

STATEMENT 1: FISCAL STRATEGY

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STATEMENT 1: FISCAL STRATEGY

Part I: Budget Aggregates

The 1999-2000 Budget demonstrates the Government's commitment to maintain the budget in surplus while Australia's economic growth prospects remain sound. In both accrual and cash terms, the Budget provides for a substantially strengthened surplus in 1999-2000.

Table 1: Summary of Commonwealth General Government Accrual Aggregates^(a)

	Actual		Estimates		Projections	
	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Revenue (\$b)	148.2	153.3	162.8	150.5	153.8	163.1
Per cent of GDP	26.2	25.9	26.3	22.9	22.1	22.1
Expenses (\$b)	154.7	150.2	157.1	143.8	148.4	151.4
Per cent of GDP	27.4	25.4	25.3	21.9	21.3	20.5
Operating result (\$b)(b)(c)	-6.5	3.2	5.7	6.7	5.4	11.6
Adjustment (\$b)(d)	4.5	-0.1	-0.3	0.5	-0.2	-0.3
Fiscal balance (\$b)	-2.0	3.1	5.4	7.2	5.2	11.4
Per cent of GDP	-0.3	0.5	0.9	1.1	0.7	1.5

(a) The figures in the table may not add due to rounding.

(b) Operating result before abnormal items.

(c) Accrual data for 1997-98 are taken from the annual Consolidated Financial Statements (CFS). From 1998-99, the accounting treatment of certain revenue items, in particular taxation revenue and some dividends, has changed. See Statement 4 for further information.

(d) Adjustments for capital and revaluations are required to derive fiscal balance from the operating result (revenue less expenses). See footnote 1 (page 1-5) for further information.

Table 2: Summary of Commonwealth General Government Cash Aggregates^(a)

	Actual		Estimates		Projections	
	1997-98	1998-99(b)	1999-00(b)	2000-01(b)	2001-02(b)	2002-03(b)
Underlying cash balance (\$b)	1.3	2.9	5.2	3.1	7.2	12.5
Per cent of GDP	0.2	0.5	0.8	0.5	1.0	1.7
Memorandum item:						
Headline cash balance (\$b)	16.4	8.4	23.0	2.2	24.9	29.2

(a) Estimated and projected cash balances from 1998-99 onwards are derived estimates using data from the new accrual accounting system.

(b) Following recent changes in the Australian National Accounts standards, the underlying and headline cash balance estimates in the table from 1998-99 onwards include payments by the Commonwealth in respect of accumulated public trading enterprise (PTE) superannuation liabilities. This detracts around \$1¼ billion from the surplus in 1998-99 and following years.

The 1999-2000 Budget is the first Commonwealth budget to be prepared using an accrual framework. The major accrual budget aggregates for 1997-98 to 2002-03 are shown in Table 1 above. The underlying and headline cash balances are reported in Table 2 and provide a budget result comparable to the cash basis used in previous years.

- In accrual terms, a fiscal surplus of \$5.4 billion, or 0.9 per cent of GDP, is expected in 1999-2000. This is an improvement of \$2.3 billion on the estimated outcome for 1998-99.
- In cash terms, an underlying surplus of \$5.2 billion is expected in 1999-2000. This underlying cash surplus has been achieved despite the inclusion in underlying outlays of around \$1¼ billion of Public Trading Enterprise (PTE) related superannuation provisions. The inclusion of provisions is consistent with recent revisions in national accounting standards by the Australian Bureau of Statistics. These provisions mainly involve payments to current and former employees of Telstra and Australia Post who are, or have been, members of Commonwealth superannuation schemes. Prior to 1998-99, these payments were treated as financing transactions and did not impact on the underlying cash balance.
- In 2000-01, the fiscal surplus is projected to rise to \$7.2 billion or 1.1 per cent of GDP, with substantial surpluses also projected in the years beyond. The underlying cash surplus, however, is projected to be \$3.1 billion. The principal reason for the difference is the bring-forward of company tax under the Pay-As-You-Go system. Although liability accrues in 2000-01 (and is therefore counted under an accrual system), the tax is paid in instalments over a number of years (and is therefore not counted under cash accounting until actually received).

The large falls in revenue and expenses in 2000-01 result primarily from changes in Commonwealth-State funding as a result of the implementation of the measures contained in *A New Tax System*, in particular the abolition of Financial Assistance Grants to the States and Wholesale Sales Tax. The Commonwealth will collect revenue from the Goods and Services Tax (GST) on an agency basis for the States and Territories and therefore revenue from this tax is classified as State and Territory rather than Commonwealth revenue.

Box 1: Accrual Budgeting

The adoption of accrual budgeting in the 1999-2000 Budget represents international best practice in public sector financial management and reporting. The main advantage of accrual measures (as opposed to cash) is that they provide a more comprehensive indication of the total activity of government and the long-term effects of current policy. Cash measures do, however, have some advantages for tracking expenditures in a fiscal year and helping to identify the short-term effects of fiscal policy on the economy.

Accrual budgeting builds upon the high standards of fiscal transparency and accountability already established by the Government through the *Charter of Budget Honesty Act 1998*. The accrual framework supports the principles of sustainability and sound fiscal management expressed in the Charter. One of these principles is that the Government ensures that policy decisions have regard to their financial effects on future generations.

Accrual information will allow markets, business and consumers to assess more effectively the Government's fiscal performance over time, consistent with the spirit of the Charter.

At an administrative level, accrual budgeting will require Commonwealth agencies to adopt a more 'business-like' focus and discipline. For the first time, the full cost of Commonwealth service delivery will be brought to book, and public sector managers will be accountable for the performance of their agencies in contributing to achieving government outcomes.

The Government's key fiscal indicator in the new accrual framework is the 'fiscal balance'. The fiscal balance is the accrual equivalent of the underlying cash balance. A fiscal surplus indicates that the Government is saving more than enough to finance all of its investment spending and is, therefore, not directly contributing to the current account deficit.¹

While the fiscal balance is the accrual equivalent of the underlying cash balance, there will be differences between the two measures arising mainly from timing differences in the

1 The fiscal balance can be derived from the accounting standard operating result (the difference between revenue and expenses) by making two adjustments. The first adjustment is for capital. In order to capture government investment, the fiscal balance incorporates net capital expenditure, but not capital use or depreciation. The second adjustment is for revaluations (changes to the value of assets and liabilities). Revaluations are included in the operating result, but they do not affect the fiscal balance. In addition, some further adjustments may be required to capture differences between Government Finance Statistics (GFS) standards defined by the Australian Bureau of Statistics (which are used as the basis for calculating the fiscal balance) and Australian Accounting Standards (which are used as the basis for calculating the operating result). The fiscal balance is also an aggregate in the GFS operating statement (see Statement 9).

recording of transactions under accrual and cash accounting. For example, in 2000-01 differences arise in the accrual and cash treatments of company tax changes under the proposed Pay-As-You-Go arrangements announced in *A New Tax System*.²

Coinciding with the move to accrual budgeting, the main focus of budget reporting has broadened to encompass the general government sector (previously the budget sector was the main focus). The general government sector includes non-commercial government authorities such as the CSIRO and ABC. The inclusion of these authorities has only a marginal effect on the fiscal balance, adding \$115 million in 1999-2000.

The fiscal balance and other accrual measures are discussed in further detail in Appendix A to this Statement.

2 Accrual revenue is recognised at the time an assessment for taxation occurs. New company tax payment arrangements commencing in 2000-01 will involve some companies being assessed for tax under both the existing and new payment arrangements, resulting in higher accrued revenue in that year. As announced in *A New Tax System*, companies will be allowed to defer part of this tax liability to smooth actual tax payments in 2000-01. Compared to accrual revenue, cash receipts are lower in 2000-01 and higher in later years as a result of these changes.

Part II: Economic Framework

In 1999-2000 the Australian economy will continue to benefit from sound medium-term fiscal and monetary policies implemented in the Government's first term. The recent financial crisis in Asia has demonstrated the social and economic dislocation that can occur when financial markets lose confidence in the domestic policy framework.

This year's Budget is set against continuing uncertainty in the international economy. While there are signs of recovery in some Asian economies, continuing structural problems, particularly in the financial and corporate sectors, raise questions about the sustainability of any improvement. The effects of the Asian financial crisis and the associated slowdown in the world economy in 1998 and 1999 are likely to persist into the coming year. Nevertheless, sound domestic economic fundamentals and policy settings should continue to minimise their adverse impact on Australia.

Following very strong growth in excess of 4 per cent in 1997-98 and 1998-99, the Australian economy is expected to grow by a solid 3 per cent in 1999-2000. This outlook compares very favourably with other developed economies and countries in the region.

As discussed in Statement 2, the expected moderation in growth in 1999-2000 reflects the impact of continued below-trend growth in the world economy on the domestic economy.

Some moderation in employment growth is expected over the course of 1999-2000 in line with the moderation in domestic economic growth. Nevertheless, employment growth is expected to remain solid, with the unemployment rate consolidating recent falls to remain around 7½ per cent over 1999-2000.

The inflation rate is expected to rise only modestly, from an average 1¼ per cent in 1998-99 to 2 per cent in 1999-2000. It is now clear that the impact on inflation of the depreciation in the Australian dollar since the onset of the Asian downturn will be less than that implied by past experience, reflecting enhanced competitive pressures, both domestically and internationally.

The favourable combination of a real exchange rate depreciation and continued low interest rates made possible by sound macroeconomic policy has been a major contributor to the economy's recent resilience. Financial markets have retained confidence in Australia's economic fundamentals and policy settings and long-term interest rate differentials with the United States have remained low. As the exchange rate depreciation has not been dissipated in higher domestic inflation the economy continues to enjoy the benefits of improved competitiveness, while maintaining relatively low interest rates.

