.0 |
| Local government component of funding for the bridges survey | 0.0 | 0.0 | 0.0 | 0.0 |
| Effective maintenance of air services to the Indian Ocean Territories | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 1.0 | 0.6 | 0.0 | 0.0 |
| TREASURY | | | | |
| Ex gratia payment to approved charitable organisations and trust funds in memory of the Princess of Wales | 0.0 | 0.0 | 0.0 | 0.0 |
| Payments to the States in lieu of stamp duty on airport sales * | 0.0 | 0.0 | 0.0 | 0.0 |
| Initial funding for tasks associated with a proposed tax reform programme | 0.0 | 0.0 | 0.0 | 0.0 |
| Reform of the Child Support Scheme - Policy and administration (o) | -4.3 | -12.5 | -14.3 | -16.2 |
| Government response to the Fair Trading Inquiry Report - Funding to improve small business access to justice and awareness of fair trading issues (c) | 1.4 | 1.4 | 1.4 | 0.0 |
| Total | -2.9 | -11.1 | -12.9 | -16.2 |
| VETERANS' AFFAIRS | | | | |
| Residential Aged Care - Charges, Transitional Arrangements and Industry Restructuring (j) | 0.4 | 1.0 | 1.8 | 2.2 |
| Agriculture - Advancing Australia (Farm Welfare) (n) | 1.2 | 1.7 | 1.7 | 1.5 |
| Amendment to allow rent assistance to sub-tenants in public housing where relevant State Housing Authority has been notified (p) | 0.1 | 0.1 | 0.1 | 0.0 |

Summary of outlays measures in the 1997-98 Mid Year Economic and Fiscal Outlook (continued)

| | 1998-99 \$m | 1999-00 \$m | 2000-01 \$m | 2001-02 \$m |
|---|----------------|----------------|----------------|----------------|
| VETERANS' AFFAIRS (continued) | | | | |
| Exemption of Certain Drugs from Therapeutic Group Premiums Policy (k) | 1.6 | 1.7 | 1.9 | 0.0 |
| Total | 3.3 | 4.5 | 5.5 | 3.8 |
| WORKPLACE RELATIONS AND SMALL BUSINESS | | | | |
| Government response to the Fair Trading Inquiry Report - Funding to improve small business access to justice and awareness of fair trading issues (c) | 1.7 | 1.2 | 0.9 | 0.0 |
| Total | 1.7 | 1.2 | 0.9 | 0.0 |

* These measures affect headline outlays.

- (a) Measure affects portfolios of the Attorney General and Industry, Science and Tourism.
- (b) Measure affects portfolios of the Attorney General, Health and Family Services, Immigration and Multicultural Affairs, Primary Industries and Energy and the Prime Minister and Cabinet.
- (c) Measure affects portfolios of the Attorney General, Industry, Science and Tourism, Treasury and Workplace Relations and Small Business.
- (d) Measure affects portfolios of Communications and the Arts, Health and Family Services and Prime Minister and Cabinet.
- (e) Measure affects portfolios of Employment, Education, Training and Youth Affairs, Health and Family Services, Primary Industries and Energy and Social Security.
- (f) Measure affects portfolios of Employment, Education, Training and Youth Affairs and Social Security.
- (g) Measure affects portfolios of the Environment and Primary Industries and Energy.
- (h) Measure affects portfolios of the Environment, Industry, Science and Tourism and Primary Industries and Energy.
- (i) Additional cost reflects only changes to the timing of payments and, on an accruals basis, represents no cost to the Budget.
- (j) Measure affects portfolios of Health and Family Services, Social Security and Veterans' Affairs.
- (k) Measure affects portfolios of Health and Family Services and Veterans' Affairs.
- (l) Measure affects portfolios of Health and Family Services, Immigration and Multicultural Affairs and Social Security.
- (m) Measure affects portfolios of Health and Family Services and Immigration and Multicultural Affairs.
- (n) Measure affects portfolios of Health and Family Services, Primary Industries and Energy, Social Security and Veterans' Affairs.
- (o) Measure affects portfolios of Health and Family Services, Social Security and Treasury.
- (p) Measure affects portfolios of Social Security and Veterans' Affairs.

**Summary of outlays measures introduced in the Budget and since the 1997-98
Mid Year Economic and Fiscal Outlook**

| | 1998-99 \$m | 1999-00 \$m | 2000-01 \$m | 2001-02 \$m |
|---|----------------|----------------|----------------|----------------|
| ATTORNEY GENERAL'S | | | | |
| Changing the profile and skills mix of staff in the Australian Federal Police and increased Australian Federal Police Adjustment Scheme costs | 7.7 | 0.0 | 0.0 | 0.0 |
| National Illicit Drugs Strategy - supply reduction - second instalment (a) | 13.0 | 11.7 | 11.9 | 11.6 |
| Additional funding for increased assistance under s.183 of <i>Native Title Act 1993</i> | 3.3 | 3.1 | 3.0 | 3.1 |
| Community Legal Services Programme Rural and Network Enhancement | 3.4 | 3.1 | 2.4 | 2.5 |
| Upgrade of the technical support unit in Australian Security Intelligence Organization | 1.5 | 0.1 | 0.0 | 0.0 |
| Total | 28.9 | 18.0 | 17.4 | 17.1 |
| COMMUNICATIONS AND THE ARTS | | | | |
| Running costs for the National Museum of Australia and the Australian Institute of Aboriginal and Torres Strait Islander Studies (b) | 9.7 | 11.1 | 14.2 | 13.0 |
| Funding assistance for the costs of the ABC's conversion to digital technology | 4.0 | 4.1 | 4.2 | 4.2 |
| Funding assistance for the costs of the SBS's conversion to digital technology | 3.2 | 2.6 | 3.8 | 4.1 |
| Continued funding for the SBS Independent Production Fund | 4.6 | 4.7 | 4.8 | 4.9 |
| Additional funding for Australia's contribution to international telecommunications organisations | 0.3 | 0.4 | 0.4 | 0.4 |
| Funding for consumer representations in areas of telecommunications regulations | 0.8 | 0.8 | 0.8 | 0.8 |
| Funding for Australian Communications Authority's contract management of the National Relay Service | 0.1 | .. | .. | .. |
| Funding for the Australian Communications Authority for functions related to telecommunications interceptibility | 0.1 | 0.1 | 0.1 | 0.1 |
| Funding for capital works and exhibitions for the National Science and Technology Centre | 3.1 | 0.0 | 0.0 | 0.0 |
| Funding for the Australian Communications Authority for the administration of electromagnetic compatibility standards | 0.4 | 0.4 | 0.3 | 0.3 |
| Funding for the Australian Communications Authority for monitoring a regulatory framework for electromagnetic radiation exposure | 1.3 | 0.8 | 0.7 | 0.7 |
| Total | 27.7 | 25.0 | 29.3 | 28.5 |
| EMPLOYMENT, EDUCATION, TRAINING AND YOUTH AFFAIRS | | | | |
| Assist schools to prepare students for work and to address the impact of the Youth Allowance on schools | 21.7 | 17.2 | 5.1 | 0.0 |
| Enhancing mutual obligations for unemployed young people including literacy and numeracy training (c) | 102.5 | 109.2 | 104.9 | 106.4 |

**Summary of outlays measures introduced in the Budget and since the 1997-98
Mid Year Economic and Fiscal Outlook (continued)**

| | 1998-99 \$m | 1999-00 \$m | 2000-01 \$m | 2001-02 \$m |
|---|----------------|----------------|----------------|----------------|
| EMPLOYMENT, EDUCATION, TRAINING AND YOUTH AFFAIRS (continued) | | | | |
| Align AUSTUDY payments with Youth Allowance payments | 0.0 | 0.0 | 0.0 | 0.0 |
| Continuation of the National Asian Languages and Studies in Australian Schools Strategy until the end of the 1999 calendar year | 25.4 | 17.2 | 0.0 | 0.0 |
| Continuation of the Australian International Education Foundation | 0.0 | 0.0 | 0.0 | 0.0 |
| Continuation of Job Placement, Employment and Training programme to the end of 1999-2000 | 1.4 | 11.4 | 1.5 | 0.0 |
| Funding for increased staff redundancies | 25.0 | 0.0 | 0.0 | 0.0 |
| Savings in the employment services market | -36.0 | -36.6 | -37.2 | -37.8 |
| Increase in funding for the Regional Assistance Programme | 13.0 | 13.2 | 13.4 | 13.7 |
| Exceptional Circumstances - Monaro Region A (d) | 0.0 | 0.0 | 0.0 | 0.0 |
| Drought Exceptional Circumstances - Several areas (e) | 0.0 | 0.0 | 0.0 | 0.0 |
| University places for overseas trained doctors * (f) | -0.1 | -0.2 | -0.2 | -0.1 |
| Total | 153.0 | 131.6 | 87.5 | 82.2 |
| ENVIRONMENT | | | | |
| Continuation of the Climate Change Programme | 3.9 | 4.0 | 0.0 | 0.0 |
| Grant to AAP Mawson's Huts Foundation for the restoration effort on Mawson's Huts | 0.3 | 0.0 | 0.0 | 0.0 |
| Urgent capital works to repair flood damage at Kakadu National Park | 0.9 | 0.0 | 0.0 | 0.0 |
| Management of World Heritage Properties | 5.0 | 5.1 | 5.2 | 5.3 |
| Payments to the Tasmanian State government under the Tasmanian Regional Forest Agreement (g) | 3.4 | 1.6 | 0.0 | 0.0 |
| Total | 13.5 | 10.6 | 5.2 | 5.3 |
| FINANCE AND ADMINISTRATION | | | | |
| Proceeds of sale of National Rail Corporation Ltd * | nfp | nfp | nfp | nfp |
| Costs of sale of National Rail Corporation Ltd | 3.5 | 0.0 | 0.0 | 0.0 |
| Proceeds of sale of ANL Limited * | nfp | nfp | nfp | nfp |
| Costs of sale of ANL Limited * | 2.9 | 0.0 | 0.0 | 0.0 |
| Costs of sale of the Commonwealth's remaining shareholding of Telstra Corporation | 70.0 | 265.0 | 245.0 | 0.0 |
| Proceeds of sale of the Commonwealth's remaining shareholding of Telstra Corporation * | nfp | nfp | nfp | nfp |
| Additional funding to address Year 2000 compliance (h) | 122.1 | 0.4 | 0.0 | 0.0 |
| Dividend from departmental restructuring | -3.0 | -25.4 | -25.9 | -26.3 |
| Office of Asset Sales and Information Technology Outsourcing - 1998-99 running costs | 5.0 | 0.0 | 0.0 | 0.0 |
| Sale of Commonwealth-owned overseas (non-representational) staff housing * | -12.0 | -12.0 | 0.0 | 0.0 |

**Summary of outlays measures introduced in the Budget and since the 1997-98
Mid Year Economic and Fiscal Outlook (continued)**

| | 1998-99 \$m | 1999-00 \$m | 2000-01 \$m | 2001-02 \$m |
|--|----------------|----------------|----------------|----------------|
| FINANCE AND ADMINISTRATION (continued) | | | | |
| Alignment of Z plate motor vehicle registration charges with State equivalent charges | -1.7 | -1.9 | -1.9 | -1.9 |
| Increase in staffing of the Australian Electoral Commission divisional offices | 1.5 | 1.5 | 1.6 | 1.6 |
| Total | nfp | nfp | nfp | nfp |
| FOREIGN AFFAIRS AND TRADE | | | | |
| Youth Ambassadors for Development programme | 4.0 | 4.1 | 0.0 | 0.0 |
| Papua New Guinea drought assistance | 0.0 | 0.0 | 0.0 | 0.0 |
| Humanitarian response package for Indonesia | 0.0 | 0.0 | 0.0 | 0.0 |
| Export action - Response to Asian economic developments | 2.4 | 2.5 | 2.5 | 2.5 |
| Funding for Australia's membership of the Comprehensive Nuclear Test-Ban Treaty Organisation | 1.6 | 1.6 | 1.6 | 1.6 |
| Increasing the effectiveness of Australian Secret Intelligence Service operations | 1.1 | 1.1 | 1.0 | 1.1 |
| Austrade Information Technology Asset Replacement | 4.1 | 4.1 | 4.1 | 4.2 |
| Sydney 2000 Games - Olympics and Paralympics (i) | 0.7 | 2.1 | 1.5 | 0.0 |
| Automotive Market Access and Development Strategy (j) | 0.4 | 0.3 | 0.3 | 0.1 |
| Total | 14.3 | 15.6 | 10.9 | 9.5 |
| HEALTH AND FAMILY SERVICES | | | | |
| Investment in preventive health | 14.4 | 19.0 | 22.0 | 23.4 |
| Support for Human Pituitary Hormone recipients | 2.3 | 2.0 | 0.5 | 0.3 |
| National Illicit Drugs Strategy - demand reduction and harm minimisation - second instalment | 13.4 | 14.8 | 15.2 | 7.9 |
| Long term commitment to health and medical research | 15.3 | 50.5 | 54.0 | 53.8 |
| New directions in general practice (m) | 11.4 | 10.5 | -10.2 | -20.1 |
| Australian Health Care Agreements - Increased funding for provision of designated health services to public patients | 241.9 | 308.8 | 437.5 | 524.0 |
| University places for overseas trained doctors (f) | 0.0 | -0.8 | -0.5 | -11.9 |
| Diagnostic Imaging Package including improving access to Magnetic Resonance Imaging services | -2.0 | -18.4 | -29.1 | -30.7 |
| Increased access to Medicare claiming through pharmacies | 4.0 | 2.0 | 2.1 | 2.1 |
| Better use and disposal of medicines | -0.2 | -0.1 | -0.3 | -3.1 |
| Adjustment of the Reciprocal Health Care Agreement with New Zealand | -3.0 | -3.4 | -3.5 | -3.6 |
| Maximising effectiveness of the Pharmaceutical Benefits Scheme by improved data analysis and compliance activities | -3.0 | -21.2 | -21.7 | -22.3 |
| Adjustments in funding for Artificial Limbs Scheme and Medical Speciality Centres | 0.0 | 0.0 | 0.0 | 0.0 |
| Increased funding to Aboriginal and Torres Strait Islander primary health care services to reflect population growth | 3.0 | 5.9 | 8.5 | 11.4 |

**Summary of outlays measures introduced in the Budget and since the 1997-98
Mid Year Economic and Fiscal Outlook (continued)**

| | 1998-99 \$m | 1999-00 \$m | 2000-01 \$m | 2001-02 \$m |
|---|----------------|----------------|----------------|----------------|
| HEALTH AND FAMILY SERVICES (continued) | | | | |
| Increased funding for Aboriginal and Torres Strait Islander health services | 1.3 | 2.6 | 4.0 | 5.3 |
| Business and community sector partnerships incorporating expansion of the volunteer management programme | 4.8 | 5.6 | 4.7 | 4.8 |
| Improving services for families through enhancement of family and community service networks | 1.0 | 2.5 | 2.6 | 2.5 |
| Continued funding for child abuse prevention and parent support | 0.2 | 0.6 | 1.2 | 2.4 |
| Continuation of funding for child care communication strategy | 0.6 | 0.0 | 0.0 | 0.0 |
| Continuation of funding for the Supported Accommodation Assistance Programme National Data Collection Agency | 0.6 | 0.8 | 0.0 | 0.0 |
| Increased funding for the Commonwealth/State Disability Agreement | 6.4 | 15.2 | 24.6 | 33.8 |
| Gold Medal Access Strategy 1998-2000: improving access to goods and services for people with disabilities | 0.9 | 1.0 | 0.2 | 0.0 |
| Staying at home - care and support for older Australians (k) | 22.9 | 60.6 | 84.0 | 101.9 |
| Allowing new aged care residents a 28 day period of grace from income testing | 2.6 | 2.7 | 2.8 | 2.9 |
| International Year of Older Persons | 4.5 | 1.5 | 0.0 | 0.0 |
| Establishment of a rural multi-purpose health and family services network | 1.0 | 6.0 | 9.0 | 8.3 |
| Contingent Capital Advance for Commonwealth Rehabilitation Service * | 0.0 | 0.0 | 0.0 | 0.0 |
| Contingent capital advance for Australian Hearing Services | 0.0 | 0.0 | 0.0 | 0.0 |
| Establishment of a peak body on homelessness through enhanced funding of the Community Sector Support Scheme | 0.2 | 0.2 | 0.2 | 0.2 |
| Enhancing mutual obligations for unemployed young people including literacy and numeracy training (a) | 1.9 | 1.9 | 1.9 | 1.9 |
| Exceptional Circumstances - Monaro Region A (d) | .. | .. | 0.0 | 0.0 |
| Drought Exceptional Circumstances - Several areas (e) | 0.1 | 0.1 | 0.0 | 0.0 |
| Improve and simplify assistance for foster carers (l) | 0.0 | 2.0 | 2.2 | 2.5 |
| Sydney 2000 Games - Olympics and Paralympics (i) | 0.0 | 0.0 | 2.4 | 0.0 |
| Child Disability Allowance, Carer Payment and Domiciliary Nursing Care Benefit to be paid when carer is in hospital (n) | 0.0 | 1.3 | 1.4 | 1.4 |
| The Extension of Gold Card to Veterans of World War II with qualifying service (o) | -25.7 | -55.5 | -52.0 | -47.0 |
| Extension of Commonwealth Seniors Health Card eligibility (p) | 24.1 | 50.5 | 53.2 | 55.2 |
| Total | 345.1 | 469.4 | 616.6 | 707.3 |
| IMMIGRATION AND MULTICULTURAL AFFAIRS | | | | |
| Enhancement of visa processing and border monitoring | 19.4 | 11.8 | 10.1 | 10.3 |
| Redevelopment of the Villawood Detention Centre | nfp | nfp | nfp | nfp |
| Modification to selection procedures for the 1998-99 Migration Programme | 1.5 | 1.1 | 0.6 | 0.6 |

**Summary of outlays measures introduced in the Budget and since the 1997-98
Mid Year Economic and Fiscal Outlook (continued)**

| | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|--|---------|---------|---------|---------|
| | \$m | \$m | \$m | \$m |
| IMMIGRATION AND MULTICULTURAL AFFAIRS (continued) | | | | |
| Strengthening of visa cancellation and refusal powers | 2.5 | 0.8 | 0.7 | 0.7 |
| Changes to offshore English language testing arrangements | -0.6 | -0.7 | -0.7 | -0.8 |
| Closure of loan funds operated by the International Organization for Migration | -1.9 | -0.1 | 0.0 | 0.0 |
| Sydney 2000 Games - Olympics and Paralympics (i) | 0.1 | 0.1 | 0.0 | 0.0 |
| Total | nfp | nfp | nfp | nfp |
| INDUSTRY SCIENCE AND TOURISM | | | | |
| Funding for an education campaign to facilitate community understanding of legislative changes governing country of origin representations | 1.2 | 0.2 | 0.0 | 0.0 |
| Reform of Australia's Anti-Dumping and Countervailing System | 0.0 | -0.1 | -0.1 | -0.1 |
| Sydney 2000 Games - Olympics and Paralympics (i) | 8.1 | 8.1 | 28.1 | 0.0 |
| Consumer Information Programme | 0.2 | 0.4 | 0.4 | 0.0 |
| Automotive Market Access and Development Strategy (j) | 7.4 | 4.6 | 4.7 | 2.8 |
| Australian Institute of Marine Science facilities - Capital Refurbishment | 2.0 | 3.0 | 3.6 | 3.0 |
| Australian Satellite Laser Ranging Network | 0.0 | 0.5 | 0.5 | 0.5 |
| Space Licensing and Safety Office | 1.3 | 0.2 | 0.2 | 0.2 |
| Compensation to the Societe Internationale de Telecommunications Aeronautiques | 1.8 | 1.8 | 1.7 | 1.8 |
| Continued funding of the Building Codes Board | 1.0 | 1.0 | 0.0 | 0.0 |
| Interim funding for the Science and Technology Awareness Programme | 0.0 | 0.8 | 0.0 | 0.0 |
| Administration of Post 2000 Textile, Clothing and Footwear and Passenger Motor Vehicles Initiatives | 1.8 | 2.1 | 1.7 | 2.1 |
| Australian Mapping Initiative | 1.0 | 1.0 | 0.0 | 0.0 |
| Tourism Package - Increased funding for tourism promotion and development | 12.0 | 12.2 | 12.5 | 12.8 |
| Additional funding to address Year 2000 compliance (h) | 4.3 | 0.1 | 0.0 | 0.0 |
| Funding to develop systems for implementing tax reform (q) | 1.0 | 0.0 | 0.0 | 0.0 |
| National Illicit Drugs Strategy - supply reduction - second instalment (a) | 1.0 | 1.1 | 1.2 | 1.3 |
| Total | 44.0 | 37.1 | 54.6 | 24.3 |
| PRIMARY INDUSTRIES AND ENERGY | | | | |
| Ex gratia payment in respect of banana crop losses associated with eradication measures to control a Black Sigatoka outbreak | 0.0 | 0.0 | 0.0 | 0.0 |
| Exceptional Circumstances - Monaro Region A (d) | 0.9 | 0.4 | 0.0 | 0.0 |
| Drought Exceptional Circumstances - Several areas (e) | 7.2 | 4.1 | 0.0 | 0.0 |
| National Geoscience Survey Initiative | 11.3 | 8.1 | 8.3 | 8.6 |

