

MID-YEAR ECONOMIC  
AND FISCAL OUTLOOK  
1998-99

STATEMENT BY  
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# MID-YEAR ECONOMIC AND FISCAL OUTLOOK

## FOREWORD

The 1998-99 Mid-Year Economic and Fiscal Outlook (MYEFO) has been drafted in line with the *Charter of Budget Honesty Act 1998*. The Charter requires that, inter alia, the Government provide a report by the end of January each year which provides updated information to allow the assessment of the Government's fiscal performance against its fiscal strategy.

Consistent with these requirements:

- **Part I** provides an overview of the economic and fiscal outlook.
- **Part II** discusses the economic forecasts which underpin the outlays and revenue estimates.
- **Part III** provides details of the fiscal position and the factors influencing outlays and revenue estimates.
- **Appendix A** provides details of decisions taken since the 1998-99 Budget which affect outlays and revenue estimates.
- **Appendix B** provides a detailed description of general and specific risks to the forward estimates.
- **Appendix C** discusses the sensitivity of the forward estimates to changes in economic and other parameters.
- **Appendix D** explains how items have been classified in the MYEFO.
- **Appendix E** provides estimates for the Commonwealth general government sector and Government Finance Statistics (GFS) tables.

The MYEFO provides the first economic forecasts for the 1999-2000 financial year and their effect on the fiscal estimates.

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## NOTES

- (a) The following definitions are used in the MYEFO:
- 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. However, the GFS tables in Appendix E are based on the ABS sign convention, where a negative sign indicates a surplus.
- (e) The following notations are used:
- |         |   |
|---------|---|
| NEC/nec | not elsewhere classified                    |
| -       | 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 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           |

- (g) The title of portfolios are derived from the name of the Department of State listed in the Administrative Arrangements Order. Therefore a portfolio may have a different title from the formal title of the relevant Minister of State. For example:

**Minister**

Prime Minister

Treasurer

Minister for Communications, Information  
Technology and the Arts

**Portfolio**

Prime Minister and Cabinet

Treasury

Communications, Information Technology  
and the Arts

# MID-YEAR ECONOMIC AND FISCAL OUTLOOK

## PART I: OVERVIEW

Australia's economic growth in 1998-99 is now expected to be stronger than forecast in the May 1998 Budget and stronger than forecast in the September 1998 *Pre-Election Economic and Fiscal Outlook* (PEFO).

The forecast of around 3¼ per cent compares with forecasts of 3 and 2¾ per cent respectively. Employment growth is expected to be stronger than PEFO, however, over the course of the year domestic demand is expected to slow which, together with the effects of slow world economic growth, mean that the unemployment rate is expected to remain broadly unchanged. Inflation is expected to increase moderately from historically low levels as higher import prices gradually flow through into retail prices, but to remain within the 2 to 3 per cent band. The current account deficit is expected to increase to around 5½ per cent of GDP, from a little over 4 per cent in 1997-98, reflecting the weaker international environment.

**Table 1: Summary of Budget Aggregates**

	1998-99			1999-00		
	Budget	PEFO	MYEFO	Budget	PEFO	MYEFO
<b>Revenue (\$m)</b>	144258	145243	146203	151299	152119	150632
<i>Per cent of GDP</i>	25.0	25.3	24.9	24.7	25.0	24.3
<b>Underlying Outlays (\$m)</b>	141570	142698	142936	146566	148684	148026
<i>Per cent of GDP</i>	24.6	24.9	24.3	24.0	24.4	23.9
<b>Underlying Balance (\$m)</b>	<b>2688</b>	<b>2545</b>	<b>3267</b>	<b>4733</b>	<b>3435</b>	<b>2607</b>
<i>Per cent of GDP</i>	0.5	0.4	0.6	0.8	0.6	0.4
<i>Memorandum items:</i>						
Net Advances (\$m)	-16027	-5377	-5399	-18772	-12922	-13769
Headline Balance (\$m)	18715	7922	8666	23505	16357	16376
<i>Per cent of GDP</i>	3.2	1.4	1.5	3.8	2.7	2.6
	2000-01			2001-02		
	Budget	PEFO	MYEFO	Budget	PEFO	MYEFO
<b>Revenue (\$m) (a)</b>	160200	143385	142313	171096	153378	152227
<i>Per cent of GDP</i>	24.7	22.2	21.7	24.9	22.4	21.9
<b>Underlying Outlays (\$m)</b>	151586	139419	138893	156508	143004	142811
<i>Per cent of GDP</i>	23.4	21.6	21.2	22.8	20.9	20.5
<b>Underlying Balance (\$m)</b>	<b>8614</b>	<b>3967</b>	<b>3420</b>	<b>14588</b>	<b>10374</b>	<b>9416</b>
<i>Per cent of GDP</i>	1.3	0.6	0.5	2.1	1.5	1.4
<i>Memorandum items:</i>						
Net Advances (\$m)	-12856	-30138	-32793	455	-7182	-8497
Headline Balance (\$m)	21470	34104	36213	14133	17557	17913
<i>Per cent of GDP</i>	3.3	5.3	5.5	2.1	2.6	2.6

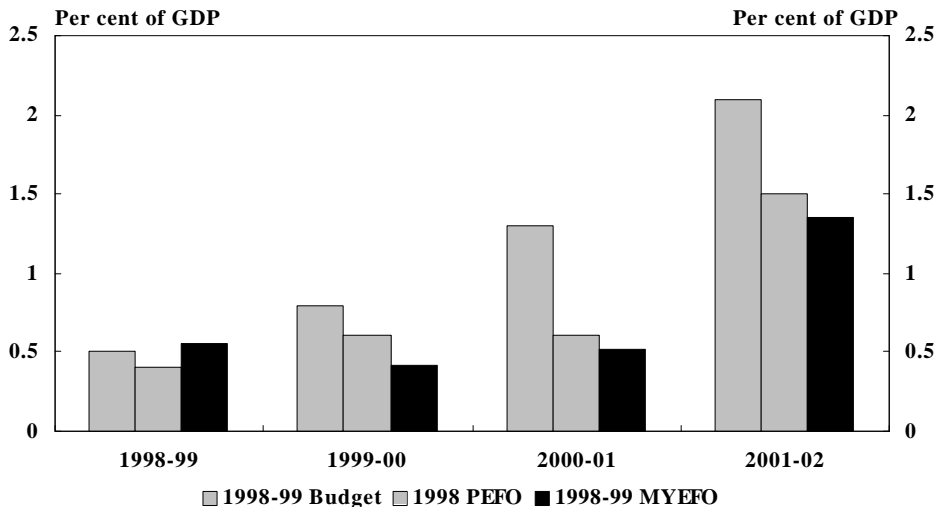
(a) Revenue estimates from 2000-01 reflect the impact of *A New Tax System*, in particular, the income tax cuts and the abolition of the wholesale sales tax. The GST does not have an impact as it is treated as a State/Territory tax.

Economic growth in 1999-2000 is expected to be around 2¾ per cent in year-average terms, although strengthening through the year (3½ per cent in through-the-year terms) reflecting a gradual pick-up in export growth and plant and equipment investment as the world economy strengthens. The expected growth rates demonstrate the impressive performance of the Australian economy in the face of the international slowdown and compare very favourably with the outlook for other developed economies and most economies in the region.

Table 1 and Chart 1 show the current fiscal projections for 1998-99 and the forward estimates period against estimates in the 1998-99 Budget and the September 1998 PEFO.

Compared to the 1998-99 Budget, the higher underlying surplus forecast for 1998-99 reflects higher expected revenue collections more than offsetting an upward revision to outlays in that year. The underlying surpluses in the outyears have been revised downwards since the budget, primarily reflecting the impact of the Government's taxation reform package (*A New Tax System*).

**Chart 1: Underlying Budget Balance Estimates**



The current fiscal outlook remains consistent with the Government's fiscal objective of running the budget in surplus over the forward estimates period while economic growth remains sound. Furthermore, current fiscal settings indicate that the Government remains on track to halve the ratio of Commonwealth general government net debt to GDP from that inherited in 1995-96 over the five years to 2000-01.

Underlying outlays as a proportion of GDP are expected to decline over the forward estimates period to 20.5 per cent of GDP by 2001-02. Similarly, revenue as a proportion of GDP is expected to fall from 24.9 per cent in 1998-99 to 21.9 per cent by 2001-02. These are the lowest shares of GDP projected for both outlays and revenue since 1972-73 and largely reflect the impact of *A New Tax System* (in particular, the abolition of Financial Assistance Grants to the States and Territories, the abolition of wholesale sales tax and the personal income tax cuts).

Large headline budget surpluses are expected over the forward estimates period, reflecting the outlook for the underlying budget balance and asset sale proceeds — most



notably those from the sale of the Commonwealth's remaining equity in Telstra. Compared to budget time, however, the projected headline surpluses have been revised downwards in 1998-99 and 1999-2000 and upwards in the last two outyears. These revisions largely reflect changes to the proposed method and timing of the Telstra sale as well as more recent estimates of its market value.

## PART II: ECONOMIC OUTLOOK

GDP growth is expected to average around 3¼ per cent in 1998-99. This means growth will moderate from very high levels in the first quarter as growth in domestic demand slows and export growth remains below trend in response to continuing slow world economic growth. Nevertheless, growth of around 3¼ per cent compares very favourably with other developed economies and with most countries in the region. This strong economic performance is a reflection of the progress made in microeconomic reform, and sound fiscal and monetary policy.

The forecast easing in domestic demand during 1998-99 reflects a moderation in private consumption growth, slower growth in residential construction and an easing in business investment. Despite significant export diversion away from the troubled Asian economies toward faster growing economies elsewhere in the world, growth in export volumes is expected to remain below trend, particularly for elaborately transformed manufactures and some services. However, a significant slowing in import volume growth is also expected as domestic demand slows and local industries take advantage of the more competitive exchange rate.

GDP growth in 1999-2000 is expected to be around 2¾ per cent in year-average terms. Through the year to the June quarter 2000, growth is expected to strengthen to around 3½ per cent. These forecasts reflect slower growth in public investment, an easing in private non-residential construction and slower growth in housing investment. This is offset by a modest pick-up in export growth and plant and equipment investment as the international outlook gradually improves.

The combination of sound fiscal policy, low interest rates and inflation and an expected moderate pick-up in world growth during 1999-2000 should continue to underpin Australia's favourable economic performance by international standards.

Underlying fragility in financial markets around the world highlights the considerable uncertainty surrounding the economic outlook. At this stage the risks seem to be evenly balanced. There is downside risk to the forecasts from any intensification of the global financial instability that originated in Asia in 1997. At present the enduring strength of the United States' economy is providing a foundation for continued world growth, supported by recent easings in monetary policy. However, there is a risk that US growth could be compromised by a decline in business and consumer confidence in the event of renewed financial market turmoil. On the other hand, low interest rates in many developed economies, including Australia, could provide a strong stimulus to growth, and a competitive exchange rate in Australia could lead to stronger than expected growth in export and import-competing industries.

### **International Economic Developments**

International economic conditions have deteriorated significantly in 1998, with sharp contractions in output evident in Japan and a number of other major Asian economies. In the United States, growth has remained strong throughout 1998. Strengthening has occurred in Europe; however, more recently, sentiment has begun to weaken and some indications of slowing activity have begun to emerge. Increased infrastructure spending in China has resulted in stronger growth in the second half of the year, offsetting the effects of weaker external demand.

**Table 2: GDP Growth for Selected Countries and Groupings<sup>(a)</sup>**

	1996	1997	1998 <sup>(e)</sup>	1999 <sup>(e)</sup>	2000 <sup>(e)</sup>
United States	3.4	3.9	3½	2¼	2½
Japan	5.2	1.4	-3	-¼	1
EMU 11 <sup>(b)</sup>	1.6	2.6	3	2½	2¾
OECD <sup>(c)</sup>	3.3	3.4	2¼	2	2½
World	4.3	4.1	2¼	2½	3¼
East Asian MTP <sup>(d)</sup>	6.9	6.1	-2¾	1	3¾
Total MTP <sup>(f)</sup>	5.2	4.0	-1½	1	2¾

(a) EMU 11, OECD and World GDP growth is calculated using GDP weights. Major Trading Partner (MTP) GDP growth is calculated using Australian merchandise export trade weights.

(b) EMU 11 economies are Germany, France, Italy, Belgium, the Netherlands, Luxembourg, Austria, Spain, Portugal, Finland and Ireland.

(c) OECD economies are the United States, Japan, Germany, France, Italy, the United Kingdom, Canada, Australia, Austria, Belgium, Czech Republic, Denmark, Finland, Greece, Hungary, Iceland, Ireland, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Spain, Sweden, Switzerland and Turkey.

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

(e) Forecasts are Treasury Forecasts.

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

World GDP growth in 1998 is forecast to be around 2¼ per cent, slightly in excess of the IMF's most recent forecast, primarily reflecting developments in the United States and China. Given the relative weakness of activity in the Asian region, output in Australia's major trading partners is expected to decline by 1½ per cent in 1998, well below the rise of 1¾ per cent assumed at budget time.

Such a world growth outcome for 1998 will be slightly stronger than the troughs experienced during previous international economic cycles. However, it appears that any upturn might be more muted than was the case in previous recoveries. In particular, it seems likely that growth in 1999 (at 2½ per cent) will be only marginally stronger than in 1998, though there are likely to be significant changes in the regional composition of growth. Moreover, world economic growth in 2000 (at 3¼ per cent) will also remain below long-term average rates of growth, reflecting ongoing constraining influences of corporate and financial sector restructuring in Japan and the rest of Asia. Over the same period, output in Australia's major trading partners is forecast to rise by 1 per cent and 2¾ per cent, respectively.

A slowing in growth is expected in the United States and Europe, particularly in the former where recent growth rates may have been unsustainably high. Considerable uncertainty about the outlook for the United States arose from financial market developments through September and early October, in particular from increases in interest rate spreads and difficulties in accessing credit, as evidenced in a sharp decline in corporate bond issuances. However, a series of three reductions in official US interest rates — in conjunction with easings in monetary conditions in a number of other developed economies, as well as positive announcements on Brazil and in G7 statements — appears to have calmed financial markets somewhat, resulting in some fall

in interest rate spreads and a resumption of higher levels of debt issuance. Nevertheless, a substantial slowing in the United States, to more sustainable rates of growth, remains in prospect. The weak external environment will continue to detract from growth, and domestic demand growth is likely to slow; weaker profits growth and lower levels of capacity utilisation are expected to dampen business investment growth, and reduced wealth effects should result in lower rates of growth in consumer spending. With core inflation remaining low, the monetary authorities still have flexibility for policy action should circumstances warrant it.

In continental Europe, there have been some recent signs of reduced business confidence and some indications of weakening demand and production growth. Continuing weakness in the external environment, and exchange rate appreciation from levels prevailing in the first half of 1998, will also act as dampening influences on growth. However, some reduction in average interest rates has occurred through convergence toward core rates for monetary union and through the recent coordinated easing by the Euro-11 central banks. Continued low inflation in the core economies provides the scope for some reduction in overall rates during 1999 if economic growth threatens to slow more rapidly than expected. However, the existence of relatively higher rates of inflation in some of the other economies, and the desirability for the new central bank to establish its anti-inflation credentials, will be constraining influences on such policy flexibility.

There is evidence of a pronounced slowing in activity in the United Kingdom. Domestic demand growth is slowing and the external sector remains weak. However, interest rate reductions and some easing in fiscal policy settings should enable a renewed strengthening in growth over the latter stages of 1999.

In addition to the United States and Europe, China has provided an important foundation for world growth in 1998. There were signs of slowing output growth in China in the first half of the year as external demand waned. However, increased infrastructure spending was responsible for a renewed increase in growth in the September quarter 1998, despite the adverse impacts of flooding. This policy stimulus is likely to have been more evident late in the year, and can be expected to underpin activity throughout 1999, maintaining outcomes near to target levels in the short term. However, significant structural issues need to be addressed, and could be a constraining influence on longer-term activity. Some cyclical slowing of growth has been evident in Taiwan, related to developments elsewhere in the region. As in China, stimulatory measures are also being introduced, with a likely impact on activity late in 1998 and throughout 1999.

Japan remains in deep recession, though recent industrial production data indicate some signs of stability appearing. There are also early indications from a recent sharp lift in construction permits that increased public works expenditure is beginning to impact, and can be expected to have a mounting effect over coming months. Nevertheless, uncertainty remains about the overall effectiveness of announced packages, as well as about intentions for future levels of expenditure. In addition, there appears to be few signs that the income tax rebates paid are influencing expenditure patterns, particularly given continuing weak confidence and severe constraints on credit availability. While there have been some more favourable recent developments in relation to financial sector problems, there remain uncertainties about the operational detail of the scheme and the likely speed of implementation. The recent appreciation of the yen, if sustained, could also represent a further significant drag on growth over the coming year. In aggregate,

there could be a further small contraction in output in 1999, following a sharp fall this year, and ongoing structural problems are likely to continue to constrain growth in 2000.

There have been some more positive developments over recent months in the other troubled Asian economies. The earlier sharp contractions in output experienced through late 1997, and during the first half of 1998, appear to be coming to an end in some economies. In addition, increased stability in financial markets has enabled general reductions in interest rates, in most cases to levels at or below pre-crisis outcomes. In many cases, real effective exchange rate movements indicate a sustained boost to external competitiveness. A number of countries in the region have also announced plans to increase public spending, designed to arrest the decline in domestic demand and to alleviate some of the social costs associated with the recession and restructuring process.

Although these measures are likely to contribute to some strengthening in demand over the forecast period, there remain factors that are likely to constrain their effectiveness. Ongoing structural problems in financial sectors, particularly high and rising levels of non-performing loans, are likely to continue to constrain the availability of credit. In some countries, there has been difficulty in meeting increased government expenditure targets, due to inadequate social security administration and some continued reticence to accept the need and desirability for a fiscal stimulus in these circumstances. Finally, continuing weak external demand, constraints on the availability of trade credit financing, and dislocations to production are offsetting the benefits to exports of increased competitiveness. As a result, while an increase in output is expected to occur over the course of 1999, the recovery is likely to be very subdued, implying a further contraction in year-average terms in 1999 and relatively slow growth in 2000. As a result, the level of production in the latter year — in the most affected economies in particular — is unlikely to have returned to pre-crisis levels.

There are, of course, considerable uncertainties continuing to surround the international outlook. One of the more important of these relates to possible developments in world financial markets. Not only has activity been affected by the financial market instability which occurred throughout Asia, but renewed instability in recent months — in response to developments in Russia and Latin America — has resulted in increased risk aversion which has had consequences both for emerging markets and financial sectors in the major industrialised economies. While concerns over these developments have currently receded somewhat, financial market sentiment remains fragile and vulnerable to any signs of inappropriate policies in emerging markets or of systemic problems in major financial sectors. The consequential effects of renewed instability upon capital flows, interest rate premia and overall liquidity could have a significant impact on real sector activity around the world. The possibility of a correction to equity prices continues to be a major risk to prospects for the United States. Another major uncertainty influencing the outlook is the threat that there could be an increase in protectionist sentiment arising from the likely rising imbalance in current account outcomes between major economies.

While uncertainties such as the above are very real, it is also important to recognise that some areas of fundamental strength remain. Outcomes in the United States, for example, continue to surprise on the upside and it is possible that recent structural improvements have resulted in a rise in productivity growth which will enable a continued growth performance in excess of expectations. Some recent positive indications in Japan and some other Asian economies might also suggest that ongoing constraining structural

problems might be less binding than generally assessed, allowing a slightly earlier and stronger rebound than forecast.

## **Domestic Forecasts**

In framing the forecasts for the domestic economy, the exchange rate is assumed, as is usual practice, to remain unchanged from the average levels reached in recent months. The farm sector forecasts for 1998-99 take into account generally wetter than normal seasonal conditions to date, while forecasts for 1999-2000 are based on an assumption of average seasonal conditions in that year.

The Australian Bureau of Statistics has recently revised its procedures for compiling Australia's national accounts, in line with the new international statistical standards contained in the *System of National Accounts 1993*. As a result, the current forecasts for various income and expenditure categories may not be directly comparable with earlier published forecasts. In particular, plant and equipment investment and imports have been substantially affected, although the impacts on GDP are largely offsetting.

## **Domestic Economy — 1998-99**

### ***Demand and Output***

The forecasts for 1998-99 are summarised in Table 3. GDP is expected to grow at 3¼ per cent in 1998-99, above the Budget forecast of 3 per cent and the forecast of 2¾ per cent in the *Pre-Election Economic and Fiscal Outlook*. The upward revision partly reflects the stronger than expected growth recorded in the September quarter 1998 and base effects associated with data revisions to 1997-98. As noted above, changes in the composition of growth largely reflect the recent implementation of revised international statistical standards by the Australian Bureau of Statistics.

The impact of overseas developments on the domestic economy was examined at length in the *1997-98 Mid-Year Economic and Fiscal Outlook*, the *1998-99 Budget Paper No.1* (Statement 2) and the review of the economy in 1997-98 published in the Spring 1998 Treasury *Economic Roundup*.

In summary, the Australian economy has, to date, shown considerable flexibility and strength in the face of sharp downturns in many important export markets. Australian exporters have boosted sales in non-Asian markets, aided by a substantial decline in the exchange rate, with this export diversion being most marked in the commodities sector. Microeconomic and regulatory reforms, and a sound macroeconomic policy framework, have produced a more responsive export sector. Furthermore, Australia's sophisticated, competitive and transparent financial sector has helped insulate the economy from much of the extreme financial market volatility that damaged many regional economies and later spread to emerging markets.

**Table 3: Economic Outlook for 1998-99<sup>(a)</sup>**

	1997-98 Outcomes	1998-99 Budget Forecasts (b)	Revised 1998-99 Forecasts (c)
	Year Average	Year Average	Year Average
<b>Panel A - Demand and Output</b>			
Private consumption	4.5	4	3 1/2
Private investment			
Dwellings	14.6	10	4
Total business investment	9.3	6	-2
Other buildings and structures	15.4	9	-8
Machinery and equipment	6.8	5	0
Private final demand	6.0	5	2 3/4
Public final demand	2.6	2 1/4	6 3/4
Total final demand	5.3	4 1/4	3 1/2
Change in inventories(d)			
Private non-farm	0.1	1/4	0
Farm and public authorities	0.6	0	0
Gross national expenditure	5.9	4 3/4	3 1/2
Exports of goods and services	3.8	2 1/2	1 1/2
Imports of goods and services	9.4	9	3
Net exports(d)	-1.1	-1 3/4	- 1/4
Gross domestic product	4.6	3	3 1/4
Non-farm product	4.8	3 1/4	3 1/2
Farm product	-2.9	-1	3
<b>Panel B - Expenditure excluding Transfers and One-Off Transactions(e)</b>			
Total business investment	9.4	8	1
Public final demand	3.5	1	4 1/4
Change in inventories	0.3	1/2	0
Gross national expenditure	5.7	4 3/4	3 1/2
Exports of goods and services	5.5	2 1/2	2 1/4
<b>Panel C - Other Selected Economic Measures</b>			
Prices and wages			
Consumer Price Index(f)	0.0	2 1/2	2
Gross non-farm product deflator	1.4	3	1 1/4
Average earnings(g)	3.7	4 1/4	4
Labour market			
Employment (Labour Force Survey basis)	1.3	1 3/4	2
Unemployment rate (per cent)	8.3	8	8
Participation rate (per cent)	63.2	63 1/4	63 1/2
External accounts			
Terms of trade(h)	0.0	-1 1/4	-5 1/4
Current account balance			
\$billion	-23.3	-31	-32
Percentage of GDP	-4.1	-5 1/4	-5 1/2

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

(b) Calculated using seasonally adjusted constant price data.

(c) Calculated using seasonally adjusted chain volume data.

(d) Percentage point contribution to GDP growth.

(e) 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, 'lumpy' imports of aircraft, ships and satellites, and the export of an ANZAC frigate.

(f) Budget forecast was on 12<sup>th</sup> series basis and revised forecast refers to the 13<sup>th</sup> series.

(g) Average earnings (national accounts basis).

(h) The Budget forecast was adjusted to exclude computer import prices. The revised forecast is calculated on a chain volume basis and hence is less distorted by computer prices.

**Net exports** are expected to detract from growth in 1998-99, but less so than in 1997-98. Export volumes are expected to grow at a slower rate in 1998-99 than in 1997-98 and well below the longer-term trend rate. However, the slowdown in export volume growth is expected to continue to be cushioned to some extent by the diversion of exports away from the troubled Asian economies. At the same time, a substantial slowing is also expected in import growth, in line with moderating domestic demand and the increased competitiveness of domestic import-competing industries following the decline in the exchange rate over the past year or so.