The Government's main policy priorities are to maximise sustainable growth to improve living standards and create conditions to further reduce unemployment. Achieving these goals will require ongoing policy attention to ensure that inflation and current account pressures do not constrain the economy's capacity for growth. Policy must maintain discipline on inflation and public saving, consistent with the medium-term frameworks for

monetary and fiscal policy, taking account of the need to maintain adequate demand growth.

As discussed in Statement 3, improvements in the macroeconomic policy framework and structural reforms should allow the Australian economy to continue to grow strongly over the medium term. Provided the macroeconomic policy framework is sustained and continued progress is made on structural reform, average economic growth of 3½ to 4 per cent could be sustained over the early years of the next decade. Such a growth rate would see a further substantial reduction in the unemployment rate.

Continued adherence to the Government's medium-term fiscal strategy is a particularly important component in achieving sustained, strong economic growth. Restoring the Commonwealth budget to surplus has helped limit the rise in the current account deficit, and has played a very important role in retaining the confidence of financial markets and helping to maintain a low interest rates environment. The current account deficit is expected to average 5¼ per cent of GDP in 1999-2000, slightly down from an expected 5½ per cent of GDP in 1998-99.

Importantly, the increase in the current account deficit reflects private saving and investment decisions, rather than government borrowing. Private sector saving and investment decisions are now better based than they have been in past cycles as a result of microeconomic reform and low inflation. In this environment the nation's ability to service external debt should not be at issue.

Good macroeconomic policy is a necessary condition for sustaining strong growth and significantly reducing unemployment. But there are limits to what macroeconomic policy alone can achieve. As noted above, policy needs to continue to address structural barriers to raising productivity and lowering unemployment, with particular emphasis on tax reform and further labour market reform. Such reforms, combined with sound macroeconomic policy settings, are necessary for a sustained reduction in unemployment.

The 1999-2000 Budget is an integral part of the policy framework necessary for sustained high economic growth. It delivers on the Government's commitment to maintain budget surpluses while economic growth prospects remain sound. The Budget continues the Government's commitment to fiscal responsibility, while providing a comprehensive package of measures targeting priority areas of health, education and training, mutual obligation, research and development, and the social and economic infrastructure of regional and rural Australia. In addition, the introduction of accrual budgeting also represents an important step in the Government's financial management and reform programme.

Part III: Fiscal Outlook and Strategy

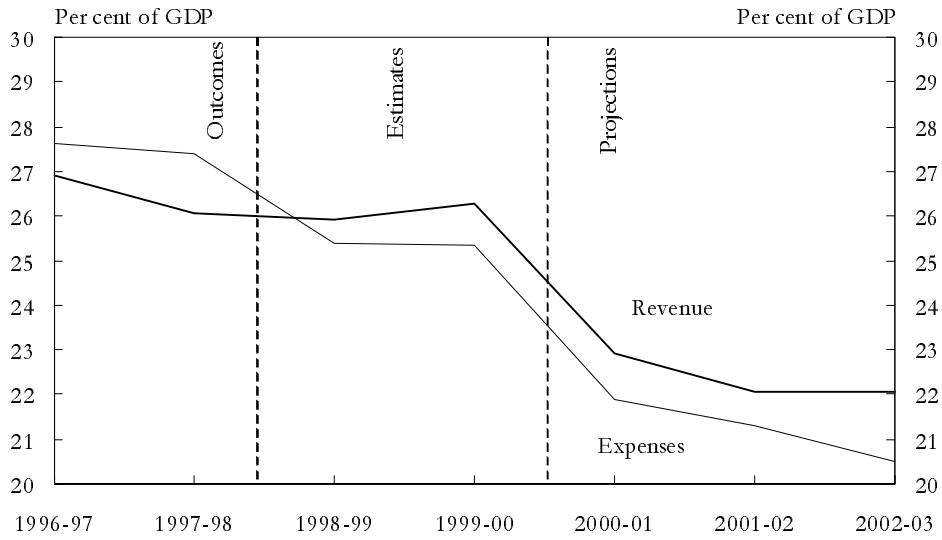
FISCAL OUTLOOK

The Budget maintains a sound fiscal outlook with surpluses in 1999-2000 and over the period of the forward projections. The fiscal balance for 1999-2000 is expected to be in surplus by **\$5.4 billion**, an increase from the **\$3.1 billion** surplus expected in 1998-99. The underlying cash surplus for 1999-2000 is expected to be **\$5.2 billion**, a substantial increase from the expected outcome of **\$2.9 billion** in 1998-99 (these estimates allow for a reduction of around **\$1¼ billion** per year from Commonwealth payments for PTE superannuation provisions).

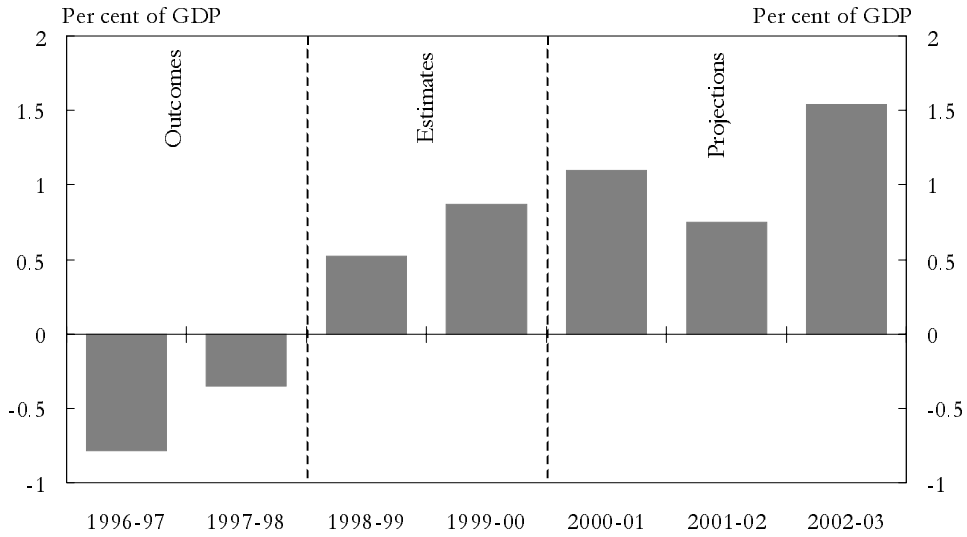
Chart 1 shows the recent outcomes, current estimates and projections for revenues, expenses and the fiscal balance for the Commonwealth general government sector. Chart 2 shows the underlying cash balance, again for the Commonwealth general government sector, over a longer period.

Chart 1: Budget Balances^(a)

Panel A: General Government Revenue and Expenses

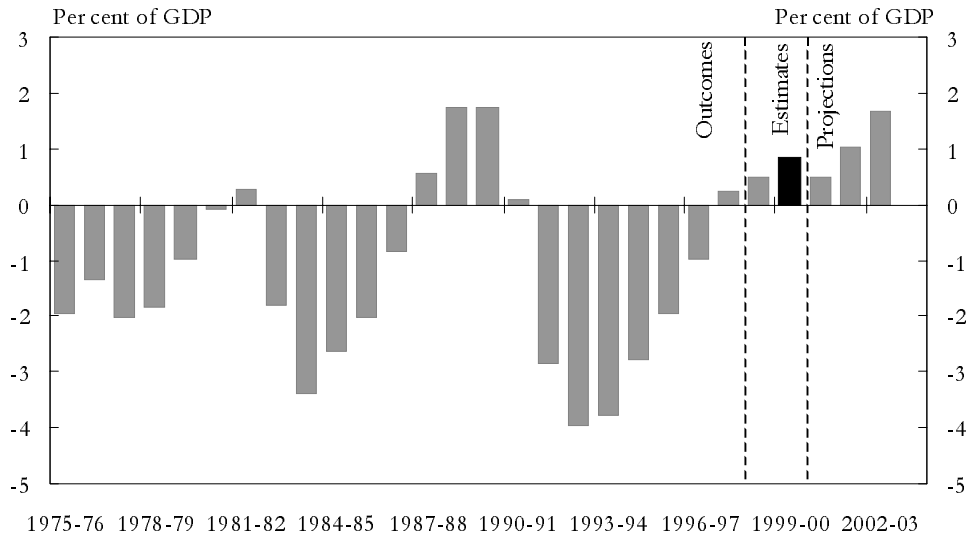


Panel B: Fiscal Balance



(a) Accrual data prior to 1998-99 are taken from the annual Consolidated Financial Statements. From 1998-99, the accounting treatment of certain revenue items, in particular taxation revenue and some dividends, has changed. See Statement 4 for further information.

Chart 2: Underlying Cash Balance^(a)



(a) From 1998-99 onwards the underlying cash balance estimates include payments by the Commonwealth in respect of accumulated PTE superannuation liabilities. This detracts around \$1¼ billion from the surplus in 1998-99 and following years.

Over the forward estimates period, both revenue and expenses as a proportion of GDP are expected to fall significantly. These reductions are largely driven by the abolition of Financial Assistance Grants to the States and Territories, the abolition of Wholesale Sales Tax and the personal income tax cuts arising from the introduction of *A New Tax System*.

The major economic parameters underpinning the budget estimates are summarised in Table 3. The economic forecasts are discussed in detail in Statement 2.