**Summary of outlays measures introduced in the Budget and since the 1997-98
Mid Year Economic and Fiscal Outlook (continued)**

| | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|--|-------------|------------|-------------|-------------|
| | \$m | \$m | \$m | \$m |
| PRIMARY INDUSTRIES AND ENERGY (continued) | | | | |
| Offsets for Australian Geological Survey Organisation's offshore petroleum programme | 0.0 | -11.0 | -11.0 | -11.0 |
| Sydney 2000 Games - Olympics and Paralympics (i) | 0.1 | 0.2 | 0.0 | 0.0 |
| Payments to the Tasmanian State government under the Tasmanian Regional Forest Agreement (g) | 3.4 | 1.6 | 0.0 | 0.0 |
| Total | 22.9 | 3.5 | -2.7 | -2.4 |
| PRIME MINISTER AND CABINET | | | | |
| Contribution to the relief fund established to assist families of the victims of the bridge tragedy at the Maccabiah Games in Israel | 0.0 | 0.0 | 0.0 | 0.0 |
| Contribution to the relief fund established to assist families of the fire fighting victims in the Southern Highlands | 0.0 | 0.0 | 0.0 | 0.0 |
| Contribution to the relief fund established to provide assistance to those affected by floods in North Queensland | 0.0 | 0.0 | 0.0 | 0.0 |
| Donation to Weary Dunlop-Boonpong Exchange Fellowship administered by Royal College of Surgeons of Thailand and Royal Australasian College of Surgeons | 0.0 | 0.0 | 0.0 | 0.0 |
| Running costs for the National Museum of Australia and the Australian Institute of Aboriginal and Torres Strait Islander Studies (b) | 0.2 | 0.2 | 0.2 | 0.2 |
| Total | 0.2 | 0.2 | 0.2 | 0.2 |
| SOCIAL SECURITY | | | | |
| Ex gratia payments to income tested pensioners resident in nursing homes due to the exemption of specified forms of income from 6 November 1997 | 0.0 | 0.0 | 0.0 | 0.0 |
| Additional Commonwealth emergency payments to individuals and redevelopment assistance following Katherine floods (r) | 0.0 | 0.0 | 0.0 | 0.0 |
| Ex gratia payment to non-pension age partners of farmers assisted under Retirement Assistance for Farmers | 0.5 | 0.0 | 0.0 | 0.0 |
| Running costs for the introduction of a Youth Allowance for students aged under 25 and the unemployed aged under 21 | 22.5 | 14.5 | 15.4 | 14.8 |
| Defer until 1 January 1999 the requirement for Youth Allowees aged under 18 to be in education or training | 3.7 | 0.0 | 0.0 | 0.0 |
| Consistent treatment of Youth Allowees for calculating income free areas | 0.4 | 0.5 | 0.5 | 0.5 |
| Alignment of Family Allowance and Youth Allowance payment cycles | 0.5 | 0.0 | 0.0 | 0.0 |
| Extend eligibility for Youth Allowance - Definition of independence | 7.7 | 10.0 | 11.0 | 11.2 |
| Extend exemptions for Youth Allowees to be in education or training | 1.8 | 0.0 | 0.0 | 0.0 |
| Extend Mobility Allowance | 3.3 | 3.5 | 3.8 | 4.1 |

**Summary of outlays measures introduced in the Budget and since the 1997-98
Mid Year Economic and Fiscal Outlook (continued)**

| | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---|-------------|-------------|--------------|--------------|
| | \$m | \$m | \$m | \$m |
| SOCIAL SECURITY (continued) | | | | |
| Improve and simplify assistance for foster carers (l) | 1.0 | 2.5 | 2.7 | 2.8 |
| Apply the liquid assets waiting period consistently to education leavers | -0.3 | -1.7 | -1.7 | -1.8 |
| Introduce a two-tiered payment structure for Austudy Pensioner Education Supplement to better reflect students' study loads | 0.0 | -1.2 | -6.0 | -6.5 |
| Apply the newly arrived residents' waiting period to Agreement countries | -0.1 | -9.6 | -16.1 | -16.7 |
| Child Support Package | 0.4 | -1.2 | -1.3 | -1.4 |
| Community Development Employment Project - Remove inequities and pay a participant supplement | 3.1 | -1.3 | -4.9 | -9.2 |
| Special Employment Advance | 0.8 | .. | 0.1 | .. |
| Crisis Payment | 0.9 | 1.4 | 1.4 | 1.4 |
| Expand the definition of suitable work to cover out-of-area jobs | -1.2 | -3.9 | -3.8 | -3.9 |
| Tighten arrangements for unemployed people moving to areas with lower employment prospects | -0.1 | -0.5 | -0.5 | -0.5 |
| Child Disability Allowance, Carer Payment and Domiciliary Nursing Care Benefit to be paid when carer is in hospital (n) | 0.9 | 0.5 | 0.5 | 0.5 |
| Reduction in Department of Social Security's running costs | -3.5 | 0.0 | 0.0 | 0.0 |
| Apply full rate of rent assistance to people lodging in marginal accommodation | 1.6 | 6.7 | 6.3 | 6.5 |
| Extend the Housing Reform Fund | 0.0 | 1.7 | 0.0 | 0.0 |
| Non-economic loss compensation payments - Modified assessment (s) | 0.9 | -9.1 | -19.5 | -20.0 |
| Extension of Commonwealth Seniors Health Card eligibility (p) | 1.4 | 2.2 | 2.3 | 2.3 |
| Enhancing mutual obligations for unemployed young people including literacy and numeracy training (c) | -4.5 | -26.5 | -25.6 | -27.0 |
| Exceptional Circumstances - Monaro Region A (d) | 0.1 | 0.1 | .. | 0.0 |
| Staying at home - care and support for older Australians (k) | 5.3 | 1.6 | 2.0 | 1.6 |
| Drought Exceptional Circumstances - Several areas (e) | 0.6 | 0.6 | 0.2 | 0.0 |
| Total | 47.8 | -9.3 | -33.4 | -41.3 |
| TRANSPORT AND REGIONAL DEVELOPMENT | | | | |
| Loan to the Norfolk Island Government - Cascade Cliff Safety Project * | 0.0 | 0.0 | 0.0 | 0.0 |
| Public awareness campaign concerning second Sydney airport | 0.3 | 0.0 | 0.0 | 0.0 |
| Airservices Australia - transition to location (airport) specific pricing | 11.0 | 2.0 | 0.0 | 0.0 |
| Indian Ocean Territories support package | 13.4 | 0.0 | 0.0 | 0.0 |
| Restoration, maintenance and construction programme for National Capital assets | 0.0 | 0.0 | 0.0 | 5.2 |
| Jervis Bay Territory - Infrastructure works | 2.0 | 2.3 | 0.0 | 0.0 |

**Summary of outlays measures introduced in the Budget and since the 1997-98
Mid Year Economic and Fiscal Outlook (continued)**

| | 1998-99 \$m | 1999-00 \$m | 2000-01 \$m | 2001-02 \$m |
|--|----------------|----------------|----------------|----------------|
| TRANSPORT AND REGIONAL DEVELOPMENT (continued) | | | | |
| Regional Development and Coordination Strategy | 2.5 | 2.5 | 2.6 | 2.6 |
| Funding of Airport Environment Officers and Airport Building Controllers at Phase 2 Federal Airports subject to sale | 2.7 | 2.7 | 2.8 | 2.8 |
| Road Safety Research and Public Education | 2.0 | 2.0 | 2.1 | 2.1 |
| ACT Liaison | 0.5 | 0.5 | 0.5 | 0.5 |
| Additional Commonwealth emergency payments to individuals and redevelopment assistance following Katherine floods (r) | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 34.3 | 12.1 | 7.9 | 13.3 |
| TREASURY | | | | |
| Extension of real per capita guarantee on Financial Assistance Grants to the States | 0.0 | 0.0 | 191.0 | 195.7 |
| Community education and information programme on the tax system | 0.0 | 0.0 | 0.0 | 0.0 |
| Australian Taxation Office - Information Technology asset replacement | 27.7 | 0.0 | 0.0 | 0.0 |
| Support for International Monetary Fund programmes through provision of loans to Korea and Indonesia * | 0.0 | 0.0 | 0.0 | 0.0 |
| Establishment of the Australian Securities and Investments Commission | 15.4 | 11.6 | 11.8 | 12.0 |
| Establishment of the Australian Prudential Regulation Authority | 26.1 | 27.6 | 23.9 | 24.3 |
| Supervision and funding arrangements for self-managed superannuation funds | 2.0 | 2.0 | 2.1 | 2.1 |
| High Wealth Individuals Taskforce | 9.5 | 9.5 | 0.0 | 0.0 |
| Funding to develop systems for implementing tax reform (q) | 24.2 | 0.0 | 0.0 | 0.0 |
| Fitout of the refurbished Treasury building | 0.0 | 1.0 | 2.0 | 2.0 |
| Corporate Law Reform - Managed Investments | 3.9 | 2.9 | 0.3 | 0.0 |
| Total | 108.9 | 54.6 | 231.0 | 236.2 |
| VETERANS' AFFAIRS | | | | |
| Additional funding to reflect the costs of direct purchasing of hospital services for entitled veterans in all States and Territories from 1 July 1998 | 150.0 | 150.0 | 150.0 | 150.0 |
| Link War Widow(er)s' Pension to the benchmark of 25 per cent of male total average weekly earnings | 22.6 | 35.3 | 46.7 | 59.1 |
| Non-economic loss compensation payments - Modified assessment | 0.5 | -0.4 | -0.8 | -0.8 |
| The Extension of Gold Card to Veterans of World War II with qualifying service (o) | 95.7 | 200.8 | 189.9 | 173.4 |
| Continuation of base funding for building related expenses at the Australian War Memorial | 2.0 | 2.0 | 2.0 | 2.0 |
| New directions in general practice (m) | 0.7 | 1.7 | 1.9 | 2.0 |
| Total | 271.4 | 389.4 | 389.6 | 385.8 |

**Summary of outlays measures introduced in the Budget and since the 1997-98
Mid Year Economic and Fiscal Outlook (continued)**

| | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---|-------------|-------------|-------------|-------------|
| | \$m | \$m | \$m | \$m |
| WORKPLACE RELATIONS AND SMALL BUSINESS | | | | |
| Business Entry Point | 4.5 | 2.6 | 1.8 | 0.0 |
| Office of the Employment Advocate - Advertising Campaign | 1.9 | 0.0 | 0.0 | 0.0 |
| Maritime Restructuring Facilitation Scheme | 0.0 | 0.0 | 0.0 | 0.0 |
| Payments in connection with redundancies relating to the Maritime Restructuring Facilitation Scheme | 25.0 | 25.0 | 25.0 | 25.0 |
| Total | 31.4 | 27.6 | 26.8 | 25.0 |

* These measures affect headline outlays.

- (a) Measure affects portfolios of the Attorney-General and Industry, Science and Tourism.
- (b) Measure affects portfolios of Communications and the Arts and Prime Minister and Cabinet.
- (c) Measure affects portfolios of Employment, Education, Training and Youth Affairs, Health and Family Services and Social Security.
- (d) Measure affects portfolios of Employment, Education, Training and Youth Affairs, Health and Family Services, Primary Industries and Energy and Social Security.
- (e) Measure affects portfolios of Employment, Education, Training and Youth Affairs, Health and Family Services, Primary Industries and Energy and Social Security.
- (f) Measure affects portfolios of Employment, Education, Training and Youth Affairs and Health and Family Services.
- (g) Measure affects portfolios of the Environment and Primary Industries and Energy.
- (h) Measure affects portfolios of Finance and Administration and Industry, Science and Tourism.
- (I) Measure affects portfolios of Foreign Affairs and Trade, Health and Family Services, Immigration and Multicultural Affairs, Industry, Science and Tourism and Primary Industries and Energy.
- (j) Measure affects portfolios of Foreign Affairs and Trade, Industry and Science and Tourism.
- (k) Measure affects portfolios of Health and Family Services and Social Security.
- (l) Measure affects portfolios of Health and Family Services and Social Security.
- (m) Measure affects portfolios of Health and Family Services and Veterans Affairs.
- (n) Measure affects portfolios of Health and Family Services and Social Security.
- (o) Measure affects portfolios of Health and Family Services and Veterans Affairs.
- (p) Measure affects portfolios of Health and Family Services and Social Security.
- (q) Measure affects portfolios of Industry, Science and Tourism and Treasury.
- (r) Measure affects portfolios of Social Security and Transport, Regional Development.
- (s) Measure affects portfolios of Social Security and Veterans' Affairs.

STATEMENT 5 — REVENUE

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STATEMENT 5 — REVENUE

PART I: BUDGET ESTIMATES

Table 1 compares the revised revenue estimates for 1997-98 with the 1997-98 Budget estimates and provides estimates for 1998-99.

Table 1: Revenue Estimates

| | 1997-98 | | | | 1998-99 | | |
|-------------------------------------|------------------------|-------------------------|-----------------------|------------------------|-----------------|----------------------------|-------------|
| | Budget Estimate \$m | Revised Estimate \$m | Change on Budget % | Change on 1996-97 % | Estimate \$m | Change on 1997-98 \$m % | |
| Taxation Revenue | | | | | | | |
| Income Tax | | | | | | | |
| Individuals - | | | | | | | |
| Gross PAYE | 62050 | 61990 | -0.1 | 8.0 | 67170 | 5180 | 8.4 |
| Gross Other Individuals(a)(b) | 10540 | 11040 | 4.7 | -0.6 | 10950 | -90 | -0.8 |
| Gross Prescribed Payments System(c) | 2430 | 2380 | -2.1 | 12.8 | 2570 | 190 | 8.0 |
| Medicare Levy | 3740 | 3760 | 0.5 | -9.4 | 4160 | 400 | 10.6 |
| Refunds(d) | 9000 | 9000 | 0.0 | 8.2 | 9960 | 960 | 10.7 |
| Total Individuals | 69760 | 70170 | 0.6 | 5.6 | 74890 | 4720 | 6.7 |
| Companies(a)(e) | 18590 | 18790 | 1.1 | -2.0 | 19900 | 1110 | 5.9 |
| Superannuation Funds(a)(e) | 2490 | 2960 | 18.9 | 14.1 | 2950 | -10 | -0.3 |
| Withholding Tax | 1230 | 1160 | -5.7 | 7.4 | 1190 | 30 | 2.6 |
| Petroleum Resource Rent Tax | 850 | 910 | 7.1 | -30.4 | 960 | 50 | 5.5 |
| Fringe Benefits Tax | 3150 | 3200 | 1.6 | 1.2 | 3320 | 120 | 3.8 |
| Total Income Tax | 96070 | 97190 | 1.2 | 3.6 | 103210 | 6020 | 6.2 |
| Indirect Tax | | | | | | | |
| Sales Tax | | | | | | | |
| Excise duty - | | | | | | | |
| Petroleum Products, | | | | | | | |
| Crude Oil and LPG | 10840 | 10900 | 0.6 | 3.3 | 11110 | 210 | 1.9 |
| Other | 2700 | 2690 | -0.4 | -1.8 | 2650 | -40 | -1.5 |
| Customs Duty(f) | 3410 | 3640 | 6.7 | 10.7 | 3670 | 30 | 0.8 |
| Total Indirect Tax | 31120 | 31320 | 0.6 | 4.8 | 32520 | 1200 | 3.8 |
| Other Taxes, Fees and Fines | 2243 | 2317 | 3.3 | 7.6 | 2442 | 125 | 5.4 |
| Total Taxation Revenue | 129433 | 130827 | 1.1 | 4.0 | 138172 | 7345 | 5.6 |
| Non-Tax Revenue | | | | | | | |
| Interest | | | | | | | |
| Dividends and Other(g) | 999 | 1011 | 1.2 | -10.3 | 1100 | 89 | 8.8 |
| | 2919 | 3610 | 23.7 | -11.7 | 4986 | 1376 | 38.1 |
| Total Non-Tax Revenue(g) | 3918 | 4621 | 17.9 | -11.4 | 6086 | 1465 | 31.7 |
| TOTAL REVENUE(g) | 133351 | 135448 | 1.6 | 3.4 | 144258 | 8810 | 6.5 |

(a) Includes tax on realised capital gains.

(b) Includes Child Support Trust Account receipts (\$477 million in 1997-98 and \$518 million in 1998-99).

(c) Includes Reportable Payments System payments by individuals (\$1 million in 1997-98 and \$1 million in 1998-99).

(d) Includes refunds of Child Support Trust Account receipts (\$11 million in 1997-98 and \$12 million in 1998-99).

(e) Includes superannuation contributions surcharge collections.

(f) Customs duty collections include customs duty imposed on imported petroleum products, tobacco, beer and spirits, which is akin to excise duty on these items (\$920 million in 1997-98 and \$930 million in 1998-99).

(g) Includes impact of classification changes except for the 1997-98 Budget estimate.

Total revenue in 1997-98 is now estimated to be 1.6 per cent higher than forecast in the 1997-98 Budget. Taxation revenue is stronger from other individuals, companies, superannuation funds, petroleum resource rent tax, fringe benefits tax and customs duty. A higher dividend from the Reserve Bank also contributes to stronger revenue.

In 1998-99 total revenue is expected to increase by 6.5 per cent over estimated revenue in 1997-98, with the ratio of revenue to GDP increasing to 25.0 per cent from 24.9 per cent in 1997-98. Total tax revenue is expected to grow more strongly in 1998-99 at 5.6 per cent, compared with estimated growth of 4.0 per cent in 1997-98. However, as a share of GDP, taxation revenue is expected to fall marginally to 24.0 per cent. Taxation revenue is expected to increase by 2.6 per cent in real terms. The growth in taxation revenue in 1998-99 reflects ongoing expansion of economic activity.

Revenue measures contained in this Budget add \$51 million in 1998-99 and reduce revenue by \$26 million in 1999-2000, \$386 million in 2000-01 and \$801 million in 2001-02. A list of revenue measures is included in Appendix A and described in full in *Budget Paper No. 2*.

The revenue estimates are influenced by the forecast pace and composition of economic activity. The 1998-99 revenue estimates are based on the following major economic parameter forecasts:

- growth in nominal GDP(I) of around 6 per cent;
- average earnings (national accounts basis excluding superannuation and redundancies) growth of around 4 per cent;
- growth in wage and salary employment of 2 per cent;
- an increase in nominal private consumption of 6½ per cent; and
- growth in 1997-98 company income of 8¼ per cent.

Taxation Revenue

Individuals Income Tax

The revised estimates for 1997-98 and estimates for 1998-99 for the major categories of individuals income tax are shown in Table 1.

Gross Pay-As-You-Earn (PAYE) Instalment Deductions

Wage and salary earners pay income tax on a pay-as-you-earn basis through tax instalment deductions made by their employers.

Gross PAYE collections are expected to rise by 8.4 per cent in 1998-99 in response to forecast growth in average earnings and growth in wage and salary employment.

Gross Other Individuals

The Gross Other Individuals category includes all collections of income tax paid by individuals, other than those made through the PAYE and Prescribed Payments System (PPS) categories. Tax revenue comprises provisional tax payments and debit assessments on income tax returns (ie where PAYE, PPS or provisional tax credits are insufficient to meet the tax assessed on income). Taxpayers in this category derive their income from salary and wages, business, primary production, property and capital gains.

A taxpayer's provisional tax liability in a given year is generally determined by increasing the previous year's assessed income by a provisional tax uplift factor (referenced to the year average growth rate of nominal GDP(I) for the preceding calendar year). Taxpayers who expect their income to grow by less than the uplift factor may elect to lodge a provisional tax variation to reduce provisional tax payments. Current year tax payments for other individuals are made up of provisional tax payments, where necessary, together with any balance on assessment from the previous year's tax liability.

Gross revenue from this item is expected to fall by around 0.8 per cent in 1998-99 reflecting the net effect of three main factors. The savings rebate, which first becomes available in 1998-99, and the reduction in the provisional tax uplift factor from 6 per cent in 1997-98 to 5 per cent in 1998-99, are expected to lower revenue. Partly offsetting this is stronger projected growth in provisional taxpayers' incomes in 1997-98.

Gross Prescribed Payments System (PPS)

The PPS is a withholding system for income tax collection which applies to certain payments made under contracts for the performance of work. The PPS operates in certain industries (eg building and construction). A payer who makes a prescribed payment is required to make tax instalment deductions from the payment and remit the amount deducted to the Australian Taxation Office. The payee claims a credit for the amount deducted in his or her tax return. For the PPS to apply, the relationship between the payer and the payee must not be one of common law employment, in which case the PAYE system will operate.

Revenue in 1998-99 is estimated to increase strongly, by 8.0 per cent, mainly reflecting strong growth in the construction industries, viz: forecast growth of 11¾ per cent in the nominal value of both dwelling and non-residential construction. This is partly offset by the introduction of new withholding tax arrangements where a number of businesses under the PPS will be permitted to remit quarterly rather than monthly.

Medicare Levy

Collections in 1998-99 are expected to rise by 10.6 per cent reflecting growth in the tax liability of individuals, and the imposition of the Medicare levy surcharge.

Individuals Income Tax Refunds

A final assessment of tax liability for individual taxpayers is made on the basis of returns lodged after the end of a financial year. Refunds are made where tax payments exceed the final assessment. Where tax credits are insufficient to meet the final tax liability, taxpayers make an additional payment, which is collected under the Other Individuals income tax category.

Refunds in 1998-99 are estimated to grow by 10.7 per cent, up from 8.2 per cent growth in 1997-98, largely on account of ongoing growth in income tax collected from individuals during 1997-98.

Company and Other Income Tax

Table 2 contains revised estimates for 1997-98 and estimates for 1998-99 for company and other income tax items.

Table 2: Company and Other Income Tax

| | 1997-98 Revised Estimate \$m | 1998-99 Estimate \$m | Change on 1997-98 % |
|-----------------------------|---------------------------------------|----------------------------|---------------------------|
| Companies(a)(b) | 18790 | 19900 | 5.9 |
| Superannuation Funds(a)(b) | 2960 | 2950 | -0.3 |
| Withholding Tax | | | |
| Resident | 120 | 120 | 0.0 |
| Non-resident | | | |
| Interest | 520 | 540 | 3.8 |
| Dividend | 189 | 169 | -10.6 |
| Royalty | 330 | 360 | 9.1 |
| Mining | 1 | 1 | 0.0 |
| Total Withholding Tax | 1160 | 1190 | 2.6 |
| Petroleum Resource Rent Tax | 910 | 960 | 5.5 |
| Fringe Benefits Tax | 3200 | 3320 | 3.8 |
| TOTAL | 27020 | 28320 | 4.8 |

(a) Includes tax on realised capital gains.