A weakening in commodity prices (in US dollar terms) has contributed to the decline in the Australian dollar over the past year or so. While the depreciation in the exchange rate has broadly offset the fall in US dollar commodity prices, import prices across the docks have also increased somewhat, with a consequent deterioration in the terms of trade. Nevertheless, the decline in Australia's terms of trade over the past year has been quite small compared with previous international downturns. This is because the relatively slow growth in the world economy, and particularly in the Asian region, has placed downward pressure on world currency prices of some of Australia's key imports, such as motor vehicles. Australia's terms of trade are expected to be around 5 per cent lower in 1998-99 than in 1997-98.

**Private consumption** growth is expected to remain strong in 1998-99, although the pace of growth will not be as rapid as in 1997-98. Private consumption rose 4.5 per cent in 1997-98, following particularly weak growth the previous year. In particular, spending on motor vehicles was very strong in 1997-98 as consumers responded to the very attractive prices on offer.

The positive outlook for private consumption in 1998-99 is consistent with the strong growth in the September quarter and will be underpinned by ongoing solid employment and real wage growth, low interest rates, consumption expenditure associated with the continued strength in the housing sector and a transitory boost from gains to consumers as a result of the AMP Society demutualisation. The results of recent consumer confidence surveys are also favourable, especially with regard to consumers' expectations about their personal financial situation and their apparent willingness to purchase major household items. While consumer sentiment showed some weakness in early 1998 under the influence of media coverage of the Asian economic crisis, it has since rebounded to be a little above its historical average.

Growth in **dwelling investment** is expected to remain solid in 1998-99 in year-average terms, although slowing from that recorded in 1997-98. The apparent peaking in approvals will not be fully reflected in construction activity for some time and activity will also be supported by the higher average value of work per dwelling unit (reflecting an increase in the average size and quality of new dwellings) and solid alterations and additions activity. The overall downturn in the number of dwelling unit approvals is expected to be relatively mild due to the high level of affordability and continuing very low interest rates.

**Business investment** (exclusive of asset sales) is forecast to be relatively flat in 1998-99 after six years of strong growth. While the recent improvements in business confidence, coupled with low nominal and real interest rates and sound corporate profits, provide a supportive investment environment, continued international uncertainty is expected to result in the deferral of some investment plans until the outlook is clearer.



Non-residential construction is expected to be nearing its peak for this cycle, with underlying growth of around 3½ per cent in year-average terms. Work done should be maintained at a high level over 1998-99, supported by work on existing projects in private infrastructure, offices (particularly in the CBD of Sydney) and Olympic-related areas. The latest set of non-residential construction expectations for 1998-99 from the ABS Private New Capital Expenditure Survey implies a solid outlook, as do other partial indicators of activity. The level of work yet to be done remains high for both building and engineering activity with approvals, commencements and finance commitments remaining at supportive levels.

A small contraction is expected in plant and equipment investment (abstracting from asset sales) in 1998-99 after several years of above trend growth. Nevertheless, as a share of GDP, plant and equipment investment is forecast to remain at high levels.

No contribution to growth from **stocks** is expected in 1998-99. The stock-sales ratio fell sharply in 1997-98 as sales growth ran ahead of growth in stocks. The stock-sales ratio appears to have fallen below desired levels in 1997-98. While this suggests that a modest increase in the stock-sales ratio is likely during the course of 1998-99, it is expected to be brought about through slower growth in sales rather than stronger investment in stocks.

Abstracting from asset sales, **public final demand growth** is expected to pick up in 1998-99 as a result of increased investment spending (including Olympics-related construction). The very strong headline growth forecast for public investment in 1998-99 reflects both this underlying investment growth and the impact of major public asset sales in 1997-98 such as the Dampier-Bunbury pipeline in Western Australia and the sale of spectrum by the Commonwealth Government, which acted to depress the headline measure of public investment in that year. Commonwealth investment in 1998-99 is forecast to be well up on its very low 1997-98 level, although still well below its 1996-97 level.

**Gross agricultural product** is forecast to increase by around 3 per cent in 1998-99, compared with the Budget forecast of a small fall. The improved outlook reflects higher crop production, particularly of wheat. Partly offsetting this, wool production is forecast to be lower than expected at Budget as producers continue to respond to low prices.

### *Labour Market*

Employment is expected to increase by around 2 per cent in year-average terms in 1998-99, stronger than expected at Budget, reflecting the upward revision to the economic growth forecast.

Given the growth forecast, the outlook for employment growth and the unemployment rate will hinge on the rate of productivity growth and the participation rate, both of which are subject to considerable uncertainty. A cyclical slowing in productivity is expected after the recent period of very strong growth, consistent with the slowing experienced during the period of slower economic growth around 1995-96. The participation rate is expected to increase slightly in response to the recent improvement in employment opportunities, with the unemployment rate remaining around 8 per cent.

### ***Wages***

On a national accounts basis, wages growth in 1998-99 is expected to be in line with the forecast in the *Pre-election Economic and Fiscal Outlook* and broadly similar to wages growth in 1997-98, despite a very strong September quarter 1998. Over the course of the year, wages growth is expected to moderate slightly, reflecting weaker labour market conditions.

The uncertain external environment presents risks to the wages outlook in both directions. Further external shocks that impact negatively on growth could be expected to moderate wage pressures. On the upside, the prospective modest pick-up in inflation could feed more strongly into wage determination than currently expected. Strong wage rises being paid in some sectors, particularly construction, are less likely to flow through to other sectors. This reflects the impact of the *Workplace Relations Act 1996* and increased flexibility in wage determination arrangements, which ensure that wage rises better reflect the circumstances of individual firms.

### ***Prices***

The inflation rate is expected to rise over the coming quarters, returning to the monetary policy target range and rising to around 2½ per cent through the year to the June quarter 1999.

The forecast rise in inflation during 1998-99 primarily reflects the lagged pass-through into retail prices of the higher import prices over the past year or so, associated with the decline in the Australian dollar against the currencies of the major industrial countries. The year-average forecast for inflation in 1998-99 is lower than in the 1998-99 Budget, despite a lower exchange rate since then, reflecting a number of influences. Slower than expected world growth has depressed the world price of many goods which Australia imports, such as motor vehicles, while widespread domestic competitive pressures have dampened the pass-through of import prices into retail prices.

### ***The Current Account***

The current account deficit is expected to be slightly higher than previously forecast at around \$32 billion, an average of around 5½ per cent of GDP, in 1998-99. This forecast is below previous peaks and is underpinned by a stable domestic economy with a strong fiscal position, low interest rates and low inflation — a contrast to previous episodes of increases in the current account deficit when some or all of these factors led to problems that spilled over into the external sector. In 1998-99, a widening in the trade deficit flowing from weaker net exports and a deterioration in the terms of trade is expected. In addition, the net income deficit is expected to rise modestly in 1998-99 in response to an

increase in Australia's net external liabilities, which is expected to more than offset any positive impact from lower world interest rates.

### **Domestic Economy — 1999-2000**

Growth in 1999-2000 in year-average terms is expected to be around 2¾ per cent, although strengthening gradually through the year, with growth through the year to the June quarter 2000 of around 3½ per cent. The expected gradual recovery in economic conditions in Asia, combined with the effects of continuing low interest rates and a competitive exchange rate, is expected to result in a slight strengthening in exports and plant and equipment investment. This is expected to be partly offset by slower growth in public investment and a fall in private non-residential construction due in part to the winding down of Olympic-related construction, and slower growth in dwelling investment.

Private consumption growth is expected to be similar in 1999-2000 to the previous year but below the very strong growth rate recorded in 1997-98. This reflects a range of factors including: weaker employment growth; the more moderate growth in housing investment, leading to slower sales of housing related consumer items such as furniture and white goods; weaker car sales; and a fading in the boost to consumption from the AMP demutualisation. Working in the opposite direction, the introduction of the Goods and Services Tax on 1 July 2000 is expected to result in some bring forward of consumption expenditure into the latter part of 1999-2000.

Inflation is expected to be around 2½ per cent in year-average terms in 1999-2000, although it could be a little higher in through the year terms in the latter quarters of 1999 as higher import prices eventually feed into retail prices.

The forecasts for 1999-2000 require assumptions about the timing and degree of a turnaround in world economic growth and the resulting confidence effects on Australian investors and consumers. The current episode is complicated by the wide global spread of financial instability, and the severity of the structural problems in a number of countries. Just as for 1998-99, there remains the possibility that stronger world growth, particularly in the US, together with sustained low domestic interest rates and a relatively low exchange rate may provide a greater than anticipated stimulus to growth.

As noted in the Government's paper on taxation reform, circulated in August 1998, the overall effects of the taxation reform package on economic activity during the transition phase surrounding the planned introduction of the GST on 1 July 2000 are likely to be small and dominated by the fiscal stimulus inherent in the package. While some components of activity are likely to be affected to some extent in 1999-2000, the overall impact on activity is expected to be positive but small, with the effects on individual components tending to work in offsetting directions. For example, consumption of currently relatively lightly taxed goods may be brought forward. On the other hand, there could be some deferral of business investment into 2000-01 when wholesale sales tax will be removed from business inputs reducing the cost of investment.

## Medium-term Projections

Table 4 below sets out the major economic parameters used in preparing the revised Budget estimates. The parameters comprise the forecasts for 1998-99 and 1999-2000, and medium-term projections for the following two financial years. The projections for economic growth in the out-years are based on analysis of underlying trends, while the projections for inflation are consistent with the mid-point of the medium-term inflation target band.

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

	Forecasts		Projections	
	1998-99	1999-00	2000-01	2001-02
Real GDP	3 1/4	2 3/4	3 1/2	3 1/2
Employment(a)	2	1 1/4	2 1/4	2 1/4
Wages(b)	4	3 3/4	3 1/2	3 1/2
CPI	2	2 1/2	2 1/2	2 1/2

(a) Labour Force Survey basis.

(b) Average earnings (national accounts basis).

The medium-term projections do not at this stage reflect the price and activity impact of the taxation reform package. International experience indicates that, over the medium term, the GST is unlikely to lead to an increase in inflationary expectations and on-going inflation. In relation to activity, the implementation of the taxation reform package will increase GDP growth over a run of years, compared with what would otherwise be the case. Higher GDP growth has been reflected in the revenue projections in the taxation reform package, but not in other components of the budget at this stage.

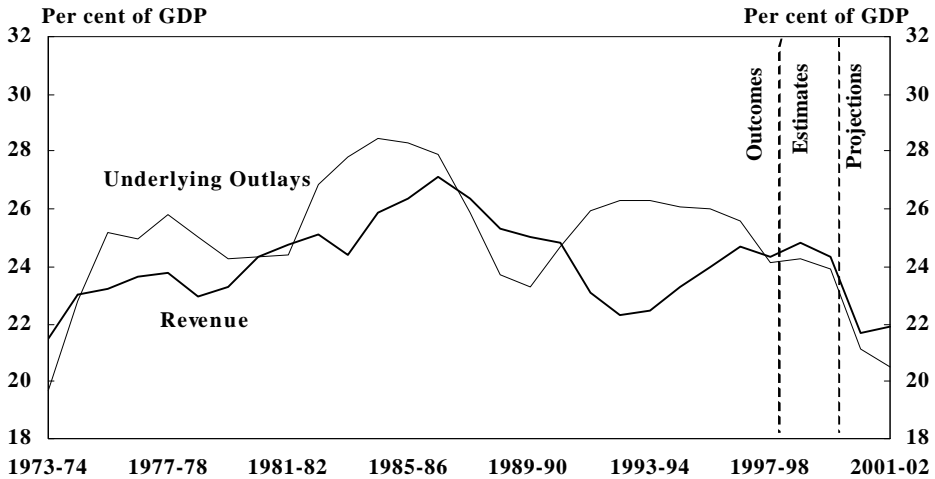
## PART III: FISCAL OUTLOOK

### OVERVIEW

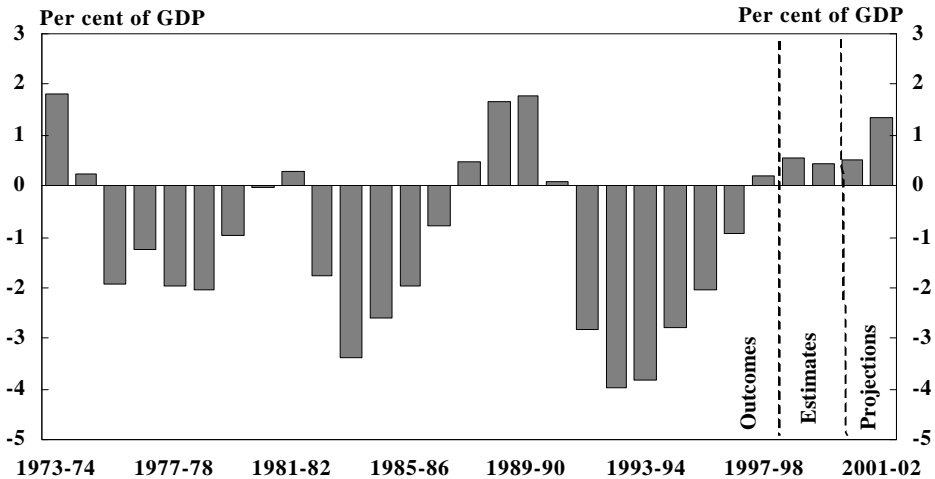
The fiscal outlook over the four years to 2001-02 remains sound. The budget is already in surplus and surpluses are projected to continue over the forward estimates period. In 1998-99, the underlying budget surplus is expected to be \$3.3 billion, an increase from the \$1.2 billion surplus achieved in 1997-98. While the expected surplus in 1998-99 is larger than estimated at the time of the September 1998 PEFO, smaller surpluses are now projected for the outyears compared with the PEFO.

**Chart 2: Underlying Budget Aggregates**

**Panel A: Budget Sector Revenue and Outlays**



**Panel B: Underlying Budget Balances**

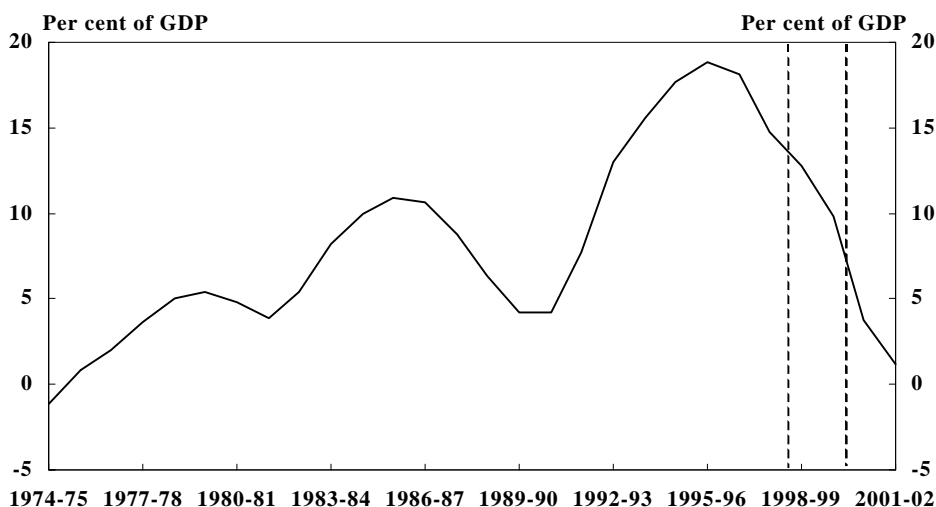


The current fiscal outlook is consistent with the Government's commitment to maintain the budget in surplus while economic growth prospects remain sound. Furthermore, the

current and anticipated surpluses have been achieved primarily through outlays restraint rather than increases in revenue. Following the introduction of *A New Tax System*, underlying outlays as a proportion of GDP are expected to decline to 20.5 per cent by 2001-02, while revenue is expected to decline to 21.9 per cent of GDP over the same period.

The Government is also on target to achieve its five year objective of halving the ratio of Commonwealth general government net debt to GDP from that inherited in 1995-96 (see Chart 3). This is driven by the underlying surpluses in prospect, combined with asset sale proceeds.

**Chart 3: Commonwealth General Government Net Debt<sup>(a)</sup>**



(a) Data for 1987-88 to 1997-98 are from ABS *Public Sector Financial Assets and Liabilities* (Cat. No.5513). These data take into account the reclassification of universities from the general government sector to a separate multijurisdictional 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.

Table 5 provides a reconciliation between the underlying budget balance estimates released at the time of the 1998-99 Budget, the September 1998 PEFO and the 1998-99 MYEFO, identifying the effects of policy decisions and parameter and other variations.

The major revisions to the outyears from the 1998-99 Budget to the PEFO reflect the impact of *A New Tax System*. Since the PEFO, parameter and other variations have been the major source of changes in the budget outlook. These variations improve the budget balance in 1998-99, but reduce the estimated balance in the other three years.

In particular, parameter and other variations since the PEFO result in lower outlays over the forward estimates period. This is primarily due to the combination of regular conservative bias allowance drawdowns from the contingency reserve and lower than expected beneficiary numbers for disability support programmes. On the revenue side, parameter and other variations increase revenue in 1998-99, but reduce revenue over the

forward estimates period. Over the outyears, the impact on revenue from parameter variations more than offsets the impact on outlays.

**Table 5: Reconciliation of Underlying Budget Balance Estimates<sup>(a)</sup>**

	1998-99 \$m	1999-00 \$m	2000-01 \$m	2001-02 \$m
<b>1998-99 Budget underlying balance estimates</b>	<b>2688</b>	<b>4733</b>	<b>8614</b>	<b>14588</b>
<b>(per cent of GDP)</b>	<b>0.5</b>	<b>0.8</b>	<b>1.3</b>	<b>2.1</b>
<b>Changes between 1998-99 Budget and PEFO</b>				
Effect of parameter and other variations				
Underlying outlays	526	-197	-557	-1045
Revenue	982	87	-257	-282
Total	-455	-284	-300	-763
Effect of policy decisions(b)				
Underlying outlays	601	2315	-11611	-12459
Revenue	3	734	-16558	-17435
Total	598	1581	4947	4976
<b>1998 PEFO underlying balance estimates</b>	<b>2545</b>	<b>3435</b>	<b>3967</b>	<b>10374</b>
<b>Changes between 1998 PEFO and MYEFO</b>				
Effect of parameter and other variations				
Underlying outlays	-46	-822	-718	-623
Revenue	981	-1453	-1020	-1073
Total	-1027	631	302	451
Effect of policy decisions				
Underlying outlays(c)	285	164	192	430
Revenue(d)	-21	-34	-53	-77
Total	305	198	245	507
<b>1998-99 MYEFO underlying balance estimates</b>	<b>3267</b>	<b>2607</b>	<b>3420</b>	<b>9416</b>
<b>(per cent of GDP)</b>	<b>0.6</b>	<b>0.4</b>	<b>0.5</b>	<b>1.4</b>

(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. Totals may not sum due to rounding.

(b) Includes total budgetary cost of *A New Tax System* (including the PDI effects of *A New Tax System*). For all other policy decisions, PDI effects are included in parameter and other variations.

(c) Includes the PDI cost of policy measures.

(d) Includes the interest revenue impact of policy measures.

Major policy decisions taken in the period from the 1998-99 Budget to PEFO include:

- measures announced in *A New Tax System*, including substantial reductions in total revenue and outlays;
- funding from the *Telstra Social Bonus* to upgrade telecommunications infrastructure in remote Australia to facilitate the abolition of the pastoral call rate, and increase funding for *Networking the Nation* (\$210 million over four years);
- additional funding provided to the States under the Australian Health Care Agreements of \$724 million over three years; and

- additional funding for the Australian Federal Police of approximately \$65 million over three years.

Major policy decisions taken from the PEFO to 13 December 1998 include:

- one-off funding for the Victoria Emergency Fund of \$100 million in 1998-99;
- increased funding for Catholic schools of around \$444 million over four years;
- additional funding for the Strategic Partnerships — Industry Research and Training Scheme of approximately \$60 million over three years;
- additional funding of \$250 million in 2001-02 from the *Telstra Social Bonus* for the Natural Heritage Trust; and
- funding from the *Telstra Social Bonus* to establish up to 500 rural transaction centres, further increase funding for the *Networking the Nation* regional telecommunications programme, and additional Television Fund Initiative expenditure (\$163 million over four years).

A full description of all policy decisions taken since the 1998-99 Budget can be found in Appendix A.

Appendix B sets out a Statement of Risks which details potential factors which could materially affect the fiscal outlook. One important 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 in economic parameters is provided in Appendix C.



## OUTLAYS

Table 6 provides estimates of budget sector outlays for 1998-99 to 2001-02.

**Table 6: Estimates of Budget Sector Outlays**

	1998-99		1999-00	
	Budget	MYEFO	Budget	MYEFO
<b>Underlying Outlays (\$m)</b>	<b>141570</b>	<b>142936</b>	<b>146566</b>	<b>148026</b>
<i>Per cent of GDP</i>	<i>24.6</i>	<i>24.3</i>	<i>24.0</i>	<i>23.9</i>
Net Advances (\$m)	-16027	-5399	-18772	-13769
Outlays (\$m)	125543	137537	127794	134256
<i>Per cent of GDP</i>	<i>21.8</i>	<i>23.4</i>	<i>20.9</i>	<i>21.7</i>
	2000-01		2001-02	
	Budget	MYEFO	Budget	MYEFO
<b>Underlying Outlays (\$m)</b>	<b>151586</b>	<b>138893</b>	<b>156508</b>	<b>142811</b>
<i>Per cent of GDP</i>	<i>23.4</i>	<i>21.2</i>	<i>22.8</i>	<i>20.5</i>
Net Advances (\$m)	-12856	-32793	455	-8497
Outlays (\$m)	138730	106100	156963	134314
<i>Per cent of GDP</i>	<i>21.4</i>	<i>16.2</i>	<i>22.8</i>	<i>19.3</i>

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

- in real terms, increase in 1998-99 and 1999-2000, decline in 2000-01 reflecting the impact of *A New Tax System* and remain broadly unchanged in 2001-02; and
- decline from 24.3 per cent of GDP in 1998-99 to 20.5 per cent of GDP in 2001-02, again largely reflecting the impact of *A New Tax System*.

Table 7 reconciles the underlying outlays estimates between the 1998-99 Budget, the 1998 PEFO and the 1998-99 MYEFO in terms of policy decisions and parameter and other variations.

**Table 7: Reconciliation of Changes to Budget Sector Underlying Outlays Since the 1998-99 Budget**

	1998-99 \$m	1999-00 \$m	2000-01 \$m	2001-02 \$m
<b>Underlying outlays at 1998-99 Budget</b>	<b>141570</b>	<b>146566</b>	<b>151586</b>	<b>156508</b>
<b>Changes from 1998-99 Budget to PEFO</b>				
Policy decisions(a)	601	2315	-11611	-12459
Revisions to economic parameters	-23	348	-29	-312
Programme specific parameters	101	-125	-173	-235
Slippage in 1998-99 Budget decisions	5	..	..	..
Other revisions	444	-420	-355	-498
Sub-total: programme specific parameter and other va	549	-545	-528	-733
Total parameter and other variations	526	-197	-557	-1045
Total variations	1127	2118	-12168	-13504
<b>Underlying outlays at 1998 PEFO</b>	<b>142698</b>	<b>148684</b>	<b>139419</b>	<b>143004</b>
<b>Changes from 1998 PEFO to MYEFO</b>				
Policy decisions(b)	285	164	192	430
of which public debt interest impact of measures	4	-3	10	15
Revisions to economic parameters				
Unemployment benefits	-90	212	167	145
Prices and wages	-137	-497	-277	-294
Interest and exchange rates	9	-104	-54	-49
Public debt interest	38	-204	-54	634
Sub-total: revision to economic parameters	-180	-593	-218	435
Programme specific parameters	-161	-175	-177	-188
Slippage in 1998-99 Budget decisions	-15	..	..	..
Other revisions	309	-53	-322	-870
Sub-total: programme specific parameter and other va	134	-229	-499	-1058
Total parameter and other variations	-46	-822	-718	-623
Total variations	238	-658	-526	-193
<b>Underlying outlays at 1998-99 MYEFO</b>	<b>142936</b>	<b>148026</b>	<b>138893</b>	<b>142811</b>

(a) Includes PDI effects of *A New Tax System*. For all other policy decisions, PDI effects are included in parameter and other variations.

(b) Includes PDI impact of revenue and outlays measures.