The economic parameters are based on forecasts for 1998-99 and 1999-2000 and medium-term projections for the following three financial years. The projections for economic growth in the outyears are based on an analysis of underlying trends, while the projections for inflation are consistent with the mid-point of the medium-term inflation target band. The impact on prices of the tax reforms under *A New Tax System* is not included in the projections. However, this impact has been taken into account separately in projecting the revenues and expenses affected by the tax reforms.

Table 3: Major Economic Parameters (percentage change from previous year)

	Forecasts		Projections		
	1998-99	1999-00	2000-01	2001-02	2002-03
Real GDP	4¼	3	3½	3½	3½
Employment(a)	2¼	1¾	2	2	2
Wages(b)	4¼	3¾	3½	3½	3½
CPI	1¼	2	2½	2½	2½

(a) Labour Force Survey basis.

(b) Average earnings (national accounts basis).

Table 4 provides a reconciliation between the underlying cash estimates released at the time of the 1998-99 Budget and the 1998-99 MYEFO; and fiscal balance estimates at the time of the 1998-99 MYEFO and 1999-2000 Budget.

Table 4: Reconciliation of 1998-99 Budget, MYEFO and 1999-2000 Budget General Government Estimates^(a)

	1998-99 (\$m)	1999-00 (\$m)	2000-01 (\$m)	2001-02 (\$m)
1998-99 Budget underlying cash balance	2778	4830	8613	14626
(per cent of GDP)	0.5	0.8	1.3	2.1
Changes between 1998-99 Budget and 1998-99 MYEFO				
Effect of policy decisions(b)				
Revenue	-17	700	-16611	-17512
Underlying outlays	-886	-2479	11419	12029
Total	-903	-1779	-5192	-5483
Effect of parameter and other variations				
Revenue	1816	-1448	-1373	-1451
Underlying outlays	-659	1083	1335	1746
Total	1157	-365	-38	295
1998-99 MYEFO underlying cash balance	3032	2686	3383	9438
1998-99 MYEFO fiscal balance(c)				
	3580	1624	8240	8067
Changes between 1998-99 MYEFO and 1999-2000 Budget				
Effect of policy decisions				
Revenue	-118	-124	-121	-21
Expenses	140	-965	-1295	-1472
Capital	5	0	113	55
Depreciation adjustment	5	26	12	1
Total	32	-1063	-1291	-1437
Effect of parameter and other variations				
Revenue	243	4459	-642	-546
Expenses	-833	291	659	-590
Capital(d)	-355	-330	-513	-782
Other adjustments(e)	438	445	742	478
Total	-507	4865	246	-1440
1999-2000 Budget fiscal balance	3105	5426	7195	5189
(per cent of GDP)	0.5	0.9	1.1	0.7

(a) A positive sign indicates an improvement in the fiscal balance and a negative sign indicates a deterioration in the fiscal balance.

(b) Includes total budgetary costs of *A New Tax System* (including the public debt interest effects). For all other policy decisions the public debt interest effects are included in parameter and other variations.

(c) Estimates of the fiscal balance at the 1998-99 MYEFO are based on accrual data collected for the 1999-2000 Budget.

(d) Derived from movements in physical and intangible assets in the balance sheet.

(e) Includes variations in depreciation and economic revaluations.

Parameter and other variations since the 1998-99 MYEFO reduce expenses in 1999-2000 and in 2000-01. This mainly reflects draw-downs in the conservative bias allowance³, lower unemployment forecasts, reduced pension and benefit payments due to lower CPI forecasts, and lower than expected growth in beneficiary numbers. These are partially offset by increased expenses mainly associated with higher estimates of schools funding, residential aged care and higher education operating grants.

On the revenue side, parameter and other variations since the 1998-99 MYEFO have a net positive impact on revenue in 1999-2000 driven by higher individual and other income taxes, outweighing lower indirect tax revenue. Higher than expected dividend payments also substantially increase revenue in 1999-2000. In the outyears, parameter and other variations have a negative impact on revenue. This is mainly due to lower forecasts of customs and excise duty, as well as lower public debt interest revenues.

The 1999-2000 Budget provides for targeted new policy spending largely associated with meeting the Government's election commitments. Major policy decisions taken since the 1998-99 MYEFO include:

- improved funding arrangements for non-government schools (\$338 million over four years to 2002-03; for the 2001-04 school quadrennium this will amount to \$561 million);
- improving literacy and numeracy in schools (\$131 million over four years);
- additional funding for the National Illicit Drug Strategy (over \$80 million for existing strategies and \$221 million over four years for new intervention and diversion strategies);
- increased funding for health and medical research funded through the National Health and Medical Research Council (\$274 million over four years; amounting to \$614 million over the next six years);
- a primary health care package for older Australians and those with chronic conditions (\$228 million over four years);
- funding for hearing services (\$210 million over four years);
- increased funding for national highways and roads of national importance (\$195 million over four years);

3 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 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.

- additional funding for an expansion of Work for the Dole for Year 12 school leavers (\$99 million over four years) and a further expansion of the principle of Mutual Obligation to long-term unemployed people aged between 25 and 34; and
- taxation changes to encourage philanthropy (\$189 million over four years).

A full description of all policy decisions taken since the 1998-99 MYEFO can be found in *Budget Paper No. 2*.

Appendix C in Statement 4 contains a Statement of Risks which details potential factors which could materially affect the fiscal outlook. One important factor will be variations in the economic parameters. A discussion of the estimated sensitivity of the expenses and revenue estimates to changes in economic parameters is provided in Appendix B of Statement 4.

FISCAL STRATEGY

The 1999-2000 Budget has been framed against the Government's medium-term fiscal strategy, consistent with the requirements of the *Charter of Budget Honesty Act 1998*. The Charter requires the Government to set out its medium-term strategy in each budget, along with its shorter-term objectives and targets. The Government is also required to determine its fiscal objectives with regard to the Charter's principles of sound fiscal management and report regularly on its progress in achieving them.

The primary objective of the Government's medium-term fiscal strategy is to achieve fiscal balance, on average, over the course of the economic cycle. This will ensure that, over time, the Commonwealth general government sector makes no net call on private sector saving and therefore does not directly contribute to the national saving-investment imbalance (ie the current account deficit). Sustainable fiscal settings help promote longer-term growth prospects by reducing Australia's vulnerability to external shocks and allowing greater flexibility to adjust to changing economic conditions.

This objective, which previously applied to the underlying balance in the cash budgeting framework, has not changed but has been redefined under the new accrual budget framework to apply to its accrual counterpart, the fiscal balance. The fiscal balance closely approximates the contribution of the Commonwealth to national net lending — the difference between national saving and investment. Differences between the fiscal balance and the underlying cash balance, which are discussed in more detail in Appendix A to this Statement, largely reflect the timing of bringing transactions to account.

The Government's supplementary fiscal targets will also be maintained under accruals, albeit slightly reconfigured. In addition, the move to accruals provides scope to consider an additional measure — net assets. With the move to accruals and the budget now returned to surplus, the medium-term fiscal objective has five supplementary fiscal targets:

- maintaining fiscal surpluses over the forward estimates period while economic growth prospects remain sound;

- halving the ratio of Commonwealth general government net debt to GDP from almost 20 per cent in 1995-96 to 10 per cent by 2000-01;
- directing sufficient resources to high priority areas, while significantly reducing the ratio of expenses to GDP through to the turn of the century;
- no increase in the overall tax burden; and
- improving the Commonwealth's net assets position over the medium to long term (see Box 2).

Substantial progress has already been achieved on the second and third of these targets, while tax revenue as a percentage of GDP has remained below the 1996-97 ratio.

The Government will run fiscal surpluses during periods of sound economic growth, so that deficits emerging during periods of low growth (if such occur) are manageable. Accordingly, a surplus is again forecast for 1999-2000 and current policy settings are projected to deliver fiscal surpluses over the forward estimates period (Chart 1).

The budget will remain in surplus over the forward estimates period under both the accrual fiscal balance and the cash underlying balance measures. Nevertheless, the two fiscal indicators will diverge in the short term. The fiscal balance will detect non-monetary effects, such as increases in accruing superannuation entitlements that would be ignored by the underlying cash balance. Conversely, the underlying cash balance will detect cash transactions such as superannuation payouts (outlays) on previously accrued liabilities that do not affect the fiscal balance.

The fiscal balance will generally provide a better indication of the ongoing impact of current policy on the fiscal position because transactions are recognised when economic value changes. The underlying cash balance has advantages in helping to identify the short-term impact of the budget on demand.

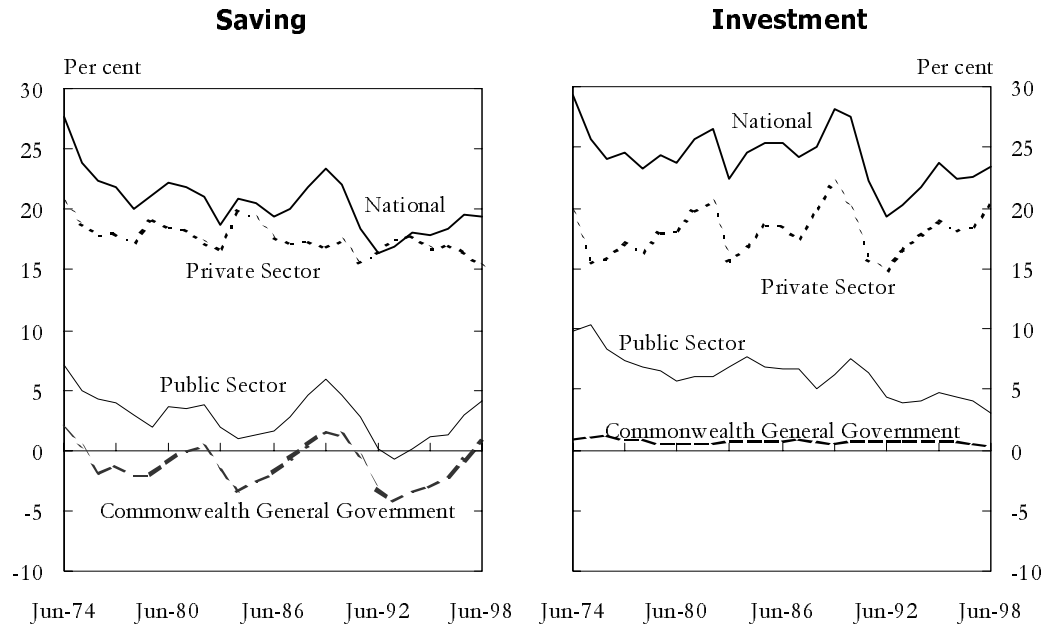
The fiscal consolidation implemented by the Government has been a key ingredient in Australia's recent strong economic performance. The Government's fiscal strategy and the outlook for continuing surpluses have been important in sustaining financial market confidence during the economic downturn in the East Asian region. These developments underscore the continuing need to operate prudent fiscal policy and maintain a strong fiscal position. This is discussed in more detail in Statement 3.