(b) Includes superannuation contributions surcharge collections.

Company Income Tax

The general tax rate for companies is 36 per cent, with concessional rates applying to certain income of life assurance companies, registered organisations, pooled development funds and credit unions.

Companies, other than small companies, are required to make one or two quarterly payments (depending on the size of the company's estimated tax liability) in the year

income is earned, with the remainder paid in the following year (or substituted accounting period). Small companies are required to make a single payment in the financial year (or substituted accounting period) following the year income is earned.

Company income tax is forecast to grow by 5.9 per cent in 1998-99, mainly reflecting the estimated growth in company taxable income in 1997-98.

Superannuation Funds Tax

Superannuation funds are generally taxed at the concessional rate of 15 per cent in relation to investment income and certain contributions received. Payments are made according to the same schedule as applies to company income tax.

Superannuation funds tax is expected to fall slightly in 1998-99 reflecting an estimated fall in earnings of superannuation funds in 1997-98 after a period of exceptionally high growth in earnings combined with high realisations of capital gains. This is partly offset by a rise in contributions to superannuation funds from employers.

Withholding Tax

Withholding tax is levied on:

- income payments to residents who, when making an investment, do not supply the investment body with a tax file number;
- certain interest, dividend and royalty payments to non-residents; and
- payments made to Aboriginal groups for the use of Aboriginal land for mineral exploration and mining.

The estimated increase in withholding tax in 1998-99 of 2.6 per cent is attributable to expected growth in interest and royalties withholding tax, partly offset by a fall in dividend withholding tax due to the receipt of a one-off payment in 1997-98.

Petroleum Resource Rent Tax (PRRT)

Under the Commonwealth's *Petroleum (Submerged Lands) Act 1967*, PRRT applies to offshore areas other than the North West Shelf production licence areas and associated exploration permit areas, which are subject to excise and royalty arrangements. PRRT is levied at the rate of 40 per cent of taxable profit from a petroleum project.

PRRT is expected to increase by 5.5 per cent mainly because of higher crude oil production, partly offset by lower oil prices and higher costs of production.

Fringe Benefits Tax (FBT)

FBT applies to a range of benefits provided by employers to their employees or associates of their employees. FBT is expected to rise by 3.8 per cent, in line with remuneration growth.

Indirect Tax

Table 3 shows revised estimates for 1997-98 and estimates for 1998-99 of various indirect taxes.

Table 3: Indirect Tax

| | 1997-98 Revised Estimate \$m | 1998-99 Estimate \$m | Change on 1997-98 % |
|--------------------------|---------------------------------------|----------------------------|---------------------------|
| Wholesale Sales Tax | 14090 | 15090 | 7.1 |
| Excise Duty | | | |
| Petroleum Products | | | |
| Leaded Petrol | 2063 | 1818 | -11.9 |
| Unleaded Petrol | 4275 | 4586 | 7.3 |
| Diesel | 4378 | 4494 | 2.7 |
| Other(a) | 142 | 144 | 1.2 |
| Total Petroleum Products | 10858 | 11043 | 1.7 |
| Crude Oil and LPG | 42 | 67 | 59.5 |
| Other Excise | | | |
| Beer | 883 | 883 | 0.0 |
| Potable Spirits | 152 | 152 | 0.0 |
| Tobacco Products | 1655 | 1615 | -2.4 |
| Total Other Excise | 2690 | 2650 | -1.5 |
| Total Excise | 13590 | 13760 | 1.3 |
| Customs Duty(b) | 3640 | 3670 | 0.8 |
| TOTAL | 31320 | 32520 | 3.8 |

(a) Includes aviation gasoline, aviation turbine fuel, fuel oil, heating oil and kerosene and refunds/drawbacks relating to petroleum products excise.

(b) Customs duty collections include customs duty imposed on imported petroleum products, tobacco, beer and spirits, which is akin to excise duty on these items (\$920 million in 1997-98 and \$930 million in 1998-99).

Wholesale Sales Tax (WST)

WST is imposed on a range of goods destined for consumption in Australia and is levied at the last wholesale or import point on the wholesale sales value of taxable goods. In 1998-99, taxable goods will continue to be variously subject to tax rates of 12, 22, 26, 32 and 45 per cent, depending on the classification of the goods involved. These rates do not include the surcharge rates on alcohol arising from the safety net arrangements implemented following the High Court decision invalidating State and Territory business franchise fees (which are classified as State/Territory taxes).

The estimated increase in WST revenue of around 7.1 per cent in 1998-99 mainly reflects forecast growth in the nominal value of taxable goods. The measure directed at combating sales tax fraud in the computer industry is also expected to contribute to the growth in WST revenue collections.

Excise Duty

Petroleum products excise includes excise on motor spirit (petrol), diesel fuel, aviation gasoline, aviation turbine fuel, fuel oil, heating oil and kerosene. It is imposed at specific rates per litre of product. *Crude oil and LPG excise* includes excise collected from fields in the North West Shelf production license areas not subject to PRRT. The increase in

crude oil and LPG excise in 1998-99 reflects the fact that the Wanaea oil field in the North West Shelf became excisable in April 1998.

Excise revenue from petroleum products is expected to increase by 1.7 per cent in 1998-99 reflecting an expected increase in consumption of diesel fuel and unleaded petrol and the indexation of excise rates. The fall in excise collections from leaded petrol reflects a continuing decline in the number of vehicles that exclusively use leaded petrol.

Other excise is derived from beer, potable spirits and tobacco products. It is imposed at a specific rate per kilogram on tobacco products, on the alcoholic content of beer in excess of 1.15 per cent by volume and on the distilled alcohol in other products such as spirits and mixed drinks. Wine, wine products and other fermented alcohol are exempt from duty.

Excise revenue from these products is expected to fall by 1.5 per cent in 1998-99, reflecting continuing falls in tobacco consumption and no growth in alcohol consumption.

Excise Indexation

The rates of duty for excisable commodities (with the exception of crude oil and LPG) are adjusted each August and February in line with half-yearly CPI movements. If the change in the CPI is negative, the excise rate is not reduced but instead the decline is carried forward to be offset against the next positive CPI movement. Given recent movements in the CPI, excise rates have generally remained unchanged since 1 February 1997 (apart from surcharges applied on behalf of the States and Territories as part of the scheme to replace State and Territory business franchise fee revenue).

All revenue from the excise duty on aviation gasoline and aviation turbine fuel is appropriated to the Civil Aviation Safety Authority (CASA) and Airservices Australia as a contribution to cost recovery. In addition to the changes from indexation described above, the excise rates applying to these fuels are adjusted as necessary according to the funding requirements of those agencies.

Existing excise rates are shown in Table 4.

Table 4: Excise Rates^(a)

| Commodity | Rates applying from - 1 February 1998 \$ |
|--|--|
| Petroleum (per litre) | |
| Leaded Petrol | 0.36872 |
| Unleaded Petrol | 0.34697 |
| Diesel (gross) | 0.34697 |
| Aviation Gasoline(b) | 0.17403 |
| Aviation Turbine Fuel | 0.01785 |
| Fuel Oil | 0.07200 |
| Heating Oil | 0.07200 |
| Kerosene | 0.07200 |
| Beer (per litre of alcohol over 1.15 per cent) | 15.89 |
| Potable Spirits (per litre of alcohol) | |
| Brandy | 31.59 |
| General rate for Other Spirits | 36.99 |
| Tobacco Products (per kg) | 84.27 |

(a) These rates refer to the Commonwealth component of excise collections.

(b) The excise rate applying to aviation gasoline was reduced by \$0.006 per litre on 1 July 1997 to \$0.17403 per litre because of reductions in the cost of providing air traffic services and rescue and fire fighting to the general aviation sector.

Customs Duty

Ad valorem tariffs are applied to many categories of imports. Customs duty revenue is affected by the Australian dollar value of imports, the level of the statutory tariff rates applied to imports and the composition of imports between high and low tariff rates. Around 60 per cent of total imports by value enter duty free.

The expected increase in customs duty revenue of around 0.8 per cent in 1998-99 reflects the rise in total value of imports, partly offset by continuing tariff rate reductions.

Other Taxes, Fees and Fines

The revised 1997-98 estimates and the 1998-99 estimates of other taxes, fees and fines are shown in Table 5.

Table 5: Other Taxes, Fees and Fines

| | 1997-98 Revised Estimate \$m | 1998-99 Estimate \$m | Change on 1997-98 % |
|---|---------------------------------------|----------------------------|---------------------------|
| Primary Industry Charges | 111 | 103 | -6.9 |
| Primary Industry Levies | 610 | 568 | -6.8 |
| Broadcasting and Television Station Licence Fees | 182 | 193 | 6.5 |
| Radiocommunications Licence Fees | 99 | 92 | -7.0 |
| International Passenger Movement Charge | 200 | 217 | 8.3 |
| Passport Fees | 104 | 113 | 8.6 |
| Immigration Fees and Charges | 168 | 215 | 28.0 |
| Court Fees and Fines | 25 | 28 | 9.0 |
| Light Dues and Navigation Charges | 45 | 44 | -3.0 |
| Superannuation Guarantee Charge | 54 | 60 | 11.1 |
| Stevedoring Levy | - | 25 | na |
| Australian Securities Commission - Regulatory Fees(a) | 281 | 285 | 1.4 |
| Aircraft Noise Levy | 40 | 44 | 11.1 |
| Other(b) | 399 | 455 | 14.1 |
| TOTAL | 2317 | 2442 | 5.4 |

(a) The Australian Securities Commission will become the Australian Securities and Investments Commission on 1 July 1998 or as soon as possible thereafter.

(b) Includes Telecommunications Act Carrier Licence Fees, Telecommunications Act Numbering Fees, Telecommunications Levy, Cost Recovery for Trade Related Services, Coal Mining Industry Levy and the Interstate Road Transport Charge.

International Passenger Movement Charge

The 1998-99 estimate reflects a forecast increase in the number of international passengers together with an increase in the charge from \$27 to \$30 with effect from 1 January 1999. The level of the Passenger Movement Charge has previously been set to recover the costs of customs, immigration and quarantine border processing of international travellers and the costs of issuing short-term visas. The additional revenue will help meet the additional costs arising from the movement of people and games related equipment across Australia's borders at the time of the Sydney 2000 Olympic Games. See also the outlays measure entitled 'Tourism package - Increased funding for tourism promotion and development' described in *Budget Paper No. 2*.

Passport Fees

The increase in passport fee revenue reflects an increase in passport renewals, ongoing growth in demand and increases in issue fees flowing from decisions in previous budgets.

Immigration Fees and Charges

Revenue from immigration fees is expected to rise in 1998-99 largely as a result of the introduction of a \$50 application charge for non-Electronic Travel Authority visitor visas. For further details of this measure refer to entry in *Budget Paper No. 2*.

Superannuation Guarantee Charge

The increase in the estimate for Superannuation Guarantee Charge relates to increases in the number of employee notifications expected to be processed by the Australian Taxation Office.

Non-Taxation Revenue

The revised estimates of non-tax revenue for 1997-98 and estimates for 1998-99 are shown in Table 6.

Table 6: Non-Taxation Revenue

| | 1997-98 Revised Estimate \$m | 1998-99 Estimate \$m | Change on 1997-98 % |
|--|---------------------------------------|----------------------------|---------------------------|
| Interest | | | |
| States, NT and ACT | 688 | 601 | -12.6 |
| Non-budget Authorities: | | | |
| Federal Airports Corporation | 11 | 11 | 0.7 |
| Snowy Mountains Hydro-Electric Authority | 68 | 61 | -9.8 |
| Income on Financial Assets | 124 | 338 | 173.3 |
| Other | 121 | 89 | -26.2 |
| Total Interest | 1011 | 1100 | 8.8 |
| Dividends and Other | | | |
| GBEs and Reserve Bank of Australia(a) | 3174 | 4554 | 43.5 |
| Royal Australian Mint | 46 | 68 | 47.9 |
| Petroleum Royalties | 338 | 295 | -12.8 |
| Other | 52 | 70 | 32.9 |
| Total Dividends and Other | 3610 | 4986 | 38.1 |
| TOTAL | 4621 | 6086 | 31.7 |

(a) Comprises Telstra Corporation, Australian Postal Corporation, Federal Airports Corporation, Airservices Australia, Export Finance and Insurance Corporation, Housing Loans Insurance Corporation, Australian Industry Development Corporation, Australian Defence Industries Ltd, Defence Housing Authority and Employment National.

Interest Revenue

Interest Revenue from the States, NT and ACT

This item comprises interest revenue from the States and Territories on General Purpose and Specific Purpose Borrowings.

The Commonwealth receives interest payments from the States in respect of borrowings made on behalf of the States under the State Governments' Loan Council Programme and from the Northern Territory in respect of advances made under similar general purpose capital assistance arrangements. Payments relating to these advances are made in turn by the Commonwealth to bondholders.

Interest from the States on General Purpose Borrowings is declining as a result of the June 1990 Loan Council decision that the States make additional payments to the Debt Retirement Reserve Trust Account (with analogous payments from the Territories) each year, to facilitate the redemption of all maturing Commonwealth securities issued on their behalf. The reduction in interest received from the States and Territories is matched by a reduction in public debt interest outlays. Interest will be lower in 1998-99 compared to 1997-98 reflecting repayments of outstanding debt to the Commonwealth in 1997-98.

The Commonwealth also receives interest on advances made under Commonwealth-State Housing Agreements, States (Works and Housing) Assistance Acts, Northern Territory Housing Advances and from the Australian Capital Territory on debts assumed upon

self-government. Interest from the States on Specific Purpose Borrowings will be lower in 1998-99 compared to 1997-98 reflecting repayments of advances to the Commonwealth in 1997-98.

Snowy Mountains Hydro-Electric Authority

The 9.8 per cent fall in interest revenue in 1998-99 reflects the scheduled rollover of Commonwealth advances to the Authority at current interest rates.

Income on Financial Assets

This item includes interest income on Commonwealth cash balances and on other financial assets held from time to time as a component of debt management operations; the increase in 1998-99 reflects an assumed increase in these latter holdings.

Dividends and Other

Government Business Enterprises (GBE) and Reserve Bank of Australia (RBA)

GBE and RBA dividends are expected to rise by 43.5 per cent in 1998-99. Higher dividend receipts are expected from some GBEs but the increase largely reflects an estimated sizeable increase in receipts from the RBA. The income and hence dividend payments of the RBA are affected by movements in interest rates and the exchange rate over the course of the financial year and hence can be volatile; the RBA dividend in 1997-98 was somewhat below average while that currently estimated for 1998-99 is somewhat above average.

Royal Australian Mint (RAM)

Revenue from the RAM includes seigniorage from circulating coin production, royalties from numismatic coin sales and annual dividends from the profits the Mint makes as the manufacturer of these products. The estimated increase in revenue in 1998-99 mainly reflects anticipated increases in circulating coin sales and higher numismatic royalties and profits associated with growth in the Sydney 2000 Olympic Coin Programme.

Petroleum Royalties

The decline in receipts from 1997-98 is based on lower production forecasts beyond 1997-98 by the North West Shelf project operator, and lower Australian Bureau of Agricultural and Resource Economics forecast crude oil prices.

PART II: FORWARD ESTIMATES OF REVENUE

Estimates of the major categories of revenue, for 1998-99 to 2001-02, are shown in Table 7.

Table 7: Revenue Estimates

| | 1998-99 | | 1999-00 | | 2000-01 | | 2001-02 | |
|------------------------|-----------------|----------------------------------|-----------------|----------------------------------|-----------------|----------------------------------|-----------------|----------------------------------|
| | Estimate \$b | Change on 1997-98 per cent | Estimate \$b | Change on 1998-99 per cent | Estimate \$b | Change on 1999-00 per cent | Estimate \$b | Change on 2000-01 per cent |
| Individuals Tax | 74.9 | 6.7 | 79.7 | 6.4 | 85.1 | 6.8 | 91.5 | 7.4 |
| <i>Per cent of GDP</i> | 13.0 | | 13.0 | | 13.1 | | 13.3 | |
| Other Income Tax | 28.3 | 4.8 | 30.1 | 6.4 | 32.2 | 6.9 | 34.1 | 6.0 |
| <i>Per cent of GDP</i> | 4.9 | | 4.9 | | 5.0 | | 5.0 | |
| Total Income Tax | 103.2 | 6.2 | 109.8 | 6.4 | 117.3 | 6.9 | 125.6 | 7.0 |
| <i>Per cent of GDP</i> | 17.9 | | 18.0 | | 18.1 | | 18.3 | |
| Other Tax | 35.0 | 3.9 | 36.6 | 4.6 | 38.3 | 4.6 | 40.4 | 5.5 |
| <i>Per cent of GDP</i> | 6.1 | | 6.0 | | 5.9 | | 5.9 | |
| Total Tax | 138.2 | 5.6 | 146.4 | 5.9 | 155.6 | 6.3 | 166.0 | 6.7 |
| <i>Per cent of GDP</i> | 24.0 | | 23.9 | | 24.0 | | 24.1 | |
| Non-tax | 6.1 | 31.7 | 4.9 | -19.0 | 4.6 | -6.5 | 5.1 | 11.6 |
| <i>Per cent of GDP</i> | 1.1 | | 0.8 | | 0.7 | | 0.7 | |
| Total Revenue | 144.3 | 6.5 | 151.3 | 4.9 | 160.2 | 5.9 | 171.1 | 6.8 |
| <i>Per cent of GDP</i> | 25.0 | | 24.7 | | 24.7 | | 24.9 | |

The revenue projections have been made on the conventional assumption of no change in current policy. Therefore, the forward estimates of revenue are principally affected by projected growth in economic parameters and policy measures contained in this and previous budgets.

Taxation revenue generally mirrors economic activity during periods of fairly steady economic growth (as depicted by the economic projections in this Budget), but tends to swing more sharply during periods of economic contraction and expansion and more sharply than nominal GDP(I) growth. The forward revenue estimates are also particularly susceptible to changes in the extent of tax minimisation and avoidance action by taxpayers.

The forward estimates include the effect of measures taken in this Budget, which add \$51 million in 1998-99 and reduce revenue by \$26 million in 1999-2000 and \$386 million and \$801 million in 2000-01 and 2001-02 respectively. Over the forward estimates, total revenue is estimated to remain just below 25 per cent of GDP.

Taxation reform will assist in maintaining the balance of tax bases as the economy grows and in ensuring that total revenue capacity keeps pace with economic activity. With respect to the indirect tax base in particular, taxation reform will remove the need for continual ad hoc increases in sales tax rates and base broadening measures.