Since the 1998-99 Budget, the estimates of underlying outlays have increased for 1998-99 and 1999-2000 and declined significantly for the remaining outyears.

Variations in outlays estimates since the 1998-99 Budget have largely been driven by policy decisions. This primarily reflects *A New Tax System*, which has:

- increased outlays by \$0.3 billion and \$1.9 billion in 1998-99 and 1999-2000 respectively; and
- reduced outlays by \$11.9 billion and \$12.7 billion in 2000-01 and 2001-02 respectively (due mainly to the abolition of Financial Assistance Grants to the States/Territories).

Parameter and other variations since the budget increase underlying outlays in 1998-99 and reduce underlying outlays in the outyears.

Revisions to economic parameters since the budget include an increase in the number of unemployment beneficiaries (including through a technical adjustment for those unemployed persons previously receiving Youth Training Allowance and now receiving Youth Allowance); a weaker exchange rate; and a reduction in public debt interest costs relative to the 1998-99 Budget estimates.

Downward revisions to program specific parameters over the four years to 2001-02 principally reflect lower average rates and forecast client numbers for a range of Disability Support Pensions and allowances.

Other revisions increase underlying outlays in 1998-99, but reduce outlays over the forward estimates period.

- Increased underlying outlays in 1998-99 largely reflects 'carryovers' of underspends from 1997-98 into 1998-99, and the upfront cost associated with the downsizing of Centrelink.
- Reduced underlying outlays in the outyears are due primarily to a drawdown of the conservative bias allowance in the Contingency Reserve, partly offset by, among other things, increased aged care due to revised demographic and eligibility criteria.

### **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, is included as part of the contingency reserve in the forward estimates at the beginning of each budget year. It is then gradually reduced as the year progresses so that the budget year conservative bias allowance is zero.

**Table 8: Policy Decisions taken since the 1998-99 Budget<sup>(a)</sup>**

	1998-99 \$m	1999-00 \$m	2000-01 \$m	2001-02 \$m
<b>AGRICULTURE, FISHERIES AND FORESTRY</b>				
<i>Measures introduced up to the 1998 PEFO</i>				
Sugar Industry Assistance Package	3.2	4.4	3.9	2.8
Pork Industry Assistance Package	6.0	1.5	0.5	-
East Gippsland floods - grant to Victorian Farmers Federation for fodder transport	0.1	-	-	-
Loxton Irrigation Area Water System - refurbishment	0.8	-	-	-
Drought Exceptional Circumstances Assistance - Duaringa, Monaro C and Cobbar/Wilcannia	3.3	3.2	0.1	-
<i>Measures introduced since the 1998 PEFO</i>				
Drought Exceptional Circumstances Assistance - Wentworth and Broken Hill areas	1.3	1.4	0.2	-
Savings from the Rural Adjustment Scheme to offset the grant to the Victorian Farmers Federation for fodder transport to East Gippsland	-0.1	-	-	-
Costs associated with the privatisation of the Wool International stockpile	0.5	-	-	-
<b>Total</b>	<b>15.1</b>	<b>10.5</b>	<b>4.7</b>	<b>2.8</b>
<b>ATTORNEY-GENERAL'S</b>				
<i>Measures introduced up to the 1998 PEFO</i>				
Child Support - pilot services to assist parents when contact orders are made	0.4	0.6	0.6	-
Australian Federal Police - resourcing needs and reform programme	27.4	21.9	16.0	-
<b>Total</b>	<b>27.8</b>	<b>22.5</b>	<b>16.6</b>	<b>0.0</b>
<b>COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS</b>				
<i>Measures introduced up to the 1998 PEFO</i>				
National Gallery of Australia - building repairs	0.6	-	-	-
Telstra Social Bonus - upgrade of the telecommunications infrastructure in remote Australia to facilitate the abolition of pastoral call rate	-	50.0	50.0	50.0
Telstra Social Bonus - increased funding for Networking the Nation	-	20.0	20.0	20.0
<i>Measures introduced since the 1998 PEFO</i>				
Telstra Social Bonus - further increased funding for Networking the Nation	-	7.0	7.0	7.0
Telstra Social Bonus - Television fund initiative	-	24.0	24.0	24.0
Grant to John Saunders Foundation	1.0	-	-	-
Australian Broadcasting Authority - funding for planning requirements related to digital broadcasting	0.5	-	-	-
Savings in running costs - offsets to funding Australian Broadcasting Authority for planning requirements related to digital broadcasting	-0.5	-	-	-
<b>Total</b>	<b>1.6</b>	<b>101.0</b>	<b>101.0</b>	<b>101.0</b>

(a) Policy decisions taken up to 13 December 1998.

**Table 8: Policy Decisions taken since the 1998-99 Budget (continued)**

	1998-99 \$m	1999-00 \$m	2000-01 \$m	2001-02 \$m
<b>EDUCATION, TRAINING AND YOUTH AFFAIRS</b>				
<i>Measures introduced up to the 1998 PEFO</i>				
A New Tax System - increased assistance for social security recipients	-	-	7.5	6.9
<i>Measures introduced since the 1998 PEFO</i>				
Additional funding to Catholic Education Systems	135.3	98.3	103.8	106.6
Extra student places for James Cook University	2.1	4.6	5.4	5.6
Strategic Partnerships - Industry Research and Training Scheme	-	12.4	23.4	24.0
Short-term Emergency Assistance for School-term Hostels	0.3	-	-	-
<b>Total</b>	<b>137.7</b>	<b>115.4</b>	<b>140.2</b>	<b>143.1</b>
<b>EMPLOYMENT, WORKPLACE RELATIONS AND SMALL BUSINESS</b>				
<i>Measures introduced up to the 1998 PEFO</i>				
Enhancement to Job Network Services	38.9	16.6	-	-
Employment Services Market - reprioritisation of funding	-25.4	-10.1	-	-
A New Tax System - goods and services tax business startup package	-	500.0	-	-
<b>Total</b>	<b>13.5</b>	<b>506.5</b>	<b>0.0</b>	<b>0.0</b>
<b>ENVIRONMENT AND HERITAGE</b>				
<i>Measures introduced since the 1998 PEFO</i>				
Telstra Social Bonus - additional funding for the Natural Heritage Trust	-	-	-	250.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>250.0</b>

**Table 8: Policy Decisions taken since the 1998-99 Budget (continued)**

	1998-99	1999-00	2000-01	2001-02
	\$m	\$m	\$m	\$m
<b>FAMILY AND COMMUNITY SERVICES</b>				
<i>Measures introduced up to the 1998 PEFO</i>				
Child Care Communication Strategy - enhancement of information activities	2.0	-	-	-
Apply full rate of rent assistance to people lodging in marginal accommodation - bring forward implementation to 1 January 1999	3.5	-0.4	..	..
Salvation Army - leadership training in the delivery of social welfare and health related services	0.5	0.5	0.5	0.5
Drought Exceptional Circumstances Assistance - Duaringa, Monaro C and Cobar/Wilcannia	0.2	0.3	..	-
Exempt Farm Family Restart Scheme re-establishment grants from income test lump sum provisions	2.9	1.7	-	-
A New Tax System - increased assistance for social security recipients	-	-	1600.6	1485.2
A New Tax System - improving assistance to families	-	-	1157.3	1219.7
A New Tax System - aged persons savings bonuses	-	-	1140.5	-
A New Tax System - reduction in pension taper rate	-	-	325.2	339.6
A New Tax System - reforming the fringe benefits tax provision	-	-	-14.3	-29.6
<i>Measures introduced since the 1998 PEFO</i>				
Drought Exceptional Circumstances Assistance - Wentworth and Broken Hill areas	0.2	0.2	0.1	-
Extension of Youth Homelessness Pilot Programme	2.3	-	-	-
Ex Gratia payments to pensioners without departure certificates	0.2	-	-	-
Additional funding for medical assessments for disability support payments	12.7	-	-	-
Grants to family relationship support organisations - services to support men in their family relationships	1.5	-	-	-
Optical surveillance to assist in detecting cases of serious social security fraud	-8.6	-16.5	-18.3	-18.8
Ex Gratia payments for Disability Support Pensions recipients affected by the implementation of the Youth Allowance	0.3	-	-	-
Ex Gratia payments for Austudy recipients affected by the implementation of the Youth Allowance	0.2	-	-	-
<b>Total</b>	<b>17.9</b>	<b>-14.2</b>	<b>4191.6</b>	<b>2996.6</b>
<b>FINANCE AND ADMINISTRATION</b>				
<i>Measures introduced up to the 1998 PEFO</i>				
Joint Standing Committee on Electoral Matters - Report on the 1996 Election - funding of Government response	-	5.1	4.2	4.2
Restoration of Harrick's Cottage - grant to Brimbank Council	0.1	-	-	-
Grant to St Peter's Church, East Melbourne	0.4	-	-	-
Administrative savings in management of non-commercial estate - Harrick's Cottage and St Peter's Church	-0.5	-	-	-
Natural disaster mitigation studies	3.0	3.0	3.0	3.0
Natural disaster mitigation studies - funded from within Natural Disaster Relief Assistance	-3.0	-3.0	-3.0	-3.0
<i>Measures introduced since the 1998 PEFO</i>				
Victoria Emergency Fund	100.0	-	-	-
Payment to administrators of Cobar Mines Pty Ltd	0.1	-	-	-
Costs associated with the privatisation of the Wool International stockpile	4.0	-	-	-
Reimbursement of costs associated with the privatisation of the Wool International stockpile*	-	-	-	-
<b>Total</b>	<b>104.1</b>	<b>5.1</b>	<b>4.2</b>	<b>4.2</b>

**Table 8: Policy Decisions taken since the 1998-99 Budget (continued)**

	1998-99	1999-00	2000-01	2001-02
	\$m	\$m	\$m	\$m
<b>HEALTH AND AGED CARE</b>				
<i>Measures introduced up to the 1998 PEFO</i>				
Australian Health Care Agreements - additional funding to the States	182.0	192.7	169.2	180.1
Establish an Institute of Clinical Studies	-	5.0	5.1	-
Private health insurance industry reforms - re-insurance consultancy and consumer information service	0.8	0.5	0.5	0.5
Drought Exceptional Circumstances Assistance - Duaringa, Monaro C and Cobar/Wilcannia	0.1	0.1	-	-
Additional aged care places in rural and regional communities	0.3	1.1	1.5	1.5
Transfer of aged care places to rural and regional communities	-	-1.6	-1.7	-1.7
A New Tax System - private health insurance initiative	322.0	949.0	1016.0	1089.0
<i>Measures introduced since the 1998 PEFO</i>				
Drought Exceptional Circumstances Assistance - Wentworth and Broken Hill areas	..	0.1	..	-
Additional funding for residential aged care services continuing to receive additional recurrent funding	0.6	1.3	2.4	3.1
Assistance to remote Aboriginal communities to purchase (Avgas) aviation fuel instead of petrol to combat petrol sniffing	0.5	1.0	1.0	1.0
<b>Total</b>	<b>506.2</b>	<b>1149.0</b>	<b>1194.1</b>	<b>1273.6</b>
<b>IMMIGRATION AND MULTICULTURAL AFFAIRS</b>				
<i>Measures introduced up to the 1998 PEFO</i>				
Student Visa Programme - additional compliance and processing costs	3.5	3.7	4.2	4.8
Extension of Electronic Travel Authority to Hong Kong and Taiwan - offsetting savings	-	-9.5	-10.3	-11.1
<b>Total</b>	<b>3.5</b>	<b>-5.8</b>	<b>-6.1</b>	<b>-6.3</b>
<b>INDUSTRY, SCIENCE AND RESOURCES</b>				
<i>Measures introduced up to the 1998 PEFO</i>				
Assistance to Textile, Clothing, Footwear and Leather industries	-	-	10.2	144.7
Australian Commonwealth Games Association - grant to assist its preparation for, and involvement in, the 1998 Commonwealth Games	0.4	-	-	-
<i>Measures introduced since the 1998 PEFO</i>				
Investment incentives for Visy Pulp and Paper mill project	-	3.0	3.0	3.0
<b>Total</b>	<b>0.4</b>	<b>3.0</b>	<b>13.2</b>	<b>147.7</b>
<b>PRIME MINISTER AND CABINET</b>				
<i>Measures introduced up to the 1998 PEFO</i>				
Federation Fund - revised funding profile	-	100.0	-	-100.0
Federation Fund - additional funding	-	6.8	-	-
Flood relief - Wollongong	0.1	-	-	-
<i>Measures introduced since the 1998 PEFO</i>				
Referendum on the Republic	5.4	-	-	-
<b>Total</b>	<b>5.5</b>	<b>106.8</b>	<b>0.0</b>	<b>-100.0</b>

**Table 8: Policy Decisions taken since the 1998-99 Budget (continued)**

	1998-99 \$m	1999-00 \$m	2000-01 \$m	2001-02 \$m
<b>TRANSPORT AND REGIONAL SERVICES</b>				
<i>Measures introduced up to the 1998 PEFO</i>				
Sydney to Canberra Very High Speed Train Project - proving up phase	1.0	-	-	-
A New Tax System - new States responsibilities towards local government	-	-	-1335.7	-1382.2
<i>Measures introduced since the 1998 PEFO</i>				
Northern Territory Indigenous Health Infrastructure	10.0	-	-	-
Telstra Social Bonus - Rural Transaction Centres	1.0	30.0	30.0	9.0
<b>Total</b>	<b>12.0</b>	<b>30.0</b>	<b>-1305.7</b>	<b>-1373.2</b>
<b>TREASURY</b>				
<i>Measures introduced up to the 1998 PEFO</i>				
Community education and information programme on the tax system	3.0	-	-	-
Community education and information programme on the tax system - private health insurance rebate	2.0	-	-	-
Community education and information programme on the tax system - tax reform call centres	5.0	-	-	-
A New Tax System - reduction in Financial Assistance Grants	-	-	-18176.0	-18809.0
A New Tax System - grants to balance State budgets	-	-	-	941.0
A New Tax System - replacement of the Diesel Fuel Rebate Scheme	-	-	-1585.0	-1702.0
A New Tax System - diesel fuel rebate for remote power	-	-	9.0	9.0
A New Tax System - excise credit to replace Diesel Fuel Rebate Scheme	-	-	3579.0	3842.0
A New Tax System - goods and services tax policy and administration costs	-	350.0	350.0	300.0
A New Tax System - impact on public debt interest of tax reform	5.0	98.0	179.0	302.0
A New Tax System - advances to balance State budgets*	-	-	-	-
<b>Total</b>	<b>15.0</b>	<b>448.0</b>	<b>-15644.0</b>	<b>-15117.0</b>
<b>VETERANS' AFFAIRS</b>				
<i>Measures introduced up to the 1998 PEFO</i>				
Extend rent assistance eligibility for the Veterans' Children Education Scheme	0.6	0.6	0.6	0.6
A New Tax System - increased assistance for social security recipients	-	-	178.4	159.5
A New Tax System - aged persons savings bonuses	-	-	162.5	-
A New Tax System - reduction in pension taper rate	-	-	55.0	60.0
<b>Total</b>	<b>0.6</b>	<b>0.6</b>	<b>396.5</b>	<b>220.1</b>
<b>MEASURES NOT ABLE TO BE ALLOCATED TO A PORTFOLIO</b>				
<i>Measures introduced up to the 1998 PEFO</i>				
A New Tax System - reduced costs to government from indirect tax reform	-	-	-537.0	-568.0
<i>Measures introduced since the 1998 PEFO</i>				
Decisions taken but not yet announced	10.0	-	-	-
<b>Total</b>	<b>10.0</b>	<b>0.0</b>	<b>-537.0</b>	<b>-568.0</b>

\* These measures have no impact on underlying outlays; they will, however, affect headline outlays.



**Table 9: Changes to Budget Sector Underlying Outlays by Function since the 1998-99 Budget (\$m)**

	1998-99		1999-00		2000-01		2001-02	
	Budget	MYEFO	Budget	MYEFO	Budget	MYEFO	Budget	MYEFO
Legislative and Executive Affairs	612	649	516	534	510	526	609	623
Financial and Fiscal Affairs	1964	2119	1685	2077	1676	2062	1766	2104
Foreign Economic Aid	1811	1875	1814	1875	1836	1901	1890	1946
General Research	1256	1273	1239	1245	1209	1234	1247	1271
General Services	-48	-42	144	124	192	170	235	214
Government Superannuation Benefits	1651	1635	1429	1543	1756	1737	1866	1898
Defence	10981	11083	11013	11405	11201	11359	11440	11598
Public Order and Safety	1010	1101	895	920	912	929	911	896
Education	9536	9674	9482	9607	9604	9750	9774	9933
Health	22273	23183	23419	24805	24686	26124	25923	27462
Social Security and Welfare	53458	54017	55284	55185	57237	61560	59563	62427
Housing and Community Amenities	1330	1343	1272	1276	1226	1229	1040	1292
Recreation and Culture	1335	1363	1312	1317	1280	1280	1225	1223
Fuel and Energy	27	27	18	18	17	17	15	15
Agriculture, Forestry and Fishing	2073	2077	1977	1960	1773	1172	1589	800
Mining and Mineral Resources, other than Fuels; Manufacturing; and Construction	1741	1827	1665	2186	1694	803	1795	858
Transport and Communication	1435	1489	1383	1516	1393	1498	1339	1436
Tourism	102	102	101	101	101	101	100	100
Labour and Employment Affairs	2737	2829	2666	2713	2618	2583	2656	2658
Other Economic Affairs, nec	342	346	316	317	313	313	316	316
Public Debt Interest	7745	7417	6576	6923	5559	5974	4101	4231
General Purpose Intergovernment Transactions	18405	18398	19698	19599	20338	4443	21232	5580
Natural Disaster Relief	37	37	33	33	33	33	33	33
Contingency Reserve	-288	-863	2372	525	4176	1749	5842	3882
Asset Sales	46	-22	258	222	245	345	-	15
<b>Total Underlying Outlays</b>	<b>141570</b>	<b>142936</b>	<b>146566</b>	<b>148026</b>	<b>151586</b>	<b>138893</b>	<b>156508</b>	<b>142811</b>

**Table 10: Changes to Budget Sector Outlays by Economic Type since the 1998-99 Budget (\$m)**

	1998-99		1999-00		2000-01		2001-02	
	Budget	MYEFO	Budget	MYEFO	Budget	MYEFO	Budget	MYEFO
<b>CURRENT OUTLAYS</b>								
Final Consumption Expenditure	25280	25796	25003	25968	25555	25499	25548	25773
Defence Salaries	3487	3461	3379	3379	3317	3317	3467	3467
Defence Non-Salaries	7414	7545	7553	7946	7801	7959	7886	8044
Non-Defence Salaries	4200	4431	3804	3893	3836	3806	3857	3809
Non-Defence Non-Salaries	10179	10359	10267	10750	10601	10416	10337	10453
Total Current Transfer Payments	113486	114672	116916	118408	119697	108121	122917	110427
Interest	7945	7579	7175	6837	6323	6053	4742	5003
Subsidies	2806	2929	2775	3306	2640	1223	2775	999
Personal Benefit Payments	50338	50932	52273	52491	54112	58940	56265	59728
Grants to Non-Profit Institutions	2665	2597	2776	2608	2893	2727	3025	2833
Grants to Non-Budget Sector	14818	15253	15536	16551	16206	17268	17127	18254
Grants to State Governments	25941	26313	27383	27506	28357	13952	29625	15500
Grants Through State Governments	3563	3739	3700	3831	3875	2677	3978	2734
Grants Direct to Local Governments	217	221	230	234	246	250	264	267
Grants to Multi Jurisdictional Sector	3861	3818	3713	3723	3672	3696	3693	3722
Grants Overseas	1202	1211	1236	1234	1253	1253	1302	1303
Other Transfers	132	80	118	87	119	81	121	82
<b>TOTAL CURRENT OUTLAYS</b>	<b>138766</b>	<b>140468</b>	<b>141919</b>	<b>144375</b>	<b>145252</b>	<b>133620</b>	<b>148465</b>	<b>136200</b>
<b>CAPITAL OUTLAYS</b>								
Capital Outlays on Goods	165	152	506	636	683	694	831	714
Capital Outlays on Land	84	36	61	56	77	47	61	-12
Total Capital Transfer Payments	2765	2866	2630	2740	2626	2714	2556	2621
Grants to Non-Budget Sector	312	312	293	345	322	375	255	306
Grants to State Governments	2152	2184	2096	2097	2085	2085	2081	2085
Grants Through State Governments	99	99	91	91	82	81	83	82
Grants Direct to Local Governments	8	12	6	9	4	4	2	2
Grants to Multi Jurisdictional Sector	39	36	39	39	40	40	41	41
Grants to Other Sectors	155	223	106	159	94	129	95	105
<b>TOTAL CAPITAL OUTLAYS</b>	<b>3014</b>	<b>3054</b>	<b>3198</b>	<b>3432</b>	<b>3386</b>	<b>3456</b>	<b>3448</b>	<b>3323</b>
Contingency Reserve	-210	-585	1449	219	2948	1818	4595	3288
<b>TOTAL UNDERLYING OUTLAYS</b>	<b>141570</b>	<b>142936</b>	<b>146566</b>	<b>148026</b>	<b>151586</b>	<b>138893</b>	<b>156508</b>	<b>142811</b>
<i>Memorandum Items</i>								
Net Advances	-16027	-5399	-18772	-13769	-12856	-32793	455	-8497

**Table 11: Changes to Budget Sector Underlying Outlays by Portfolio since the 1998-99 Budget (\$m)**

	1998-99		1999-00		2000-01		2001-02	
	Budget(a)	MYEFO	Budget(a)	MYEFO	Budget(a)	MYEFO	Budget(a)	MYEFO
Parliament	162	162	156	157	157	157	158	158
Agriculture, Fisheries and Forestry	1352	1336	1185	1138	936	839	889	783
Attorney-General's	1469	1517	1318	1304	1324	1297	1321	1265
Communications, Information Technology and the Arts	1375	1412	1237	1351	1255	1363	1264	1369
Defence	12143	12144	12064	12448	12279	12437	12508	12714
Veterans' Affairs	7251	7354	7529	7428	7698	7963	7861	7911
Education, Training and Youth Affairs	11434	10171	11318	10165	11348	10134	11548	10374
Employment, Workplace Relations and Small Business	445	1967	427	2250	425	1738	427	1753
Environment and Heritage	685	696	690	691	692	692	321	571
Family and Community Services	47305	47956	48964	49210	50754	55119	52912	56045
Finance and Administration	756	918	937	1072	1263	1386	1275	1304
Foreign Affairs and Trade	2116	2143	2139	2161	2160	2178	2223	2242
Health and Aged Care	21217	22072	22229	23541	23477	24816	24696	26121
Immigration and Multicultural Affairs	546	555	503	510	513	519	516	520
Industry, Science and Resources	1858	1904	1753	1782	1580	1617	1586	1755
Prime Minister and Cabinet	1328	1340	1437	1540	1567	1566	1695	1593
Transport and Regional Services	2683	2736	2652	2700	2709	1391	2702	1324
Treasury	27831	27511	27855	28359	27574	12234	27165	11426
Contingency Reserve	-387	-958	2172	218	3876	1449	5442	3582
<b>Total Underlying Outlays</b>	<b>141570</b>	<b>142936</b>	<b>146566</b>	<b>148026</b>	<b>151586</b>	<b>138893</b>	<b>156508</b>	<b>142811</b>

(a) Figures differ from estimates published in the 1998-99 Budget due to Administrative Arrangements Order changes introduced since that time.

## REVENUE

Table 12 provides estimates of tax, non-tax and total revenue from 1998-99 to 2001-02.

**Table 12: Estimates of Budget Sector Revenues**

	1998-99		1999-00	
	Budget	MYEFO	Budget	MYEFO
Total tax (\$m)	138172	140124	146371	146216
<i>Per cent of GDP</i>	24.0	23.8	23.9	23.6
Non-tax (\$m)	6086	6079	4928	4416
<i>Per cent of GDP</i>	1.1	1.0	0.8	0.7
<b>Total revenue (\$m)</b>	<b>144258</b>	<b>146203</b>	<b>151299</b>	<b>150632</b>
<i>Per cent of GDP</i>	25.0	24.9	24.7	24.3
	2000-01		2001-02	
	Budget	MYEFO	Budget	MYEFO
Total tax (\$m)	155595	137889	165956	147288
<i>Per cent of GDP</i>	24.0	21.0	24.1	21.2
Non-tax (\$m)	4605	4424	5140	4939
<i>Per cent of GDP</i>	0.7	0.7	0.7	0.7
<b>Total revenue (\$m)</b>	<b>160200</b>	<b>142313</b>	<b>171096</b>	<b>152227</b>
<i>Per cent of GDP</i>	24.7	21.7	24.9	21.9

Relative to the 1998-99 Budget, the MYEFO estimate of total revenue is higher in 1998-99 but lower in 1999-2000, 2000-01 and 2001-02.