BUDGET SURPLUS, NATIONAL SAVING AND THE CURRENT ACCOUNT

Improvements in the fiscal balance as a result of the Government's programme of fiscal consolidation have been associated with increases in Commonwealth general government saving and public sector saving (Chart 3). These increases have helped maintain overall national saving during a period of declining private saving.

With the budget now in surplus, the Commonwealth is no longer drawing on the available pool of private saving; instead, it has become a net lender — adding to the pool of saving available to fund private investment. Moreover, its contribution to national net lending is expected to increase over the forward estimates period. With the State/local general government sector and the PTE sector also expected to be in surplus over the forward estimates period, both the Commonwealth and the public sector as a whole should contribute to reducing the current account deficit (CAD) over time. Projected developments in the State/local general government and PTE sectors are discussed in detail in Statement 9.

Chart 3: Ratios of Gross Saving and Investment to GDP



Source: ABS Cat. No. 5204.0 and Treasury estimates.

International evidence suggests that higher public saving tends to raise national saving. While some private saving response to fiscal consolidation might be expected, experience indicates that this only partly offsets the improvement in public saving. Chart 3 shows that national saving in Australia has normally improved when public saving has improved, and fallen when public saving has fallen. Abstracting from the long-term decline in private saving, which does not appear to be related to public saving trends, movements in national saving have clearly been strongly influenced by movements in Commonwealth general government saving.

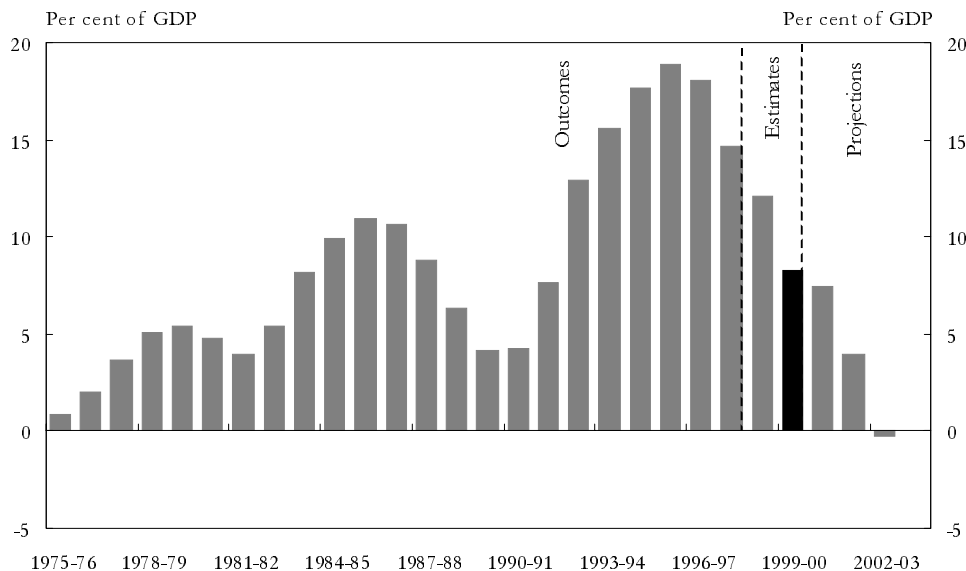
To the extent that past Commonwealth borrowing may have ‘crowded out’ private investment by raising interest rates, a sound fiscal policy may encourage private investment. Private investment should generally produce benefits in terms of higher future incomes that justify the costs of servicing external borrowing.

The fiscal strategy means that the CAD is now essentially a product of private saving and investment decisions that reflect market disciplines and incentives. Much has been done to reduce distortions to private saving and investment that have existed in the past, through the achievement of low inflation and structural and financial market reform (see Statement 3). In this environment, the fiscal strategy provides assurance to financial markets that the CAD reflects soundly based private sector decisions.

NET DEBT AND NET ASSETS

Improvements in the Commonwealth's net assets and net debt positions help to reduce Australia's vulnerability to economic shocks by reducing the risk of adverse swings in financial market confidence. Improving the Commonwealth's balance sheet will also help to ensure that the Government is better placed to cope with any emerging fiscal pressures (such as those caused by the ageing of the population) and is able to meet its future obligations without requiring sharp changes in policy settings at later — and possibly less opportune — times.

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



(a) Includes the impact of the sale of the Government's remaining share in Telstra.

As shown in Chart 4, the Government's fiscal strategy has been successful in reducing the level of Commonwealth general government net debt over recent years. The Government has not borrowed, in net terms since its election in 1996. From a peak of 18.8 per cent of GDP in 1995-96, net debt levels are expected to fall as a share of GDP to 8.2 per cent in 1999-2000. This compares with average net debt levels of around 43 per cent of GDP for OECD countries since the mid-1990s (see Chart 5).

The fiscal surpluses in prospect in each of the forward estimates years, along with expected proceeds from Commonwealth asset sales, provide for further substantial reductions in net debt. As shown in Chart 4, the Government's target of halving the ratio of Commonwealth general government net debt to GDP over the five years to 2000-01 is expected to be exceeded by a substantial margin. Indeed, with the further sale of Telstra, by the end of the forward estimates period in 2002-03 Commonwealth general government net debt could be completely eliminated.

Chart 5: Total General Government Net Debt Levels in Selected Countries 1992 to 2000^{(a)(b)}



- (a) All data are for the total general government sector (ie the aggregate of all levels of government, including the social security sector but excluding the PTE sector). The OECD is the Organisation for Economic Co-operation and Development. Its membership consists of the industrial countries of Europe and North America, Mexico, Japan, Korea, Australia and New Zealand. The OECD average data relate to only the 18 countries included in the *OECD Economic Outlook 64*. The EU average data relate to only the 11 member countries of the European Union included in the *OECD Economic Outlook 64*.
- (b) Data up to 1997 are outcomes, except for Japan where 1997 data is an estimate. The OECD data for the period 1998 to 2000, and the data for Australia and New Zealand for 1999 and 2000, are estimates. For Australia and New Zealand, data refer to the year ending 30 June (eg 1996 data are for the year ended 30 June 1996).

Source: *OECD Economic Outlook 64*, Reserve Bank of New Zealand *Monetary Policy Statement*, March 1999, ABS Public Sector Financial Assets and Liabilities (Cat. No. 5513.0) and Treasury estimates.

The 1999-2000 Budget incorporates, for the first time, a statement of financial position, or balance sheet, showing the Commonwealth's overall assets and liabilities. In addition to the longer-standing objective of reducing net debt, which covers selected financial assets and liabilities of the Commonwealth, the introduction of the accrual framework provides the opportunity to introduce an objective for net assets, which covers all the physical and financial assets and liabilities of the Commonwealth.

Box 2: Measuring Net Assets and Net Debt

The net assets and debt positions of the Commonwealth are reported in the balance sheet. Net assets include physical as well as financial assets less total liabilities. Net debt, on the other hand, comprises selected financial liabilities (deposits held, advances received and borrowing) less selected financial assets (cash and deposits, advances paid and investments). The net debt measure is accordingly a subset of the broader net assets measure. Net debt, however, is a measure widely used for purposes of international comparisons by international organisations and ratings agencies.

Changes in net assets result from movements in the operating result over time, as well as from asset and liability revaluations. Revaluations can cause significant, and unpredictable, movements in net asset values that governments are not able to control. The extent to which governments are able to control net asset movements in the medium to long term is achieved through the control they have over operating balances.

Due to the potential volatility of the net assets measure, particularly as the move to accrual budgeting is being consolidated, the Government has not targeted a specific net assets level, but has adopted the objective of improving the Commonwealth's net asset position over the medium to long term.

There are important reasons for governments to track their net assets positions over time, reflecting the extent to which this provides insights into their intergenerational positions. For example, while negative net asset levels do not imply insolvency for governments, as they may do for private profit making enterprises, a significant negative net assets position, particularly if it is expected to deteriorate, may be considered unsustainable and indicate an inequality between current and future generations. This inequality reflects the extent to which high past and/or current period spending by governments may limit the fiscal options open to governments in future periods. Reflecting a desire to address this issue, the Government has set as an objective an improved Commonwealth net assets position over the medium to long term. This objective is consistent with the Government's broader fiscal responsibility objectives set out in the *Charter of Budget Honesty Act 1998*.