APPENDIX A: REVENUE MEASURES

Table A1: Revenue Measures

| | Estimated Change in Revenue(a) | | | |
|---|--------------------------------|----------------|----------------|----------------|
| | 1998-99 \$m | 1999-00 \$m | 2000-01 \$m | 2001-02 \$m |
| Measures introduced in the 1998-99 Budget | | | | |
| Income Tax | | | | |
| High Wealth Individuals Taskforce | 100 | 100 | - | - |
| Year 2000 compliance expenditure and taxation of software | -30 | -205 | -295 | -520 |
| Development of a generic tax framework for the demutualisation of non-insurance organisations | * | * | * | * |
| New tax penalty arrangements | * | * | * | * |
| Provisional tax uplift factor | -75 | - | - | - |
| Medicare levy low income thresholds — 1998-99 | - | - | - | - |
| Dependant rebates — 1998-99 | .. | .. | .. | .. |
| Access to the beneficiary tax rebate for CDEP participants | -7 | -7 | -7 | -7 |
| Extension of Prescribed Payments System | - | - | - | - |
| Superannuation and Savings | | | | |
| Supervision and funding arrangements for self-managed superannuation funds | - | -19 | -19 | -19 |
| Changes to superannuation regulation | - | - | - | - |
| Access to superannuation for housing | - | - | - | - |
| Wholesale Sales Tax | | | | |
| CPI adjustment of WST quarterly remitter threshold | .. | .. | .. | .. |
| Capital Gains Tax | | | | |
| Capital gains tax — Section 160ZZS | .. | .. | .. | 5 |
| Fringe Benefits Tax | | | | |
| Fringe benefits tax — car parking benefits threshold | .. | .. | .. | .. |
| Customs and Excise Duty | | | | |
| Automotive Competitiveness and Investment Scheme | - | - | -200 | -400 |
| Tariff reductions on information industry inputs | -52 | -28 | -5 | -5 |
| Other Measures | | | | |
| 1998-99 Migration Programme — visa application charges | 2 | 9 | 13 | 13 |
| Changes to visa application charges for non-Electronic Travel Authority visitor visas | 40 | 38 | 42 | 47 |
| Increase in the Passenger Movement Charge | 10 | 21 | 23 | 24 |
| Increased charges to carriage service providers for the purchase of certain telecommunications numbers | 30 | 30 | 30 | 30 |
| Stevedoring levy | 25 | 25 | 25 | 25 |
| Reduced warehouse licence fees administered by the Australian Customs Service under the Customs Act 1901 | -2 | -2 | -2 | -2 |
| Industry contribution for Australia's contributions to international telecommunications organisations | .. | .. | .. | .. |
| Industry contribution for consumer representations in areas of telecommunications regulations | 1 | 1 | 1 | 1 |
| Industry contribution for the Australian Communications Authority's (ACA) contract management of the National Relay Service | - | .. | .. | .. |
| Industry contribution for the ACA's administration of electromagnetic compatibility standards | - | .. | .. | .. |
| Industry contribution for the ACA's monitoring of a regulatory framework for electromagnetic radiation exposure | - | 1 | 1 | 1 |
| Industry contribution for the ACA for functions related to telecommunications interceptibility | - | .. | .. | .. |

Table A1: Revenue Measures (continued)

| | Estimated Change in Revenue(a) | | | |
|--|--------------------------------|----------------|----------------|----------------|
| | 1998-99 \$m | 1999-00 \$m | 2000-01 \$m | 2001-02 \$m |
| Compensation for Societe Internationale | | | | |
| Telecommunications Aeronautique (SITA) | 1 | 1 | 1 | 1 |
| Increased cost recovery at Phase 2 airports | 3 | 3 | 3 | 3 |
| Cost recovery of motor vehicle compliance plates | 2 | 2 | 2 | 2 |
| Corporate law reform — managed investments | 3 | 3 | 1 | - |
| | 51 | -26 | -386 | -801 |
| Measures introduced up to the 1998-99 Budget | | | | |
| Income Tax | | | | |
| Deductibility of donations to political parties and independents | - | -18 | -12 | -15 |
| Medicare levy — extension of Gold Card | - | -9 | -7 | -7 |
| Taxation treatment of spectrum licences | -8 | -8 | -8 | -8 |
| Deductibility of gifts | * | * | * | * |
| Company Law Review Bill — taxation response | † | † | † | † |
| Provisional tax exemption for pensioners | -1 | - | - | - |
| Superannuation and Savings | | | | |
| Reforms to early release of superannuation benefits | 2 | 2 | 2 | 2 |
| Choice of superannuation fund | - | - | - | - |
| Wholesale Sales Tax | | | | |
| Amendment to Item 192 of the Sales Tax (Exemptions and Classifications) Act 1992 | 50 | 50 | 50 | 50 |
| Other Measures | | | | |
| Establishment of the Australian Prudential Regulation Authority | 4 | 39 | 29 | 30 |
| Establishment of the Australian Securities and Investments Commission | 8 | 14 | 14 | 14 |
| Reducing fees for coasting trade permits | .. | .. | .. | .. |
| | 55 | 70 | 68 | 66 |
| Measures included in the Mid-Year Economic and Fiscal Outlook 1997-98(b) | | | | |
| Income Tax | | | | |
| Exemption of income derived by bona fide prospectors | -2 | - | - | - |
| Trust distributions to superannuation funds | 15 | 15 | 15 | 15 |
| Extension of Offshore Banking Unit concession | -9 | -16 | -16 | -16 |
| Foreign bank subsidiaries — thin capitalisation 'loan back' rules | .. | .. | .. | .. |
| Foreign Investment Fund (FIF) rules — exemption for United States FIFs | -2 | -3 | -3 | -3 |
| Film Licensed Investment Companies | * | * | - | - |
| Withholding Tax | | | | |
| Extension of Interest Withholding Tax exemption | -3 | -3 | -3 | -3 |
| Capital Gains Tax | | | | |
| Capital Gains Tax (extension of rollover relief through shares) | * | * | * | * |
| Capital Gains Tax (cost base provisions: transitional measure) | -60 | -70 | - | - |
| Capital Gains Tax — non-residents' foreign source gains | .. | .. | .. | .. |
| Customs and Excise Duty | | | | |
| TRADEX | -15 | -30 | -30 | -30 |
| Manufacturing In Bond | * | * | * | * |

Table A1: Revenue Measures (continued)

| | Estimated Change in Revenue(a) | | | |
|--|--------------------------------|----------------|----------------|----------------|
| | 1998-99 \$m | 1999-00 \$m | 2000-01 \$m | 2001-02 \$m |
| Other Measures | | | | |
| Commonwealth safety net arrangements for Business Franchise Fees | - | - | - | - |
| Changes to the Migration Programme — increased focus on skills | -7 | -7 | -7 | -8 |
| Resolution of residence status for certain persons in Australia | 10 | 1 | .. | .. |
| Changes to fees for the review of immigration decisions | .. | .. | .. | .. |
| Abolition of non-callable deposits | - | - | -200 | -200 |
| | -73 | -113 | -244 | -244 |
| TOTAL IMPACT OF ALL REVENUE MEASURES(c) | 34 | -69 | -562 | -979 |

.. Not zero, but rounded to zero.

* The nature of the measure is such that a reliable estimate cannot be provided.

† The measure will protect the revenue base used for the forward estimates by removing opportunities for significant future expansion of tax minimisation practices. In the absence of the measure, to the extent that the revenue base would not be protected, there would be significant revenue loss compared to the forward estimates.

(a) A minus sign before an estimate indicates a reduction in revenue; no sign before an estimate indicates a gain to revenue.

(b) Descriptions of these measures are provided in the *Mid-Year Economic and Fiscal Outlook 1997-98*.

(c) Measures may not sum due to rounding.

APPENDIX B: REVENUE STATISTICS 1987-88 TO 1998-99

Table BI: Commonwealth Government Budget Revenue (\$m)^(a)

| | 1987-88 | 1988-89 | 1989-90 | 1990-91 | 1991-92 | 1992-93 | 1993-94 | 1994-95 | 1995-96 | 1996-97 | 1997-98(b) | 1998-99(c) |
|----------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------------|------------|
| TAXATION REVENUE | | | | | | | | | | | | |
| Income Tax | | | | | | | | | | | | |
| Individuals | | | | | | | | | | | | |
| Gross PAYE | 33359 | 39106 | 41322 | 41704 | 41388 | 43035 | 44451 | 48078 | 53302 | 57401 | 61990 | 67170 |
| Gross Other | 9426 | 9666 | 9958 | 10932 | 8865 | 7905 | 8217 | 8971 | 9538 | 11110 | 11040 | 10950 |
| Gross Prescribed Payments System | 1065 | 1440 | 1912 | 1693 | 1563 | 1589 | 1781 | 2049 | 2059 | 2110 | 2380 | 2570 |
| Medicare Levy(d) | 2080 | 2320 | 2545 | 2480 | 2385 | 2415 | 2870 | 3030 | 3350 | 4150 | 3760 | 4160 |
| Refunds | 4056 | 4984 | 5672 | 6546 | 7516 | 7433 | 6743 | 7481 | 7835 | 8318 | 9000 | 9960 |
| Total Income Tax on Individuals | 41875 | 47548 | 50065 | 50263 | 46685 | 47511 | 50575 | 54647 | 60414 | 66453 | 70170 | 74890 |
| Companies | 8801 | 10265 | 12926 | 14166 | 13419 | 13071 | 12700 | 15588 | 18252 | 19173 | 18790 | 19900 |
| Superannuation | 11 | 7 | 376 | 1053 | 1139 | 1522 | 1191 | 1913 | 1634 | 2595 | 2960 | 2950 |
| Withholding Tax | 667 | 737 | 915 | 901 | 941 | 764 | 877 | 903 | 1349 | 1080 | 1160 | 1190 |
| Petroleum Resource Rent Tax | - | - | 42 | 293 | 876 | 1389 | 1072 | 865 | 791 | 1308 | 910 | 960 |
| Fringe Benefits Tax | 881 | 990 | 1168 | 1262 | 1327 | 1344 | 1417 | 2740 | 3031 | 3163 | 3200 | 3320 |
| Total Income Tax | 52234 | 59547 | 65493 | 67938 | 64387 | 65602 | 67833 | 76656 | 85470 | 93773 | 97190 | 103210 |
| Sales Tax | 7547 | 9402 | 10132 | 9365 | 9113 | 9252 | 10414 | 11624 | 12955 | 13308 | 14090 | 15090 |
| Excise Duty | | | | | | | | | | | | |
| Crude Oil and LPG | 2056 | 1188 | 1232 | 1354 | 64 | 116 | 62 | 27 | 13 | 9 | 42 | 67 |
| Petroleum Products | 5426 | 5828 | 6416 | 6642 | 7093 | 7200 | 8499 | 9406 | 10224 | 10543 | 10858 | 11043 |
| Other Excise Duty | 2778 | 2252 | 2239 | 2364 | 2324 | 2361 | 2253 | 2567 | 2612 | 2739 | 2690 | 2650 |
| Total Excise Duty | 10261 | 9268 | 9888 | 10360 | 9482 | 9677 | 10814 | 12001 | 12849 | 13291 | 13590 | 13760 |
| Customs Duty | 3632 | 3752 | 3954 | 3319 | 3299 | 3331 | 3226 | 3474 | 3124 | 3289 | 3640 | 3670 |
| Total Indirect Tax | 21440 | 22422 | 23974 | 23044 | 21893 | 22260 | 24455 | 27099 | 28928 | 29888 | 31320 | 32520 |

Table BI: Commonwealth Government Budget Revenue (\$m)^(a) – continued

| | 1987-88 | 1988-89 | 1989-90 | 1990-91 | 1991-92 | 1992-93 | 1993-94 | 1994-95 | 1995-96 | 1996-97 | 1997-98(b) | 1998-99(c) |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------------|------------|
| TAXATION REVENUE (continued) | | | | | | | | | | | | |
| Other Taxes, Fees and Fines | 1792 | 1928 | 1876 | 2243 | 1690 | 1572 | 1736 | 1933 | 1988 | 2154 | 2317 | 2442 |
| TOTAL TAXATION REVENUE | 75465 | 83897 | 91343 | 93225 | 87970 | 89434 | 94024 | 105687 | 116386 | 125815 | 130827 | 138172 |
| NON-TAXATION REVENUE | | | | | | | | | | | | |
| Interest Received | 3621 | 3755 | 3473 | 3309 | 2976 | 2477 | 2051 | 1790 | 1403 | 1126 | 1011 | 1100 |
| Dividends and Other | 2471 | 1144 | 1178 | 1558 | 2563 | 3150 | 4671 | 2952 | 3899 | 4089 | 3610 | 4986 |
| TOTAL NON-TAX REVENUE | 6093 | 4899 | 4651 | 4867 | 5539 | 5627 | 6722 | 4743 | 5302 | 5216 | 4621 | 6086 |
| TOTAL REVENUE | 81558 | 88796 | 95995 | 98093 | 93509 | 95062 | 100747 | 110430 | 121688 | 131031 | 135448 | 144258 |

(a) Figures for all past years have been revised for classification changes.

(b) Revised estimate.

(c) Revised estimate.

(d) The Medicare levy was increased from 1.5 to 1.7 per cent for the period from 1 July 1996 to 30 June 1997 to fund the guns buy-back scheme.

Table BII: Real Rate of Change in Commonwealth Government Budget Revenue Items (per cent)^{(a)(b)}

| | 1987-88 | 1988-89 | 1989-90 | 1990-91 | 1991-92 | 1992-93 | 1993-94 | 1994-95 | 1995-96 | 1996-97 | 1997-98(c) | 1998-99(d) |
|----------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------------|------------|
| TAXATION REVENUE | | | | | | | | | | | | |
| Income Tax | | | | | | | | | | | | |
| Individuals | | | | | | | | | | | | |
| Gross PAYE | 1.4 | 7.9 | -0.8 | -3.3 | -2.6 | 2.6 | 2.3 | 7.1 | 7.8 | 5.1 | 6.5 | 5.2 |
| Gross Other | 4.8 | -5.6 | -3.3 | 5.1 | -20.4 | -12.0 | 3.0 | 8.1 | 3.4 | 13.7 | -2.0 | -3.7 |
| Gross Prescribed Payments System | 18.0 | 24.4 | 24.7 | -15.2 | -9.4 | 0.3 | 11.1 | 13.9 | -2.3 | 0.0 | 11.3 | 4.9 |
| Medicare Levy(e) | 13.0 | 2.6 | 3.0 | -6.7 | -5.6 | -0.1 | 17.7 | 4.5 | 7.5 | 20.9 | -10.6 | 7.4 |
| Refunds | 7.0 | 13.1 | 6.9 | 10.5 | 12.7 | -2.4 | -10.1 | 9.8 | 1.9 | 3.6 | 6.7 | 7.5 |
| Total Income Tax on Individuals | 2.5 | 4.5 | -1.1 | -3.8 | -8.9 | 0.4 | 5.5 | 7.0 | 7.5 | 7.3 | 4.2 | 3.6 |
| Companies | 22.1 | 7.3 | 18.2 | 5.0 | -7.1 | -3.9 | -3.7 | 21.5 | 13.9 | 2.5 | -3.3 | 2.8 |
| Superannuation | -23.9 | -36.1 | 4641.7 | 168.3 | 6.1 | 31.9 | -22.5 | 59.0 | -16.9 | 55.0 | 12.5 | -3.2 |
| Withholding Tax | -2.8 | 1.7 | 16.7 | -5.7 | 2.5 | -19.8 | 13.7 | 2.0 | 45.3 | -21.9 | 5.9 | -0.4 |
| Petroleum Resource Rent Tax | - | - | na | 567.2 | 193.8 | 56.6 | -23.5 | -20.1 | -11.1 | 61.5 | -31.4 | 2.4 |
| Fringe Benefits Tax | 53.3 | 3.4 | 10.9 | 3.4 | 3.2 | 0.0 | 4.5 | 91.4 | 7.6 | 1.9 | -0.2 | 0.7 |
| Total Income Tax | 5.9 | 4.9 | 3.3 | -0.6 | -7.0 | 0.6 | 2.4 | 11.9 | 8.4 | 7.1 | 2.2 | 3.1 |
| Sales Tax | 10.8 | 14.6 | 1.2 | -11.5 | -4.5 | 0.2 | 11.5 | 10.5 | 8.4 | 0.2 | 4.4 | 4.0 |
| Excise Duty | -2.8 | -16.9 | 0.2 | 0.4 | -10.2 | 0.7 | 10.7 | 9.9 | 4.1 | 0.9 | 0.9 | -1.7 |
| Customs Duty | 4.5 | -4.9 | -1.1 | -19.6 | -2.5 | -0.3 | -4.0 | 6.6 | -12.5 | 2.7 | 9.2 | -2.1 |
| Total Indirect Tax | 2.9 | -3.8 | 0.4 | -7.9 | -6.8 | 0.4 | 8.9 | 9.7 | 3.8 | 0.8 | 3.4 | 0.8 |

Table BII: Real Rate of Change in Commonwealth Government Budget Revenue Items (per cent) – continued

| | 1987-88 | 1988-89 | 1989-90 | 1990-91 | 1991-92 | 1992-93 | 1993-94 | 1994-95 | 1995-96 | 1996-97 | 1997-98(c) | 1998-99(d) |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------------|------------|
| TAXATION REVENUE (continued) | | | | | | | | | | | | |
| Other Taxes, Fees and Fines | 11.4 | -1.0 | -8.6 | 14.5 | -26.1 | -8.2 | 9.4 | 10.2 | 0.0 | 5.7 | 6.1 | 2.3 |
| TOTAL TAXATION REVENUE | 5.1 | 2.3 | 2.2 | -2.2 | -7.4 | 0.3 | 4.2 | 11.3 | 7.1 | 5.5 | 2.6 | 2.6 |
| NON-TAXATION REVENUE | | | | | | | | | | | | |
| Interest Received | -5.6 | -4.6 | -13.1 | -8.7 | -11.8 | -17.9 | -17.9 | -13.6 | -23.8 | -21.7 | -11.5 | 5.7 |
| Dividends and Other | -25.7 | -57.4 | -3.3 | 26.7 | 61.4 | 21.3 | 46.9 | -37.4 | 28.4 | 2.4 | -12.9 | 34.1 |
| TOTAL NON-TAX REVENUE | -14.9 | -26.0 | -10.8 | 0.2 | 11.7 | 0.3 | 18.4 | -30.2 | 8.7 | -4.0 | -12.6 | 27.9 |
| TOTAL REVENUE | 3.3 | 0.2 | 1.5 | -2.1 | -6.5 | 0.3 | 5.0 | 8.5 | 7.2 | 5.1 | 2.0 | 3.4 |

(a) Nominal increases deflated by movements in non-farm GDP deflator.

(b) na denotes change from zero to positive value.

(c) Revised estimate.

(d) Budget estimate.

(e) The Medicare levy was increased from 1.5 to 1.7 per cent for the period from 1 July 1996 to 30 June 1997 to fund the guns buy-back scheme.

Table BIII: Major Categories of Revenue as a Proportion of Gross Domestic Product (per cent)

| | Taxation Revenue | | | | | | | | | | | | | Non-Taxation Revenue | | | Total Revenue | | |
|------------|------------------|-----------------|---------------|-----------|-----------|------------------------|-----|-----------|------------------------|-----------|---------------|-----------|--------------|----------------------|----------|---------------------|-----------------------|---------------|---------------------|
| | Income Tax | | | | | Other Taxation Revenue | | | | | | | | Total Tax Revenue | Interest | Dividends and Other | Total Non-Tax Revenue | Total Revenue | |
| | Individuals | | | | Companies | Superannuation Funds | FBT | Total (c) | Petroleum Products (d) | Other (e) | Total Excises | Sales Tax | Customs Duty | | | | | | Total Other Tax (f) |
| | Gross PAYE (a) | Gross Other (a) | Gross PPS (a) | Total (b) | | | | | | | | | | | | | | | |
| 1987-88 | 11.8 | 3.3 | 0.4 | 14.0 | 2.9 | .. | 0.3 | 17.4 | 2.5 | 0.9 | 3.4 | 2.5 | 1.2 | 7.8 | 25.2 | 1.2 | 0.8 | 2.0 | 27.2 |
| 1988-89 | 12.1 | 2.9 | 0.4 | 14.0 | 3.0 | .. | 0.3 | 17.5 | 2.1 | 0.7 | 2.7 | 2.8 | 1.1 | 7.2 | 24.7 | 1.1 | 0.3 | 1.4 | 26.1 |
| 1989-90 | 11.8 | 2.8 | 0.5 | 13.5 | 3.5 | 0.1 | 0.3 | 17.6 | 2.1 | 0.6 | 2.7 | 2.7 | 1.1 | 7.0 | 24.6 | 0.9 | 0.3 | 1.3 | 25.8 |
| 1990-91 | 11.6 | 3.0 | 0.4 | 13.2 | 3.7 | 0.3 | 0.3 | 17.8 | 2.1 | 0.6 | 2.7 | 2.5 | 0.9 | 6.6 | 24.5 | 0.9 | 0.4 | 1.3 | 25.8 |
| 1991-92 | 11.2 | 2.4 | 0.4 | 12.0 | 3.4 | 0.3 | 0.3 | 16.5 | 1.8 | 0.6 | 2.4 | 2.3 | 0.8 | 6.1 | 22.6 | 0.8 | 0.7 | 1.4 | 24.0 |
| 1992-93 | 11.1 | 2.0 | 0.4 | 11.6 | 3.2 | 0.4 | 0.3 | 16.1 | 1.8 | 0.6 | 2.4 | 2.3 | 0.8 | 5.8 | 21.9 | 0.6 | 0.8 | 1.4 | 23.3 |
| 1993-94 | 10.9 | 2.0 | 0.4 | 11.7 | 2.9 | 0.3 | 0.3 | 15.7 | 2.0 | 0.5 | 2.5 | 2.4 | 0.7 | 6.1 | 21.7 | 0.5 | 1.1 | 1.6 | 23.3 |
| 1994-95 | 11.1 | 2.1 | 0.5 | 11.9 | 3.4 | 0.4 | 0.6 | 16.7 | 2.0 | 0.6 | 2.6 | 2.5 | 0.8 | 6.3 | 23.0 | 0.4 | 0.6 | 1.0 | 24.0 |
| 1995-96 | 11.5 | 2.0 | 0.4 | 12.3 | 3.7 | 0.3 | 0.6 | 17.4 | 2.1 | 0.5 | 2.6 | 2.6 | 0.6 | 6.3 | 23.7 | 0.3 | 0.8 | 1.1 | 24.7 |
| 1996-97 | 11.9 | 2.3 | 0.4 | 12.9 | 3.7 | 0.5 | 0.6 | 18.2 | 2.0 | 0.5 | 2.6 | 2.6 | 0.6 | 6.2 | 24.4 | 0.2 | 0.8 | 1.0 | 25.4 |
| 1997-98(g) | 12.1 | 2.1 | 0.5 | 12.9 | 3.5 | 0.5 | 0.6 | 17.9 | 2.0 | 0.5 | 2.5 | 2.6 | 0.7 | 6.2 | 24.1 | 0.2 | 0.7 | 0.9 | 24.9 |
| 1998-99(h) | 12.3 | 2.0 | 0.5 | 13.0 | 3.5 | 0.5 | 0.6 | 17.9 | 1.9 | 0.5 | 2.4 | 2.6 | 0.6 | 6.1 | 24.0 | 0.2 | 0.9 | 1.1 | 25.0 |

(a) The totals for these categories include Medicare levy collections.

(b) The total for the individuals category includes Medicare levy collections and refunds.

(c) The total for the income tax category also includes refunds, Medicare levy collections, PRRT and withholding tax.

(d) Petroleum products excise includes crude oil and LPG excise.

(e) The 'other' category comprises excise from beer, potable spirits and tobacco.

(f) As well as excises, sales tax and customs duty, 'other taxation revenue' includes other taxes, fees and fines.

(g) Revised estimate.

(h) Budget estimate.