- Measured as a proportion of GDP, total revenue is expected to be slightly lower in 1998-99 and 1999-2000, and significantly lower in 2000-01 and 2001-02.

The measures announced in *A New Tax System* will result in both revenues and outlays being significantly lower in 2000-01 and 2001-02. Key factors resulting in reduced revenue are the abolition of Wholesale Sales Tax and major reductions in personal income tax. Revenue from the GST is classified as State and Territory revenue.

Revisions to the 1998-99 Budget estimates reflect the impact of revisions to economic parameters, revenue collections up to early December, and policy decisions taken since the Budget — up to and including 10 December 1998.

Table 13 reconciles the 1998-99 Budget revenue estimates to current revenue estimates in terms of policy decisions and parameter and other variations.

**Table 13: Reconciliation of Changes to Budget Sector Revenue since the 1998-99 Budget**

	1998-99 \$m	1999-00 \$m	2000-01 \$m	2001-02 \$m
<b>Revenue at 1998-99 Budget</b>	<b>144258</b>	<b>151299</b>	<b>160200</b>	<b>171096</b>
<b>Changes from 1998-99 Budget to PEFO</b>				
Policy decisions	3	734	-16558	-17435
Revisions to parameters and other variations	982	87	-257	-282
Total variations	985	821	-16815	-17717
<b>Total revenue at 1998 PEFO</b>	<b>145243</b>	<b>152119</b>	<b>143385</b>	<b>153378</b>
<b>Changes from 1998 PEFO to MYEFO</b>				
Policy decisions(a)	-21	-34	-53	-77
<i>of which</i> interest revenue impact of measures	-	-5	-19	-38
Revisions to parameters and other variations	981	-1453	-1020	-1073
Total variations	960	-1487	-1072	-1151
<b>Total revenue at 1998-99 MYEFO</b>	<b>146203</b>	<b>150632</b>	<b>142313</b>	<b>152227</b>

(a) Includes interest revenue impact of revenue and outlays measures.

Policy decisions made after the 1998-99 Budget increase revenue in 1999-2000 and reduce revenue significantly in 2000-01 and 2001-02. As noted above, the most significant changes in revenue are due to *A New Tax System*. Revenue policy decisions are outlined in Table 14 and detailed in Appendix A.

**Table 14: Policy Decisions Taken Since the 1998-99 Budget**

Description of Measure	1998-99 \$m	1999-00 \$m	2000-01 \$m	2001-02 \$m
<i>Measures introduced up to the 1998 PEFO</i>				
Defer start date for opting out of the Superannuation Guarantee System	-0.7	-	-	-
Cessation of TCF Import Credit Scheme	-	-	107.0	120.0
Extension of TCF Overseas Assembly Provisions (OAP)	-	-	-8.0	-8.0
A New Tax System	-	739.0	-16651.0	-17541.0
Student Visa Programme - additional revenue from visa processing	3.9	4.1	4.6	5.2
Extension of Electronic Travel Authority to Hong Kong and Taiwan from 1 July 1999	-	-9.5	-10.5	-11.6
<i>Measures introduced since the 1998 PEFO</i>				
Administrative Changes to Project By-Law Scheme(a)	-0.5	-0.6	-0.6	-0.7
Removal of Tariffs on Medical and Scientific Equipment(b)	-20.2	-28.4	-33.2	-38.8
Taxation Treatment on Disposal of Mining Property(c)	*	*	*	*
<b>Total measures to the 1998 PEFO</b>	<b>3.2</b>	<b>733.6</b>	<b>-16557.9</b>	<b>-17435.5</b>
<b>Total measures since the 1998 PEFO</b>	<b>-20.7</b>	<b>-28.9</b>	<b>-33.8</b>	<b>-39.5</b>

(a) This measure relates to a policy decision taken in the period before the 1998 election but which was not identified as a measure in the September 1998 PEFO.

(b) The omission of this measure from the September 1998 PEFO was corrected by a press release by the Secretary to the Treasury on 9 September 1998.

(c) This measure protects revenue.

Table 15 provides a detailed breakdown of the changes to estimates of major revenue items for 1998-99.

**Table 15: Revenue Estimates**

	1998-99			
	Budget Estimate \$m	MYEFO Estimate \$m	Change on Budget \$m	Change on Budget %
<b>Taxation Revenue</b>				
Income Tax				
Individuals -				
Gross PAYE	67170	67620	450	0.7
Gross Other Individuals(a)(b)	10950	11630	680	6.2
Gross Prescribed Payments System(c)	2570	2600	30	1.2
Medicare Levy	4160	4170	10	0.2
Refunds(d)	9960	10150	190	1.9
Total Individuals	74890	75870	980	1.3
Companies(a)	19900	20800	900	4.5
Superannuation Funds(a)	2950	3600	650	22.0
Withholding Tax	1190	1160	-30	-2.5
Petroleum Resource Rent Tax	960	600	-360	-37.5
Fringe Benefits Tax	3320	3230	-90	-2.7
<b>Total Income Tax</b>	<b>103210</b>	<b>105260</b>	<b>2050</b>	<b>2.0</b>
Indirect Tax				
Sales Tax	15090	15050	-40	-0.3
Excise duty -				
Petroleum Products,				
Crude Oil and LPG	11110	11020	-90	-0.8
Other	2650	2630	-20	-0.8
Customs Duty - Imports(e)	3670	3810	140	3.8
<b>Total Indirect Tax</b>	<b>32520</b>	<b>32510</b>	<b>-10</b>	<b>0.0</b>
Other Taxes, Fees and Fines	2442	2354	-88	-3.6
<b>Total Taxation Revenue</b>	<b>138172</b>	<b>140124</b>	<b>1952</b>	<b>1.4</b>
<b>Non-Tax Revenue</b>				
Interest	1100	761	-339	-30.8
Dividends and Other	4986	5318	332	6.7
<b>Total Non-Tax Revenue</b>	<b>6086</b>	<b>6079</b>	<b>-7</b>	<b>-0.1</b>
<b>TOTAL REVENUE</b>	<b>144258</b>	<b>146203</b>	<b>1945</b>	<b>1.3</b>

(a) Includes tax on realised capital gains.

(b) Includes Child Support Trust Account receipts of \$520 million.

(c) Includes Reportable Payments System payments by individuals of \$1 million.

(d) Includes refunds of Child Support Trust Account receipts of \$10 million.

(e) Customs duty collections include around \$920 million of customs duty imposed on imported petroleum products, tobacco, beer and spirits, which is akin to excise duty on these items.

The changes in the 1998-99 estimates mirror changes in underlying economic conditions in 1997-98 and 1998-99. In particular, higher PAYE collections (following stronger than expected employment growth), increases in other individual income tax collections, and strong collections from companies and superannuation funds add to the estimates for 1998-99. Petroleum Resource Rent Tax is sharply lower, due to weaker oil prices and lower production.

Total revenue in 1999-2000 is lower than the 1998-99 Budget estimate due to forecast economic growth (reflecting the move from projections to forecasts), and lower non-tax revenue. The large decreases in revenue in the outyears largely reflect the abolition of Wholesale Sales Tax, coupled with the provision of personal income tax cuts in the tax reform package.

Table 16 provides estimates of major categories of revenue from 1998-99 to 2001-02.

Revenue estimates are highly dependent on general economic conditions and the effects of tax policy measures. In particular, taxpayers may respond to new measures in ways which were not fully anticipated at the time the relevant revenue estimates were prepared. Appendix B contains a description of the sources of risks to taxation revenue while Appendix C provides information on the sensitivity of the revenue estimates to changes in economic parameters.

**Table 16: Revenue Estimates**

	1998-99			1999-00			2000-01			2001-02		
	Budget	MYEFO	Change on	Budget	MYEFO	Change on	Budget	MYEFO	Change on	Budget	MYEFO	Change on
	\$ billion	\$ billion	1997-98 %	\$ billion	\$ billion	1998-99 %	\$ billion	\$ billion	1999-00 %	\$ billion	\$ billion	2000-01 %
Individuals Tax	74.9	75.9	7.1	79.7	79.8	5.2	85.1	69.9	-12.5	91.5	75.9	8.7
<i>Per cent of GDP</i>	13.0	12.9		13.0	12.9		13.1	10.6		13.3	10.9	
Other Income Tax	28.3	29.4	6.1	30.1	30.5	3.7	32.2	38.3	25.7	34.1	41.9	9.2
<i>Per cent of GDP</i>	4.9	5.0		4.9	4.9		5.0	5.8		5.0	6.0	
Total Income Tax	103.2	105.3	6.8	109.8	110.3	4.8	117.3	108.2	-1.9	125.6	117.8	8.9
<i>Per cent of GDP</i>	17.9	17.9		18.0	17.8		18.1	16.5		18.3	16.9	
Other Tax	35.0	34.9	3.5	36.6	35.9	3.0	38.3	29.7	-17.3	40.4	29.5	-0.6
<i>Per cent of GDP</i>	6.1	5.9		6.0	5.8		5.9	4.5		5.9	4.2	
Total Tax	138.2	140.1	6.0	146.4	146.2	4.3	155.6	137.9	-5.7	166.0	147.3	6.8
<i>Per cent of GDP</i>	24.0	23.8		23.9	23.6		24.0	21.0		24.1	21.2	
Non-tax	6.1	6.1	28.0	4.9	4.4	-27.3	4.6	4.4	0.2	5.1	4.9	11.6
<i>Per cent of GDP</i>	1.1	1.0		0.8	0.7		0.7	0.7		0.7	0.7	
<b>Total Revenue</b>	<b>144.3</b>	<b>146.2</b>	<b>6.7</b>	<b>151.3</b>	<b>150.6</b>	<b>3.0</b>	<b>160.2</b>	<b>142.3</b>	<b>-5.5</b>	<b>171.1</b>	<b>152.2</b>	<b>7.0</b>
<i>Per cent of GDP</i>	25.0	24.9		24.7	24.3		24.7	21.7		24.9	21.9	



## TAX EXPENDITURES

Table 17 shows estimates and projections for the period 1995-96 to 2000-01 of aggregate tax expenditures identified and costed in the *1996-97 Tax Expenditures Statement*. These estimates have not been updated to reflect policy decisions (including measures announced in *A New Tax System*) or changes in economic parameters that have occurred since December 1997. Updated figures will be released in the *1997-98 Tax Expenditures Statement*, which is expected to be released in early 1999.

**Table 17: Aggregate Tax Expenditures 1995-96 to 2000-01**

Year	Superannuation (\$m)	Other Tax Expenditures (\$m)(a)	Total (\$m)
1995-96	8315	9972	18287
1996-97	8700	10769	19469
1997-98 (estimate)	8490	10666	19156
1998-99 (estimate)	8720	12042	20762
1999-00 (projection)	9390	13509	22899
2000-01 (projection)	10025	14373	24398

(a) This aggregate does not include timing measures.

## APPENDIX A: POLICY DECISIONS TAKEN SINCE THE 1998-99 BUDGET

### OUTLAYS

#### AGRICULTURE, FISHERIES AND FORESTRY

##### Sugar Industry Assistance Package

##### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
3.2	4.4	3.9	2.8

##### Explanation

The Government will provide assistance over four years to the sugar industry for research into increasing the sugar content levels of sugar cane and related priority research. This funding will be administered by the Sugar Research and Development Corporation, in full consultation with sugar industry representatives.

In addition, the Government will provide \$550,000 in 1998-99 to improve port loading facilities at Wyndham in Western Australia to facilitate the expansion of the sugar industry in this region.

##### Further Information

The distribution of the financial impact of this measure between years differs from that published in the September 1998 *Pre-election Economic and Fiscal Outlook* as a consequence of minor adjustments, including changed timing for implementation.

#### AGRICULTURE, FISHERIES AND FORESTRY

##### Pork Industry Assistance Package

##### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
6.0	1.5	0.5	-

##### Explanation

The Government is providing funding over three years for a scheme of assistance to the pigmeat industry through investment grants to specialist pigmeat processors who invest in new plant and equipment to upgrade existing facilities and/or construct new facilities.

### Further Information

The distribution of the financial impact of this measure between years differs from that published in the September 1998 *Pre-election Economic and Fiscal Outlook* as a consequence of minor adjustments, including changed timing for implementation.

## AGRICULTURE, FISHERIES AND FORESTRY

### East Gippsland floods — grant to Victorian Farmers Federation for fodder transport

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
0.1	-	-	-

#### Explanation

The Government has provided funding in 1998-99 to the Victorian Farmers Federation for the transportation of fodder to assist farmers in East Gippsland who have been affected by prolonged drought conditions followed by severe flooding during 1998.

### Further Information

This funding has been offset by savings identified for the Rural Adjustment Scheme. See related Agriculture, Fisheries and Forestry outlays measure entitled *Savings from the Rural Adjustment Scheme to offset the grant to the Victorian Farmers Federation for fodder transport to East Gippsland*.

## AGRICULTURE, FISHERIES AND FORESTRY

### Loxton Irrigation Area Water System — refurbishment

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
0.8	-	-	-

#### Explanation

The Government has provided funding of \$800,000 in 1998-99 to enable the first stage of the infrastructure refurbishment of the Loxton Irrigation Scheme. This refurbishment will facilitate corporatisation of the Loxton Irrigation Area Water System.

## AGRICULTURE, FISHERIES AND FORESTRY

### Drought Exceptional Circumstances Assistance — Duaringa, Monaro C and Cobar/Wilcannia

#### Financial Implications (\$m)

	1998-99	1999-00	2000-01	2001-02
Agriculture, Fisheries and Forestry	3.3	3.2	0.1	-
Family and Community Services	0.2	0.3	..	-
Health and Aged Care	0.1	0.1	-	-
Total	3.6	3.5	0.1	-

#### Explanation

The Government has reinstated drought Exceptional Circumstances (EC) relief assistance for the northern third of the Duaringa shire in Queensland and portions of the Wilcannia and Cobar Rural Lands Protection Board Districts in NSW; as well as assistance for drought declared areas in an additional part of the Monaro region shire in NSW (known as Monaro C).

The Government has also provided funding to meet the costs of the delivery of exceptional circumstances assistance through Centrelink and State/Territory Rural Assistance Authorities for other EC declarations as funding for this purpose from the Rural Adjustment Scheme is no longer available as the Scheme is being phased out.

## AGRICULTURE, FISHERIES AND FORESTRY

### Drought Exceptional Circumstances Assistance — Wentworth and Broken Hill areas

#### Financial Implications (\$m)

	1998-99	1999-00	2000-01	2001-02
Agriculture, Fisheries and Forestry	1.3	1.4	0.2	-
Family and Community Services	0.2	0.2	0.1	-
Health and Aged Care	..	0.1	..	-
Total	1.5	1.7	0.3	-

#### Explanation

This funding reflects the exceptional circumstances assistance approved by the Government in September 1998, for the Wentworth Rural Lands Protection Board District and southern parts of the neighbouring Rural Lands Protection Board District of Broken Hill, New South Wales. This area has experienced a combination of adverse climatic events.

The Rural Adjustment Scheme Advisory Council recommended that exceptional circumstances assistance be provided to eligible farmers in this area, for a 12 month period. Under the assistance arrangements, relief payments may be continued for a further period of up to 12 months.

## **AGRICULTURE, FISHERIES AND FORESTRY**

### **Savings from the Rural Adjustment Scheme to offset the grant to the Victorian Farmers Federation for fodder transport to East Gippsland**

#### **Financial Implications (\$m)**

1998-99	1999-00	2000-01	2001-02
-0.1	-	-	-

#### **Explanation**

The Government has identified savings in funding for the Rural Adjustment Scheme to offset the costs of the grant provided to the Victorian Farmers Federation for fodder transport to East Gippsland.

#### **Further Information**

See related Agriculture, Fisheries and Forestry outlays measure entitled *East Gippsland floods — grant to Victorian Farmers Federation for fodder transport*.

## **ATTORNEY-GENERAL'S**

### **Child Support — pilot services to assist parents when contact orders are made**

#### **Financial Implications (\$m)**

1998-99	1999-00	2000-01	2001-02
0.4	0.6	0.6	-

#### **Explanation**

This initiative addresses problems being experienced by parents where contact with children ordered by the court is withheld by the custodial parent. The three pronged strategy:

- helps ensure compliance with contact orders;
- provides an alternative to costly court procedures; and
- provides an effective alternative to current penalties for breaches.

A small number of pilot services will be established within community-based agencies. The services will make available, in the pilot areas, education sessions for all parents with contact orders, assistance with conflict resolution, and will provide a compulsory diversionary programme for parents convicted of breaching an order.

## **ATTORNEY-GENERAL'S**

### **Australian Federal Police — resourcing needs and reform programme**

#### **Financial Implications (\$m)**

1998-99	1999-00	2000-01	2001-02
27.4	21.9	16.0	-

#### **Explanation**

The Government has provided additional funding for the Australian Federal Police (AFP) over three years, to allow the organisation to implement a reform package. This decision provides funding for increased staff, training and development, equipment and upgrading forensic facilities, to improve the operational capability of the AFP.

The additional funding has been provided subject to the AFP attaining certain benchmarks related to implementation of the reform programme and is governed by the provision of a Budget Charter based on the Government's law enforcement priorities.

#### **Further Information**

The Government will initiate discussions with the ACT Government on medium to long term arrangements for ACT policing which address both the community policing needs of the ACT and the law enforcement needs of the Commonwealth.

The distribution of the financial impact of this measure between years differs from that published in the September 1998 *Pre-Election Economic and Fiscal Outlook* as a consequence of revisions to the timing of implementation.

## **COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS**

### **National Gallery of Australia — building repairs**

#### **Financial Implications (\$m)**

1998-99	1999-00	2000-01	2001-02
0.6	-	-	-

#### **Explanation**

The Government has provided funding for minor capital works for the National Gallery.

## COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS

### **Telstra Social Bonus — upgrade of the telecommunications infrastructure in remote Australia to facilitate the abolition of pastoral call rate**

#### **Financial Implications (\$m)**

1998-99	1999-00	2000-01	2001-02
-	50.0	50.0	50.0

#### **Explanation**

As part of the Government's social bonus, to be funded from the proceeds of the sale of the second tranche of Telstra, the Government has allocated up to \$150 million over three years, from 1999-2000 to 2001-02, to allow abolition of Telstra's pastoral call rate; and to provide untimed local calls in more areas of remote Australia.

The funds allocated will be used to upgrade telecommunications infrastructure in remote Australia.

#### **Further Information**

Detailed work on network design and funding will commence once the Telstra (Transition to Full Private Ownership) Bill 1998 is passed by the Parliament.

See also the following related outlays measures:

- *Telstra Social Bonus — increased funding for Networking the Nation* in the Communications, Information Technology and the Arts portfolio;
- *Telstra Social Bonus — further increased funding for Networking the Nation* in the Communications, Information Technology and the Arts portfolio;
- *Telstra Social Bonus — Television Fund Initiative* in the Communications, Information Technology and the Arts portfolio;
- *Telstra Social Bonus — additional funding for the Natural Heritage Trust* in the Environment and Heritage portfolio; and
- *Telstra Social Bonus — rural transaction centres* in the Transport and Regional Services portfolio.

## COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS

### Telstra Social Bonus — increased funding for Networking the Nation

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
-	20.0	20.0	20.0

#### Explanation

As part of the Government's social bonus, to be funded from the proceeds of the sale of the second tranche of Telstra, the Government will allocate additional funding, over three years, to the Networking the Nation regional telecommunications programme.

This funding includes provision of \$20 million to meet the telecommunications needs of remote and isolated island communities. The balance of the funding will be allocated to providing rural internet services and continuous mobile phone coverage on key major national highways.

#### Further Information

The five year Networking the Nation programme is funded from the Commonwealth's Regional Telecommunications Infrastructure Fund which was initially set up in 1997 with \$250 million derived from the initial one-third sale of Telstra.

The funding provided by this measure is in addition to that provided by the related Communications, Information Technology and the Arts outlays measure entitled *Telstra Social Bonus — further increased funding for Networking the Nation*.

See also the following related outlays measures:

- *Telstra Social Bonus — upgrade of the telecommunications infrastructure in remote Australia to facilitate the abolition of pastoral call rate* in the Communications, Information Technology and the Arts portfolio;
- *Telstra Social Bonus — Television Fund Initiative* in the Communications, Information Technology and the Arts portfolio;
- *Telstra Social Bonus — additional funding for the Natural Heritage Trust* in the Environment and Heritage portfolio; and
- *Telstra Social Bonus — rural transaction centres* in the Transport and Regional Services portfolio.

The distribution of the financial impact of this measure between years differs from that published in the September 1998 *Pre-Election Economic and Fiscal Outlook* as a consequence of a revision to the timing of its implementation.



## COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS

### Telstra Social Bonus — further increased funding for Networking the Nation

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
-	7.0	7.0	7.0

#### Explanation

As part of the Government's social bonus, to be funded from the proceeds of the sale of the second tranche of Telstra, the Government will allocate further additional funding, over three years, to the Networking the Nation regional telecommunications programme.

This funding will contribute towards providing rural internet services and continuous mobile phone coverage on key major national highways.

#### Further Information

The funding provided by this measure is in addition to that provided by the related Communications, Information Technology and the Arts outlays measure entitled *Telstra Social Bonus — increased funding for Networking the Nation*.

See also the following related outlays measures:

- *Telstra Social Bonus — upgrade of the telecommunications infrastructure in remote Australia to facilitate the abolition of pastoral call rate* in the Communications, Information Technology and the Arts portfolio;
- *Telstra Social Bonus — Television Fund Initiative* in the Communications, Information Technology and the Arts portfolio;
- *Telstra Social Bonus — additional funding for the Natural Heritage Trust* in the Environment and Heritage portfolio; and
- *Telstra Social Bonus — rural transaction centres* in the Transport and Regional Services portfolio.

## COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS

### Telstra Social Bonus — Television fund initiative

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
-	24.0	24.0	24.0

#### Explanation

As part of the Government's social bonus, to be funded from the proceeds of the sale of the second tranche of Telstra, the Government will provide additional funding to deliver SBS television to transmission areas of more than 10,000 people and eliminate between 200 and 250 television reception black spots.

#### Further Information

See also the following related outlays measures:

- *Telstra Social Bonus — upgrade of the telecommunications infrastructure in remote Australia to facilitate the abolition of pastoral call rate* in the Communications, Information Technology and the Arts portfolio;
- *Telstra Social Bonus — increased funding for Networking the Nation* in the Communications, Information Technology and the Arts portfolio;
- *Telstra Social Bonus — further increased funding for Networking the Nation* in the Communications, Information Technology and the Arts portfolio;
- *Telstra Social Bonus — additional funding for the Natural Heritage Trust* in the Environment and Heritage portfolio; and
- *Telstra Social Bonus — rural transaction centres* in the Transport and Regional Services portfolio.

## COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS

### Grant to John Saunders Foundation

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
1.0	-	-	-

#### Explanation

To ensure that the Sydney Jewish Museum has a secure future, the Government has provided a grant to the John Saunders Foundation.

## COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS

### Australian Broadcasting Authority — funding for planning requirements related to digital broadcasting

1998-99	1999-00	2000-01	2001-02
0.5	-	-	-

#### Explanation

The Government has provided additional funding to the Australian Broadcasting Authority in 1998-99 to facilitate forward planning for the introduction of digital television broadcasting on 1 January 2001.

#### Further Information

See also related Communications, Information Technology and the Arts outlays measure entitled *Savings in running costs — offsets to funding Australian Broadcasting Authority for planning requirements related to digital broadcasting*.

## COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS

### Savings in running costs — offsets to funding Australian Broadcasting Authority for planning requirements related to digital broadcasting

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
-0.5	-	-	-

#### Explanation

Following the Government's decision to provide additional funding to the Australian Broadcasting Authority to facilitate forward planning for the introduction of digital television broadcasting, offsetting savings have been identified within the running costs of the Department of Communications, Information Technology and the Arts.

## **EDUCATION, TRAINING AND YOUTH AFFAIRS**

### **Additional funding to Catholic Education Systems**

#### **Financial Implications (\$m)**

1998-99	1999-00	2000-01	2001-02
135.3	98.3	103.8	106.6

#### **Explanation**

The Government will provide increased funding to the Catholic school systems in New South Wales, Victoria, Queensland, South Australia, Tasmania and the Northern Territory. This decision follows an independent assessment of the needs of these systems conducted by the Non-government Schools Funding Review Committee. The committee was appointed by the Minister for Education, Training and Youth Affairs to advise on any significant changes in financial need which warrant increased Commonwealth funding to non-government school systems. The measure takes effect from 1 January 1998.