Chart 6: Commonwealth General Government Net Assets

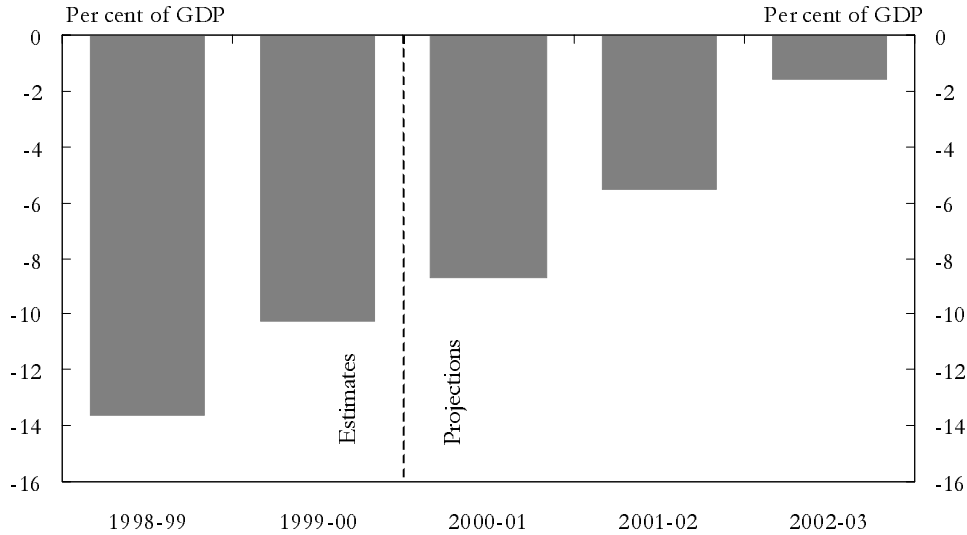


Chart 6 illustrates recent trends, current estimates and projections in Commonwealth net asset levels as a share of GDP. The level of net assets as a percentage of GDP is currently estimated at -13.6 per cent. This level is projected to improve over the forward estimates period, consistent with the Government's objective to improve its net assets position over the medium to long term. This reflects the expected operating surpluses. An additional factor contributing to this improvement is the proposed sale of the remainder of the Government's share in Telstra. In line with accounting standards, Telstra is currently recorded in the Commonwealth's balance sheet at book value⁴, which is significantly below its expected market value. That is, the estimate of the Government's current net asset position is, in fact, distorted by this valuation issue. As Telstra is sold, however, this undervaluation is undone, contributing to the significant improvement in the measure of net assets.

EXPENSES RESTRAINT AND INVESTMENT

The achievement of budget surpluses has largely relied on expenses restraint. While maintaining overall restraint on expenses, in this Budget the Government is carefully targeting high priority areas such as health, education, research and development, employment, rural and regional Australia, and families.

⁴ Consistent with accounting standards, the Commonwealth balance sheet records two thirds of Telstra's 'net assets' as a Commonwealth asset. This amount is significantly below the equivalent value of two thirds of Telstra's shares. In line with accounting standards, the Commonwealth is only able to value its Telstra investment according to its share price once the Commonwealth owns less than 50 per cent of Telstra.

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

A feature of the move to accrual budgeting is a greater emphasis on the reporting of capital expenditure by the Commonwealth. For the first time, *Budget Paper No. 1* includes a separate capital funding statement — Statement 7.

TAXATION REFORM AND REVENUE

The tax reform package outlined in *A New Tax System* is consistent with the Government's medium-term fiscal strategy. In particular, this fiscal strategy commits the Government to maintain fiscal surpluses while growth continues and to not increase the overall tax burden.

A New Tax System will be implemented progressively from 1999–2000 and will reduce the size of the Commonwealth surplus estimated for that year and projected for subsequent years. The package will bring substantial benefits to the operation of the economy and to the sustainability of Commonwealth government and State government finances.

Reflecting the considerable improvements in the Government's fiscal position in recent years, the tax package can be accommodated while retaining budget surpluses through the forward estimates period.

Part IV: Budget Priorities

The priorities and measures in this Budget build on the priorities addressed in the Government's first term in office. Important areas that the Government consistently focused on in its first term included families, older Australians, employment, regional Australia and small business.

At the last election, the Government set out a comprehensive programme of targeted expenditures, plus a major reform of the Australian tax system, contained in *A New Tax System*. In addition to meeting these commitments, the Budget introduces new measures that aim to build on Australia's strengths and develop long-term economic prospects.

The Government's priorities for this Budget have been developed within a framework that takes account of its broader economic and social objectives. In framing the 1999-2000 Budget, the Government has given priority to:

- delivering on its election commitments;
- building a modern, fair and efficient taxation system that enhances Australia's economic prospects and provides a secure source of revenue for essential public services;
- promoting an economic climate conducive to high levels of sustainable economic and employment growth, including through contributing to greater national saving and improving the Commonwealth's net assets and net debt positions;
- fulfilling its social obligations through:
 - supplying essential public goods and services;
 - providing and maintaining a fair and effective social safety net that supports those most in need; and
- ensuring that government resources are used as effectively and efficiently as possible, including through moving to the accrual budgeting framework, which will improve public sector planning, performance assessment and reporting.

The following provides more details on the Government's key expense and revenue priorities and measures for the current Budget.

Savings in this Budget are attributable mainly to reductions in resourcing for certain agencies and rationalisation of Commonwealth property.

A New Tax System

The Government considers that reform of the tax system is essential in building an economic infrastructure that will enable Australia to compete and prosper in a competitive world economy.

A New Tax System will abolish the existing Wholesale Sales Tax and nine inefficient and distorting State and Territory government taxes and replace them with a GST, which will be locked in at a rate of 10 per cent. The Commonwealth will provide all of the GST revenue to the States and Territories. Importantly, this will ensure a stable revenue source for the States and Territories to provide essential community services such as hospitals, schools and emergency services. Financial Assistance Grants to the States and Territories will be abolished.

Implementation of *A New Tax System* will help ease the burden of raising a family through personal income tax cuts totaling \$13 billion a year from July 2000. Family benefits will be substantially increased and simplified. This will benefit over two million families at a cost of around \$2½ billion a year. Additional incentives to work and save will also be achieved by reducing family benefit withdrawal rates and increasing the income thresholds for family payments.

Some of the revenue measures announced in *A New Tax System* have been revised to improve their operation. The luxury car tax threshold on vehicles has been aligned with the car depreciation limit for income tax purposes. The Reform of Tobacco Taxation outlined in *A New Tax System* was scheduled to apply from July 1999. The new arrangements will now apply from 1 November 1999 to give the tobacco industry sufficient time to implement the required changes.

The Budget contains measures to implement *A New Tax System* and to enhance the tax reform package for families.

Reform of Commonwealth-State Financial Relations

At the 1999 Premiers' Conference, the States and Territories signed an Intergovernmental Agreement with the Commonwealth that will transform Commonwealth-State financial arrangements. Under the agreement, the States and Territories will benefit from tax reform by gaining a stable and robust source of revenue in the form of the GST and the capacity to remove a range of inefficient taxes. In the context of signing this agreement, the Commonwealth agreed to provide further assistance to the States and Territories during the transitional years of the reforms. This will ensure that the budgetary position of each State and Territory will be no worse off under the new arrangements.

Other Revenue Measures

The Government is providing a package of measures to promote corporate and individual philanthropy. The measures include a capital gains tax (CGT) exemption for testamentary

gifts of property and for gifts accepted under the Cultural Gifts Programme. These changes will apply from 1 July 1999.

To improve the overall operation and efficiency of the Superannuation Surcharge, the advance instalment requirement has been removed. The removal of the advance instalment will affect only the timing of the surcharge collections.

A Healthy Australia

A healthy Australia is a high priority of this Government. Having already delivered major funding increases to the States for public hospitals through the Australian Health Care Agreements, this Budget focuses on improving health care for the elderly, facilitating access to high quality health care in rural and regional areas and enhancing Australia's health and medical research capacity.

The Government is committed to a balanced health system, and to strengthen both the public and private sectors. In this regard the budget measure of Lifetime Health Cover will be an important complement to the 30 per cent rebate on private health insurance premiums that has been operating since 1 January 1999. Lifetime Health Cover will be implemented from 1 July 1999. This system allows registered health funds to offer lower lifetime rates of hospital cover. People taking out hospital cover early in their lives will pay lower premiums than those taking it out later in life. The new system has the potential to encourage an increase in health insurance membership numbers together with an improvement in the membership profile. Importantly, Lifetime Health Cover will not disadvantage existing fund members, maintains the principle of community rating and will allow non-members to join during a 12 month grace period without penalty. In addition, special provisions will protect people aged 65 or more on 1 July 1999 by ensuring that they can take out hospital cover at any time without penalty.

This Budget provides funding of \$228 million over four years for an Enhanced Primary Care Package, targeted to older Australians and those with chronic conditions. The package is designed to better coordinate health services, including by providing incentives for GPs to participate in better coordinated care and by providing a single point of contact for home and community care services (Carelink), and to improve people's self-reliance and capacity to manage their own conditions. Separately, \$82 million over four years has been provided to expand the provision of respite care for carers of people with dementia and other cognitive and behavioural problems. The Government will provide additional funding of \$210 million over the next four years for hearing rehabilitation services, including the provision of hearing aids for eligible persons. The funding will enable a further 67,000, mainly older, Australians to be assisted each year. A component of this funding will be directed towards the ongoing delivery of high quality hearing services to children and others with special needs.

Aboriginal and Torres Strait Islander primary health care funding is to be significantly increased. The Army/ATSIC Community Assistance Programme which provides environmental and health infrastructure to indigenous communities will also be extended.