Table BIV: Major Categories of Revenue as a Proportion of Total Revenue (per cent)

| | Taxation Revenue | | | | | | | | | | | | | | Non-Taxation Revenue | | | |
|------------|----------------------|-----------------------|---------------------|--------------|-------------------------|-----|--------------|---------------------------|--------------|------------------|----------------------------|-----------------|---------------------|----------------------|------------------------------|---------------------------|-----------------------------|-----------------------------|
| | Income Tax | | | | | | | Other Taxation Revenue | | | | | | | Total Other Tax (f) | Total Tax Revenue | Dividends and Other | Total Non-Tax Revenue |
| | Individuals | | | | Companies | | | Excises | | | Sales Tax and Customs Duty | | | | | | | |
| | Gross PAYE (a) | Gross Other (a) | Gross PPS (a) | Total (b) | Superannuation Funds | FBT | Total (c) | Petroleum Products (d) | Other (e) | Total Excises | Sales Tax | Customs Duty | Total Tax (f) | Total Tax Revenue | Interest | Dividends and Other | Total Non-Tax Revenue | |
| 1987-88 | 43.2 | 12.0 | 1.3 | 51.3 | 10.8 | .. | 1.1 | 64.0 | 9.2 | 3.4 | 12.6 | 9.3 | 4.5 | 28.5 | 92.5 | 4.4 | 3.0 | 7.5 |
| 1988-89 | 46.5 | 11.3 | 1.6 | 53.5 | 11.6 | .. | 1.1 | 67.1 | 7.9 | 2.5 | 10.4 | 10.6 | 4.2 | 27.4 | 94.5 | 4.2 | 1.3 | 5.5 |
| 1989-90 | 45.5 | 10.8 | 2.0 | 52.2 | 13.5 | 0.4 | 1.2 | 68.2 | 8.0 | 2.3 | 10.3 | 10.6 | 4.1 | 26.9 | 95.2 | 3.6 | 1.2 | 4.8 |
| 1990-91 | 44.8 | 11.6 | 1.7 | 51.2 | 14.4 | 1.1 | 1.3 | 69.3 | 8.2 | 2.4 | 10.6 | 9.5 | 3.4 | 25.8 | 95.0 | 3.4 | 1.6 | 5.0 |
| 1991-92 | 46.8 | 9.8 | 1.7 | 49.9 | 14.4 | 1.2 | 1.4 | 68.9 | 7.7 | 2.5 | 10.1 | 9.7 | 3.5 | 25.2 | 94.1 | 3.2 | 2.7 | 5.9 |
| 1992-93 | 47.7 | 8.8 | 1.8 | 50.0 | 13.7 | 1.6 | 1.4 | 69.0 | 7.7 | 2.5 | 10.2 | 9.7 | 3.5 | 25.1 | 94.1 | 2.6 | 3.3 | 5.9 |
| 1993-94 | 46.8 | 8.6 | 1.9 | 50.2 | 12.6 | 1.2 | 1.4 | 67.3 | 8.5 | 2.2 | 10.7 | 10.3 | 3.2 | 26.0 | 93.3 | 2.0 | 4.6 | 6.7 |
| 1994-95 | 46.1 | 8.6 | 2.0 | 49.5 | 14.1 | 1.7 | 2.5 | 69.4 | 8.5 | 2.3 | 10.9 | 10.5 | 3.1 | 26.3 | 95.7 | 1.6 | 2.7 | 4.3 |
| 1995-96 | 46.4 | 8.3 | 1.8 | 49.6 | 15.0 | 1.3 | 2.5 | 70.2 | 8.4 | 2.1 | 10.6 | 10.6 | 2.6 | 25.4 | 95.6 | 1.2 | 3.2 | 4.4 |
| 1996-97 | 46.7 | 9.0 | 1.7 | 50.7 | 14.6 | 2.0 | 2.4 | 71.6 | 8.1 | 2.1 | 10.1 | 10.2 | 2.5 | 24.5 | 96.0 | 0.9 | 3.1 | 4.0 |
| 1997-98(g) | 48.4 | 8.6 | 1.9 | 51.8 | 13.9 | 2.2 | 2.4 | 71.8 | 8.0 | 2.0 | 10.0 | 10.4 | 2.7 | 24.8 | 96.6 | 0.7 | 2.7 | 3.4 |
| 1998-99(h) | 49.2 | 8.0 | 1.9 | 51.9 | 13.8 | 2.0 | 2.3 | 71.5 | 7.7 | 1.8 | 9.5 | 10.5 | 2.5 | 24.2 | 95.8 | 0.8 | 3.5 | 4.2 |

(a) The totals for these categories include Medicare levy collections.

(b) The total for the individuals category includes Medicare levy collections and refunds.

(c) The total for the income tax category also includes refunds, Medicare levy collections, PRRT and withholding tax.

(d) Petroleum products excise includes crude oil and LPG excise.

(e) The 'other' category comprises excise from beer, potable spirits and tobacco.

(f) As well as excises, sales tax and customs duty, 'other taxation revenue' includes other taxes, fees and fines.

(g) Revised estimate.

(h) Budget estimate.

STATEMENT 6 — BUDGET FUNDING

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STATEMENT 6 — BUDGET FUNDING

This Statement provides information on Commonwealth budget funding.

OUTLOOK FOR 1998-99 AND THE OUT-YEARS

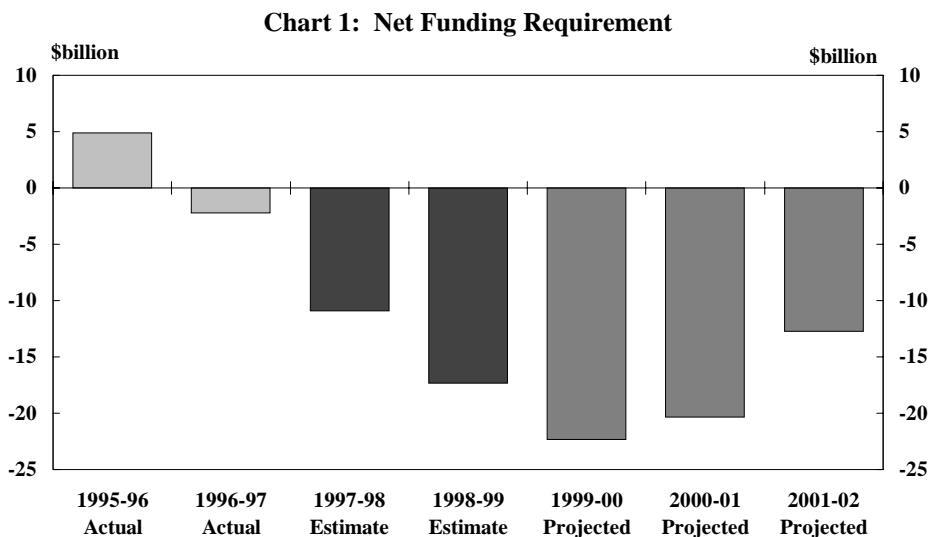
Net Funding Requirement

In 1998-99, the Commonwealth is planning to reduce general government net debt by \$18.3 billion. This is the best outcome ever achieved in Commonwealth financing.

The capacity to reduce net debt arises primarily from the following budget funding transactions: an estimated headline budget surplus of \$18.7 billion, less an estimated \$1.0 billion in payments associated with Commonwealth public trading enterprise superannuation and an estimated \$400 million in net payments associated with other financing transactions.

This negative net funding requirement — an estimated \$17.3 billion in 1998-99 — is the net funds the Commonwealth requires to meet its budget obligations. In the past the net funding requirement has principally arisen from the need to borrow to cover the budget deficit. In this situation the net funding requirement would be positive. Where the budget is in surplus and the government fully funds all its requirements from recurrent revenues it does not have a net funding requirement. In fact the surplus can be applied to reduce debt. In this case the net funding requirement is shown as 'negative'. The net funding requirement determines the Commonwealth's call on capital markets.

Chart 1 depicts the net funding requirement in recent years and that projected for each year out to 2001-02. The net funding requirement is projected to remain negative for each of the out-years: that is Commonwealth budget funding transactions are projected to reduce debt in 1999-00, 2000-01 and 2001-02 by \$22.4 billion, \$20.4 billion and \$12.7 billion respectively.



The cumulative impact of these funding requirements will be a substantial reduction in Commonwealth general government net debt. Commonwealth general government net debt is projected to fall to 1.4 per cent of GDP by end-June 2002. Statements 1 and 2 provide further details of the expected reduction in Commonwealth general government net debt.

At this stage it is not envisaged that Commonwealth Government Securities (CGS) on issue will be reduced by the full extent of the reduction in the level of general government net debt. The Government intends to manage the reduction in CGS on issue in line with the objective of maintaining the liquidity and efficiency of the Commonwealth yield curve. This, in turn, will assist the continued growth and development of the range of important domestic derivative and related markets and is consistent with the Government's commitment to the further development of Australia as a regional financial centre. A range of financial management techniques will be utilised to maintain the desired volume of CGS on issue, while at the same time reducing Commonwealth general government net debt.

Debt Issue Programme for 1998-99

A key objective of the debt issue programme in 1998-99 is to maintain the length of the yield curve and to build and maintain liquidity in key benchmark stocks. The Commonwealth's aggregate debt issue programme for 1998-99 is expected to be around \$4 billion to \$4½ billion.

Within the aggregate programme, Treasury Fixed Coupon Bond issuance is expected to be of the order of \$4½ billion to \$5 billion. As in 1997-98, Treasury Bond issuance will be weighted towards the long end of the curve. To maintain the length of the yield curve and to ensure, in the longer term, a smooth progression of stocks available to move into the ten year bond futures contract, it is planned to issue a new benchmark stock at the long end of the curve sometime in the early part of the new financial year. At this stage, the expectation is that the new benchmark will have a 2011 maturity.

The Commonwealth remains committed to the indexed bond market. A Treasury Indexed Bond issue programme of around \$500 million to \$1 billion is envisaged for 1998-99. As in 1997-98, indexed bond tenders are expected to be conducted on a regular six to eight week cycle in 1998-99.

Treasury Notes will continue to be issued primarily to fund within-year mismatches in expenditure and receipts. It is expected that there will be a run-down in the stock of Treasury Notes on issue of about \$1 billion over the course of 1998-99.

At this stage, no issuance of Treasury Adjustable Rate Bonds (TABs) is planned for 1998-99. Changes to the Prime Asset Ratio requirement have reduced demand for this instrument and domestic interest rate swaps are presently more cost effective than TABs in generating floating interest rate liability exposure for the Commonwealth.

Debt Repurchase Programme for 1998-99

As reductions occur in the stock of CGS on issue, liquidity in CGS will be promoted by concentrating stock on issue in a smaller number of benchmark lines. Consistent with this, there is expected to be a modest programme of early debt repurchases in 1998-99. Details of the programme are yet to be finalised.

EXPECTED OUTCOME FOR 1997-98

Table 1 provides details of the net funding requirement and its financing in each of 1995-96, 1996-97 and the outcome currently expected for 1997-98.

Table 1: Net Funding Requirement Reconciliation

| | 1995-96 Actual \$b | 1996-97 Actual \$b | 1997-98 Estimate \$b |
|--|--------------------------|--------------------------|----------------------------|
| Net Funding Requirement | | | |
| Headline Budget Deficit(a) | 5.0 | -2.6 | -12.8 |
| PTE Superannuation Financing | 1.0 | 1.0 | 1.2 |
| Other Financing(b) | -1.2 | -0.6 | 0.6 |
| Total | 4.9 | -2.2 | -10.9 |
| <i>Met as follows:</i> | | | |
| Debt Issuance^(c) | | | |
| Treasury Fixed Coupon Bond Issuance | 7.8 | 7.0 | 4.5 |
| Treasury Indexed Bond Issuance | 0.6 | 0.8 | 0.7 |
| Treasury Adjustable Rate Bond Issuance | 3.4 | 0.9 | - |
| Treasury Notes (Net Issuance) | 1.1 | -2.0 | 1.6 |
| <i>Sub-total</i> | 12.9 | 6.7 | 6.8 |
| Debt Redemption^(c) | | | |
| Maturing Debt(d) | -6.3 | -5.4 | -11.0 |
| Early Debt Repurchases | -2.5 | -0.7 | -6.8 |
| <i>Sub-total</i> | -8.8 | -6.1 | -17.8 |
| Other | | | |
| Use of Cash Balances(e) | 0.8 | -3.0 | 0.6 |
| Face Value Adjustment(f) | -0.1 | 0.2 | -0.5 |
| <i>Sub-total</i> | 0.8 | -2.8 | 0.1 |
| Total | 4.9 | -2.2 | -10.9 |

(a) Deficits increase the funding requirement; surpluses reduce the requirement.

(b) Includes net subscriptions to the International Monetary Fund, proceeds and payments relating to swap transactions classified as financing transactions and other financing transactions not elsewhere identified.

(c) Based on the face value of securities.

(d) Excludes the refinancing of Treasury Notes.

(e) Cash balances held by the Commonwealth at the Reserve Bank. A negative sign denotes an increase in cash balances.

(f) Adjustment for differences between the face value and cash value of securities.

Net Funding Requirement

The Commonwealth is expected to have a negative net funding requirement of \$10.9 billion for 1997-98, \$5.7 billion greater than estimated at budget time, reflecting:

- an estimated headline budget surplus of \$12.8 billion (at budget time the surplus was estimated to be \$6.4 billion); partly offset by
- \$1.2 billion in payments associated with Commonwealth public trading enterprise superannuation (the same as at budget time); and
- \$0.6 billion in other financing transactions (assumed to be zero at budget time), principally reflecting the payment of monies to the International Monetary Fund (IMF) in respect of a maintenance of value adjustment to Australia's IMF quota and payments in respect of swap cash flows classified as financing transactions.

Debt Issue Programme

The aggregate debt issue programme for 1997-98 is expected to be \$6.8 billion, in line with the programme of around \$6½ billion to \$7½ billion announced at budget time. Within the aggregate debt issue programme:

- Treasury Fixed Coupon Bond issuance is expected to be \$4½ billion (expected to be of the order of \$5 billion to \$6 billion at budget time);
- Treasury Indexed Bond issuance is expected to be of the order of \$700 million (expected to be of the order of \$500 million to \$1 billion at budget time); and
- on an end-year basis a run-up in the stock of Treasury Notes on issue of around \$1.6 billion is expected (no net change was expected at budget time).

In the year to date, eight tenders of Treasury Fixed Coupon Bonds have been held, raising \$4 billion. Issuance has been weighted towards the long end of the curve, consistent with a strategy of maintaining liquidity in established longer-dated benchmark bonds, as well as maintaining the length of the yield curve at around the present 12-13 years. One further tender of Treasury Fixed Coupon Bonds is expected to be held before the end of the current financial year.

Six tenders of Treasury Indexed Bonds have been conducted in 1997-98, raising an aggregate \$600 million. Reflecting the view that greater certainty as to the timing of indexed bond tenders would be beneficial to the further development of the indexed bond market, indexed bond tenders have been conducted on a regular six to eight week cycle in 1997-98. In 1997-98 new issuance has been limited to the 2020 line in order to build up liquidity in this line. Consistent with the six to eight week tender cycle, one further tender of Treasury Indexed Bonds is expected to be held before the end of the current financial year.

Treasury Note issuance in 1997-98, as in prior years, has been directed primarily towards meeting the within-year funding task that arises from day-to-day mismatches in the

timing of outlays and revenue. On an end-year basis, a \$1.6 billion run up in the stock of Treasury Notes on issue is expected.

At this stage, no issuance of Treasury Adjustable Rate Bonds (TABs) is planned for 1997-98. At budget time TABs issuance of around \$1 billion was expected in 1997-98. As noted above, there is reduced demand for this instrument as a result of changes to the Prime Asset Ratio requirement. Moreover, domestic interest rate swaps are presently more cost effective than TABs in generating floating interest rate liability exposure for the Commonwealth.

Debt Repurchase Programme

The Commonwealth's general repurchase strategy in 1997-98 has been to repurchase near to maturity bonds for cash management reasons and to reduce stock on issue in selected benchmark lines with a view to concentrating liquidity in key stocks along the curve. In the year to date, there have been aggregate early repurchases and retirement of debt scheduled for maturity in years beyond 1997-98 of around \$7 billion. At this stage, no further repurchase activity is planned for the remainder of 1997-98.

In 1997-98, early repurchase activity has been concentrated in five established benchmark lines. In face value terms, repurchases of these lines have been as follows:

- August 1998 — \$2505 million;
- March 1999 — \$740 million;
- October 2002 — \$885 million;
- September 2004 — \$760 million; and
- February 2006 — \$1160 million

In addition approximately \$780 million of illiquid lines from the Reserve Bank's portfolio of CGS have been repurchased.

All early repurchases in 1997-98 have been either directly from the Reserve Bank's portfolio of CGS or have been purchased in the market by the Reserve Bank, acting on the Commonwealth's behalf. Stock purchased by the Commonwealth from the Reserve Bank or purchased by the Reserve Bank on the Commonwealth's behalf was sold or onsold to the Commonwealth at market prices.

Full details of the Commonwealth's debt and portfolio management operations in 1997-98, as well as historical data on debt issuance and portfolio composition in previous years, will be presented in the *Commonwealth Debt Management Report* for 1997-98, which is expected to be published in September 1998.

STATEMENT 7 — THE PUBLIC SECTOR

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STATEMENT 7 — THE PUBLIC SECTOR

PART 1: INTRODUCTION

Statement 7 examines trends in the finances of the Commonwealth and State/local levels of government, providing a broader context in which to consider developments in the Commonwealth budget sector. It analyses total public sector finances using underlying deficits and the stock of net debt and net liabilities.

The Statement uses ABS GFS classifications of the non-financial public sector, which provide a consistent basis for comparison. Data are presented both by level of government and institutional sector. The former refers to the distinction between the Commonwealth and the State/local levels while the latter distinguishes between the general government sector and the public trading enterprise (PTE) sector within each main level of government.

- The general government sector, through government departments and agencies, provides public services which are mainly non-market in nature, are mainly for the collective consumption of the community, or involve the transfer or redistribution of income. These services are financed mainly through taxes and other compulsory levies, although other sources of funding such as user charging have increased in recent years.
 - The Commonwealth general government sector extends beyond the budget sector to include non-budget general government authorities such as the ABC.
- The PTE sector comprises bodies which provide goods and services that are mainly market, non-regulatory and non-financial in nature, financed mainly through sales to the consumers of these goods and services. In general, PTEs are legally distinguishable from the governments which own them.

In order to provide a more complete coverage of the public sector, the ABS has decided to extend the scope of GFS to include public financial enterprises (PFEs) with effect from 1998-99. The PFE sector has been shrinking in recent years with the privatisation of government owned banks and insurance offices but still comprises entities such as State home and rural finance schemes, the Reserve Bank of Australia and, from 1998-99, State central borrowing authorities. Since GFS data are not expected to be available until later in 1998, the PFE sector is excluded from the analysis in this Statement.

The historical data used in this Statement have been drawn from GFS publications. Preliminary 1997-98 data and projections for the States were compiled from general government sector information provided by the States for the 1998 *National Fiscal Outlook*, published in March 1998, updated for recent State budgets. Projections for the Commonwealth incorporate the parameter assumptions which underlie the Commonwealth Budget forward estimates.

Consistent with the focus elsewhere in the Budget Papers, this Statement examines trends in underlying rather than headline deficits. By abstracting from net advances — which simply involve the transfer or exchange of a financial asset and therefore have no impact

on government net lending or net worth — the underlying deficit is broadly consistent with the national accounts net lending measure. It thus provides a good estimate of the savings-investment gap for the relevant sector. For the Commonwealth general government sector, net advances mainly comprise the proceeds of equity asset sales and State debt repayments to the Commonwealth.

The underlying deficit differs from the ABS deficit measure by not excluding increases in provisions. This is to maintain consistency with the ABS national accounts treatment of provisions in the public net lending estimates. The difference is further explained in the statistical notes at Appendix B to this Statement.

Underlying deficits do not translate directly into corresponding changes in net debt. This is mainly because the proceeds of equity asset sales, while excluded from the underlying deficit, result in lower borrowing requirements (or repayment of previous borrowings) and therefore lower net debt.

Part II of this Statement examines trends in underlying deficits, outlays and revenue, while Part III discusses movements in net debt and a broader measure of net liabilities.

Appendix A outlines the size and structure of the public sector, including the respective roles of the Commonwealth and State/local governments. Appendix B provides notes on the data used and developments in GFS. Appendix C provides data on public sector revenue, outlays, underlying deficits, net interest outlays and net debt.

BOX 1: UNIFORM PRESENTATION FRAMEWORK

In March 1997, the Australian Loan Council agreed to implement a revised uniform presentation framework (UPF) for Commonwealth, State and Territory financial information.

This framework updates the May 1991 Premiers' Conference uniform presentation agreement to take account of early budgets and to integrate previously separate reporting requirements.

- The primary objective of this agreement is to ensure that a common core of financial information is provided in jurisdictions' budget papers. This is achieved through presenting information on an ABS GFS basis.

Commonwealth, State and Territory governments will continue to report core financial information in their budget papers. However, these reports will be made more forward looking by including three-year forward estimates for the general government sector. Each jurisdiction will also publish a mid-year report taking into account fiscal and economic developments since the commencement of the budget year. These reports will include updated forward estimates for the general government sector and a revised Loan Council Allocation estimate. The full UPF, including the requirement to publish mid-year reports, comes into effect from 1998-99.

- The Commonwealth has published a *Mid-Year Economic and Fiscal Outlook* report, providing information in the UPF format, since 1996-97.

A report setting out the revised UPF is available from the Commonwealth and State Treasuries. The UPF will be reviewed in the light of the ABS's intention to change GFS to an accruals framework from 1999-2000.

From that point, published GFS will consist of a main accrual presentation and a cash based supplement, using derived cash data. In the meantime, the ABS will continue to present annual information on government outlays, revenue and deficits for the Commonwealth, States and Territories in the GFS and *Government Financial Estimates* (GFE) publications (Catalogue Nos. 5512.0 and 5501.0 respectively). The GFS is usually published in April and the GFE in November of each year. Information on public sector financial assets and liabilities is published annually in ABS Catalogue No. 5513.0.

PART II: TRENDS IN PUBLIC SECTOR BALANCES

PUBLIC SECTOR UNDERLYING DEFICIT

Trends in total public sector balances in Australia have largely reflected developments in the Commonwealth budget through its influence on the general government sector. Movements in PTE sector balances have had a smaller effect on the total and tend to be more important at the State/local level which has a relatively large PTE sector.

Chart 1 shows movements in total public sector deficits as a share of GDP and the contributions of the general government and PTE sectors. The total public sector has remained consistently in deficit over recent decades apart from a small surplus in 1988-89. Deficits have been recorded throughout the expansionary phase of the present economic cycle, peaking at 4.5 per cent of GDP in 1992-93. This pattern of deficits has detracted from net lending and hence contributed to the current account deficit.