## **EDUCATION, TRAINING AND YOUTH AFFAIRS**

### **Extra student places for James Cook University**

#### **Financial Implications (\$m)**

1998-99	1999-00	2000-01	2001-02
2.1	4.6	5.4	5.6

#### **Explanation**

To support access to higher education, particularly for potential students from Far North Queensland, the Government will provide funding to support an additional 450 student places in 1999 at James Cook University. This initiative is consistent with the Government's commitment to support access to higher education for students from rural and isolated areas.

## EDUCATION, TRAINING AND YOUTH AFFAIRS

### Strategic Partnerships — Industry Research and Training Scheme

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
-	12.4	23.4	24.0

#### Explanation

The Government is providing additional funding for the Strategic Partnerships — Industry, Research and Training (SPIRT) Scheme. The Scheme supports collaboration between higher education institutions and industry by funding collaborative research projects, awards and fellowships. The Scheme also attracts financial support from industry, broadening the financial base of universities. The additional Commonwealth funding will maintain the baseline level of new grants and provide continuing support for ongoing activities.

## EDUCATION, TRAINING AND YOUTH AFFAIRS

### Short-term Emergency Assistance for School-term Hostels

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
0.3	-	-	-

#### Explanation

The Government will provide short-term emergency funding for some school-term hostels in significant financial difficulty. This is an interim measure to ensure the continued existence of school term hostels until a long term solution is agreed at the next meeting of the Ministerial Council on Employment, Education, Training and Youth Affairs, scheduled for March 1999.

## EMPLOYMENT, WORKPLACE RELATIONS AND SMALL BUSINESS

### Enhancement to Job Network Services

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
38.9	16.6	-	-

#### Explanation

In August 1998, the Government announced enhancements to Job Network services for unemployed people. The measure provides for payments to Job Network agencies to place unemployed people not on benefits in a job, including people with redundancy packages or working partners. Job Network providers supplying job matching services will receive a market development grant of \$10,000 for each site, to further enhance the competitive market in employment services.

#### Further Information

See also the related Employment, Workplace Relations and Small Business outlays measure entitled *Employment Services Market — reprioritisation of funding*.

## EMPLOYMENT, WORKPLACE RELATIONS AND SMALL BUSINESS

### Employment Services Market — reprioritisation of funding

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
-25.4	-10.1	-	-

#### Explanation

This measure provides for the reprioritisation and redirection of funding allocated for the Employment Services Market in order to provide part of the funding to assist in accelerating the development of the Job Network services for the unemployed.

#### Further Information

See also the related Employment, Workplace Relations and Small Business outlays measure entitled *Enhancement to Job Network Services*.

## ENVIRONMENT AND HERITAGE

### Telstra Social Bonus — additional funding for the Natural Heritage Trust

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
-	-	-	250.0

#### Explanation

The Government made a commitment to provide additional funding for the Natural Heritage Trust of Australia in 2001-02. This measure forms part of the Government's social bonus to be funded from the sale of the second tranche of Telstra.

See also the following related outlays measures:

- *Telstra Social Bonus — upgrade of the telecommunications infrastructure in remote Australia to facilitate the abolition of pastoral call rate* in the Communications, Information Technology and the Arts portfolio;
- *Telstra Social Bonus — increased funding for Networking the Nation* in the Communications, Information Technology and the Arts portfolio;
- *Telstra Social Bonus — further increased funding for Networking the Nation* in the Communications, Information Technology and the Arts portfolio;
- *Telstra Social Bonus — Television Fund Initiative* in the Communications, Information Technology and the Arts portfolio; and
- *Telstra Social Bonus — Rural Transaction Centres* in the Transport and Regional Services portfolio.

## FAMILY AND COMMUNITY SERVICES

### Child Care Communication Strategy — enhancement of information activities

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
2.0	-	-	-

#### Explanation

The government will continue and broaden the existing public awareness campaign to alert families to:

- the existence of the Childcare Access Hotline and the information it can give to parents about child care centres and help with the costs of child care; and

- changes to income testing for Childcare Assistance for school age children, which commenced in April 1998.

The campaign was broadened to promote families' awareness of Childcare Assistance and the Childcare Rebate that assist in meeting the cost of child care.

## **FAMILY AND COMMUNITY SERVICES**

### **Apply full rate of rent assistance to people lodging in marginal accommodation — bring forward implementation to 1 January 1999**

#### **Financial Implications (\$m)**

1998-99	1999-00	2000-01	2001-02
3.5	-0.4	..	..

#### **Explanation**

In the 1998-99 Budget, the Government announced that it would restore eligibility for the full rate of rent assistance to recipients who lodge in marginal accommodation, such as hostels, boarding houses and private hotels. The Government has decided that implementation of that decision should be brought forward from 1 July 1999 to 1 January 1999.

Restoring eligibility for the full rate of rent assistance to these recipients recognises that they are not able to obtain the same cost benefits as those in shared or group housing.

## **FAMILY AND COMMUNITY SERVICES**

### **Salvation Army — leadership training in the delivery of social welfare and health related services**

#### **Financial Implications (\$m)**

1998-99	1999-00	2000-01	2001-02
0.5	0.5	0.5	0.5

#### **Explanation**

The Government will provide a grant of \$2 million over four years to the Salvation Army to support training for leadership in social welfare and health related services. More specifically, the purpose of the funding is to establish and deliver specific courses related to social welfare, service delivery and management. The grant is provided through the business and community sector partnerships initiative.



## **FAMILY AND COMMUNITY SERVICES**

### **Exempt Farm Family Restart Scheme re-establishment grants from income test lump sum provisions**

#### **Financial Implications (\$m)**

1998-99	1999-00	2000-01	2001-02
2.9	1.7	-	-

#### **Explanation**

The Government has decided that, from 1 July 1998, re-establishment grants under the Family Farm Restart Scheme will no longer be assessed for social security payments.

#### **Further Information**

The Farm Family Restart Scheme, which commenced on 1 December 1997 and operates for two years, provides low income farmers who wish to leave farming with access to a re-establishment grant.

## **FAMILY AND COMMUNITY SERVICES**

### **Extension of Youth Homelessness Pilot Programme**

#### **Financial Implications (\$m)**

1998-99	1999-00	2000-01	2001-02
2.3	-	-	-

#### **Explanation**

The Youth Homelessness Pilot projects were established to identify and promote community-based service models that assist young homeless people, or those at risk of homelessness, to achieve reconciliation with their families. Where reconciliation is not possible, the pilot projects have provided opportunities for re-engagement with work, education or training, and involvement in the community. The pilot projects have been overseen by the Prime Ministerial Youth Homelessness Taskforce.

The programme, which was due to expire on 31 December 1998, has been extended for a further six months, to 30 June 1999, while the Government considers its response to the final report from the Youth Homelessness Taskforce.

## FAMILY AND COMMUNITY SERVICES

### Ex Gratia payments to pensioners without departure certificates

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
0.2	-	-	-

#### Explanation

The Government has decided to make ex gratia payments to a group of social security recipients who experienced hardship because their benefits were discontinued when they left Australia without obtaining a departure certificate.

Since 1989, pensioners intending to leave Australia for more than six months have been required to obtain departure certificates if they wished to continue to receive Australian income support payments. However, in 1995 the Government at the time believed that in some circumstances pensions were being unfairly cancelled. The *Social Security Act 1991* was amended to allow greater flexibility for pensioners travelling overseas from 1 January 1995. This ex gratia payment compensates those pensioners who experienced hardship due to the application of the legislation prior to 1995.

## FAMILY AND COMMUNITY SERVICES

### Additional funding for medical assessments for disability support payments

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
12.7	-	-	-

#### Explanation

Medical assessments are used to assist in establishing initial and continuing eligibility for disability related payments. The Government has provided additional funding in 1998-99 for these assessments to account for the current anticipated demand for these services.

## **FAMILY AND COMMUNITY SERVICES**

### **Grants to family relationship support organisations — services to support men in their family relationships**

#### **Financial Implications (\$m)**

1998-99	1999-00	2000-01	2001-02
1.5	-	-	-

#### **Explanation**

The Government is making grants to community organisations to assist men in their family relationships. These grants will allow for new support services to be established to achieve more effective outcomes for men and their families seeking assistance to build and maintain healthy relationships, including the appropriate management of separation and divorce.

## **FAMILY AND COMMUNITY SERVICES**

### **Optical surveillance to assist in detecting cases of serious social security fraud**

#### **Financial Implications (\$m)**

1998-99	1999-00	2000-01	2001-02
-8.6	-16.5	-18.3	-18.8

#### **Explanation**

The Government has decided that Centrelink will contract reputable surveillance providers to assist in investigating up to 2,000 cases of serious social security fraud in a full year. The measure, which is to be implemented from 1 January 1999, is expected to significantly reduce cases of serious fraud on the social security system.

Surveillance will be instituted only after careful consideration of whether such action is in the public interest and after all alternative methods of investigation have been exhausted. Private surveillance companies contracted by Centrelink will be required to adhere to all relevant privacy legislation, guidelines and conditions.

## **FAMILY AND COMMUNITY SERVICES**

### **Ex Gratia payment for Disability Support Pension recipients affected by the implementation of Youth Allowance**

#### **Financial Implications (\$m)**

1998-99	1999-00	2000-01	2001-02
0.3	-	-	-

#### **Explanation**

The Government has decided to make ex gratia payments to Disability Support Pension (DSP) recipients affected by the introduction of Youth Allowance.

The ex gratia payments would ensure that the new indexed rates would apply until the Social Security Legislation Amendment (Youth Allowance Consolidation) Bill 1999 aligns all DSP youth rates to equivalent categories of Youth Allowance rates and provides similar indexation arrangements.

## **FAMILY AND COMMUNITY SERVICES**

### **Ex Gratia payment for Austudy recipients affected by the implementation of Youth Allowance**

#### **Financial Implications (\$m)**

1998-99	1999-00	2000-01	2001-02
0.2	-	-	-

#### **Explanation**

The Government has decided to make ex gratia payments to two groups of former AUSTUDY recipients whose rates were affected by the establishment of the Youth Allowance on 1 July 1998.

This ex gratia payment will maintain the alignment of Youth Allowance/AUSTUDY payment and other income support payments for eligible clients. This alignment encourages income support clients to return to education by maintaining the rate of income support previously provided under AUSTUDY. The ex gratia payment will provide additional support until the rates are changed by legislation.

The affected groups are:

- students who are partnered without children and who have commenced full-time study after a period of at least 26 weeks receiving income support payments. Payments will be increased by \$26.10 per fortnight for each student; and

- students who are single parents with dependent children who were also receiving AUSTUDY. Payments will be increased by \$25.40 per fortnight for each student.

## FINANCE AND ADMINISTRATION

### Joint Standing Committee on Electoral Matters — Report on the 1996 Election — funding of Government response

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
-	5.1	4.2	4.2

#### Explanation

The Government has provided additional funding for the Australian Electoral Commission (AEC) for upgrading witnessing arrangements and proof of identity checks for new electoral enrolments as recommended in the Joint Standing Committee on Electoral Matters Report on the 1996 Election.

#### Further Information

This measure reflects the need for service delivery agencies to check identity documents, witness enrolments and forward the enrolment application to the AEC, for which the agencies will charge the AEC a fee.

## FINANCE AND ADMINISTRATION

### Restoration of Harrick's Cottage — grant to Brimbank Council

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
0.1	-	-	-

#### Explanation

In May 1998, the Government agreed to transfer Harrick's Cottage and its surrounding site to the Brimbank Council, Victoria. The cottage is listed on the Commonwealth Register of the National Estate and the Australian Heritage Commission supports the protection of the property. This measure reflects a grant from the Commonwealth for urgent structural repairs to the building, conditional on the Brimbank City Council implementing a long term management regime for the maintenance of the property.

#### Further Information

See related Finance and Administration outlays measure entitled *Administrative savings in management of non-commercial estate — Harrick's Cottage and St Peter's Church*.

## FINANCE AND ADMINISTRATION

### Grant to St Peter's Church, East Melbourne

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
0.4	-	-	-

#### Explanation

The Commonwealth has provided a grant to St Peter's Church, East Melbourne to allow it to lease suitable replacement accommodation in the area for a 'drop-in' centre, which has hitherto been located in the Mission Building within the Casselden Place office precinct in Melbourne. This Commonwealth property complex is listed for sale in 1998-99. This grant provides funds to St Peter's Church in lieu of a previous on-going commitment from the Commonwealth, under which the Church had access to the Mission Building to provide its 'drop-in' services.

## FINANCE AND ADMINISTRATION

### Administrative savings in management of non-commercial estate — Harrick's Cottage and St Peter's Church

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
-0.5	-	-	-

#### Explanation

Offsetting savings have been identified within the funding for Estate Management, following the Government's decision to make grants to:

- Brimbank City Council for the restoration of Harrick's Cottage; and
- St Peter's Church East Melbourne, to lease replacement accommodation for a drop-in centre.

#### Further Information

See related Finance and Administration measures titled *Restoration of Harrick's Cottage — grant to Brimbank Council* and *Grant to St Peter's Church, East Melbourne*.

## FINANCE AND ADMINISTRATION

### Natural disaster mitigation studies

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
3.0	3.0	3.0	3.0

#### Explanation

In August 1998, the Government announced it would provide financial assistance on a dollar for dollar basis with the State and local governments to enable risk management and mitigation studies to be undertaken across Australia. These risk assessments will identify measures which can be taken in advance of natural disasters occurring, and will assist in reducing or eliminating the disaster risk or reducing the severity of its impact on communities and the environment.

This new initiative is consistent with a recent change to the Natural Disaster Relief Authority determination, through which the Commonwealth has put State and Territory governments on notice that, in areas where disasters have recurred and have caused significant or widespread community disruption and damage, State and local government agencies will be required to have demonstrated acceptable disaster mitigation strategies as a condition for obtaining funding under Natural Disaster Relief Arrangements to assist in the restoration and repair of public assets.

#### Further Information

See related Finance and Administration outlays measure titled *Natural disaster mitigation studies — funded from within Natural Disaster Relief Assistance*.

## FINANCE AND ADMINISTRATION

### Natural disaster mitigation studies — funded from within Natural Disaster Relief Assistance

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
-3.0	-3.0	-3.0	-3.0

#### Explanation

The funding announced by the Government in August 1998 will provide financial assistance for the States and Territories and local governments to enable risk management and mitigation studies to be undertaken across Australia. It is expected to result in offsetting savings in Natural Disaster Relief Arrangements outlays to the States and Territories, particularly in those areas where there are recurring natural disasters.

## Further Information

See related Finance and Administration outlays measure titled *Natural disaster mitigation studies*.

## FINANCE AND ADMINISTRATION

### Victoria Emergency Fund

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
100.0	-	-	-

#### Explanation

The Prime Minister announced on 2 October 1998 that grants for emergency assistance funding, totalling up to \$100 million, would be provided to persons and small business affected by the interruption to the Victorian gas supply. The assistance includes:

- cash grants equivalent to Newstart Allowances, to be administered through Centrelink, to workers who were stood down and who were unable to access immediate assistance to relief;
- grants to Victoria and other affected States to enable them to provide assistance to small business directly affected by the interruption to the gas supply; and
- emergency relief funding, to be administered by the Department of Family and Community Services, for community organisations dealing with the frail aged, disabled and other disadvantaged groups in the community.

## FINANCE AND ADMINISTRATION

### Payment to the administrator of Cobar Mines Pty Ltd

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
0.1	-	-	-

#### Explanation

In August 1998 the Prime Minister announced that an ex gratia payment would be made to the administrator of Cobar Mines Pty Ltd for distribution to ex-employees and unsecured third party trade creditors. This payment is equivalent to the amount of tax payable by the company and will minimise the financial impact on ex-employees and small businesses in Cobar following the closure of Cobar Mines in 1997.



## FINANCE AND ADMINISTRATION

### Costs associated with the privatisation of the Wool International stockpile

#### Financial Implications (\$m)

	1998-99	1999-00	2000-01	2001-02
Finance and Administration	4.0	-	-	-
Agriculture, Fisheries and Forestry	0.5	-	-	-
Total	4.5	-	-	-

#### Explanation

The Government has decided to transfer ownership and control of the wool stockpile to the woolgrowers who paid for it and to withdraw the Government from participation in this aspect of the wool industry. Wool International, a Commonwealth statutory authority, currently manages the wool stockpile.

The Government's objective is to effect the transfer of the wool stockpile from 1 July 1999.

## FINANCE AND ADMINISTRATION

### Reimbursement of costs associated with the privatisation of the Wool International stockpile

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
-	-	-	-

#### Explanation

This measure reflects the reimbursement from Wool International for the costs associated with its privatisation following the Government decision to demutualise the organisation and withdraw from its participation in this aspect of the wool industry.

This measure will reduce headline outlays by \$4.5 million in 1998-99. The Commonwealth's underlying budget position is not affected by this reimbursement.

## HEALTH AND AGED CARE

### Australian Health Care Agreements — additional funding to the States

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
182.0	192.7	169.2	180.1

#### Explanation

The Government has agreed to provide additional funding of \$915 million over five years for the Australian Health Care Agreements (AHCA), which were signed in August 1998 by the Commonwealth and all States and Territories, except Western Australia and Tasmania. The latter States continue to receive funding primarily on the basis of the offer while negotiations on the finalisation of the Agreements continue.

The AHCA funding arrangements took effect from 1 July 1998. The additional funding has been allocated to base hospital funding (including funding for mental health, palliative care and hospital quality enhancement programmes) and State specific health initiatives of \$850 million and \$65 million, respectively, over the life of the Agreements.

This decision increases funding under the new AHCA arrangements to \$3.8 billion over the life of the Agreements.

#### Further Information

At the Premiers' Conference in March 1998, the Commonwealth proposed funding arrangements for new five-year AHCAs to replace the previous Medicare Agreements, which expired on 30 June 1998.

The 1998-99 Budget increased related Commonwealth spending by \$2.9 billion:

- funding for the 1998-2003 AHCA included an increase of around \$2.1 billion over five years in addition to what would have been provided had the Medicare Agreements continued in their previous form; and
- a further \$750 million over five years will be provided through the Veterans' Affairs portfolio to allow full cost purchasing of hospital treatment for entitled veterans.

## HEALTH AND AGED CARE

### Establish an Institute of Clinical Studies

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
-	5.0	5.1	-

#### Explanation

The Government has decided to provide financial support for the establishment of a National Institute of Clinical Studies, which will provide resources for evidence-based clinical practice. The work of the Institute will assist in improving health outcomes and containing health costs in the public and private systems. It will work with clinicians and their teams to develop and implement best practice clinical care through acquiring and developing clinical care measurement and assessment skills and process management techniques. Funding will be subject to a review after two years of operation.

## HEALTH AND AGED CARE

### Private health insurance industry reforms — re-insurance consultancy and consumer information service

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
0.8	0.5	0.5	0.5

#### Explanation

The Government is providing funding for two initiatives that will contribute to reforms aimed at improving the efficiency and value of private health insurance in the medium to longer term.

The first is a review of the private health insurance industry's re-insurance arrangements which will be conducted during the first half of 1999. Re-insurance is an equalisation scheme regulated by the Government to support the legislative requirements of community rating. Re-insurance arrangements have the potential to underpin important structural reforms to stabilise the private health insurance industry. Industry and consumer groups will be consulted about objectives for the review and the proposed final model.

Under the second initiative, the Government will work with industry and consumer bodies to develop a consumer information service on health funds and their comparative performance against industry benchmarks.

## HEALTH AND AGED CARE

### Additional aged care places in rural and regional communities

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
0.3	1.1	1.5	1.5

#### Explanation

In the May 1998 allocation round for aged care places, demand was very strong and exceeded the number of places available in rural and regional Australia. The Government will provide 200 additional aged care places in rural and regional communities. The measure will assist frail elderly Australians in rural and regional areas to gain access to appropriate residential care.

#### Further Information

See also the related Health and Aged Care outlays measure entitled *Transfer of aged care places to rural and regional communities*.

The financial impact of this measure differs from that published in the September 1998 *Pre-Election Economic and Fiscal Outlook* as a consequence of minor adjustments, including changed timing for implementation.

## HEALTH AND AGED CARE

### Transfer of aged care places to rural and regional communities

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
-	-1.6	-1.7	-1.7

#### Explanation

The Government has agreed to transfer 200 places from existing Aged Care funding to provide additional aged care places in rural and regional communities.

#### Further Information

See also related Health and Aged Care outlays measure entitled *Additional aged care places in rural and regional communities*.

The financial impact of this measure differs from that published in the September 1998 *Pre-Election Economic and Fiscal Outlook* as a consequence of minor adjustments, including changed timing for implementation.

## HEALTH AND AGED CARE

### Additional funding for residential aged care services continuing to receive additional recurrent funding

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
0.6	1.3	2.4	3.1

#### Explanation

Currently, under the *Aged Care Act 1997*, providers with additional recurrent funding grants are not able to access accommodation payments unless they first relinquish their grant.

The Government will permit residential aged care service facilities which currently receive additional recurrent funding to charge newly incoming residents an accommodation charge while at the same time (and at the same rate) the facility's additional recurrent funding is phased out. The measure will significantly assist some residential aged care services with the transition to new capital arrangements put in place under the aged care reforms.

This arrangement applies from 1 July 1999. Funding in 1998-99 is provided for computer systems and other set-up costs.

## HEALTH AND AGED CARE

### Assistance to remote Aboriginal communities to purchase aviation fuel (Avgas) instead of petrol to combat petrol sniffing

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
0.5	1.0	1.0	1.0

#### Explanation

The Government is providing funding to ensure that more affordable aviation fuel (Avgas) is available in remote Aboriginal communities which have undertaken to combat petrol sniffing by keeping their communities petrol-free. These communities have decided to use Avgas in their vehicles instead of petrol.

This funding will be used to offset the excise paid on Avgas, to ensure that it is available in those communities at a similar price to petrol.

## IMMIGRATION AND MULTICULTURAL AFFAIRS

### Student Visa Programme — additional compliance and processing costs

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
3.5	3.7	4.2	4.8

#### Explanation

This initiative addresses a range of issues associated with the student visa programme identified in the Government's 1996-97 review of the programme. It will improve the programme's capability to support the overseas educational services sector in attracting more overseas fee-paying students to Australia, while at the same time preventing people abusing the system. The recommendations will:

- streamline visa application and processing arrangements for low risk categories of applicants; and
- ensure temporary entrants to Australia on student visas are genuine and fulfil their obligations and do not default on their visa conditions.

#### Further Information

See also the related revenue measure entitled *Student visa programme — additional revenue from visa processing*.

## IMMIGRATION AND MULTICULTURAL AFFAIRS

### Extension of Electronic Travel Authority to Hong Kong and Taiwan — offsetting savings

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
-	-9.5	-10.3	-11.1

#### Explanation

The decision to extend Electronic Travel Authority (ETA) arrangements to Hong Kong and Taiwan will result in a reduction of revenue from non-ETA visa processing, which requires offsetting savings to neutralise the impact on the budget balance. The Government will consider the options for delivering this offset in the context of the 1999-2000 Budget.

### Further Information

See also related revenue measure entitled *Extension of Electronic Travel Authority to Hong Kong and Taiwan from 1 July 1999*.

## INDUSTRY, SCIENCE AND RESOURCES

### Assistance to Textile, Clothing, Footwear and Leather industries

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
-	-	10.2	144.7

#### Explanation

In July 1998, the Government announced the Strategic Investment Programme (SIP) for the textile, clothing, footwear and leather (TCF) industries. This is a five-year, \$700 million programme commencing in July 2000, which is intended to encourage investment and modernisation of these industries.

#### Further Information

The SIP complements (and is additional to) the Government's previously announced Post 2000 initiatives for TCF industries. The other decisions reported in the 1997-98 *Mid-Year Economic and Fiscal Outlook* and the 1998-99 Budget include a TCF Technology Development Fund, a National Centre for Excellence in Training and a Market Development Programme.

The financial impact of this measure in 2001-02 differs from that disclosed in the September 1998 *Pre-Election Economic and Fiscal Outlook* as a consequence of a redistribution in economic parameters since that time.

## INDUSTRY, SCIENCE AND RESOURCES

### Australian Commonwealth Games Association — grant to assist its preparation for, and involvement in, the 1998 Commonwealth Games

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
0.4	-	-	-

#### Explanation

The Prime Minister announced the Government provided funding to the Australian Commonwealth Games Association to ensure the Association could properly transport and equip its teams at the 1998 Commonwealth Games in Kuala Lumpur.