Health and medical research plays a vital role in improving the well being of all Australians. Consequently, the Government will invest \$614 million over the next six years into health and medical research funded through the National Health and Medical Research Council. This will more than double the Council's existing research funding level by 2005 and will consolidate Australia's position in the top 10 OECD countries in terms of health and medical research investment. In addition, funding of \$20 million over the next two years will support the development of enhanced facilities for Australia's leading health and medical research institutes.

Increasing Employment Opportunities and Enhancing Education

The Government is pursuing a wide range of labour market reforms to achieve sustained reductions in the level of unemployment. As part of this, the scope of activities that satisfy the mutual obligations of unemployment beneficiary recipients will be increased and mutual obligation will be extended to those aged between 25 and 34 years who have been in receipt of unemployment payments for 12 months or more. Work for the Dole will also be broadened to include this group and Year 12 school-leavers in receipt of unemployment payments for more than three months, with a doubling of Work for the Dole places from 25,000 in 1998-99 to 50,000 by 2000-01. To combat the severe employment problems faced by Aboriginal and Torres Strait Islander people, the Government will also double the funding for indigenous employment initiatives through the introduction of the Indigenous Employment Policy, including the Indigenous Employment Programme.

Employers in rural and regional areas will be provided with an additional incentive payment of \$1000 to progress New Apprentices to higher skill levels in trades and occupations experiencing skill shortages.

The Government has already implemented its election commitment for additional funding of \$553 million over five years for Catholic systemic schools. This decision followed an independent assessment of the needs of this system conducted by the Non-Government Schools Funding Review Committee. A new allocative mechanism for distributing general recurrent funding to non-government schools will be implemented for the 2001-04 school quadrennium. The new model will be based on a measure of the socioeconomic status of the community that a school serves and will provide a fairer and more transparent model for allocating funding. Under this model, funding to the non-government school sector will increase by around \$561 million over the 2001-04 school quadrennium.

High quality education improves employment opportunities. This Budget increases school funding and provides a range of initiatives that will benefit Australian school students. Ensuring that every Australian school child is able to read and write is a key Government priority. This Budget builds on previous initiatives by allocating \$131 million over four years for literacy and numeracy programmes in schools. Funding is also being provided for studying Asian languages and a quality teacher programme that will focus on professional development in literacy, numeracy, mathematics, science, information technology and vocational education.

Investing for Stronger Growth

The Government has allocated additional funding of \$195 million over four years to upgrade the National Highway System and roads of national importance. Increased funding is also being provided for bridge upgrades to facilitate the introduction of increased mass limits for heavy vehicles. These programmes will enhance the efficiency of our road transport system, with consequential national and regional economic benefits. The Black Spot Programme is being extended for a further two years in order to make our roads safer and reduce the social and economic costs of road accidents.

Biotechnology will have a major impact on many commercial activities and has the potential to improve the lives of Australians through new medical treatments, safer and more nutritious food, reductions in the use of chemicals and more sustainable land use practices. Initiatives in this Budget will assist the biotechnology industry to maximise its contribution to the Australian economy through ensuring a consistent regulatory system, improving the management of intellectual property in biotechnology and developing measures to enhance access to genetic and biological resources.

To help ensure that Australia maintains its strength in scientific and industrial research and innovation the Government will maintain higher baseline funding for the CSIRO. Research infrastructure funding for universities will be increased and new science lectureships will be established. This complements the Strategic Partnerships-Industry Research and Training programme for which additional funding has previously been announced.

The sale of the second tranche of Telstra will provide a social bonus to enhance national communications infrastructure. Telecommunication infrastructure in remote Australia will be upgraded to give access to untimed local calls and to replace the pastoral call rate with a fairer system at a cost of up to \$150 million over three years. The Networking the Nation regional telecommunications programme will provide enhanced rural internet access, continuous mobile phone coverage on major national highways and an expansion of the Regional Telecommunications Infrastructure Fund. The Television Fund initiative will provide \$120 million over five years to eliminate between 200 and 250 television blackspots and expand the transmission of SBS television.

To enhance Australia's capacity to participate fully in the strong global growth in the financial services industry, the Government has allocated \$3.5 million in each of 1999-2000 and 2000-01 for initiatives to promote Australia as a centre for global financial services.

Rural and Regional Australia

The Government is committed to working with Australia's primary industries to secure their profitability, sustainability and competitiveness. Funding is being committed to support the Supermarket to Asia Strategy and to implement the Food and Fibre Supply Chain Programme. Resources are being provided for the Northern Australian Quarantine

Strategy, for regional flood mitigation programmes, to deter illegal fishing in Australia's subantarctic waters, and to support the sustainability of the Great Artesian Basin.

An additional 30 Regional Health Service Centres will be established over the next four years. This measure will extend to more areas an approach that draws together health, aged care and other community services to a central location; providing a mix of services to best meet local priorities. Further, in recognition of the key role of general practitioners, the Government will spend \$43 million over four years on retention payments for long serving GPs working in rural and remote areas.

To ensure that Tasmania is not disadvantaged from high transport charges, an expanded freight equalisation scheme costing more than \$20 million per year will be implemented from 1999-2000.

Two new Centrelink call centres will be established in Maryborough and Port Augusta. The new call centres will tailor services to customers in regional and rural Australia.

As part of the social bonus to be funded from the sale of the second tranche of Telstra, the Government will fund the establishment of up to 500 rural transactions centres. The programme will help small rural communities to establish centres that provide access to basic transaction services, such as banking, post, phone, fax and Medicare Easyclaim.

To enhance the access that students from rural and regional areas have to education, this Budget provides a number of initiatives including increasing boarding allowance under the Assistance for Isolated Children Scheme and extending eligibility for the student financial loan supplement.

A Safer and Fairer Community

The Budget contains measures to strengthen family relationships, reduce crime and improve accessibility to justice.

Initiatives against crime include Crimtrac and the National Crime Prevention Programme. Crimtrac will provide access to the most up to date and efficient technology to store and retrieve information to help police solve crimes. At the other end of the spectrum, the National Crime Prevention Programme is aimed at finding and promoting ways of preventing crime and violence in the community. To enhance an equitable and accessible system of federal law and justice, additional counselling and mediation dispute resolution services will be provided and access to justice for disadvantaged people in rural and regional areas will be extended. Funding will be provided to establish the Federal Magistrates Service and to construct a Commonwealth Law Courts building in Adelaide.

This Budget provides a range of specific initiatives to support families through providing increased relationship support services, assistance to resolve family disputes, developing approaches to reduce domestic violence, expansion of children's contact services, a new suicide prevention strategy and support for carers of young people with disabilities. The Government will implement a new youth homelessness early intervention programme

and provide increased funding for the Supported Accommodation Assistance Programme which provides transitional support and accommodation to help homeless people and those at risk from domestic violence.

To date the Government has committed over \$295 million to the National Illicit Drug Strategy for a range of initiatives in the fight against drugs. This includes over \$80 million in this Budget to fulfill election promises. The Budget provides an additional \$221 million over four years for early intervention and diversion of illicit drug users to counselling and treatment, and for education and prevention activities including supply control.

Environment and Sport

Funding of \$250 million has been allocated to the Natural Heritage Trust as part of the social bonus from selling the second tranche of Telstra. This will maintain support for the full range of Natural Heritage Trust programmes such as Bushcare, Rivercare, Landcare and Coastcare; Murray-Darling 2001; and support for endangered species, wetlands and World Heritage places. The Budget also contains increased funding for the Living Cities programme, oceans policy, the Bureau of Meteorology and for a range of environment protection measures.

Consistent with the Government's election commitment, a further \$148 million is to be made available to the Australian Sports Commission over the period 1999-2000 to 2002-03. This funding will maintain support for national sports infrastructure and the development of elite athletes, including the extension of the Olympic Athlete Programme.

Appendix A: Fiscal Policy under Accrual Budgeting

The Government has adopted an accrual budgeting framework for public sector budgeting and reporting. The 1999-2000 Budget is the first Commonwealth budget to use an accrual framework. This move is an important step in the Government's financial management reform programme to develop more business-like reporting in the public sector. It will ensure that agency reporting accounts for the full cost of service delivery and incorporates a 'whole-of-government' approach. The main advantage of accrual measures (as opposed to cash) is that they provide a more comprehensive indication of the total activity of Government and the longer-term effects of current policy. Cash measures do, however, have some advantages for tracking expenditures in a fiscal year and helping to identify the short-term effect of fiscal policy on the economy.

ACCRUAL ACCOUNTING STANDARDS

There are two accrual standards against which the Government has reported against in this Budget:

- The ABS's accrual Government Finance Statistics (GFS) standard (refer to Statement 9).

The ABS is moving to compile the GFS on an accrual basis. The proposed accrual presentation will consist of four statements. An operating statement will describe flows and will feature three new summary measures (net lending, the increase in net worth and the net operating result). A full balance sheet will describe the financial stocks and value of physical assets. In addition, there will be a reconciliation statement of stocks and flows, and a cash flow statement.

In the proposed GFS system, the classification of some transactions will differ from the accrual treatment under accounting standards.

- Australian Accounting Standard (AAS 31), *Financial Reporting by Government* (refer to Statement 4).

AAS 31 requires governments to prepare accrual-based general purpose financial reports, including the assets they control, any liabilities incurred, and their revenues and expenses.

Under AAS 31, governments must prepare an operating statement (also known as the statement of revenue and expense, or the profit and loss statement), a statement of financial position (or balance sheet) and a statement of cash flows.