As shown in Chart 1, the total public sector recorded a small surplus of 0.1 per cent of GDP in 1996-97, with increasing surpluses projected in the period to 2001-02.¹ This improvement reflects the budget measures adopted by the Commonwealth Government under its fiscal consolidation programme.

Chart 1 also shows the declining contribution of the PTE sector to the total public sector deficit, in line with the trend towards corporatisation and privatisation of government businesses that has been increasingly evident since the late 1980s. The PTE sector is expected to contribute to total public sector surpluses over the projection period.

¹ These projections incorporate the parameter assumptions which underlie the Commonwealth Budget forward estimates and information provided by the States for the 1998 *National Fiscal Outlook* and in available 1998-99 State budgets.

Chart 1: Non-financial Public Sector Underlying Deficit by Sector

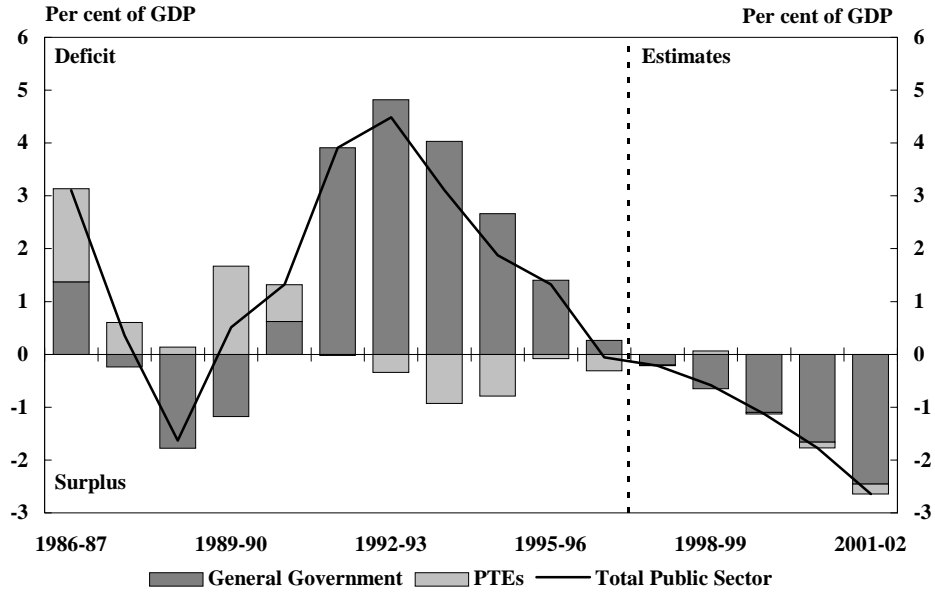


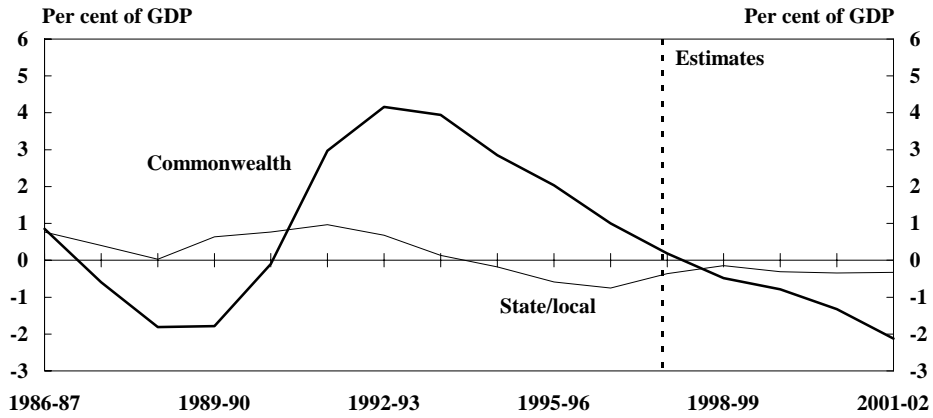
Chart 2 disaggregates the deficits presented in Chart 1 by level of government. It shows the large contribution of past Commonwealth general government deficits to the total public sector deficit. It also illustrates the recent and prospective improvement in the Commonwealth general government sector balance as a result of the Government’s fiscal consolidation programme.

With the State general government sector projected to remain in small surplus and the consolidated PTE sector close to balance, the improvement in the Commonwealth general government sector is expected to drive the improvement in the total public sector surplus to 2.6 per cent of GDP in 2001-02.

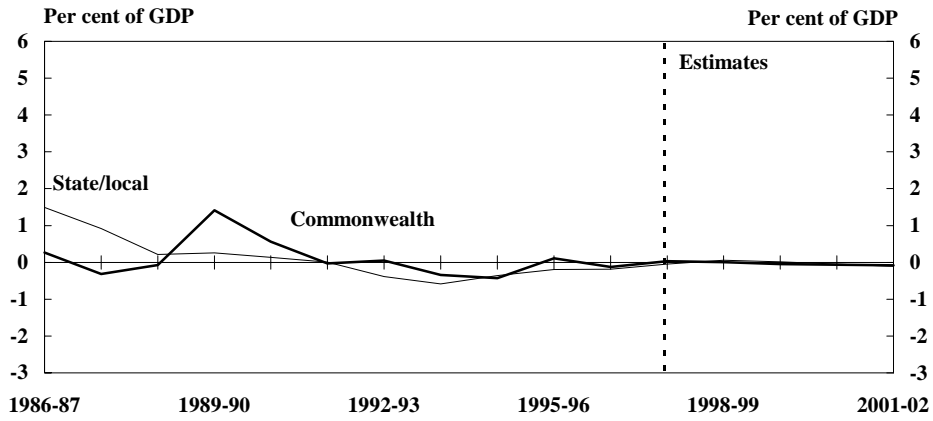
Trends in general government and PTE sector deficits are analysed in more detail in the following sections.

Chart 2: Underlying Deficit by Sector and Level of Government

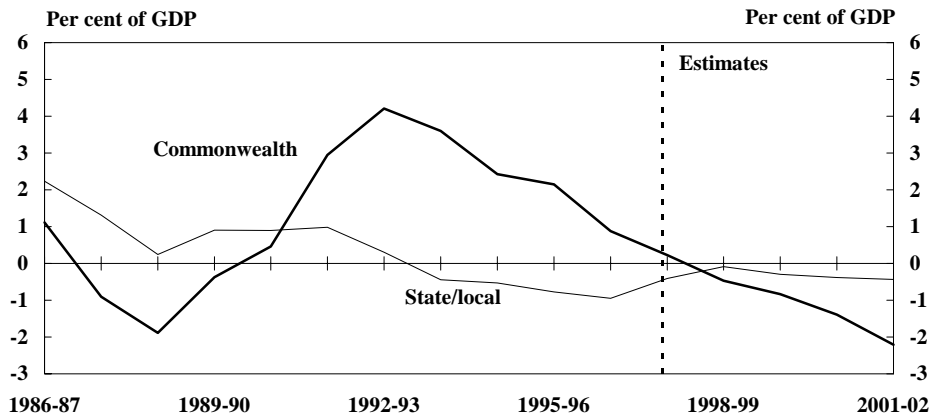
A: General Government



B: Public Trading Enterprises



C: Consolidated



GENERAL GOVERNMENT SECTOR

The general government sector is the appropriate primary focus for any assessment of the impact of the public sector on the national economy. It accounts for around 90 per cent of total public sector revenues and outlays and is the sector through which national governments may seek to affect the level of private sector activity. The increasing commercial orientation of the PTE sector means that it has come to operate more like the private sector. Its contribution to total public sector balances in the current decade has been minor.

Chart 3 shows trends in general government underlying outlays and revenue at the Commonwealth and State/local levels. Panel A indicates the cyclical nature of the Commonwealth's outlays and revenue due to its responsibility for transfer payments and the sensitivity of its revenues to rates of economic growth and movements in prices and incomes. However, the Commonwealth deficits recorded in the first half of the 1990s also reflected structural factors — in particular, the maintenance of high levels of outlays as a share of GDP during the cyclical upturn and the effect on revenues of a low inflation environment and demand shifts affecting the growth of indirect taxes.

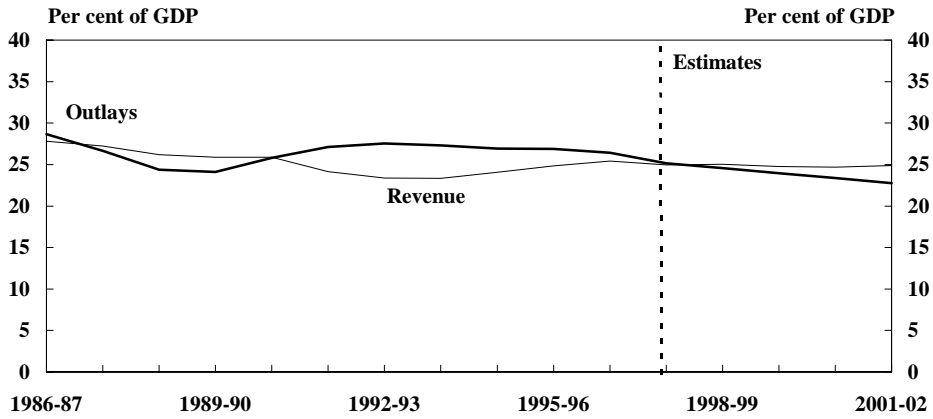
As shown in Panel A of Chart 2, the Commonwealth general government sector is expected to move from a deficit of 2.0 per cent of GDP in 1995-96 to a surplus of 0.5 per cent of GDP in 1998-99, increasing to 2.1 per cent in 2001-02. Panel A of Chart 3 shows that this improvement is being achieved through a reduction in outlays as a share of GDP, from 26.4 per cent in 1996-97 to a projected 22.8 per cent in 2001-02 — the lowest level since the early 1970s. Revenue is expected to remain broadly stable at around 25 per cent of GDP over the same period.

The Government has thus relied predominantly on outlays restraint to achieve fiscal consolidation. This reflects the Government's view that expenditure control holds the key to achieving sustainable improvements in the fiscal position and that scope has existed for rationalising programmes and making government more efficient. The IMF and OECD have found that fiscal consolidation is more likely to be durable and encourage sustained economic growth if it is achieved through outlays restraint rather than tax increases which may discourage private sector activity and be syphoned off into higher spending.

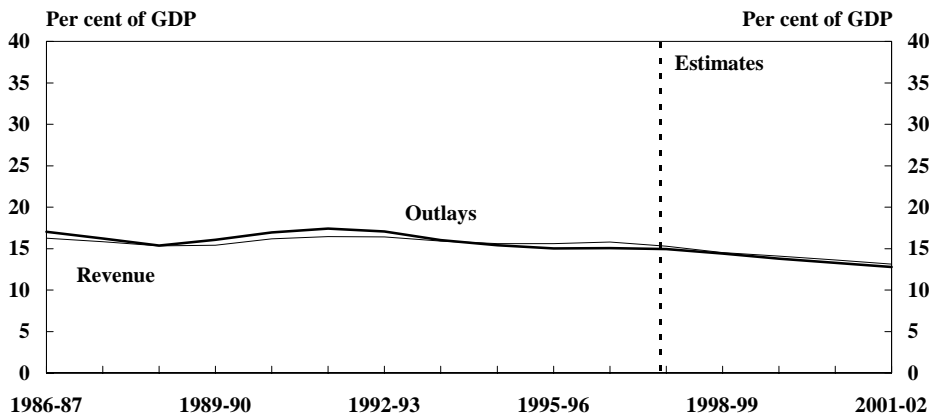
State/local revenue and outlays are less sensitive to the economic cycle than Commonwealth finances. Panel A of Chart 2 shows the sustained improvement in the State/local general government balance achieved in the period 1991-92 to 1996-97, from a deficit of 1.0 per cent of GDP to a surplus of 0.8 per cent of GDP. This improvement has largely reflected outlays restraint, as shown in Panel B of Chart 3. State/local revenue has been broadly stable as a share of GDP, although the 1996-97 outcome was boosted by significant stamp duty and other privatisation-related revenues received by Victoria.

Chart 3: General Government Underlying Outlays and Revenue by Level of Government

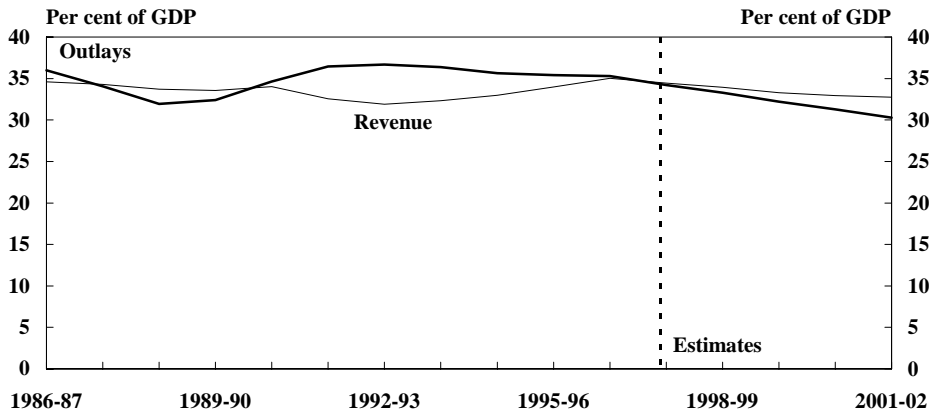
A: Commonwealth



B: State/local



C: Total General Government



The State/local general government sector surplus is expected to decline to 0.4 per cent of GDP in 1997-98, partly reflecting lower privatisation-related revenues.²

The State/local general government sector is expected to record small surpluses over the projection period. As shown in Panel B of Chart 3, outlays are projected to decline as a share of GDP. This is mainly due to restraint in current outlays resulting from improvements in public sector efficiency and interest savings associated with declining net debt. However, some States are facing pressures on current outlays which pose some risk to these projections. Own source revenue is projected to decline as a share of GDP over the outlook period, partly reflecting policies in several States which explicitly seek to restrain tax levels.

All States and Territories have in place fiscal strategies aimed at improving their fiscal positions over the medium term. To the extent that these strategies ensure a continuation of modest aggregate State/local general government surpluses, fiscal consolidation at the Commonwealth level will be fully reflected in improved total public sector balances and net lending.

The Commonwealth and several States have also implemented or are contemplating legislation aimed at enhancing transparency, accountability and certainty in the budget process. The Commonwealth Government's Charter of Budget Honesty lays down principles of sound fiscal management and establishes a framework for communicating fiscal objectives and fiscal reporting while maintaining policy flexibility.

The New South Wales *General Government Debt Elimination Act 1995* incorporates non-binding short, medium and long-term targets relating to general government balances and net debt. Western Australia has introduced fiscal responsibility legislation incorporating a fiscal planning and targeting framework aimed in part at preserving the benefits of past sound financial management.

Panels A and C of Chart 3 show the influence of outlays restraint at the Commonwealth level on total general government outlays and balances. Total general government outlays are projected to fall by more than 6 percentage points from their peak in 1992-93 to 30 per cent of GDP in 2001-02, a level which compares favourably with other OECD countries. This projected decline mainly reflects restraint of current outlays, with capital outlays expected to remain broadly constant over the projection period.

² The projections for the State/local level take no account of planned privatisations which could affect general government underlying balances through the net effect of public debt interest savings and lower dividends, and through one-off stamp duty revenues and tax equivalent receipts.

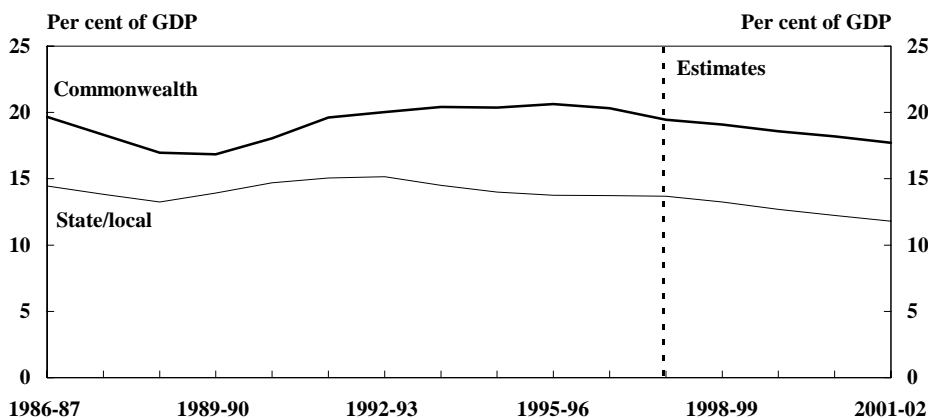
Own Purpose Outlays

Trends in general government own purpose outlays are illustrated in Chart 4. Commonwealth own purpose outlays are defined here as underlying outlays, adjusted mainly to exclude Commonwealth payments to the States other than specific purpose payments made 'through' the States. This differs from the equivalent ABS measure which does not remove all net advances and excludes all payments to the States, including payments 'through'. (The methodology is explained in more detail in Appendix B.) While not without its limitations, the adjusted measure provides a better basis for comparison of relative outlays restraint by the Commonwealth and State/local levels of government.

As shown in Chart 4, Commonwealth general government own purpose outlays increased as a proportion of GDP in the six year period to 1995-96, in contrast to a declining trend for the State/local level from 1992-93.

The projections for the Commonwealth show an expected substantial decline in own purpose outlays as a share of GDP over the period to 2001-02 as a result of the Government's fiscal consolidation measures. A similar decline is expected for the State/local level.

Chart 4: General Government Underlying Own Purpose Outlays



PUBLIC TRADING ENTERPRISE SECTOR

The PTE sector is an important provider of economic infrastructure and contributes significant revenue to general government, mainly in the form of dividends (as discussed in Part III). Whereas the Commonwealth is more significant than the State/local level within the general government sector, the reverse is the case for the PTE sector. This reflects State responsibility for infrastructure and service provision in areas such as electricity, gas and water and public transport.

During the 1980s, the PTE sector contributed significantly to public sector deficits due to high capital spending (particularly within publicly owned electricity businesses) and interest costs associated with increasing debt levels. However, this contribution has been

declining in the 1990s as a result of corporatisation and privatisation policies. There has been greater emphasis on PTE operating efficiency, profitability and market orientation, often as a precursor to privatisation, and governments have rigorously assessed the appropriateness of continued public ownership of business enterprises.

The Competition Principles Agreement between the Commonwealth and the States provides a framework for the consideration of ongoing change within the PTE sector. Among other things, the Agreement: seeks to ensure that government businesses do not enjoy net competitive advantages over private sector competitors as a result of their public ownership; introduces a generalised regime for access to essential infrastructure facilities; and sets out principles to apply to the reform of public sector monopolies.

A recent Reserve Bank of Australia study³ estimates privatisation proceeds so far in the 1990s at about \$61 billion, derived about equally from the sale of enterprises at the Commonwealth and State levels. Among OECD countries, this puts privatisations in Australia second in value to those in the United Kingdom and second in terms of GDP to New Zealand. Australia's privatisations have occurred in three main sectors — financial services (eg Commonwealth Bank, State banks and insurance offices), electricity and gas (eg Victoria's electricity assets), and transport and communications (eg Qantas and the one-third sale of Telstra).

Proceeds of asset sales have been used largely to reduce (or contain the growth of) government net debt, resulting in ongoing savings in public debt interest and reduced exposure to changes in financial market sentiment.

Planned privatisations at both the Commonwealth and State level would add substantially to the value of those undertaken to date. For example, the Commonwealth Government has announced its intention to sell its remaining two-thirds interest in Telstra; New South Wales is considering privatising its power industry and the sale of the NSW TAB is well advanced; Victoria has announced plans to privatise its gas industry; and South Australia and Tasmania propose to sell substantial electricity assets.

As shown in Chart 1, the PTE sector was typically in deficit, reflecting capital investment needs, before moving into surplus in 1991-92. Projections indicate that the sector will be in broad balance over the outlook period, in line with economic growth and continued reform within remaining businesses. These projections take account of the sale of the Government's remaining equity in Telstra.

3 'Privatisation in Australia', Reserve Bank of Australia Bulletin, December 1997.

PART III: PUBLIC SECTOR LIABILITIES

This part examines trends in public sector net debt and other financial assets and liabilities. The level of net debt and debt servicing costs are important indicators of a jurisdiction’s financial position. Governments in Australia facing high levels of net debt as a share of GDP have accorded a high priority to debt reduction in order to reduce the share of current outlays allocated to debt servicing and increase policy flexibility.

TRENDS IN PUBLIC SECTOR NET DEBT

Net debt comprises the stock of selected gross financial liabilities less financial assets, and broadly reflects the cumulative effect of changes in public sector underlying balances. However, the change in net debt does not correspond exactly to the underlying deficit as in particular the proceeds of equity transactions (such as equity asset sales), which reduce the borrowing task, are not included in the underlying balance. Also, changes in net debt may reflect other factors such as revaluations of financial assets and liabilities. The derivation of the net debt estimates used in this Statement is discussed in Appendix B.

Chart 5 shows public sector net debt as a percentage of GDP, and the contribution of the general government and PTE sectors, since the mid 1980s. Charts 1 and 5 together indicate the broad relationship between underlying deficits and net debt levels.