## INDUSTRY, SCIENCE AND RESOURCES

### Investment incentives for Visy Pulp and Paper mill project

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
-	3.0	3.0	3.0

#### Explanation

The Government has provided an incentive package of \$40 million over five years from 1999-2000 to Visy Industries to establish an unbleached mini kraft pulp and paper mill in Tumut, New South Wales. Of the \$40 million incentive package, \$25 million will come from existing programmes.

The package is provided under the Government's strategic investment incentives programme announced in *Investing for Growth* in December 1997. The investment incentives programme is designed to provide investment incentives for eligible projects which would not otherwise come to Australia and from which a significant economic and employment benefit is expected to result. In the case of this project, it was clear that without Government support the project was unlikely to proceed.

The project involves a major capital investment of \$450 million and will provide significant benefits for the local area. It is expected to create around 1,000 direct and indirect jobs including 250 jobs in the construction phase and 145 full time jobs when the mill is fully operational.

## PRIME MINISTER AND CABINET

### Federation Fund — revised funding profile

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
-	100.0	-	-100.0

#### Explanation

Assistance totalling \$100 million from the Federation Fund will be brought forward from 2001-02 to 1999-2000 in order to ensure that a higher proportion of approved projects are able to be completed in time for the Centenary of Federation in 2001.

#### Further Information

The Federation Fund's revised funding profile, which includes the additional funding approved by the Government in August 1998 for 1999-2000, is now \$100 million in 1998-99, \$306.8 million in 1999-2000, \$300 million in 2000-01 and \$300 million in 2001-02.



See also the related Prime Minister and Cabinet outlays measure entitled *Federation Fund — additional funding*.

## **PRIME MINISTER AND CABINET**

### **Federation Fund — additional funding**

#### **Financial Implications (\$m)**

1998-99	1999-00	2000-01	2001-02
-	6.8	-	-

#### **Explanation**

The Government decided in August 1998 to increase Federation Fund assistance by \$6.8 million to provide appropriate levels of assistance for the combination of major projects approved around Australia.

#### **Further Information**

See also the related Prime Minister and Cabinet outlays measure entitled *Federation Fund — revised funding profile*.

## **PRIME MINISTER AND CABINET**

### **Flood relief — Wollongong**

#### **Financial Implications (\$m)**

1998-99	1999-00	2000-01	2001-02
0.1	-	-	-

#### **Explanation**

Following the devastating floods in Wollongong in August 1998, the Prime Minister approved a Commonwealth contribution of \$100,000 to the Lord Mayor's Relief Fund for the victims of the floods.

## PRIME MINISTER AND CABINET

### Referendum on the Republic

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
5.4	-	-	-

#### Explanation

Following the Government's decision in July 1998 that planning should proceed for a Referendum on the Republic in 1999, funding has been provided for initial preparations and activities, including a public education programme based on recommendations from the Constitutional Convention.

Funding for the conduct of the national poll and information activities will be considered in the 1999-2000 Budget.

## TRANSPORT AND REGIONAL SERVICES

### Sydney to Canberra Very High Speed Train Project — proving up phase

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
1.0	-	-	-

#### Explanation

The Government will contribute \$1 million towards the cost of the proving up phase of the Sydney to Canberra Very High Speed Train Project. It has been provided on the condition that the NSW and ACT Governments each contribute \$1 million. The costs of the proving up phase will be refunded out of the fee that will be paid by the successful bidder if the project proceeds to construction.

## TRANSPORT AND REGIONAL SERVICES

### Northern Territory Indigenous Health Infrastructure

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
10.0	-	-	-

#### Explanation

The Government has extended funding for the Northern Territory Indigenous Health Infrastructure Programme. This programme funds the construction and enhancement of infrastructure to improve living conditions and health standards for indigenous people in the Northern Territory.

## TRANSPORT AND REGIONAL SERVICES

### Telstra Social Bonus — Rural Transaction Centres

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
1.0	30.0	30.0	9.0

#### Explanation

As part of the Government's social bonus, to be funded from the proceeds of sale of the second tranche of Telstra, the Government will fund the establishment of up to 500 rural transaction centres. Rural transaction centres will fill the gaps in banking, postal, phone, fax, medicare claim and other services in smaller towns that are no longer able to attract some or all of these services.

See also the following related outlays measures:

- *Telstra Social Bonus — upgrade of the telecommunications infrastructure in remote Australia to facilitate the abolition of pastoral call rate* in the Communications, Information Technology and the Arts portfolio;
- *Telstra Social Bonus — increased funding for Networking the Nation* in the Communications, Information Technology and the Arts portfolio;
- *Telstra Social Bonus — further increased funding for Networking the Nation* in the Communications, Information Technology and the Arts portfolio;
- *Telstra Social Bonus — Television Fund Initiative* in the Communications, Information Technology and the Arts portfolio; and

- *Telstra Social Bonus* — additional funding for the Natural Heritage Trust in the Environment and Heritage portfolio.

## TREASURY

### Community education and information programme on the tax system

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
3.0	-	-	-

#### Explanation

Funding of \$3 million has been allocated, from an overall \$10 million programme in 1998-99, for an education and information programme to inform the public of the nature of the Australian taxation system and the changes required to reform it. The information will assist taxpayers understand the nature of reform to the tax system and how it affects them, which will result in better compliance and the development of a more efficient revenue base.

#### Further Information

See related Treasury outlays measures entitled *Community education and information programme on the tax system — private health insurance rebate* and *Community education and information programme on the tax system — tax reform call centres*.

## TREASURY

### Community education and information programme on the tax system — private health insurance rebate

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
2.0	-	-	-

#### Explanation

Funding of \$2 million has been allocated, from an overall \$10 million information and education programme in 1998-99, to inform the public of the nature of the Australian taxation system and the changes required to reform it. The information provided under this measure will assist taxpayers to better understand the nature of reforms to the tax system as it affects health programmes.

## Further Information

See related Treasury outlays measures entitled *Community education and information programme on the tax system* and *Community education and information programme on the tax system — tax reform call centres*.

## TREASURY

### Community education and information programme on the tax system — tax reform call centres

#### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
5.0	-	-	-

#### Explanation

Funding of \$5 million has been allocated, from an overall \$10 million education and information programme in 1998-99, for the establishment of call centres. The information and education programme is designed to assist taxpayers understand the nature of taxation reform and will result in better compliance and the development of a more efficient revenue base. The call centres will enable the public to easily access information on the nature of the Australian taxation system and the changes required to reform it.

## Further Information

See related Treasury outlays measures entitled *Community education and information programme on the tax system* and *Community education and information programme on the tax system — private health insurance rebate*.

The financial impact of this measure differs from that published in the September 1998 *Pre-Election Economic and Fiscal Outlook* due to an extension of the programme.

## TREASURY

### A New Tax System

#### Financial Implications (\$m)

	1998-99	1999-00	2000-01	2001-02
Contingency Reserve	-	-	-537.0	-568.0
Education, Training and Youth Affairs	-	-	7.5	6.9
Employment, Workplace Relations and Small Business	-	500.0	-	-
Family and Community Services	-	-	4209.3	3014.8
Health and Aged Care	322.0	949.0	1016.0	1089.0
Transport and Regional Services	-	-	-1335.7	-1382.2
Treasury	5.0	448.0	-15644.0	-15117.0
Veterans' Affairs	-	-	395.9	219.5
Total	327.0	1897.0	-11888.0	-12737.0

#### Explanation

On 13 August 1998, the Government announced a major taxation reform package, *A New Tax System*. The reforms encompass both outlays and revenue measures. Revenue estimates are presented in the revenue section of this Appendix. Key outlays decisions include:

- the replacement of the general purpose assistance to State and local governments with the revenue from the introduction of the goods and services tax (GST);
- increases in income support and related payments, and income and assets test free areas, which more than offset the price impact of the GST;
- an aged persons savings bonus of up to \$1,000 per person and self-funded retirees supplementary bonus of up to \$2,000, to maintain the value of the savings and retirement income of older people;
- a reduction in the taper rate applied to pensions, allowing pensioners to earn more income without affecting their benefits;
- increase of family assistance in the form of a family tax benefit (equivalent to doubling the tax free threshold under the family tax initiative), increasing the means test and reducing taper rates for family tax benefits;
- a 30 per cent tax rebate/benefit for the cost of private health insurance premiums to be introduced on 1 January 1999, to assist families and individuals with the cost of private health insurance;
- provision of up to \$500 million to assist with GST startup costs for small and medium businesses; and

- a diesel fuel credit delivered through the GST system to be introduced for registered businesses, removing the need for the Diesel Fuel Rebate Scheme.

The proposed changes will begin to come into effect from the first half of 1999 with the implementation of the private health insurance initiative. The remaining outlays measures will be introduced with implementation of *A New Tax System* to begin in July 2000, subject to the necessary legislative changes.

The Commonwealth will also provide a one-year interest-free loan to the States in 2000-01 to offset their financing shortfall in that year arising from the introduction of the GST. This measure will increase headline outlays in 2000-01 and reduce headline outlays in 2001-02 by an equivalent amount. The Commonwealth's underlying budget position is not affected by this measure.

## **VETERANS' AFFAIRS**

### **Extend rent assistance eligibility for the Veterans' Children Education Scheme**

#### **Financial Implications (\$m)**

1998-99	1999-00	2000-01	2001-02
0.6	0.6	0.6	0.6

#### **Explanation**

This initiative, which took effect from 1 July 1998, extends non-means tested rent assistance to Veterans' Children Education Scheme students aged 16 and over who receive the Living Away From Home education allowance. This measure aligns allowances from the Veterans' Children Education Scheme with those provided under the Youth Allowance.

## REVENUE

### TAXATION REVENUE

#### Defer start date for opting out of the Superannuation Guarantee System

##### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
-0.7	-	-	-

##### Explanation

The Government announced in the 1996-97 Budget its intention to allow employees earning \$450 to \$900 per month from an employer the opportunity to receive wages or salary in lieu of Superannuation Guarantee contributions from 1 July 1998. The reduced flow of money into superannuation results in lower contributions tax revenue but this is more than offset by additional income tax revenue.

On 13 May 1998, the Government announced that the new commencement date for the arrangements to allow low-income earners to opt out of the superannuation system would be 1 July 1999. Postponing the commencement of the measure to 1999-2000 implies that there will be more money flowing into superannuation (and higher contributions tax revenue) than previously expected in 1998-99, but this is more than offset by lower income tax revenue.

#### Cessation of TCF Import Credit Scheme

##### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
-	-	107.0	120.0

##### Explanation

As part of the post-2000 assistance arrangements for the Textiles, Clothing and Footwear (TCF) industry, the details of which were announced on 10 July 1998, the Government confirmed that the Import Credit Scheme would terminate on 30 June 2000, as scheduled. It will be replaced by the TCF Strategic Investment Programme.



## Extension of TCF Overseas Assembly Provisions

### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
0.0	0.0	-8.0	-8.0

### Explanation

Established in 1993, the current Overseas Assembly Provisions (OAP) allow Textiles, Clothing and Footwear (TCF) firms to import duty free the local content of clothing cut to shape in Australia but assembled overseas. As part of the post-2000 assistance arrangements for the TCF industry, the details of which were announced on 10 July 1998, the scheme is to be extended from 1 January 1999 to December 2004. Coverage will be expanded to include the conversion offshore of cut or uncut fabric and leather into finished goods, and to enable some post-assembly operations to be undertaken offshore.

### Tax Reform Package

### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
-	739.0	-16651.0	-17541.0

### Explanation

On 13 August 1998, the Government announced a major taxation reform package, *A New Tax System*. The reforms encompass both outlays and revenue measures. Outlays estimates are presented on page 72. Key revenue measures include:

- lower personal income tax rates;
- abolition of Wholesale Sales Tax;
- introduction of a Goods and Services Tax;
- abolition of nine State and Territory taxes; and
- reform of business taxes.

## Administrative changes to Project By-Law Scheme

### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
-0.5	-0.6	-0.6	-0.7

### Explanation

On 23 June 1998, the Minister for Industry, Science and Tourism and the Minister for Customs and Consumer Affairs announced certain administrative changes to policy by-laws administered on a project basis ('project by-laws'). The changes, effective from 1 August 1998, relate to concessional items 45, 46, and 56 of Schedule 4 of the *Customs Tariff Act 1995* which permit duty-free entry of certain capital equipment not manufactured in Australia. Under the new, quicker arrangements, requests, assessment and decision making will be made within 90 days. A statement from the Industrial Supplies Office Network (ISONET) or a tariff concession order will now be required to demonstrate that the capital equipment is not manufactured in Australia.

## Removal of Tariffs on Medical and Scientific Equipment

### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
-20.2	-28.4	-33.2	-38.8

### Explanation

The Minister for Industry, Science and Tourism announced on 24 July 1998 that the remaining tariffs on medical and scientific equipment covered by headings 9011 to 9033 (inclusive) of the Customs Tariff, but excluding any goods included in the passenger motor vehicle plan, would be reduced to zero. Implemented on 1 September 1998, this decision forms part of the Government's response to the Industry Commission's 1996 inquiry into the medical and scientific equipment industries.

## Taxation Treatment on Disposal of Mining Property

### Financial Implications (\$m)

1998-99	1999-00	2000-01	2001-02
*	*	*	*

\* This measure protects revenue.

### Explanation

The Government announced on 3 December 1998 a legislative response to a 22 July 1998 Full Federal Court decision in *Esso Australia Resources Ltd v FCT*, to ensure that the tax treatment on disposal of mining property continues to operate as previously applied. The amendment will apply to disposals of mining property which occur from 4pm AEST on 3 December 1998 and will ensure that mining taxpayers will

receive deductions for the full amount of capital expenditure which is allowable under the mining provisions.

Prior to the Court decision, the reference to capital expenditure for the purpose of determining balancing adjustments was confined to capital expenditure which is deductible under the mining provisions. However, the Court decision will allow certain expenditure which is not deductible under the mining provisions, such as under the exploration and prospecting and the allowable capital expenditure provisions, to become an allowable deduction at the time when the mining property ceases to be used for mining purposes.

## **NON-TAXATION REVENUE**

### **Student Visa Programme — additional revenue from visa processing**

#### **Financial Implications (\$m)**

1998-99	1999-00	2000-01	2001-02
3.9	4.1	4.6	5.2

#### **Explanation**

The Government has established a range of new processing charges for applicants for student visas. It is estimated that \$17.8 million will be raised over 1998-99 to 2001-02 to provide additional resources to enhance the integrity of the student visa programme. These resources will enable streamlined visa application and processing for low risk applicants, and ensure temporary entrants to Australia on student visas are genuine, fulfil their obligations and do not default on visa conditions.

#### **Further Information**

See also related Immigration and Multicultural Affairs outlays measure entitled *Student visa programme — additional compliance and processing costs*.

### **Extension of Electronic Travel Authority to Hong Kong and Taiwan from 1 July 1999**

#### **Financial Implications (\$m)**

1998-99	1999-00	2000-01	2001-02
-	-9.5	-10.5	-11.6

#### **Explanation**

This initiative extends Electronic Travel Authority (ETA) arrangements to Hong Kong and Taiwan with effect from 1 July 1999. It is in line with a Government decision to extend ETA arrangements for high volume, low risk tourism markets where effective and secure arrangements exist for local processing of visa applications.

## **Further Information**

The extension of ETA to Hong Kong and Taiwan will result in a reduction in the collection of the higher rates of revenue attributable to non-ETA visa processing. The Government has decided that offsetting savings will be required to neutralise the impact of this initiative on the budget balance.

See also related Immigration and Multicultural Affairs outlays measure entitled *Extension of Electronic Travel Authority to Hong Kong and Taiwan — offsetting savings*.

## APPENDIX B: STATEMENT OF RISKS

### OVERVIEW

The forward estimates of revenue and outlays in the MYEFO 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 Act 1998* requires these to be disclosed in a Statement of Risks in each Economic and Fiscal Outlook Report. 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 is attached to budget time and forward estimates for both revenues and outlays. For example, past experience indicates that the actual revenue outcome could vary from the initial estimate by about 2¼ per cent on average for the budget year.

The major factor influencing expected outlays and revenues in any year is 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 C.

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 assumptions underpinning some particular programme estimates, eg client numbers and/or average rates payable on family payments, family tax payments and disability support pension programmes.

### 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 outlays and/or 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.

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.

### **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 exposure to contingent liabilities arises 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 Telstra Superannuation Scheme.

The strategies for managing these exposures are aimed at ensuring the underlying strength and viability of the entities, 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 for capital contributions, including contingent liabilities, 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 below.

## **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 10 December 1998. In general, information on contingent liabilities is based on information provided by departments and agencies and is current to 31 October 1998 (or a later date as indicated where that information is available). However, for the guarantees under the *Commonwealth Bank Sale Act 1995* and the Telstra Corporation Ltd superannuation guarantee, the latest reliable information available on the balance of guarantees outstanding was at the end of June 1998.

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

### **Fiscal Risks — Revenue**

Revenue forecasts, like all forecasts, are subject to a margin of error. Over the previous ten years, the average absolute error in the forecast of revenue in the budget year has been in the order of 2¼ per cent.

The average forecast error, measured relative to the tax base being forecast, is even higher for some components of the tax base. This is particularly evident for the 'Company' and 'Other Individuals' tax bases, partly reflecting the reaction of these payers to tax changes, and the way capital losses or gains are realised so as to minimise tax payments. An implication of the errors surrounding the revenue forecasts is that, while many of the forecasts are reported to the nearest ten million dollars for budget accounting purposes, they should not be interpreted as implying an equivalent level of forecast precision.

The various risks influencing the accuracy of the revenue forecasts are outlined below.

### ***Tax Reform***

On 13 August 1998, the Government announced a major taxation reform package, *A New Tax System*. The reforms encompass both outlays and revenue measures. Key revenue measures include:

- lower personal income tax rates;
- abolition of Wholesale Sales Tax;
- introduction of a Goods and Services Tax;
- abolition of nine State and Territory taxes; and
- reform of business taxes.

Subsequently, the Government appointed Mr John Ralph AO to head a review of business taxation to report not later than 30 June 1999. The strategy in relation to reform of business entities is to consult on the proposed framework and on transitional and implementation details. The strategy in relation to business investments is to consult on the extent of reform against the goal of achieving a 30 per cent company tax rate and the prospect for further Capital Gains Tax relief. A requirement of the reform of business taxation is that it is revenue neutral.

The forward estimates fully incorporate the revenue effects of the taxation reform package announced by the Government, and assume that all measures commence on the announced starting date. To the extent that the implementation of the Government's package varies from that announced there may be an impact on future revenue collections.

### *Indirect Tax Changes*

A key element of tax reform is the introduction of a goods and services tax (GST) to abolish Wholesale Sales Tax (WST) and a series of State and Territory taxes. Rejection of the legislation or significant amendments would jeopardise the proposal and could amount to a serious fiscal risk.

### *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; 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 policymakers. 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 taxation 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. This subject is being considered by the Review of Business Taxation.



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 could render traditional tax collection mechanisms unworkable, posing a major challenge for tax system design. The OECD is developing a taxation framework to apply to electronic commerce which will include ‘place of taxation’ rules for consumption taxes and measures to strengthen international co-operation in tax administration and collection. Australia is contributing actively to this work. The ATO has sought to raise awareness of the issue in its December 1997 publication *Tax and the Internet*.

**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.

**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. As a result of a decision in the 1998-99 Budget, all tax expenditures will be subject to ongoing monitoring and evaluation to determine whether they remain relevant to meeting the Government’s priorities.

Apart from the abovementioned 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 stocks, 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 that 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.

### *Review of 'nuisance tariffs'*

On 24 July 1998 the Minister for Industry, Science and Tourism announced a review of all tariffs in the three to five per cent range ('nuisance tariffs'). Industry has been consulted on tariff items that raise little revenue and provide little or no protective benefit to Australian industry. The review is expected to be completed in early 1999. Depending on its outcome, the Government will consider removing these tariff items.

### *Review of the general tariff rate*

Under the 1994 Bogor Declaration, Asia-Pacific Economic Cooperation (APEC) members committed to 'free and open' trade and investment in the region by 2010 for developed economies and 2020 for industrialising economies. As part of Australia's Individual Action Plan the general tariff rate (currently at five per cent) is scheduled to be reviewed by the year 2000.

### *Remuneration for use of \$A by the International Monetary Fund*

The IMF pays Australia remuneration when it uses \$A in its transactions with member countries. The amount of remuneration Australia receives from the IMF is dependent upon the quantity of \$A used, the Special Drawing Right (SDR) interest rate and the SDR/\$A exchange rate, and is therefore uncertain.

## **Fiscal Risks — Outlays**

### ***Agriculture, Fisheries and Forestry***

#### *Exceptional circumstances and drought relief*

Additional expenditure on exceptional circumstances 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 and conditions.

### ***Attorney-General's***

#### *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's offer has been extended to cover intermediate period acts and certain specified future acts. The extent of Commonwealth payments to the States pursuant to this offer will depend on the terms of the final agreements and the level of compensation liabilities arising from actions by the States to acquire native title rights. Those liabilities cannot be quantified due to uncertainty about future acts by the States and the extent and valuation of surviving native title. The Commonwealth has also offered to assist States and Territories with the costs of alternative arbitral bodies and equivalent bodies approved under the Act. The extent of this assistance will depend on decisions to establish such bodies, the timing of their recognition and the extent of their use.

### ***Communications, Information Technology and the Arts***

#### *Digitisation strategy of the Australian Broadcasting Corporation*

The Government has agreed to cover, at the end of the five-year conversion period (ie until 2002-03), outstanding debt in relation to Phase 1 of the Australian Broadcasting Corporation's plans for the conversion to digital broadcasting. That debt is currently estimated to be about \$31 million.

#### *Sale of radiofrequency spectrum licenses*

The Commonwealth has announced the release of spectrum licenses for sale. The estimates of the proceeds from spectrum license sales are based on current market information. However, the actual amount realised will depend on the market conditions at the time of sale.

The precise timing of the sales will also depend on market conditions. Further sales are expected to occur in 1998-99 and 1999-2000 and may be deferred if market conditions prove unfavourable.

## ***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, compensation for termination of sand mining leases at Shoalwater Bay, and alleged defective administration by the Department. The value of these claims now stands at some \$100 million.

## ***Education, Training and Youth Affairs***

### *NSW University superannuation supplementation*

The NSW Government has passed amendments to legislation which offer current contributing members of the State Superannuation Scheme the opportunity to transfer from an emerging cost pension scheme to a fully funded one which provides lump sum benefits. Some employees of universities are members of the State Superannuation Scheme. If the offer is extended to these employees and some accept the offer, it may bring forward into 1999-2000 superannuation commitments which would not otherwise have fallen due until future years. It is not possible, at this stage, to quantify the level of take-up of the offer nor its financial impact.

## ***Family and Community Services***

### *Applying the newly arrived resident's waiting period to agreement countries*

The 1998-99 Budget contained the social security measure 'Applying the Newly Arrived Resident's Waiting Period to Agreement Countries', which required New Zealand citizens to wait two years before claiming Australian income support payments. Savings of about \$42 million over four years were estimated. Introduction of relevant legislation has been delayed until the Autumn or Winter Sittings in 1999. Even assuming passage of the legislation, the postponement of implementation (and therefore savings) could mean that the forward estimates require variation.

### *Modified treatment of non-economic loss compensation payments*

This 1998-99 Budget measure sought to include lump-sum non-economic loss compensation payments in the income test for determining income support payments. This would remove the existing incentive for income support recipients of non-economic loss compensation payments to take lump sums in preference to on-going income support.

Legislation for this measure is expected to be introduced in the Autumn Sittings 1999, for an anticipated implementation date of 1 July 1999. If this measure does not pass the Senate, estimated expenditure would increase by some \$50 million over the budget and forward estimates period.

### *Payment Cycles Project*

In the 1997-98 Budget the Government agreed (subject to legislation) to pay most social security and veterans' affairs payments fortnightly in arrears and to simplify the date of effect provisions. These initiatives were to be implemented on 1 July 1999. The Social Security and Veterans' Affairs Legislation Amendment (Payment Processing) Bill, which would give effect to the initiatives, has just been reintroduced into the House of Representatives. If the legislation is not passed, the forward estimates will need to be increased by some \$150 million to exclude the estimated savings resulting from these measures.

### *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 were reached in 1999, it would not commence before July 2000 at the earliest.