FISCAL BALANCE

The fiscal balance (GFS net lending) is the accrual equivalent of the underlying cash balance. Like its cash equivalent, the fiscal balance measures the Government's net lending and hence direct contribution to the current account deficit.

As noted in Parts I and III, the Government's fiscal strategy will be maintained under accruals with the focus of fiscal policy moving to the fiscal balance.

Focusing on the fiscal balance (rather than the operating result) ensures consistency with the Australian National Accounts concepts of net lending.

The fiscal balance measures the extent to which the Government is adding to or drawing down on the private savings pool. The Government's fiscal strategy is to ensure that, on average, over the course of the economic cycle the government sector is not drawing on private sector saving.

Although the fiscal balance is the accrual counterpart of the underlying cash balance the two are likely to diverge in the short term due to differences between when transactions are recorded in cash and accrual terms.

Deriving the Fiscal Balance

Although fiscal balance is an aggregate in the GFS operating statement (refer to Statement 9) it can also be calculated through several adjustments to the accounting standard operating result (see Table 5). These adjustments can be broadly grouped into two categories — revaluations and capital.

Revaluations reflect changes to the value of assets and liabilities. These revaluations do not affect cash measures of budget balance, but are brought to book in the calculation of the accounting standard operating result. They are not, however, included in the measurement of fiscal balance. Revaluations do not affect the fiscal balance as they do not involve a change in the Government's resource position; instead they reflect changes in the value of assets and liabilities resulting from flows that are not transactions — such as changes in prices (eg gains from foreign exchange). For example, an actuarial driven reassessment of the Government's superannuation liability may lead to a more accurate value being recorded in the balance sheet, but this has not changed the Government's current resource position and will not affect the fiscal balance.

The other major difference between the accounting operating result and the fiscal balance is the treatment of capital expenditure. As with cash measures, fiscal balance incorporates capital expenditure (net), not capital use or depreciation, as the fiscal balance is detecting the full investment by government in a particular period. Therefore, depreciation is 'added back' to the accounting standard operating result and replaced with capital expenditure — the capital adjustment.

Table 5: Budget Estimates

	General Government Sector				
	1998-99 Total Estimate	1999-00 Total Estimate	2000-01 Total Projection	2001-02 Total Projection	2002-03 Total Projection
(1) Underlying cash balance (new treatment)	2883	5208	3114	7210	12460
<i>plus</i> net advances	5511	17828	-923	17658	16698
Headline cash balance	8394	23036	2190	24867	29159
<i>less</i> GFS/AAS31 classification differences	851	1867	750	2484	27
<i>less</i> net cash from investing activities	1020	11404	-5199	10930	11826
<i>plus</i> accrual adjustments (revenues not providing cash plus cash used (provided) by working capital items less expenses not requiring cash)	-3358	-4049	80	-6051	-5674
Operating result	3166	5717	6718	5402	11633
(2) <i>plus</i> total accrual adjustments	283	509	3604	-1808	-827
(3) Operating result (before abnormals)	3166	5717	6718	5402	11633
(4) <i>plus</i> revaluations/writedowns from superannuation	0	0	0	0	0
(5) <i>plus</i> net writedown of assets/bad and doubtful debts	1134	1066	974	1059	1073
(6) <i>plus</i> net foreign exchange losses	-500	2	2	2	2
(7) <i>plus</i> other economic revaluations	810	386	693	331	33
(8) <i>less</i> profit (loss) on the sale of assets	2	-34	-13	-22	-11
(9) <i>less</i> costs of asset sales	60	224	0	218	218
(10) GFS operating result	4548	6981	8401	6597	12533
(11) <i>less</i> purchase of property plant and equipment and intangibles	4579	4989	4838	5055	4967
(12) <i>less</i> assets acquired under finance leases	na	na	na	na	na
(13) <i>less</i> other non-financial assets	123	9	-25	1	-3
(14) <i>less</i> increase in inventories	-250	-156	-107	7	-62
(15) <i>plus</i> proceeds from sales of property, plant and equipment and intangibles	701	810	725	699	553
(16) <i>plus</i> depreciation and amortisation	2308	2477	2776	2956	3169
(17) Fiscal balance (GFS net lending)	3105	5426	7195	5189	11353

Note: Items (4) to (9) reflect revaluations. Items (11) to (16) reflect the capital adjustment.

The table below provides accrual estimates of the Government's fiscal position at the 1998-99 MYEFO. These estimates are based on accrual data collected for the 1999-2000 Budget and should therefore be treated as indicative only.

Table 6: 1998-99 MYEFO Estimates

	General Government Sector			
	1998-99 Total Estimate	1999-00 Total Projection	2000-01 Total Projection	2001-02 Total Projection
(1) Underlying cash balance (old treatment)	3032	2686	3383	9438
(2) <i>less</i> provisions	1375	1292	1176	1229
(3) Underlying cash balance (new treatment)	1656	1394	2208	8210
<i>plus</i> net advances	5378	13741	32763	8466
Headline cash balance	7035	15135	34971	16676
<i>less</i> net cash from investing activities	997	7939	28689	3958
<i>plus</i> accrual adjustments (revenues not providing cash plus cash used (provided) by working capital items less expenses not requiring cash)	-2303	-5140	1835	-4687
Operating result	3734	2056	8117	8031
(4) <i>plus</i> total accrual adjustments	2078	662	5909	-179
(5) Operating result (before abnormals)	3734	2056	8117	8031
(6) <i>plus</i> revaluations/writedowns from superannuation	0	0	0	0
(7) <i>plus</i> net writedown of assets/bad and doubtful debts	851	945	1001	1107
(8) <i>plus</i> net foreign exchange losses	-417	0	0	0
(9) <i>plus</i> other economic revaluations	352	620	931	367
(10) <i>less</i> profit (loss) on the sale of assets	29	40	30	29
(11) <i>less</i> costs of asset sales	78	215	345	5
(12) GFS operating result	4413	3366	9674	9471
(13) <i>less</i> purchase of property plant and equipment and intangibles	3379	5077	4836	4944
(14) <i>less</i> assets acquired under finance leases	na	na	na	na
(15) <i>less</i> other non-financial assets	527	0	-19	0
(16) <i>less</i> increase in inventories	-173	-168	-35	19
(17) <i>plus</i> proceeds from sales of property, plant and equipment and intangibles	648	677	595	601
(18) <i>plus</i> depreciation and amortisation	2252	2490	2753	2958
(19) Fiscal balance (GFS net lending)	3580	1624	8240	8067

Note: Items (6) to (11) reflect revaluations. Items (13) to (18) reflect the capital adjustment.

DIFFERENCES BETWEEN CASH AND ACCRUALS

Under a cash system, transactions are recorded in the reporting period in which cash changes hands. An accrual system records transactions in the period in which income is earned or expenses incurred, subject to the important caveat that the transactions are able to be reliably measured at that time. Effectively, assets, liabilities, revenues and expenses

arising from transactions or other events must be recognised in the financial statements when they have an economic impact on the government, regardless of when the associated cash flows occur.

The major differences between cash budgeting and the accrual framework are outlined below.

Superannuation

Accrual budgeting will record the accruing superannuation expense whether the liability is funded or unfunded. The superannuation expense in the operating statement, in a given year, is equal to the superannuation accruing to current employees, as well as the interest or growth of the outstanding liability. In calculating changes in the stock of unfunded superannuation liabilities, the actuary takes into account the number of salary earners and assumptions relating to wages growth, inflation and the expected rate of return on investment. While this will show the true cost of accruing superannuation liabilities, it does not change the unfunded nature of the liability.

Public Debt Interest (PDI)

Under cash accounting, PDI is recorded as the interest paid during the year. Under an accrual approach, allowance is also made for interest accrued, but not actually paid, during the period.

A further difference between cash and accrual accounting for PDI concerns the treatment of premia and discounts when debt is issued or when it is repurchased. Under the cash framework, an issue premium is recorded as an offset to PDI at the time of debt issue, and an issue discount is recorded as PDI when that debt is cancelled. In the accounting standard framework, however, both issue premia and discounts are amortised over the life of the stock, while in the accrual GFS framework premia and discounts are considered economic revaluations.

Taxation Revenue

The preparation of accrual estimates requires a conceptually consistent and reliable method of recognising when taxation revenue accrues to the Commonwealth.

The Commonwealth could record an accrual of revenue at the time that economic transactions, resulting in a taxation liability, took place. It is very difficult, however, to know when all such transactions take place. As a result, revenue will be recognised as accruing at the time the relevant tax law indicates the existence of a requirement to pay an amount in tax or when a tax liability assessment is raised by the Australian Taxation Office (ATO) or the Australian Customs Service (ACS). That is, revenue is only recognised when the taxpayer makes a self-assessment or the ATO/ACS issues an assessment.

In effect only two changes to current cash estimates are required. These are adjustments for receivables, and for bad and doubtful debts.

The adjustment for receivables recognises revenue for which an assessment has been issued but which has not yet been received and excludes cash received which has already been accounted for in receivables (because it accrued in a previous reporting period).

For example, accrual revenue is recognised at the time an assessment for taxation occurs. New company tax payment arrangements commencing in 2000-01 will involve some companies being assessed for tax under both the existing and new payment arrangements in that year. As announced in *A New Tax System*, companies will be allowed to defer part of this tax liability to later years to smooth actual tax payments in 2000-01. Companies will therefore be assessed for tax instalments in 2000-01 that will not be paid until some time in the future. Assessments on these deferred amounts are treated as a receivable in 2000-01, resulting in accrual revenue being larger than cash revenue in 2000-01 but lower than cash in the following years.