**Chart 5: Public Sector Net Debt by Sector
Outstanding Stock as at 30 June**

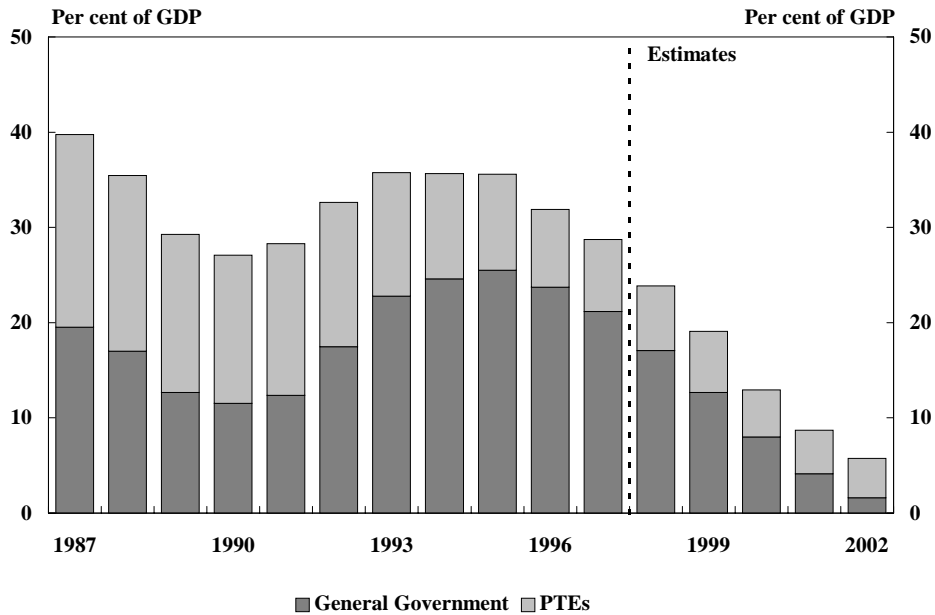


Chart 5 shows the increase in general government net debt as a share of GDP following the last recession, to a level higher than the previous peak in the mid-1980s. This increase reflected the financing of Commonwealth budget deficits that continued into the

cyclical upturn. Also evident from Chart 5 is the decline in PTE sector net debt as a share of GDP since the late 1980s, reflecting lower levels of capital expenditure, improved efficiency and privatisations. This decline moderated the increase in total public sector net debt as a share of GDP in the first half of the 1990s.

The subsequent improvement in the total mainly reflects lower net borrowing requirements for the Commonwealth and the application of privatisation proceeds to debt retirement at both the Commonwealth and State/local levels.

General government net debt as a share of GDP is expected to decline further over the projection period, due mainly to Commonwealth fiscal consolidation and Commonwealth asset sales. No allowance is made for major asset sales announced by the States. PTE sector net debt as a share of GDP is projected to decline slowly, in line with the expected pattern of small PTE sector surpluses. These projections take account of the full sale of Telstra.

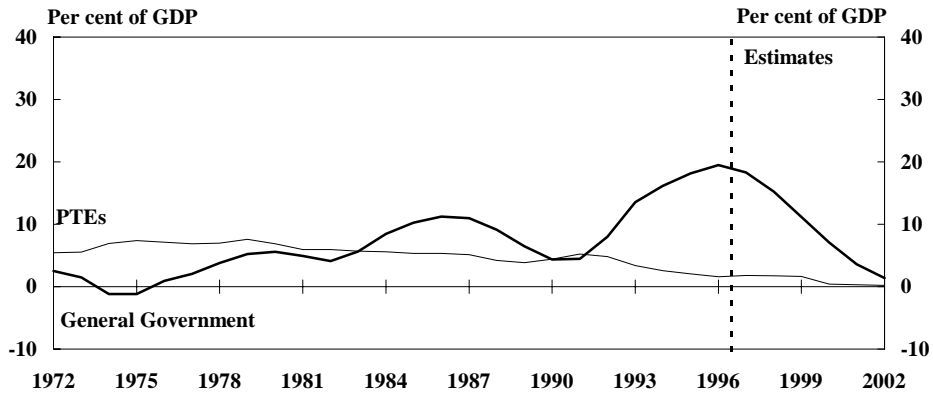
Total public sector net debt is projected at 6 per cent of GDP in 2001-02, compared with the most recent peak of 36 per cent in 1994-95. The application of future privatisation proceeds to debt reduction would see the projected figures further reduced.

Chart 6 shows long run movements in net debt by sector and level of government. Comparisons are hampered by the fact that the distribution of debt across institutional sectors differs between levels of government. Most Commonwealth net debt is owed by the general government sector whereas more than half of State/local net debt is owed by the PTE sector.

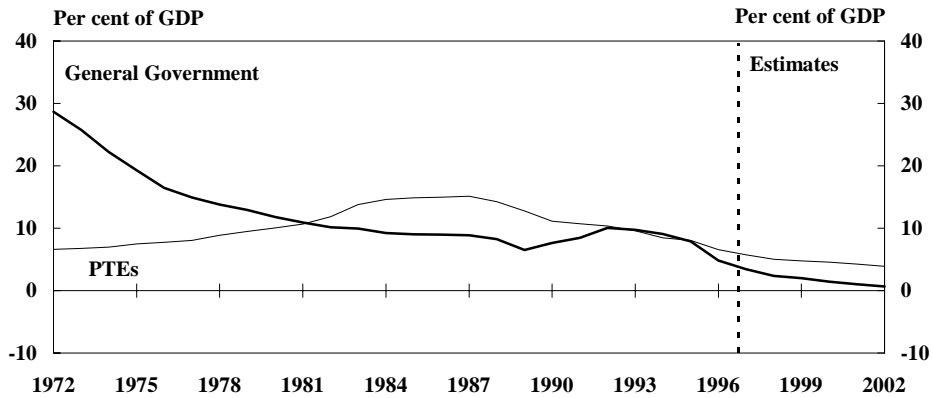
Panel A of Chart 6 shows the ratcheting up of Commonwealth general government net debt as a share of GDP from low levels in the 1970s to a peak of around 20 per cent in 1995-96, with a sharp acceleration in the first half of the current decade.

Chart 6: Public Sector Net Debt by Level of Government and Sector

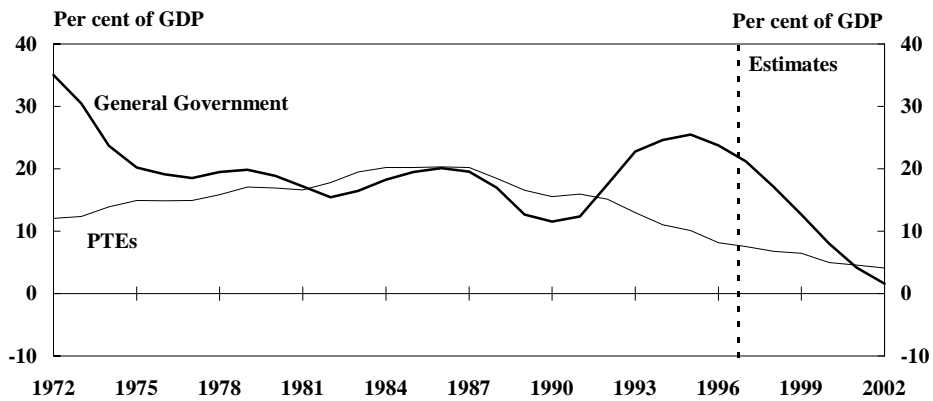
A: Commonwealth



B: State/local



C: Total Public Sector



In contrast, State/local general government net debt has declined from 29 per cent of GDP in 1971-72 to around 3 per cent in 1996-97, as shown in Panel B. The recent trend for the State/local general government sector reflects the impact of the fiscal consolidation undertaken since 1991-92 and asset sales.

The projections for the Commonwealth in Panel A of Chart 6 include the expected impact of measures announced in this Budget. These projections indicate that Commonwealth general government sector net debt will decline from around 20 per cent of GDP in 1995-96 to 3.6 per cent in 2000-01, more than meeting the Government's announced aim of halving the net debt to GDP ratio over this period. This objective would have been met even without the sale of the Government's remaining equity in Telstra. A further reduction to 1.4 per cent of GDP is projected for 2001-02.

State/local general government net debt as a share of GDP should continue to fall in line with implicit or explicit debt reduction programmes contained in the States' medium term fiscal strategies. State/local general government net debt in aggregate is expected to be close to zero by the end of the projection period. However, individual States will continue to face substantial public sector net debt burdens.

Chart 6 shows the major contribution of the Commonwealth to the projected reduction in total public sector net debt from 32 per cent of GDP in 1995-96 to around 6 per cent in 2001-02. Also contributing to this projected outcome are continuing declines in the ratios for the State/local general government sector and the combined PTE sector.

A comparison of Australian general government sector net debt with that of other OECD countries and Australia's major trading partners is included in Budget Statement 1.

NET LIABILITIES

Although net debt is an important indicator, it omits holdings of other financial assets and liabilities which are also relevant to judgements about a jurisdiction's overall financial position. A broader measure, published under the uniform presentation framework, is the excess of total liabilities over financial assets (net liabilities). In addition to net debt, this measure includes items such as unfunded employee entitlements, equity holdings, and accounts receivable and payable.

In particular, unfunded employer contributions to public sector superannuation schemes, accrued long service leave and other employee entitlements are a significant liability for governments. For the Commonwealth general government sector, these unfunded entitlements amounted to \$68 billion at 30 June 1997, or 13.2 per cent of GDP, while those of the States in aggregate totalled \$56 billion or 10.8 per cent of GDP (the figure ranges up to 20 per cent of GSP for individual States).

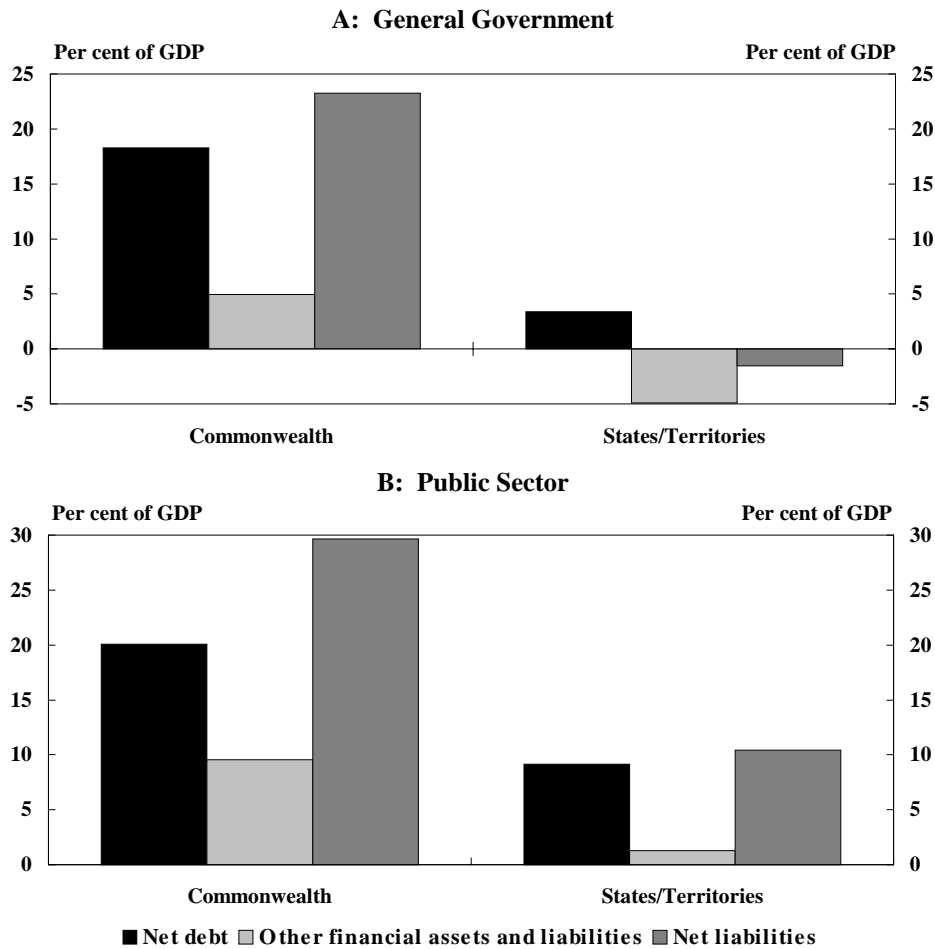
Most governments have in place policies designed to contain the growth of their unfunded superannuation liabilities, either by setting aside funds to cover a portion of future liabilities or by closing entry to existing defined benefit superannuation schemes and introducing less expensive accumulation schemes.

Chart 7 shows net debt and non-debt financial assets and liabilities as a share of GDP for the Commonwealth and State/Territory levels of government at 30 June 1997 (data are

not available at the local government level). Panel A indicates that the State/Territory general government sector is in a small net asset position overall with net debt more than offset by an excess of non-debt financial assets over non-debt liabilities.⁴ This excess mainly reflects the fact that equity holdings are larger than unfunded employee entitlements. In contrast, the Commonwealth has a high level of unfunded employee entitlements and a low level of equity holdings.

Panel B shows the total public sector net liabilities position of the Commonwealth and State/Territory levels. It differs from Panel A in including net debt and other financial assets and liabilities of the PTE sector and excluding the general government sector's holdings of PTE equity.

Chart 7: Financial Assets and Liabilities^(a) at 30 June 1997



(a) The net liabilities of the general government sector can vary significantly over time due to changes in the valuation of PTE equity.

Source: Data provided by the States for the 1998 NFO and unpublished ABS estimates.

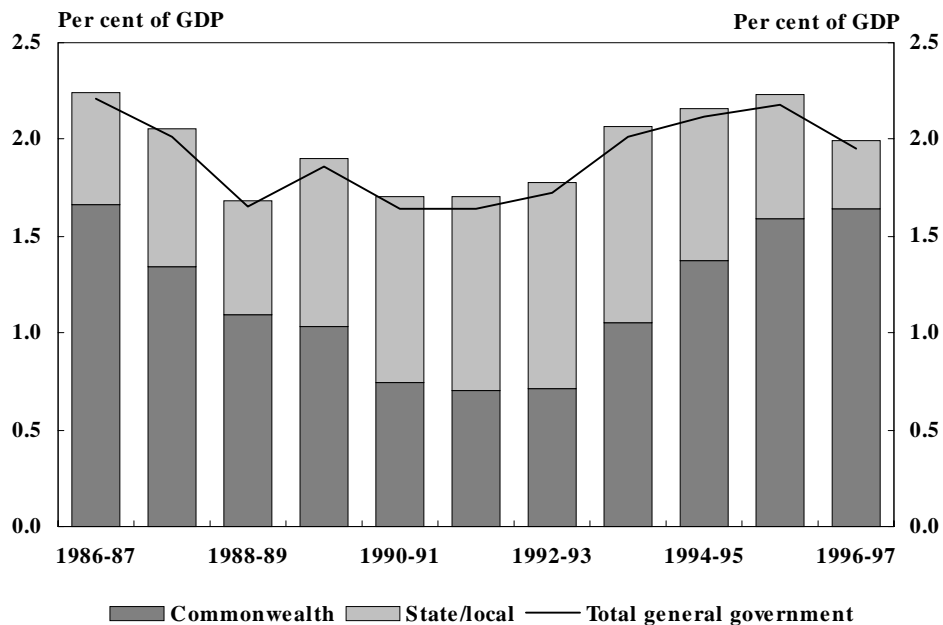
⁴ The combined State/Territory general government position is significantly influenced by Queensland which has a large excess of total financial assets over liabilities.

INTEREST AND DIVIDEND FLOWS ARISING FROM HOLDINGS OF FINANCIAL ASSETS AND LIABILITIES

Net interest outlays are defined as interest payments on gross debt less interest received on loans and advances, and are affected by the volume of net debt on issue and interest rates.

As shown in Chart 8, total general government net interest outlays peaked in 1995-96 at around 2.2 per cent of GDP, a level previously reached in the mid 1980s when both net debt and interest rates were high. The deterioration evident since the early 1990s has mainly reflected the persistence of Commonwealth budget deficits into the expansionary phase of the cycle, offsetting the effects of prevailing low interest rates and lower levels of State/local general government net debt.

Chart 8: General Government Net Interest Outlays



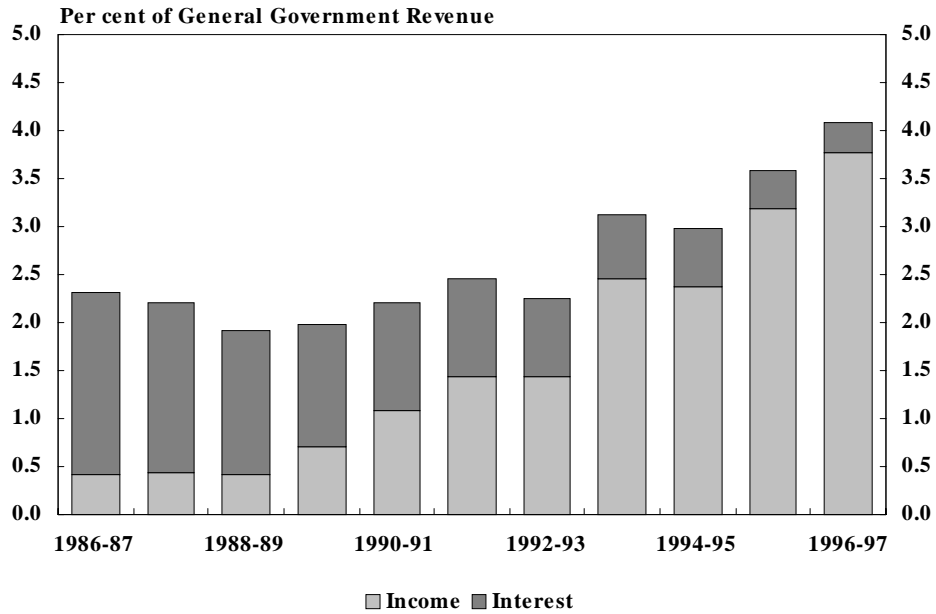
The contribution of the PTE sector to total public sector net interest outlays is now significantly lower than in the mid 1980s, as reduced capital outlays, improved PTE performance and privatisations have reduced PTE sector net debt as a share of GDP.

The PTE sector provides the general government sector (particularly at the State/local level) with significant revenue in the form of dividends and interest payments. The former correspond to general government equity holdings while the latter reflect the stock of general government loans to the PTE sector.

Chart 9 shows the effect of PTE restructuring on these revenue sources. As PTEs have become more commercial and more arm's length to government, they have refinanced general government advances in the market and adopted capital structures and dividend policies more comparable with those applying in the private sector. Privatisations have reduced both dividend and interest payments to the general government sector.

To date, the net effect of these changes has been to increase total payments by PTEs to general government, to just over 4 per cent of general government revenue in 1996-97. Despite privatisations, the PTE sector has paid increasing dividends to its general government owners due to improved PTE profitability and more commercial dividend policies. This has more than offset a decline in PTE interest payments to the general government sector.

Chart 9: Income and Interest Transferred from PTEs to General Government Sector



APPENDIX A: SIZE AND STRUCTURE OF THE PUBLIC SECTOR

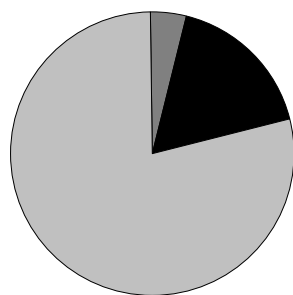
This Appendix provides an overview of the size and structure of the Australian non-financial public sector to assist in interpreting the trends discussed in Parts II and III of the Statement.

As shown in Chart A1, the public sector directly accounts for around 21 per cent of civilian employment and 21 per cent of final domestic demand⁵. The State/local level accounts for about 81 per cent of total public sector civilian employment and 71 per cent of public final demand, reflecting its major responsibilities for service delivery — for example in the areas of education and health — and for infrastructure.

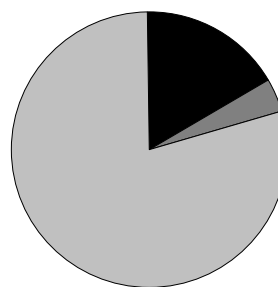
Chart A1: Contribution of Public and Private Sectors

Total employment, August 1997

Domestic Demand, 1996-97



■ Commonwealth
■ State/local
■ Private sector



■ Public final consumption expenditure
■ Public gross fixed capital expenditure
■ Private sector

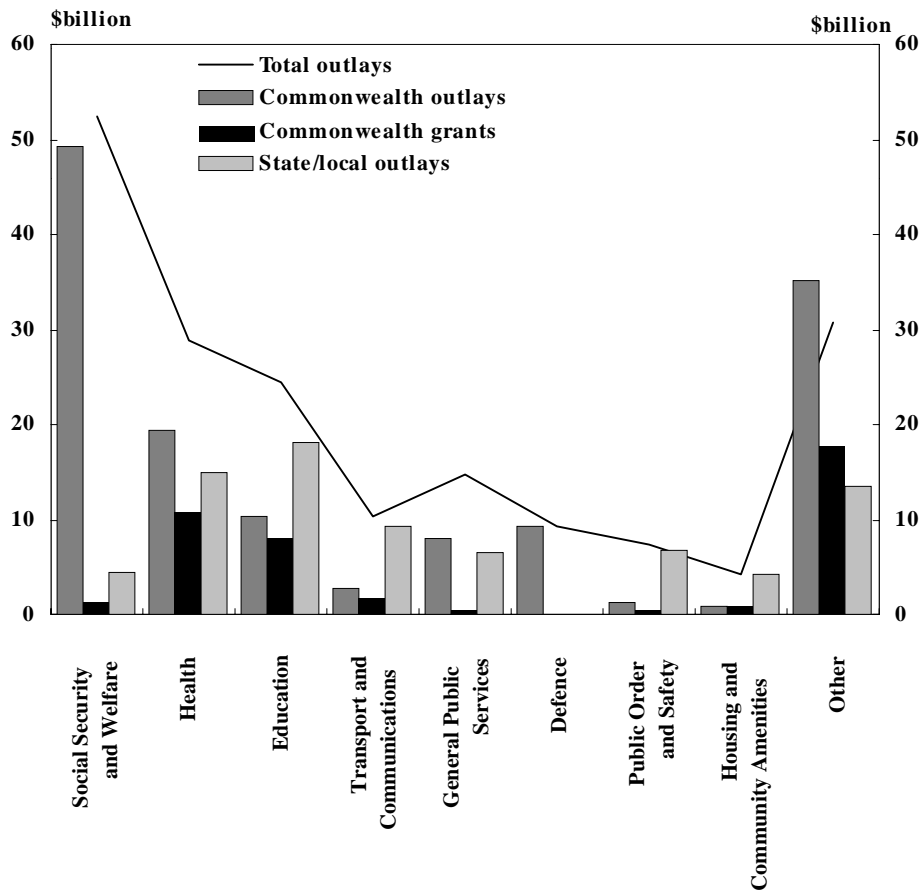
Source: ABS 5206.0 and unpublished ABS data

Within the total public sector, the general government sector is substantially larger than the PTE sector, accounting for some 80 per cent of public sector civilian employment. PTEs at the State/local level account for around 60 per cent of total PTE revenue and outlays, reflecting State responsibility for infrastructure and service provision in such areas as electricity, gas and water, and public transport.