### *Staying at Home — Carer and Support of Older Australians' package*

A Bill to put into effect a number of initiatives for carers was to be introduced during the 1998 Spring Sittings. The initiatives include the introduction of Carer Allowance; the adoption of the Adult Disability Assessment Tool as the basis of determining eligibility for Carer Payment and for the adult stream of Carer Allowance; and the adoption of an eligibility threshold for the adult stream of Carer Allowance that would result in 14,000 additional carers being eligible for payment of the Allowance. These measures were to be implemented from 1 July 1999.

As a result of the Federal Election, it is now intended that the Social Security (Assistance for Carers) Bill 1999 will be introduced in the Autumn Sittings. If the Bill does not achieve passage during that sitting, it will not be possible to introduce these new measures on 1 July 1999. This would delay expenditure, which was originally estimated at \$80 million over the forward estimates period.

## ***Finance and Administration***

### *Asset sales*

The major asset sale provided for in the 1998-99 Budget figuring was the sale of the Commonwealth's remaining equity in Telstra Corporation.

The revised estimates include the effect of the sale of the remainder of Telstra, noting that the level of proceeds will depend, *inter alia*, on the prevailing levels of world equity markets at the time of the sale. The first stage of the sale will leave majority control in Government hands.

### *Constitutional referendum*

At the close of the Constitutional Convention in February 1998, the Prime Minister confirmed that, if re-elected, the Government would put the Convention's preferred

bipartisan appointment of the president model to a referendum in 1999. No provision for the referendum has currently been made in the estimates. Both the timing and the cost of the referendum are uncertain. However, a stand-alone referendum is expected to be conducted late in 1999. It is estimated to cost \$62 million in 1999-2000.

#### *Member choice and Commonwealth Superannuation Arrangements*

New superannuation arrangements for Commonwealth employees have been provided for in the budget and forward estimates although the arrangements are subject to the passage of legislation currently before the Parliament. These new arrangements involve the closure to new entrants of the Public Sector Superannuation Scheme (PSS) from 1 July 1999 and the choice for new employees of either a complying superannuation fund or a Retirement Savings Account offered by their employer. Existing employees will have a similar choice from 1 July 2000 if they wish to cease their membership of the PSS or the Commonwealth Superannuation Scheme. Incorporation of the new superannuation arrangements in the estimates has increased expected superannuation outlays by \$12 million in 1999-2000, \$265 million in 2000-01, and \$295 million in 2001-02 without increasing the superannuation costs to employers. These amounts are a bringing forward of future outlays and therefore represent no net cost to the Budget on an accrual basis.

#### ***Health and Aged Care***

##### *Australian Health Care Agreements*

The Commonwealth and all States and Territories, except Western Australia and Tasmania, have signed new five-year Australian Health Care Agreements (AHCA), commencing 1 July 1998. Western Australia accepted the AHCA proposal in-principle on 3 August 1998, and Tasmania did likewise on 21 September 1998. The Agreements incorporate a risk sharing arrangement for changes in the private health insurance participation rate. Under this formula, a nationally consistent rise of one percentage point in the participation rate above a point midway between the March 1998 and June 1995 levels will reduce Commonwealth grants to the States and Territories by approximately \$82 million a year from 1999-2000. Commonwealth grants will be increased by a similar amount from 1999-2000 if the participation rate falls by one percentage point below the December 1998 level (based on current estimates of movements in population, the hospital output cost index, and assuming those leaving private health insurance have the same age/sex profile as those remaining).

The AHCA funding formula applies the hospital output cost index to total funding. For every one percentage point change in hospital output costs (relative to the budget assumption of a 0.5 per cent increase), grants to the States and Territories will change in aggregate by approximately \$57 million a year from 1999-2000.

##### *Immunisation funding mechanism*

Agreement between the Minister for Health and Aged Care and the Minister for Finance and Administration is required when the cost of new vaccines under the immunisation funding mechanism are 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 for 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.

#### *Litigation cases in train — Department of Health and Aged Care*

The Department is presently involved in 82 cases which could result in some financial liability for the Commonwealth. These cases cover a wide range of litigation, where either the cases have not been heard or damages and costs have yet to be awarded. The litigation now involves Creutzfeldt-Jacob disease, Acquired Immune Deficiency Syndrome, Hepatitis C, defective products, personal injuries, the Department as an employer, and a variety of other claims against the Commonwealth. It is not possible to quantify the liability arising from these cases.

#### *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 \$280 million over the four years to 2001-02.

#### ***Industry, Science and Resources***

##### *Repayment of Snowy Mountains Hydro-electric Scheme debt*

The expected corporatisation of the Scheme in 1999 will involve the refinancing and early repayment of debt to the Commonwealth. The estimated market value of the debt is in the order of \$900 million. Detailed arrangements are to be finalised between the Commonwealth and NSW and Victorian Governments, as shareholders in the new company. The exact timing and level of payments may be influenced by electricity and financial markets at the time of corporatisation.

##### ***Prime Minister and Cabinet***

##### *Hindmarsh Island bridge damages claim*

Developers of a marina associated with the proposed Hindmarsh Island bridge have brought a substantial damages claim against the Commonwealth and other parties involved in the decision by the previous Minister for Aboriginal and Torres Strait Islander Affairs, pursuant to the *Aboriginal and Torres Strait Islander Heritage Protection Act 1984*, to ban construction of the bridge. The plaintiffs are claiming damages of \$80 million.

### *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. Some 2,200 legal actions for damages are underway against the Commonwealth in relation to these separations. If the plaintiffs in the two test cases proceeding in 1999 are successful, the Commonwealth may be liable for substantial payments in relation to these and other claims.

### *Investment incentives*

In the December 1997 *Investing for Growth* industry statement, the Government announced its willingness to consider the provision of incentives, in limited and special circumstances, for major strategic investment projects. Such incentives could be in the form of outlays or revenue measures, and have been separately identified in the outlays risks.

### ***Transport and Regional Services***

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

Compensation claims under the *Lands Acquisitions Act 1989* relating to the compulsory acquisition of properties for the proposed Second Sydney Airport at Badgerys Creek which had not been finalised at 31 October 1998 give rise to an estimated risk of \$44 million.

### ***Treasury***

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

In response to instability in regional financial markets and economies, Australia has offered to provide bilateral financing in support of IMF programmes in Thailand, Indonesia and the Republic of Korea. In the case of Thailand, this 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. In the event of default, the ability of the RBA to maintain the dividend stream projected in the forward estimates may be affected.

In the case of Indonesia and South Korea, Australia has agreed to provide supplementary financing or 'second tier' financing of up to \$US1 billion each. This financing would be provided via a loan on a non-concessional basis that would be repaid to the Commonwealth. As yet no funds have been drawn down by these two countries. Australia is in the process of negotiating a drawdown of \$US300 million for Indonesia. Australia supported a drawdown of \$US330 million for South Korea, however, the likelihood of drawdown has diminished in light of improved conditions in South Korea.



## **Contingent Liabilities — Quantifiable**

### ***Agriculture, Fisheries and Forestry***

#### *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 \$3,880 million as at 31 October 1998. 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 allowed 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. As at 31 October 1998, the amount outstanding on the loan was \$5.2 million, which is to be paid off within two 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.

#### *Wool International*

Under Section 53(7) of the *Wool International Act 1993*, the Commonwealth underwrites borrowings of Wool International for the management of the wool stockpile. The contingent liability for borrowings by Wool International totalled \$209 million as at 31 October 1998. Sources of borrowings include domestic and overseas commercial lenders.

### ***Communications, Information Technology and the Arts***

#### *Australian Broadcasting Corporation*

The Commonwealth has guaranteed loans by the Australian Broadcasting Corporation. The principal amount covered by the guarantee as at 31 October 1998 was \$153 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 October 1998 was \$39 million. These loans were used to pay for the refurbishment and enhancement of the Service's premises at Artarmon in Sydney.

### *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 October 1998 was \$41.25 million. The loan was originally issued prior to July 1989 when most of Telstra's borrowings were guaranteed by the Commonwealth. The loan will be fully repaid on 15 November 1999.

### *Telstra Corporation Ltd — Superannuation Guarantee*

An unquantifiable contingent liability was identified in the 1998-99 Budget in respect of additional employer contributions to the Telstra Superannuation Scheme. This contingent liability has now been quantified. The net present value of the contingent liability in respect of the guaranteed stream of payments for the Telstra Superannuation Scheme as at 30 June 1998 was \$1.1 billion. (See also the possible offsetting contingent liability for the 'Telstra Corporation Limited — notional fund surplus' under Finance and Administration.)

### *Commonwealth Indemnity Scheme*

The amount indemnified for artworks on loan to galleries participating in exhibitions under the Scheme has decreased to \$289.8 million as at 31 October 1998. The decrease is due to a reduction in the number of exhibitions covered by the Scheme at that date.

## ***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 loans guaranteed at 16 November 1998 was \$60 million.

### *Military Compensation*

Contingent liabilities exist in relation to military compensation claims to the value of some \$35 million. This amount relates to outstanding claims for non-economic loss as a consequence of the Federal Court decision in *Schlenert v the Australian and Overseas Telephone Corporation 1995*.

## ***Education, Training and Youth Affairs***

### *Commonwealth Loan Guarantees — Group Training*

The Minister for 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 October 1998 to 30 June 2001. These guarantees facilitate the provision of additional apprenticeship and traineeship positions by the employers on the Department of 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 Financial Supplement Scheme*

Contingent liabilities reported under this item in the 1998-99 Budget were \$1,188 million, which included some \$146 million relating to the ABSTUDY element of this scheme.

The remaining liabilities were associated with the Youth Allowance which has been administered by the Department of Family and Community Services since 1 July 1998 (see separate entry under Family and Community Services).

As at 31 October 1998, the value of loan guarantees outstanding for ABSTUDY recipients (Indigenous tertiary students) was in the order of \$164 million.

### ***Family and Community Services***

#### *Commonwealth Loan Guarantees — Student Financial Supplement Scheme*

Contingent liabilities reported under this item in the 1998-99 Budget were \$1,188 million which included some \$1,042 million relating to the AUSTUDY (since 1 July Youth Allowance and Austudy payment) element of this scheme.

The remaining liabilities were associated with the ABSTUDY element of the scheme, which is administered by the Department of Education, Training and Youth Affairs (see entry above).

The value of loan guarantees currently outstanding for the Youth Allowance and Austudy payment is in the order of \$1,146 million.

### ***Finance and Administration***

#### *Telstra Corporation Ltd — notional fund surplus*

Past employer contributions by Telstra to the Commonwealth Superannuation Scheme (CSS) have resulted in Telstra's CSS notional fund being in surplus. The Commonwealth has indicated that repatriation of part of that surplus to the Telstra Superannuation Scheme (TSS) will be permitted where the surplus is greater than 15 per cent of the employer financed benefits (past and future) for Telstra's CSS members and the outstanding deferred transfer value payments for ex-CSS members who transferred to the TSS. The total surplus has been determined at \$1,428 million as at the valuation date of 30 June 1997 and will be paid to the TSS either by way of the schedule of instalments or by way of a lump sum.

### ***Foreign Affairs and Trade***

#### *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 October 1998, the contingent liability totalled \$7,940 million, comprising contracts of insurance and guarantees (\$3,959 million), balance sheet liabilities (\$1,003 million), and national interest provisions (\$2,979 million).

## ***Industry, Science and Resources***

### *Australian Industry Development Corporation (AIDC)*

As at 1 November 1998, the Corporation's contingent liabilities were \$206.5 million in respect of guarantees and credit risk facilities. The Corporation's other guaranteed borrowings, which totalled \$1,793 million as at 1 November 1998, have been offset by holdings in Commonwealth Government securities and certain hedging instruments guaranteed by Warburg Dillon Read (formerly known as UBS Australia Ltd).

### *Snowy Mountains Hydro-electric Authority (SMHEA)*

The *Snowy Mountains Hydro-electric Power Act 1949* provides that borrowings by 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. The face value of guaranteed borrowings is \$190.5 million with the net amount guaranteed (excluding the unamortised discount on the issue of inscribed stock) being \$101.4 million.

## ***Transport and Regional Services***

### *Maritime Industry Finance Company Ltd (MIFCo) — loan guarantee*

The Commonwealth has guaranteed repayments of a \$155 million loan taken out by MIFCo for the purpose of making redundancy related payments arising from the reform of the stevedoring industry.

The *Stevedoring Levy (Collection) Act 1998* provides for payments to be made by the Commonwealth to MIFCo to enable it to meet its loan repayment obligations.

### *Northern Territory Government Loans*

Loans of the Northern Territory Government (Private Treaty Loans, Public Loans 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 October 1998, the value of these loans was \$162.1 million.

### *Sale of Australian River Co. Ltd (formerly ANL Limited)*

The sale of the Liner shipping business has been completed. The purchaser was ANL Container Line Pty Ltd, a subsidiary of Compagnie Generale Maritime SA (CGM). The sale terms provide for certain contingent liabilities related to warranties, indemnities and employee matters. The time period and value of the contingencies are limited by the terms of the contract. The Commonwealth's liabilities under the Sale Deed have been capped in line with the sale price. The limit on warranty claims is purchase price with a minimum and aggregate claim and a time period of 21 months from December 1998. In relation to employee matters, the Sale Deed provides for the Commonwealth to reimburse redundancy payments that are capped at a maximum of \$11 million.

After the completion of the Liner Shipping business sale ANL Limited was renamed Australian River Co. Limited (River Co).

Certain guarantees of pre-sale financing arrangements will continue post-sale. The Australian River Co. Ltd Board has been provided with a letter of comfort covering the liabilities under the sale contracts.

ANL Container Line's parent, CGM, has provided an indemnity to the Commonwealth in respect of certain continuing Commonwealth guarantees of pre-sale debts owing on specified liner assets.

River Co has also executed a sale contract with Auscan Self Unloaders Pty Ltd. Contingent liabilities related to this contract cannot be accurately estimated until the sale is completed. The time period and value of the contingency are limited by the terms of the contract.

The Commonwealth has undertaken to continue its guarantee of River Co's major lease facilities following the sale of the Bulk Trades business of the company. The risk of a call on these guarantees has been partly mitigated by corporate guarantees from the buyers of the Bulk Trades business.

Indemnities have been issued to River Co Board members and management indemnifying Board members and, in the event River Co ceased to exist, management, against civil claims relating to employment and conduct as directors/management of River Co and subsidiary/associated companies.

River Co has a \$4 million overdraft facility. Repayments of drawdowns are Commonwealth guaranteed.

### ***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 1998, the balance of the guarantee was \$99,745.9 million, a reduction of \$4,428.2 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 1998 have been valued at \$3,743 million following an actuarial review. The outstanding value subject to the guarantee is estimated to be \$3,737 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 \$472.5 million as at June 1998.

#### *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 11 November 1998, Notes on Issue totalled \$22,650 million.

The other major liability consists of deposits with the RBA by the banking sector. At 11 November 1998, these deposits amounted to \$6,028 million. In total, the guarantee for the Reserve Bank was \$28,678 million as at 11 November 1998.

#### *Uncalled Capital Subscriptions — international financial institutions*

The liability relates to the value of the uncalled portion of the Commonwealth's shares in the International Bank for Reconstruction and Development (\$US2,769.5 million — estimated value \$A4,425.5 million at 28 October 1998), the Asian Development Bank (\$US2,477.5 million — estimated value \$A3,911.0 million), and the European Bank for Reconstruction and Development (\$US81.7 million — estimated value \$A130.6 million).

### **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, Information Technology 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 outstanding additional employer contributions in the event that Telstra becomes insolvent.

## *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 HMAS Melbourne, in relation to the Voyager incident, to lodge claims against the Commonwealth. There is no basis for quantifying potential claims. A total of 95 claims have been lodged to date; one claim has been settled and another withdrawn.

### *Defence indemnities*

The Commonwealth has created indemnities, for loss and damage, for a number of:

- individuals and entities in Australia caused by the Defence Force whilst on work experience, or training exercises;
- companies in Australia and overseas caused by disputes over, or termination of contracts;
- port authorities in Australia caused by Royal Australian Navy vessels whilst in, or entering, port; and
- entities in Australia caused by various displays undertaken by Defence forces.

These indemnities have a range of expiry dates and are unquantifiable.

## *Employment, Workplace Relations and Small Business*

### *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*).

On 19 May 1998 the High Court granted special leave for the Commonwealth to appeal. The matter was heard by the High Court on 9 December 1998. Judgement was reserved, and a decision is expected to be handed down in early 1999. If the Court of Appeal's decision is not overturned, there is some risk of Commonwealth exposure to financial liability under State workers compensation legislation.

### *Potential claims for stress and diseases on journeys*

The matter of *Australia Post v Burch* was handed down by the Full Federal Court on 5 August 1998. The court extended the definition of injury simpliciter to include 'a disturbance of normal physiological state ... or an ascertainable lesion or dramatic physiological change'. This decision has the potential to allow stress claims and diseases

suffered on journeys to be considered as injury claims where the test of relationship to employment is less stringent than for diseases.

Australia Post has lodged an application for special leave to appeal to the High Court, and this is expected to be heard in early 1999.

### ***Finance and Administration***

#### *Australian Law Reform Commission (ALRC) employees*

Notice of potential claims under the Commonwealth Funds Management (CFM) share sale agreement has been received from the Commonwealth Bank in relation to an action brought against CFM (among others) as successor to the former Superannuation Fund Investment Trust by certain employees of the Australian Law Reform Commission in respect of their superannuation entitlements. The Commonwealth has exercised its right to take over the defence of the action. The financial effect of this claim cannot be quantified at this stage.

#### *Commonwealth shareholding in the Australian Submarine Corporation*

An indemnity was issued to Barry AC Hilson and BACH Pty Limited in relation to liabilities arising from assistance provided to the Commonwealth during the conduct of a review of the Commonwealth's shareholding in the Australian Submarine Corporation. This indemnity is ongoing.

#### *Macquarie Bank — valuation of DASFLEET*

Macquarie Fleet Leasing Pty Ltd, as purchaser of DASFLEET, have disputed the valuation methodology adopted by the Commonwealth in the Completion Asset and Liability Statement in relation to the vehicle fleet. This matter is subject to arbitration.

#### *New Commonwealth Insurable Risk Managed Fund (Comcover)*

Under the current non-insurance policy, the Commonwealth has been 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 have been met from existing agency appropriations or supplemented as required from the Budget.

With effect from 1 July 1998, the non-insurance policy is being progressively replaced with one of self-insurance via a managed fund (Comcover). Commonwealth insurable risks that are not currently insured are being systematically identified and costed, with the risks funded by provisioning over time. The managed fund will produce better risk management and therefore reduce costs over time.

Similarly, from 1 July 1998, Comcover is progressively covering the insurable risks of bodies under the *Commonwealth Authorities and Companies (CAC) Act 1997* within the general government sector from 1 July 1998. Premiums are being 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 member organisations. However, given the unpredictable nature of insurable risks, it is possible that this estimate could be exceeded in any particular financial year.

A reinsurance programme was put in place with effect from 1 July 1998 to reduce the likelihood of significant impacts on the Budget from CAC body exposures.

#### *Sale of ADI Limited*

Indemnities were 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; and
- on 20 August 1998 to ADI Limited dealing with the payment of any insurance excess under a Directors' and Officers' insurance policy. The Commonwealth has agreed to be responsible for the payment of the amount of any excess in respect of any claim under the policy where ADI Limited is unable to pay the excess post-sale.

These indemnities are ongoing.

#### *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 Commonwealth has not had to make a payment in relation to this guarantee.

#### *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 for the Reserve Bank of Australia (RBA)*

The Commonwealth has indemnified 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 and other aspects of banking services provided by the Bank.

### *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.
- An indemnity has been provided to the Directors and nominated officers of AIDC Ltd and the AIDC Corporation to indemnify them against all actions, suits, claims, demands and reasonable costs and expenses (including costs and expenses incurred as a result of a governmental or parliamentary enquiry and legal costs and expenses certified reasonable by the Attorney-General) in respect of assistance provided to the Privatisation Advisory Committee (PAC), the Commonwealth and Corporation in respect of the PAC process and the sale of shares. This indemnity was issued on 30 May 1996 and terminates upon the sale of any of the shares. The Commonwealth may also terminate this indemnity upon reasonable notice in writing to the Chairperson of the Corporation. An indemnity was provided to AIDC Ltd to indemnify it against all actions against AIDC by the minority shareholders in the same circumstances as the indemnity discussed above. This indemnity was issued on 30 May 1996 and terminated upon the buy out of the minority shareholders by the Corporation.
- 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 all actions, suits, claims, demands and reasonable costs (including legal costs and expenses certified reasonable by the Attorney-General) in relation to assistance given to the Commonwealth in the sale process in relation to provision of information to the Commonwealth or a third party. This indemnity was issued on 23 December 1996. The Commonwealth has indemnified the purchaser of CFM, the Commonwealth Bank of Australia, from all losses and liabilities which may be suffered as a result of the exercise of powers under the CFM Sale Act. These powers relate to the transfer of any assets rights and obligations or liabilities of the company, employment of staff and transfer of company shares. The Commonwealth has also indemnified the Commonwealth Bank of Australia against any stamp duty payments related to the transaction other than the basic share transfer duty.
- Avalon Airport Geelong Pty Ltd (AAG):
  - an indemnity has been given to the purchaser of AAG to indemnify the purchaser against any loss it suffers as a result of AAG incurring any tax liability up to and including 30 June 1996 under the *Income Tax Assessment Act 1936* as a result of any action or inaction of AAG in respect of the period prior to sale. This indemnity was issued on 31 January 1997 and terminates four

years after the date at which the taxation liability for the 1995-96 financial year has been assessed;

- an indemnity has been given to the purchaser of AAG to indemnify the purchaser and AAG against all liabilities, losses, costs, damages, expenses and claims arising out of: any contamination on, in or affecting Avalon Airport that existed prior to closing; and remedial action taken by the Purchaser or AAG in regard to any contamination on, in or affecting Avalon Airport that existed prior to closing in compliance with any notice or order issued by a regulator; and the construction, alteration or addition prior to closing of buildings using any materials or fixtures and fittings which are a potential health hazard; and
- an indemnity has been given to the purchaser of AAG to indemnify the purchaser against: the holding of or disposal of shares in PAC or ASTAAS by AAG prior to closing; the exposure at Avalon Airport of any person to asbestos prior to closing; any breach or representation or warranty by the Commonwealth under the sale agreement (claims will not exceed either individually or in aggregate the amount of the purchase price); any liability of AAG arising under any lease granted to it prior to closing by the Commonwealth, or out of AAG's use or occupation, of Avalon Airport prior to closing; any breach of environmental law by AAG arising out of its use or occupation of Avalon Airport prior to closing; and any claim or liability arising out of or in relation to the Paint Shop.
- CSL Ltd — indemnities have been given to Potter Warburg and 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.
- Sale of Lease of Federal Airports Corporation (FAC) Airports:
  - an indemnity has been given to Ernst & Young to indemnify them against legal costs incurred in respect of their legal obligations for legal compulsion to disclose. This indemnity was issued on 15 July 1996;
  - an indemnity has been issued to the Board of the FAC indemnifying each member of the FAC Board against all actions, suits, claims, demands and reasonable costs in relation to i) decisions made and actions taken by the Board members in accordance with their statutory duties, ii) assistance given to the Commonwealth, at its express request in writing, including any directions, in the airports sale process, and iii) any decisions made by Board members in relation to the running of the Corporation where those decisions were taken as a result of government policy or any directions or requests as communicated to the Board in writing. The indemnity was issued on 3 October 1996 and is ongoing;
  - the Commonwealth has undertaken that in the event the FAC were to cease to exist, or was otherwise due to a Government action or decision unable to meet its obligations to its employees under its indemnity given to employees, then the

Commonwealth will assume the FAC's liabilities under that indemnity. The indemnity was issued on 8 July 1996 and is ongoing;

- an indemnity has been issued to Mallesons Stephen Jaques to indemnify the consultant in relation to all reasonable costs (including legal costs) incurred by the consultant in complying with any requests or directions by the Commonwealth given to the consultant pursuant to a confidentiality agreement dated 13 September 1996;
  - an indemnity has been issued to BZW Australia Limited to indemnify BZW against legal costs and disbursements incurred in respect of BZW's obligations for legal compulsion to disclose confidential information. This indemnity is ongoing and was issued on 18 August 1995;
  - an indemnity has been issued to ABN Amro to reimburse for legal costs and disbursements incurred in respect of ABN's obligations for legal compulsion to disclose confidential information. This indemnity was issued on 31 July 1997; and
  - pursuant to confidentiality deeds signed by prospective bidders in the Airports sales, the Commonwealth is obliged to meet the costs incurred by bidders to oppose a legal compulsion to disclose information, if under the direction of the Commonwealth or FAC. This obligation is ongoing.
- 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 offers to cover the civil liability in relation to providing assistance to the Commonwealth in the Offer context. An indemnity was issued to the directors of Hogan Marketing Services and Ashcove Pty Ltd to protect the parties in the event of litigation resulting from the performance of consultancy services in relation to telemarketing and a share information office. The indemnity was issued on 14 September 1993 and is permanent. An indemnity was issued to the syndicate members in relation to overseas selling arrangements indemnifying members against loss resulting from errors, false statements, omissions, etc, in the Offer Documentation used in the United States. The indemnity was issued on 16 July 1996.
  - Partial sale of Telstra Corporation — indemnities have been issued:
    - to present and certain former Telstra directors and officers to protect against any liability incurred in connection with a civil liability (actual or alleged),

defending criminal proceedings in Australia or overseas, any application in relation to criminal proceedings, any examination, investigation, inquiry or proceeding by the Australian Securities Commission or any other Government body in relation to the scoping study. The indemnity was issued on 23 September 1996 and is ongoing;

- to Telstra Corporation Limited, Telstra directors and officers and certain executives providing indemnification against civil liability arising from defending criminal proceedings, liability arising from any examination, investigation or inquiry in which the courts grant relief to the indemnified party, any investigation or proceeding by the Australian Securities Commission or any other Government body in relation to the Telstra Share Offer;
  - to Telstra Corporation Limited indemnifying Telstra against any penalty tax or additional tax within the meaning of Division 11 of the *Income Tax Assessment Act 1936* or any loss incurred by Telstra arising from the payment of Franking Deficit Tax or Franking Deferral Tax;
  - to the international underwriters of the Telstra Share Offer providing indemnification against any Australian documentary, stamp transaction or registration or similar taxes;
  - to the Joint Global Coordinators and Lead Managers in relation to the Telstra Share Offer providing indemnification against any claim arising from the acts of other parties where the Commonwealth requires the indemnified party to rely on those acts in the performance of consultancy services;
  - to the Telstra Instalment Receipt Trustee and its directors to protect against certain losses and liabilities arising from the performance of its functions under the Trust Deed governing the administration of the instalment payment;
  - to the Bank of New York in relation to the Telstra Share Offer providing indemnification against costs or losses that may arise from the performance of obligations of the indemnified party relating to the issuing of Interim American Depository Receipts in the United States but not in relation to loss or liability resulting from the negligence or default of the Bank of New York; and
  - to Coopers and 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) — indemnities were issued to the directors and Chief Executive Officer of AME in relation to liabilities arising from assistance provided with the sale of AME. The indemnities took effect from 3 July 1997 and are ongoing.