There are significant differences in the roles and responsibilities of the two main levels of government. As shown in Chart A2, major Commonwealth outlays include transfer payments in relation to social security and welfare and health, and defence expenditure. The Commonwealth also has a major role in funding education and health services provided by the States and the private sector. Major State/local outlays are in the areas of education, health, transport, and public order and safety.

⁵ Transfer payments by the Commonwealth — for example, income support — are not included in public final demand.

Chart A2: Commonwealth and State/local General Government Outlays by Major Function, 1996-97



In 1997-98, the Commonwealth is expected to raise 73 per cent of total general government revenue. However, Commonwealth own purpose outlays are expected to directly account for only 60 per cent of total general government outlays. A significant share of Commonwealth revenue is passed on to the State level in the form of grants, which account for 36 per cent of State general government revenue. Further information on inter-governmental transfers is provided in *Budget Paper No. 3*.

APPENDIX B: STATISTICAL NOTES

MEASURES OF THE UNDERLYING DEFICIT

The underlying deficit used throughout this Statement is the headline deficit adjusted for net advances. The latter comprise transactions in financial assets undertaken for policy purposes — ie net policy lending (new policy loans and advances less repayments) and net equity transactions (injections/purchases of equity less equity sales). The underlying deficit is broadly consistent with the net lending concept in the national accounts and thus closely approximates the relevant sector's direct contribution to the national saving/investment imbalance (current account deficit).

To maintain consistency with the net lending concept in the national accounts, the measure of the general government sector underlying deficit used in this Statement is not adjusted for increases in provisions. This is the only source of difference between the measure used here and the ABS general government deficit. It mainly affects the data for the Commonwealth, which makes significant provisions for superannuation payments to the PTE sector.

A GFS table for the Commonwealth general government sector, incorporating an adjustment for the increase in provisions, is presented in Appendix F of Statement 2.

The ABS has traditionally defined the deficit in headline terms (outlays — including net advances — less revenue less increase in provisions). In recent years it has also published an alternative deficit measure — the ABS deficit adjusted for net advances (headline deficit less net advances paid). From the April 1998 issue of *Government Finance Statistics, Australia* (Catalogue No. 5512.0), the ABS deficit is defined as outlays less revenue less increase in provisions, where outlays exclude net advances. (This is achieved by reclassifying net advances from capital outlays to financing transactions.) Although an ABS headline deficit is no longer published, it can be readily derived from published data.

OWN PURPOSE OUTLAYS

The adjusted measure of Commonwealth general government own purpose outlays used in this Statement comprises underlying outlays adjusted mainly to exclude Commonwealth payments to the States other than specific purpose payments made 'through' the States. This differs from the ABS measure which does not remove all net advances and excludes all payments to the States.

More specifically, the ABS measure excludes all payments to other levels of government and PTEs, such as general revenue assistance, specific purpose payments and advances and subsidies, together with interest payments on borrowings undertaken on their behalf. The adjusted measure adds back in to Commonwealth outlays specific purpose payments 'through' the States (other than those for local government purposes) as these payments — for example in the area of higher education — are generally not for State-like purposes. A corresponding adjustment is made to the State/local series. The adjusted measure also removes State fiscal contributions from the data on grants to the States.

The adjusted measures for both the Commonwealth and the State/local levels abstract from all net advances. They are thus consistent with measures of the underlying deficit in, for example, removing the impact of equity asset sales which would otherwise be included as offsets to outlays.

NET DEBT

The net debt series used in this Statement incorporates:

- Treasury estimates for the period 1972 to 1987;
- published ABS data for the period 1988 to 1997 (*Public Sector Financial Assets and Liabilities*, Catalogue No. 5513.0); and
- Treasury estimates for the period 1998 to 2002.

Comparable net debt data have been collected by the ABS only since 1988. Treasury estimates for the period 1972 to 1987 were presented in the 1996-97 and 1997-98 budgets. This series was constructed by deducting estimated annual net borrowing — defined as the ABS headline deficit less net advances — from the ABS measure of the stock of net debt at end June 1988. Net advances include both equity and policy lending transactions. Ideally, the estimates should only abstract from policy lending transactions, since they represent an asset for the lender government. Total net advances were used because separate data on equity transactions were not available. This data limitation is not considered significant, however, as asset sales were relatively small until the late 1980s and are reflected in the ABS net debt series from end June 1988 and in the Treasury projections.

The derivation of the historical net debt series is discussed in more detail in the Spring 1996 edition of the Commonwealth Treasury's *Economic Round-up*.

GOVERNMENT FINANCE STATISTICS

Data used in this Statement recognise two changes decided by the ABS to the GFS coverage of the general government sector.

First, the ABS has reclassified universities from the general government sector of the jurisdiction under which they were established to a separate multi-jurisdictional category within the general government sector⁶, reflecting the role that both State and Commonwealth governments have in their financing and control. Accordingly, in this Statement universities are included in aggregate general government sector data but excluded from data for individual jurisdictions.

Secondly, from 1998-99 the ABS will reclassify State central borrowing authorities (CBAs) from the general government sector to the public financial enterprise (PFE)

⁶ The ABS reclassified universities in the November 1997 issue of *Government Financial Estimates, Australia* (Catalogue No. 5501.0).

sector.⁷ This change recognises that, while CBAs continue to carry out financial intermediation activities on behalf of the general government sector, their role is now broader and more commercial in nature. In line with the new ABS classification, CBAs are excluded from projections of general government deficits and net debt presented in this Statement. However, as consistent adjustments to the historical series are not yet available for all jurisdictions, CBAs are included in the historical data (prior to 1997-98), resulting in a relatively minor break in the data series.

The reclassification of CBAs is being implemented as part of an extension of the scope of GFS to include PFEs in order to provide a more complete coverage of the public sector. This will ensure that CBAs remain within GFS. It will also make GFS consistent in scope with the new accounting standard for whole of government accounts (AAS31). The analysis of the public sector in this Statement excludes PFEs as the ABS will not incorporate PFE information in GFS until later in 1998.

The ABS is in the process of changing the GFS to an accrual framework, with the first accrual GFS publication likely to be available in 1999. This will use data provided by jurisdictions under AAS31 which requires that whole of government financial statements be prepared on an accruals basis from 1999-2000. Published GFS will consist of a main accrual presentation and a cash based supplement, using derived cash data.

⁷ The ABS has indicated that it will implement this change in the 1998-99 issue of *Government Financial Estimates, Australia* (Catalogue No. 5501.0).

APPENDIX C: SUPPLEMENTARY TABLES

Table C1: Public Sector Outlays, Revenue and Underlying Deficit by Institutional Sector as a Percentage of GDP

| | General government | | | Public trading enterprises | | | Consolidated | | |
|-------------------|--------------------|-----------|-----------------------|----------------------------|-----------|-----------------------|----------------|------------|-----------------------|
| | Outlays(a) | Revenue | Underlying deficit(a) | Outlays(a) | Revenue | Underlying deficit(a) | Outlays (a)(b) | Revenue(b) | Underlying deficit(a) |
| 1985-86 | 36.5 | 33.9 | 2.6 | 7.0 | 3.6 | 2.1 | 42.3 | 36.2 | 4.7 |
| 1986-87 | 36.0 | 34.6 | 1.4 | 6.9 | 3.7 | 1.8 | 41.6 | 37.1 | 3.1 |
| 1987-88 | 34.1 | 34.3 | -0.2 | 6.1 | 4.1 | 0.6 | 39.0 | 37.3 | 0.4 |
| 1988-89 | 31.9 | 33.7 | -1.8 | 5.6 | 4.0 | 0.1 | 36.5 | 36.6 | -1.6 |
| 1989-90 | 32.4 | 33.6 | -1.2 | 7.0 | 3.8 | 1.7 | 38.2 | 36.2 | 0.5 |
| 1990-91 | 34.7 | 34.0 | 0.6 | 6.2 | 4.0 | 0.7 | 39.5 | 36.7 | 1.3 |
| 1991-92 | 36.5 | 32.5 | 3.9 | 5.7 | 3.8 | 0.0 | 40.6 | 34.8 | 3.9 |
| 1992-93 | 36.7 | 31.9 | 4.8 | 5.2 | 3.7 | -0.3 | 40.4 | 34.1 | 4.5 |
| 1993-94 | 36.4 | 32.3 | 4.0 | 4.5 | 3.9 | -0.9 | 39.1 | 34.5 | 3.1 |
| 1994-95 | 35.6 | 33.0 | 2.7 | 4.6 | 3.5 | -0.8 | 38.7 | 34.9 | 1.9 |
| 1995-96 | 35.4 | 34.0 | 1.4 | 4.6 | 3.1 | -0.1 | 38.2 | 35.3 | 1.3 |
| 1996-97 | 35.3 | 35.0 | 0.3 | 4.2 | 3.1 | -0.3 | 37.4 | 36.0 | -0.1 |
| 1997-98(e) | na | na | -0.2 | na | na | 0.0 | na | na | -0.2 |
| 1998-99(e) | na | na | -0.7 | na | na | 0.1 | na | na | -0.6 |
| 1999-00(e) | na | na | -1.1 | na | na | 0.0 | na | na | -1.1 |
| 2000-01(e) | na | na | -1.7 | na | na | -0.1 | na | na | -1.8 |
| 2001-02(e) | na | na | -2.5 | na | na | -0.2 | na | na | -2.6 |

(a) The deficit in this table is the underlying deficit outlined in Appendix B. The outlays and underlying deficit measures abstract from net advances.

(b) Components do not sum to totals due to consolidation of transfers between sectors.

(e) Treasury estimates based on available information, including information provided by the States for the 1998 *National Fiscal Outlook*.

Table C2: Public Sector Outlays, Revenue and Underlying Deficit by Level of Government as a Percentage of GDP

| | Commonwealth | | | State/local | | | | Total public sector | | | |
|-------------------|--------------|-------------|-----------------------|-------------|--------------------|-----------------|---------------|-----------------------|----------------|------------|-----------------------|
| | Outlays(a) | Revenue | Underlying deficit(a) | Outlays(a) | Own source revenue | Grants received | Total revenue | Underlying deficit(a) | Outlays (a)(b) | Revenue(b) | Underlying deficit(a) |
| 1985-86 | 30.7 | 27.7 | 2.6 | 21.6 | 9.4 | 8.9 | 18.3 | 2.4 | 42.5 | 36.2 | 4.7 |
| 1986-87 | 30.0 | 28.4 | 1.1 | 21.3 | 9.5 | 8.7 | 18.2 | 2.2 | 41.8 | 37.1 | 3.1 |
| 1987-88 | 28.0 | 28.3 | -0.9 | 19.9 | 9.7 | 8.0 | 17.8 | 1.3 | 39.0 | 37.3 | 0.4 |
| 1988-89 | 25.9 | 27.1 | -1.9 | 18.5 | 10.1 | 7.2 | 17.3 | 0.2 | 36.6 | 36.6 | -1.6 |
| 1989-90 | 26.9 | 26.7 | -0.4 | 19.1 | 10.1 | 7.2 | 17.3 | 0.9 | 38.0 | 36.2 | 0.5 |
| 1990-91 | 27.9 | 26.8 | 0.5 | 19.7 | 10.4 | 7.6 | 17.9 | 0.9 | 39.6 | 36.7 | 1.3 |
| 1991-92 | 28.6 | 24.7 | 2.9 | 20.1 | 10.5 | 7.7 | 18.2 | 1.0 | 41.1 | 34.8 | 3.9 |
| 1992-93 | 29.1 | 24.1 | 4.2 | 19.2 | 10.4 | 7.5 | 17.9 | 0.3 | 40.1 | 34.1 | 4.5 |
| 1993-94 | 28.3 | 24.0 | 3.6 | 17.8 | 10.8 | 6.6 | 17.4 | -0.4 | 38.2 | 34.5 | 3.1 |
| 1994-95 | 28.1 | 24.8 | 2.4 | 17.3 | 10.4 | 6.4 | 16.8 | -0.5 | 38.4 | 34.9 | 1.9 |
| 1995-96 | 28.0 | 25.3 | 2.1 | 16.8 | 10.2 | 6.3 | 16.5 | -0.8 | 35.6 | 35.3 | 1.3 |
| 1996-97 | 27.2 | 25.7 | 0.9 | 16.4 | 10.4 | 6.2 | 16.5 | -0.9 | 35.3 | 36.0 | -0.1 |
| 1997-98(e) | 25.1 | 24.9 | 0.2 | na | na | na | na | -0.4 | na | na | -0.2 |
| 1998-99(e) | 24.6 | 25.0 | -0.5 | na | na | na | na | -0.1 | na | na | -0.6 |
| 1999-00(e) | na | na | -0.8 | na | na | na | na | -0.3 | na | na | -1.1 |
| 2000-01(e) | na | na | -1.4 | na | na | na | na | -0.4 | na | na | -1.8 |
| 2001-02(e) | na | na | -2.2 | na | na | na | na | -0.4 | na | na | -2.6 |

(a) The deficit in this table is the underlying deficit outlined in Appendix B. The outlays and underlying deficit measures abstract from net advances.

(b) Components do not sum to totals due to consolidation of transfers between sectors.

(c) Treasury estimates based on available information, including information provided by the States for the 1998 *National Fiscal Outlook*.

Table C3: General Government Underlying Own Purpose Outlays

| | Commonwealth | | State/local | |
|-------------------|--------------|-----------------|-------------|-----------------|
| | \$m | Per cent of GDP | \$m | Per cent of GDP |
| 1971-72 | 5040 | 12.8 | 4549 | 11.6 |
| 1972-73 | 5790 | 12.9 | 5204 | 11.6 |
| 1973-74 | 6894 | 12.9 | 6242 | 11.6 |
| 1974-75 | 9782 | 15.1 | 8474 | 13.1 |
| 1975-76 | 12323 | 16.1 | 10662 | 13.9 |
| 1976-77 | 14516 | 16.6 | 12040 | 13.7 |
| 1977-78 | 16118 | 16.9 | 13227 | 13.9 |
| 1978-79 | 17636 | 16.3 | 14948 | 13.8 |
| 1979-80 | 19679 | 16.0 | 16649 | 13.5 |
| 1980-81 | 22540 | 16.0 | 19162 | 13.6 |
| 1981-82 | 26486 | 16.7 | 21441 | 13.5 |
| 1982-83 | 31648 | 18.3 | 25025 | 14.5 |
| 1983-84 | 37074 | 18.9 | 28279 | 14.4 |
| 1984-85 | 42726 | 19.7 | 31852 | 14.7 |
| 1985-86 | 47797 | 19.9 | 35459 | 14.7 |
| 1986-87 | 52057 | 19.7 | 38219 | 14.4 |
| 1987-88 | 54853 | 18.3 | 41467 | 13.8 |
| 1988-89 | 57647 | 17.0 | 44997 | 13.2 |
| 1989-90 | 62575 | 16.8 | 51701 | 13.9 |
| 1990-91 | 68688 | 18.0 | 55932 | 14.7 |
| 1991-92 | 76384 | 19.6 | 58652 | 15.1 |
| 1992-93 | 81733 | 20.0 | 61785 | 15.1 |
| 1993-94 | 88308 | 20.4 | 62675 | 14.5 |
| 1994-95 | 93706 | 20.4 | 64476 | 14.0 |
| 1995-96 | 101496 | 20.6 | 67693 | 13.8 |
| 1996-97 | 104858 | 20.3 | 70894 | 13.7 |
| 1997-98(e) | 105674 | 19.5 | na | 13.7 |
| 1998-99(e) | na | 19.1 | na | 13.2 |
| 1999-00(e) | na | 18.6 | na | 12.7 |
| 2000-01(e) | na | 18.2 | na | 12.2 |
| 2001-02(e) | na | 17.7 | na | 11.8 |

(e) Treasury estimates based on available information, including information provided by the States for the 1998 *National Fiscal Outlook*.

Table C4: General Government Net Interest Outlays

| | Commonwealth | | State/local | |
|---------|--------------|-----------------|-------------|-----------------|
| | \$m | Per cent of GDP | \$m | Per cent of GDP |
| 1971-72 | -257 | -0.7 | 428 | 1.1 |
| 1972-73 | -266 | -0.6 | 447 | 1.0 |
| 1973-74 | -306 | -0.6 | 449 | 0.8 |
| 1974-75 | -267 | -0.4 | 471 | 0.7 |
| 1975-76 | -389 | -0.5 | 522 | 0.7 |
| 1976-77 | -162 | -0.2 | 550 | 0.6 |
| 1977-78 | -92 | -0.1 | 122 | 0.1 |
| 1978-79 | 126 | 0.1 | 603 | 0.6 |
| 1979-80 | 291 | 0.2 | 628 | 0.5 |
| 1980-81 | 444 | 0.3 | 795 | 0.6 |
| 1981-82 | 475 | 0.3 | 777 | 0.5 |
| 1982-83 | 654 | 0.4 | 1028 | 0.6 |
| 1983-84 | 1328 | 0.7 | 1338 | 0.7 |
| 1984-85 | 2462 | 1.1 | 1432 | 0.7 |
| 1985-86 | 3626 | 1.5 | 1221 | 0.5 |
| 1986-87 | 4387 | 1.7 | 1547 | 0.6 |
| 1987-88 | 4019 | 1.3 | 2128 | 0.7 |
| 1988-89 | 3722 | 1.1 | 2011 | 0.6 |
| 1989-90 | 3848 | 1.0 | 3224 | 0.9 |
| 1990-91 | 2833 | 0.7 | 3653 | 1.0 |
| 1991-92 | 2739 | 0.7 | 3911 | 1.0 |
| 1992-93 | 2912 | 0.7 | 4336 | 1.1 |
| 1993-94 | 4549 | 1.1 | 4406 | 1.0 |
| 1994-95 | 6310 | 1.4 | 3629 | 0.8 |
| 1995-96 | 7828 | 1.6 | 3131 | 0.6 |
| 1996-97 | 8461 | 1.6 | 1841 | 0.4 |

Table C5: Public Sector Net Debt

| | General government | | | | | | PTE sector | | Total public sector | |
|-------------------|--------------------|-----------------|-------------|-----------------|-----------|-----------------|------------|---------------------|---------------------|-----------------|
| | Commonwealth | | State/local | | Total(a) | | PTE sector | Total public sector | | |
| | \$million | Per cent of GDP | \$million | Per cent of GDP | \$million | Per cent of GDP | | | \$million | Per cent of GDP |
| 1985-86 | 27057 | 11.3 | 21534 | 9.0 | 48345 | 20.1 | 48832 | 20.3 | 97279 | 40.5 |
| 1986-87 | 29030 | 11.0 | 23538 | 8.9 | 51667 | 19.5 | 53484 | 20.2 | 105173 | 39.8 |
| 1987-88 | 27359 | 9.1 | 24710 | 8.2 | 50939 | 17.0 | 55293 | 18.5 | 106231 | 35.5 |
| 1988-89 | 21982 | 6.5 | 22183 | 6.5 | 43080 | 12.7 | 56363 | 16.6 | 99443 | 29.3 |
| 1989-90 | 16121 | 4.3 | 28294 | 7.6 | 42806 | 11.5 | 57794 | 15.6 | 100601 | 27.1 |
| 1990-91 | 16936 | 4.4 | 32188 | 8.5 | 47045 | 12.4 | 60745 | 16.0 | 107790 | 28.3 |
| 1991-92 | 31132 | 8.0 | 39167 | 10.1 | 68053 | 17.5 | 59011 | 15.2 | 127061 | 32.6 |
| 1992-93 | 55218 | 13.5 | 39696 | 9.7 | 92895 | 22.8 | 52895 | 13.0 | 145790 | 35.7 |
| 1993-94 | 69869 | 16.2 | 39246 | 9.1 | 106437 | 24.6 | 47738 | 11.0 | 154174 | 35.7 |
| 1994-95 | 83492 | 18.1 | 36426 | 7.9 | 117356 | 25.5 | 46488 | 10.1 | 163845 | 35.6 |
| 1995-96 | 95831 | 19.5 | 23837 | 4.8 | 116812 | 23.7 | 40136 | 8.2 | 156947 | 31.9 |
| 1996-97 | 94404 | 18.3 | 17820 | 3.5 | 109333 | 21.2 | 39047 | 7.6 | 148379 | 28.7 |
| 1997-98(e) | 82871 | 15.3 | na | 2.4 | na | 17.1 | na | 6.8 | na | 23.8 |
| 1998-99(e) | 64582 | 11.2 | na | 2.0 | na | 12.7 | na | 6.4 | na | 19.1 |
| 1999-00(e) | 43244 | 7.1 | na | 1.4 | na | 8.0 | na | 4.9 | na | 12.9 |
| 2000-01(e) | 23131 | 3.6 | na | 1.0 | na | 4.1 | na | 4.6 | na | 8.7 |
| 2001-02(e) | 9562 | 1.4 | na | 0.7 | na | 1.6 | na | 4.1 | na | 5.7 |

(a) Includes universities