## ***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 Aged Care***

### *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 Services***

### *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.

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

Under a Deed of Agreement, CASA was indemnified against the claims incurred in carrying out its responsibilities for aviation safety regulation. This indemnity was subject to an annual renewal on payment of an annual premium by CASA to the Commonwealth. This indemnity expired on 5 July 1998 and CASA has replaced this arrangement with commercial insurance. The Commonwealth is obliged to continue to indemnify CASA in relation to liabilities associated with acts or omissions which occurred before the date of expiry of the Deed of Agreement.

### *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 was revoked with effect from 29 August 1998 as CASA has obtained commercial insurance covering

the risks specified in the indemnity. The indemnity will still apply in relation to liabilities associated with acts or omissions that occurred before the date of revocation.

*Federal Airports Corporation (FAC) — transfer of former contingent liabilities to the Commonwealth*

As part of the wind-up of the FAC, the Commonwealth assumed responsibility on 1 July 1998 for a contingent liability of the Corporation which relates to debtors of the FAC who are challenging the validity of network charges made under the *Federal Airports Corporation Act 1986*. If the network charging approach is found to be invalid, this raises the prospect of further claims from other airport users who have previously paid network based charges to the Corporation. There is no basis for quantifying potential claims.

*Federal Airports Corporation — wind up*

On 24 September 1998 the Commonwealth assumed responsibility for all remaining assets, liabilities and contracts of the FAC on the wind-up of the Corporation. Unpresented cheques of \$2 million have been identified and provided for. There is no basis for quantifying any potential claims beyond this amount.

*Maritime Industry Finance Company Ltd (MIFCo) — board members' indemnity*

Indemnities for MIFCo board members have been provided to protect against civil claims relating to employment and conduct as directors of MIFCo. These indemnities are unquantifiable and no expiry date has been set.

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

An indemnity has been provided to all of the Commissioners of AN in respect of assistance in relation to the sale process. This includes the provision of information about AN at the request of the Commonwealth or its advisers for the purposes of the sale of the AN and its business units or assets.

An indemnity was issued to directors and specified officers of NR in relation to assistance provided to the Office of Asset Sales and Information Technology Outsourcing in the conduct of the scoping study. This indemnity was issued on 21 July 1997 and is a continuing one in respect of any liability that arises from the assistance provided before the expiry of the notice of completion from the Commonwealth.

*Tripartite Deed relating to the sale of Core Regulated Airports*

Tripartite Deeds apply to the 11 Core Regulated Airports (Melbourne, Brisbane, Perth, Canberra, Coolangatta, Townsville, Adelaide, Hobart, Launceston, Darwin and Alice Springs). 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 would vary 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.

### *Treasury*

#### *Housing Loans Insurance Corporation (HLIC)*

Indemnities were issued to certain directors of HLIC to indemnify them against all claims and losses, including legal costs incurred by the director in relation to his or her capacity as a member of HLIC. The indemnities are ongoing.

#### *HLIC Limited*

An adviser to the sale of HLIC Limited was appointed an agent of the Commonwealth on 4 December 1996 and, as a result, was extended ongoing protection against all losses and liabilities sustained in lawfully carrying out the Commonwealth's instructions. The Commonwealth has undertaken to pay the legal costs incurred by HLIC Limited where HLIC Limited successfully defended any claim by transferred employees for wrongful dismissal. In the event the Commonwealth and HLIC Limited agree to settle any such claims, the Commonwealth undertakes to pay one-half of the legal costs subject to specified conditions. The indemnity was issued on 14 December 1997 and terminates on 14 December 1998.

On 14 December 1997 a number of indemnities were issued to GE Capital Australia indemnifying GE Capital from claims made in relation to and/or losses arising from: redundancy by terminated transferred employees; pre and post sale superannuation entitlements by transferred employees; breach of warranties, pre-closing liabilities and/or breach of Agreement; pre-transfer date insurance contracts; pre-transfer date tax liabilities; and audit costs regarding pre-closing financial affairs of HLIC Limited. Any claims are subject to a cap of the sale price.



## APPENDIX C: SENSITIVITY OF FISCAL AGGREGATES TO ECONOMIC DEVELOPMENTS

Table C1 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 the estimates presented in the table provide only a 'rule of thumb' indication of the impact on the budget of changes in economic parameters.

**Table C1: Sensitivity of Fiscal Aggregates to Changes in Economic Parameters**

	1998-99 \$m	1999-00 \$m	2000-01 \$m	2001-02 \$m
<i>Outlays</i>				
Prices	50	540	360	330
Wages	20	290	390	410
Unemployment Benefit Recipients	140	280	280	280
Safety Net Adjustment	0	80	160	230
<i>Revenue</i>				
Prices	0	130	250	270
Wages	540	1150	1060	1150
Employment	340	730	680	730
Private final demand	150	330	260	290

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 March quarter 1999, with wage deflators left unchanged;
- wages — wage and salary levels are assumed to increase by one percentage point from the beginning of the March quarter 1999, 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 five per cent from the beginning of the March quarter 1999; and
- Safety Net Adjustment (SNA) — the SNA determined by the Australian Industrial Relations Commission (AIRC) is assumed to be \$2 per week higher than estimated in each year from the beginning of the March quarter 1999.

For example, the number of unemployment benefit recipients, and therefore the total spending on benefits, is 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 C1 only includes the impact of changes in the number of unemployment benefit recipients (ie Newstart Allowance and unemployed Youth Allowance recipients) on the estimates.

The assumptions underlying the sensitivity of the revenue estimates to changes in prices and wages are identical to those used on the outlays side. In each case, the analysis presents the estimated effects of change in one economic variable only, and does not

attempt to capture the linkages between economic variables that characterise changes in the economy more broadly.

The revenue effects of changes in employment and private final demand are based on the following assumptions:

- employment — the level of employment is assumed to increase by one per cent from the beginning of the March quarter 1999, with no change in wages or the composition of the workforce; and
- private final demand (consumption plus investment) — the level of private final demand is assumed to increase by one per cent from the beginning of the March quarter 1999, with no change in the composition of demand.

Changes in wages and employment feed through quickly into tax revenue largely through increases in PAYE tax collections. The personal income tax cuts, which come into effect from 2000-01, cause some reduction in the sensitivity of revenue to changes in wages and employment.

Changes in private final demand affect the revenue predominantly through changes in sales tax and excise collections. The abolition of Wholesale Sales Tax from 2000-01 means that changes in private final demand have a much lower impact on the revenue from that year.

Changes in prices affect revenue through changes in excise collections. Changes to excise arrangements announced in *A New Tax System* result in larger changes in excise collections for a given change in prices from 2000-01 onwards. This is largely due to changes in the arrangements relating to business franchise fee replacement taxes.

## APPENDIX D: STATISTICS AND 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*.

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

### SECTORAL CLASSIFICATIONS

As shown in Diagram 1, the Commonwealth public sector may be viewed in three ways:

- non-financial public and financial public sectors;
- budget and non-budget sectors; and
- general government, public trading enterprise (PTE) and public financial enterprise (PFE) sectors.

Commonwealth PFEs, such as the Reserve Bank, are excluded from Commonwealth government statistics in this document.

**Diagram 1: Commonwealth Public Sector**

	Budget classification	GFS Classification
<b>Non-financial Public Sector</b>	<b>Budget Sector</b> (eg DETYA, DFAT)	<b>General Government Sector</b> (includes budget sector and non-budget general government entities)
	<b>Non-budget Sector</b> — Non-budget General Government Sector (eg ABC, CSIRO) — PTE Sector (eg Australia Post)	
		<b>PTE Sector</b> (eg Australia Post)
<b>Financial Public Sector</b>	— PFE Sector (eg Reserve Bank)	<b>PFE Sector</b> (eg Reserve Bank)

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 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.

### **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 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.

Until recently, PFEs were regarded as outside the scope of ABS GFS. Following the inclusion by the ABS of PFE information in *Government Financial Estimates 1998-99* (Cat. No. 5501.0) in November 1998, all jurisdictions, under the UPF, will phase in historical PFE statistics. 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.

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 either the headline or underlying balances 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 headline deficit or invest the headline surplus. They consist of borrowings and changes in holdings of financial assets such as cash or investments (excluding advances).

## **CONSISTENCY WITH EXTERNAL REPORTING STANDARDS**

This document has been developed to accord with public sector accounting standards and GFS concepts and methodology. The *Charter of Budget Honesty Act 1998* requires that departures from these external reporting standards be identified.

Data consistent with GFS are provided in tables contained in Appendix E. However, the ABS reclassification of net advances from capital outlays to financing transactions has not been incorporated in these tables.<sup>1</sup> Consequently, these tables show a separate adjustment for net advances to derive outlays and deficit estimates comparable to those provided in ABS GFS.

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<sup>1</sup> The ABS reclassification of net advances to financing transactions was reflected in the *1996-97 Government Finance Statistics, Australia* (Cat. No. 5512.0) published by the ABS in April 1998.

A revised version of the United Nations SNA was issued in 1993. In November and December 1998, the ABS incorporated this revised standard into their GFS and National Accounts statistics respectively. However, in order to maintain consistency with the 1998-99 Budget, the Commonwealth has not implemented the revised standard in this document.

This document focuses 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 (on the SNA 1968 basis), underlying balance measures used in this document do not take account of certain payments such as PTE superannuation provisions by the 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 outlays), they do take account of these transactions to derive their deficit estimates; and
- 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 E.

## APPENDIX E: COMMONWEALTH GOVERNMENT SECTOR STATISTICS

In accordance with the requirements of the *Charter of Budget Honesty Act 1998*, and the Uniform Presentation Framework (UPF) for the consistent presentation of financial information, this appendix provides, on a Government Finance Statistics (GFS) basis consistent with the 1998-99 Budget:

- budget and forward estimates for the Commonwealth general government underlying balance and its major components;
- equivalent budget year data for the Commonwealth public trading enterprise (PTE) sector and consolidated non-financial public sector; and
- the Commonwealth's Loan Council Allocation (LCA).

### 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 D.

Table E1 is presented on the same basis as the budget sector estimates provided elsewhere in this document in order to provide an estimate of the underlying balance broadly consistent with the public net lending concept in the national accounts (on the SNA 1968 basis). Estimates for underlying balances in Table E1 will differ from the deficit estimates in Table E2 because the former do not take account of increases in provisions (see discussion in Appendix D).

**Table E1: Summary of General Government Aggregates (\$m)**

	1998-99 Estimate	1999-00 Projection	2000-01 Projection	2001-02 Projection
<b>Revenue</b>	<b>146120</b>	<b>150600</b>	<b>142294</b>	<b>152212</b>
<i>Per cent of GDP</i>	24.8	24.3	21.7	21.9
<b>Underlying outlays</b>	<b>143088</b>	<b>147914</b>	<b>138911</b>	<b>142774</b>
<i>Per cent of GDP</i>	24.3	23.9	21.2	20.5
<b>Underlying balance</b>	<b>3032</b>	<b>2686</b>	<b>3383</b>	<b>9438</b>
<i>Per cent of GDP</i>	0.5	0.4	0.5	1.4
<i>Memorandum items:</i>				
Net advances	-5378	-13741	-32763	-8466
Headline balance	8410	16427	36146	17904
<i>Per cent of GDP</i>	1.4	2.7	5.5	2.6

Table E1 shows that the Commonwealth general government sector underlying balance is expected to be in surplus in 1998-99, consistent with movements in the budget sector. The general government sector underlying balance is projected to remain in surplus throughout the forward years.

## GOVERNMENT FINANCE STATISTICS

This section presents Commonwealth financial data on a GFS basis, consistent with the UPF. Three statistical tables are presented on the following pages, showing transactions by economic type for the Commonwealth general government, PTE and consolidated non-financial public sectors. The tables were produced by the Department of Finance and Administration in consultation with the Australian Bureau of Statistics (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.

As discussed in Appendix D, a revised version of the United Nations SNA was issued in 1993. In their recently released *Government Financial Estimates 1998-99* (Cat. No. 5501.0), the ABS incorporated this revised standard into their GFS and National Accounts statistics. This revised standard affects the treatment of defence capital expenditure, fees and fines revenue, and non-cash personal benefit payments, but it has no net impact on the underlying balance. To maintain consistency with the 1998-99 Budget the Commonwealth has not implemented the revised standard in the tables on the following pages. It is proposed that the revised standard will be implemented in the 1999-2000 Budget.

Consistent with ABS practice, transactions between the Commonwealth general government and PTE sectors are included in Tables E2 and E3 but are removed from Table E4 as they are internal transactions within the Commonwealth non-financial public sector. Table E4 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 public financial enterprise (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 E4.

The general government deficit adjusted for net advances shown in Table E2 differs from the underlying deficit measure used elsewhere in this document 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 D.

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 E2 to E4 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 1997-98 base net debt figures have been obtained from the ABS publication *Public Sector Financial Assets and Liabilities 1998* (Cat. No. 5513.0).



**Table E2: Economic Transactions of Commonwealth Government (\$m)**

	1998-99	1999-00	2000-01	2001-02
	General Government(a)			
<b>Outlays</b>				
<b>Current Outlays</b>				
Final consumption expenditure(b)	28751	29752	30876	32630
Interest payments	7612	6864	6076	5026
Subsidies paid to public trading enterprises	559	512	347	349
Personal benefit payments	61505	64307	71514	73105
Current grants	38574	39836	25232	27051
Other current payments	2752	3170	1252	1029
<i>Total current outlays</i>	<i>139753</i>	<i>144442</i>	<i>135297</i>	<i>139190</i>
<b>Capital outlays</b>				
Expenditure on new fixed assets	914	976	1019	1033
<i>Plus</i> Expenditure on secondhand assets (net)	<i>-590</i>	<i>-158</i>	<i>-27</i>	<i>12</i>
<i>Equals</i> Gross fixed capital expenditure	<i>324</i>	<i>818</i>	<i>993</i>	<i>1044</i>
Expenditure on land and intangible assets (net)	94	63	82	22
Capital grants	2910	2587	2534	2513
Advances paid (net)	-5378	-13741	-32763	-8466
Other capital outlays	8	5	5	5
<i>Total capital outlays</i>	<i>-2043</i>	<i>-10269</i>	<i>-29149</i>	<i>-4882</i>
<b>Total outlays</b>	<b>137710</b>	<b>134173</b>	<b>106147</b>	<b>134308</b>
<b>Total outlays (excluding net advances paid)</b>	<b>143088</b>	<b>147914</b>	<b>138911</b>	<b>142774</b>
<b>Revenue</b>				
Taxes, fees and fines	140124	146222	137895	147294
Interest received from public trading enterprises	96	27	0	0
Interest received from other enterprises	707	897	1638	2503
Other revenue	5193	3454	2761	2415
<b>Total revenue</b>	<b>146120</b>	<b>150600</b>	<b>142294</b>	<b>152212</b>
<b>Financing and deficit measures</b>				
Borrowing (net)	-6192	-14874	-34860	-16191
Increase in provisions (net)	-1375	-1292	-1176	-1229
Other financing transactions (net)	-843	-261	-111	-485
<b>Total financing</b>	<b>-8410</b>	<b>-16427</b>	<b>-36147</b>	<b>-17904</b>
<i>Less</i> Increase in provisions (net)	<i>-1375</i>	<i>-1292</i>	<i>-1176</i>	<i>-1229</i>
<i>Equals</i> Deficit	<i>-7035</i>	<i>-15135</i>	<i>-34971</i>	<i>-16676</i>
Of which				
Current deficit	-4992	-4866	-5822	-11794
Capital deficit	-2043	-10269	-29149	-4882
<i>Less</i> Advances paid (net)	<i>-5378</i>	<i>-13741</i>	<i>-32763</i>	<i>-8466</i>
<i>Equals</i> <b>Deficit adjusted for net advances</b>	<b>-1656</b>	<b>-1394</b>	<b>-2208</b>	<b>-8210</b>
<b>Net Debt</b>	<b>75310</b>	<b>60786</b>	<b>24568</b>	<b>8358</b>

(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 D.

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

**Table E3: Economic Transactions of Commonwealth Government (\$m)**

	1998-99
	Public Trading Enterprises
<b>Outlays</b>	
<b>Current outlays</b>	
Interest payments	966
Other current payments	4400
<i>Total current outlays</i>	5366
<b>Capital outlays</b>	
Expenditure on new fixed assets	4978
Plus Expenditure on secondhand assets (net)	-281
<i>Equals</i> Gross fixed capital expenditure	4697
Expenditure on land and intangible assets (net)	54
Capital grants to other levels of government	0
Advances paid (net)	0
Other capital outlays	-211
<i>Total capital outlays</i>	4540
<b>Total outlays</b>	<b>9906</b>
<b>Total outlays (excluding net advances paid)</b>	<b>9906</b>
<b>Revenue</b>	
Sales of goods and services	27778
<i>Plus</i> Subsidies received	396
<i>Less</i> Operating expenditure	22192
<i>Equals</i> Net operating surplus	5982
Interest received	149
Capital grants received	20
Other revenue	20
<b>Total revenue</b>	<b>6171</b>
<b>Financing and deficit measures</b>	
Advances received (net)	-787
Borrowing (net)	427
Increase in provisions (net)	2938
Other financing transactions (net)	1157
<b>Total financing</b>	<b>3735</b>
<i>Less</i> Increase in provisions (net)	2938
<i>Equals</i> Deficit	797
Of which	
Current deficit	-3723
Capital deficit	4520
<i>Less</i> Advances paid (net)	0
<i>Equals</i> <b>Deficit adjusted for net advances</b>	<b>797</b>
<b>Net Debt</b>	<b>9269</b>

**Table E4: Economic Transactions of Commonwealth Government (\$m)**

	1998-99
	Consolidated Government(a)
<b>Outlays</b>	
<b>Current outlays</b>	
Final consumption expenditure	28751
Interest payments	8482
Subsidies paid to public trading enterprises	559
Personal benefit payments	61505
Current grants	38674
Other current payments	4355
<i>Total current outlays</i>	<i>142326</i>
<b>Capital outlays</b>	
Expenditure on new fixed assets	5892
<i>Plus</i> Expenditure on secondhand assets (net)	-871
<i>Equals</i> Gross fixed capital expenditure	5020
Expenditure on land and intangible assets (net)	149
Capital grants	2890
Advances paid (net)	-4592
Other capital outlays	-204
<i>Total capital outlays</i>	<i>3264</i>
<b>Total outlays</b>	<b>145589</b>
<b>Total outlays (excluding net advances paid)</b>	<b>150181</b>
<b>Revenue</b>	
Taxes, fees and fines	139339
Net operating surplus of public trading enterprises	5982
Interest received	856
Other revenue	3301
<b>Total revenue</b>	<b>149478</b>
<b>Financing and Deficit measures</b>	
Borrowing (net)	-5765
Increase in provisions (net)	1563
Other financing transactions (net)	313
<b>Total financing</b>	<b>-3888</b>
<i>Less</i> Increase in provisions (net)	1563
<i>Equals</i> Deficit	-5452
Of which	
Current deficit	-8715
Capital deficit	3264
<i>Less</i> Advances paid (net)	-4592
<i>Equals</i> <b>Deficit adjusted for net advances</b>	<b>-860</b>
<b>Net Debt</b>	<b>84578</b>

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

## LOAN COUNCIL

Table E5 presents a revised estimate of the Commonwealth's 1998-99 LCA, updating the budget time estimate provided in *1998-99 Budget Paper No. 3, Federal Financial Relations*. LCAs are on a headline rather than an underlying basis as they seek to measure a government's call on financial markets. The fall in the Commonwealth's estimated 1998-99 LCA surplus since budget time mainly reflects a change in the timing of the sale of the Government's remaining equity in Telstra. Consequently, the

Commonwealth expects to exceed the upper bound of the 2 per cent of revenue tolerance limit that applies on either side of its budget time LCA estimate.

**Table E5: Commonwealth's Loan Council Allocation for 1998-99 (\$m)**

	Budget Time Estimate May 98	MYEFO Estimate
General government sector deficit	-17794	-7035
PTE sector net financing requirement	739	1584
Public sector deficit	-17055	-5452
Memorandum items(a)(b)	-287	-622
Loan Council Allocation	-17342	-6074

- (a) Memorandum items are used to adjust the deficit/surplus to include in LCAs certain transactions — such as operating leases — that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. They are also used, where appropriate, to deduct from the public sector deficit/surplus certain transactions that Loan Council has agreed should not be included in LCAs — for example, the funding of more than employers' emerging costs under public sector superannuation schemes, the GFS deficit/surplus of States' central borrowing authorities, or borrowings by entities such as statutory marketing authorities.

For the Commonwealth, memorandum items comprise the change in net present value of operating leases (with a net present value greater than \$5 million) of departments and authorities, and adjustments to exclude the net financing requirement of statutory marketing authorities and Telstra Corporation Ltd from the LCA. Loan Council has agreed to exempt Telstra from its monitoring and reporting arrangements on commerciality grounds. A memorandum item adjustment has also been made to include the net financing requirement of the Australian National University in the LCA, as this figure is no longer included in the GFS deficit/surplus for the Commonwealth.

- (b) The Commonwealth expects to sign a contract in 1998-99 for an infrastructure project with private sector involvement. The Government has approved the redevelopment of the Immigration Detention Centre (IDC) at Villawood in Sydney. The initiative will provide a new, more secure and cost-efficient facility which will have a capacity in the order of 350 detainees.

It is intended that the construction work be undertaken by Australasian Correctional Services (ACS), a consortium 50 per cent owned by Thiess Contractors. ACS was selected in 1997 as the result of an exhaustive tender process to provide immigration detention and transport services to the Department of Immigration and Multicultural Affairs. The tender evaluation process specifically covered infrastructure development capabilities.

It is proposed to place the financing, ownership and maintenance of the new facility in the private sector. The redevelopment cost is estimated to be in the order of \$40 million. The total project cost, the financing and contractual arrangements, and the Government liability under termination provisions of the contract are yet to be determined.