The adjustment for bad and doubtful debts allows for the fact that some accounts receivable are never paid and are eventually written off. At the end of each financial year tax receivables that are likely to become uncollectable are brought to account and expensed to the year just finishing. In this way expenses are matched to the period in which they were incurred.

Capital

Accrual accounting records capital use (depreciation) in the operating statement, whereas cash accounting records capital expenditure. However, the Government's primary fiscal target — the fiscal balance — will continue to record capital expenditure instead of depreciation. This treatment is necessary because the fiscal balance is intended to measure net lending, or the difference between saving and investment expenditure. Therefore the fiscal balance detects the cash 'investment' in a given year, not the capital used. The cash flow statement will outline most capital expenditure in the categories 'purchase of property, plant and equipment, and intangibles' and 'proceeds from sale of property, plant and equipment, and intangibles'.

Appendix B: Provisions

The Government still makes superannuation payments to current and former employees of PTEs who were once employees within the general government sector. These payments are termed 'provisions' and to date have been treated as financing transactions, and as such did not impact on the budget 'bottom line' balance. This was consistent with their treatment by the ABS in the Australian National Accounts.

The ABS has recently adopted revised international statistical standards (SNA 93) in the Australian National Accounts. As part of these new standards 'provisions' are brought 'above the line'. To maintain consistency with this revised ABS treatment, from the 1999-2000 Budget provisions will now be brought 'on budget', like other superannuation payments, and included in budget bottom lines. This classification change will have the effect of reducing the headline and underlying cash balance by around \$1¼ billion per annum.

The Government has always published budget bottom lines inclusive of provisions in GFS tables. From the 1999-2000 Budget the GFS cash balance will align with the underlying cash balance (refer to Statement 9).

Under accruals, for the calculation of fiscal balance, the relevant expense is a measure of the accruing interest or growth on the outstanding PTE superannuation liability. As a consequence of timing differences, the accrual expense is expected to be less than the cash outlays in respect of this liability.

STATEMENT 2: ECONOMIC OUTLOOK

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STATEMENT 2: ECONOMIC OUTLOOK

Part I: Overview

Following very strong growth in excess of 4 per cent in 1997-98 and 1998-99, the Australian economy is expected to grow by a solid 3 per cent in 1999-2000. This growth has occurred in the face of the East Asian financial crisis and the slowdown in the world economy more generally. Fundamental to this resilient performance has been sound fiscal and monetary policy, and the benefits of on-going microeconomic reform.

The expected moderation in growth in 1999-2000 from the previous two years reflects the impact of continued below trend growth in the world economy on the domestic economy, particularly business investment, as well as a slowing in the growth of some other components of domestic demand, including consumption. Nevertheless, the outlook for growth remains very favourable compared with other developed economies and countries in the region. Continued low inflation and further solid growth in employment are expected, with the unemployment rate consolidating recent falls to remain around 7½ per cent over 1999-2000.

The world economy is estimated to have grown by 1¾ per cent in 1998 and is expected to maintain that growth in 1999, before strengthening to around 2½ per cent in 2000. This compares with the long-term average growth rate of around 3 per cent per annum.

The Australian economy performed more strongly than expected in the first half of 1998-99. This, together with evidence of continuing strong consumer demand, solid employment growth and a high level of job vacancies, has resulted in the 1998-99 GDP growth forecast being revised up significantly to 4¼ per cent, a full percentage point above the figure reported in the *1998-99 Mid-Year Economic and Fiscal Outlook* (MYEFO) in December 1998. While the impact of the international downturn is clearly evident in the sharp decline in world commodity prices, well below trend growth in export volumes and a decline in Australia's terms of trade, domestic demand remains strong, supported by favourable domestic policy settings.

GDP growth in 1999-2000 is expected to be around 3 per cent in year-average terms. The moderation in GDP growth compared with the previous year is expected to occur largely in calendar year 1999, with a pick-up in calendar year 2000 as the world economy gradually strengthens. Growth through the year to the June quarter 2000 is expected to be around 3½ per cent. The moderation in growth largely reflects: more moderate growth in private consumption at rates closer to the longer-term trend, following very strong growth in the two previous years; a reduction in private non-residential construction from recent high levels; relatively stable dwelling investment; and slower growth in public demand. Partially offsetting influences are expected to be a pick-up in export growth, as well as some pick-up in plant and equipment investment growth as the international economy gradually strengthens.

Solid employment growth of around 1¾ per cent is forecast in 1999-2000, following strong growth of around 2¼ per cent in 1998-99. The unemployment rate is forecast to average around 7½ per cent in 1999-2000, down from 8.3 per cent in 1997-98 and around 7¾ per cent in 1998-99. Underlying these forecasts is an assumed small increase in the participation rate from recent levels and a cyclical slowing in average labour productivity growth.

Inflation is expected to remain low, averaging 1¼ per cent in 1998-99 and 2 per cent in 1999-2000. Through the year to the June quarter 2000, inflation is expected to be around 2¼ per cent. Nominal unit labour costs are expected to grow a little more quickly in 1999-2000 in response to a cyclical slowing in average labour productivity growth from recent very high rates, although slower growth in domestic demand will limit the flow-through into retail prices. International deflationary pressures may also become less marked as the effects of falling world commodity prices run their course and as the troubled East Asian economies begin to recover.

The current account deficit (CAD) is forecast to average around 5½ per cent of GDP in 1998-99, compared with a little over 4 per cent in 1997-98. This widening of the CAD reflects the impact of the slower world economy on both net exports and Australia's terms of trade. The CAD is expected to decline in 1999-2000 as a share of GDP (to around 5¼ per cent), as exports respond to a gradual strengthening in the world economy and the terms of trade improve slightly. Volatility in the various components of the external accounts could result in the CAD as a percentage of GDP being higher in any one quarter than the expected average for the year.

Major uncertainties continue to surround the outlook for world economic growth, particularly in Japan and some emerging markets. While there are signs of recovery in some East Asian economies, and an improvement in the economic performance of these economies is expected in 1999-2000, continuing structural problems, particularly in the financial and corporate sectors, raise questions about the sustainability of that improvement. Similarly, there remains the possibility of further periods of instability in other emerging market economies. Against this, however, the United States could continue to exceed expectations.

Against the backdrop of these international risks, there are also significant uncertainties about the timing and extent of the expected moderation in growth in the Australian economy. While business investment looks to be slowing after six years of strong growth, it is by nature volatile and difficult to predict, being subject to both domestic and international influences. There is also some uncertainty around the net impact of rising household debt and rising household asset values on future consumption expenditure. The timing of both business investment expenditures and household consumption expenditures in the latter part of 1999-2000 are also likely to be affected to some extent by the introduction of the Government's tax reform package, *A New Tax System*.

Table 1: Domestic Economy Forecasts^(a)

	Outcomes(b)		Estimates		Forecasts	
	1997-98 Year Average	1998-99 Year Average	1999-00 Year Average	Four Quarters to June 2000		
Panel A - Demand and Output(c)						
Household consumption	4.6	4 1/2	3 3/4	4		
Private investment						
Dwellings	15.6	2	3	5		
Total business investment	10.1	-1	-1	-2		
Other buildings and structures	16.7	-2	-10	-8		
Machinery and equipment	7.4	-2	1	-1		
Private final demand	6.2	3 1/4	2 3/4	3		
Public final demand	2.3	7 1/4	3 1/4	4		
Total final demand	5.3	4 1/4	3	3 1/4		
Change in inventories(d)						
Private non-farm	0.1	1/4	0	-1/4		
Farm and public authorities	0.6	0	-1/4	-1/2		
Gross national expenditure	6.0	4 1/2	2 3/4	2 3/4		
Exports of goods and services	3.8	2	5	9		
Imports of goods and services	9.6	5	4	4		
Net exports(d)	-1.1	-1/2	1/4	3/4		
Gross domestic product	4.6	4 1/4	3	3 1/2		
Non-farm product(e)	4.8	4 1/4	3	3 1/2		
Farm product(e)	-2.1	4	1	-3		
Panel B - Expenditure Excluding Transfers and One-off Transactions(c)(f)						
Total business investment	9.7	2	0	-1		
Other buildings and structures	6.9	9	-9	-6		
Machinery and equipment	11.3	-2	3	0		
Public final demand	3.4	5 1/4	2 1/2	3 1/2		
Change in inventories(d)	0.3	0	0	-3/4		
Gross national expenditure	5.8	4 1/4	2 3/4	2 3/4		
Exports of goods and services	5.6	3	5	9		
Panel C - Other Selected Economic Measures						
Prices and wages						
Consumer Price Index	0.0	1 1/4	2	2 1/4		
Gross non-farm product deflator	1.3	3/4	1 3/4	2 1/4		
Average earnings(g)	3.6	4 1/4	3 3/4	4		
Labour market						
Employment (Labour Force Survey basis)	1.4	2 1/4	1 3/4	1 1/2		
Unemployment rate (per cent)(h)	8.3	7 3/4	7 1/2	7 1/2		
Participation rate (per cent)(h)	63.1	63 1/4	63 1/4	63 1/4		
Household saving ratio (per cent)	3.0	1 1/4	1			
External accounts						
Terms of trade	0.0	-4 3/4	1/2	1/2		
Current account balance						
\$ billion	-23.3	-32 1/2	-32			
Percentage of GDP	-4.1	-5 1/2	-5 1/4			

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

(b) Calculated using original data.

(c) Chain volume measure. Reference year is 1996-97.

(d) Percentage point contribution to growth in GDP.

(e) 1997-98 outcome calculated at basic prices.

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

(g) Average non-farm compensation of employees (National Accounts basis).

(h) The estimate in the final column represents the forecast level in the June quarter 2000.

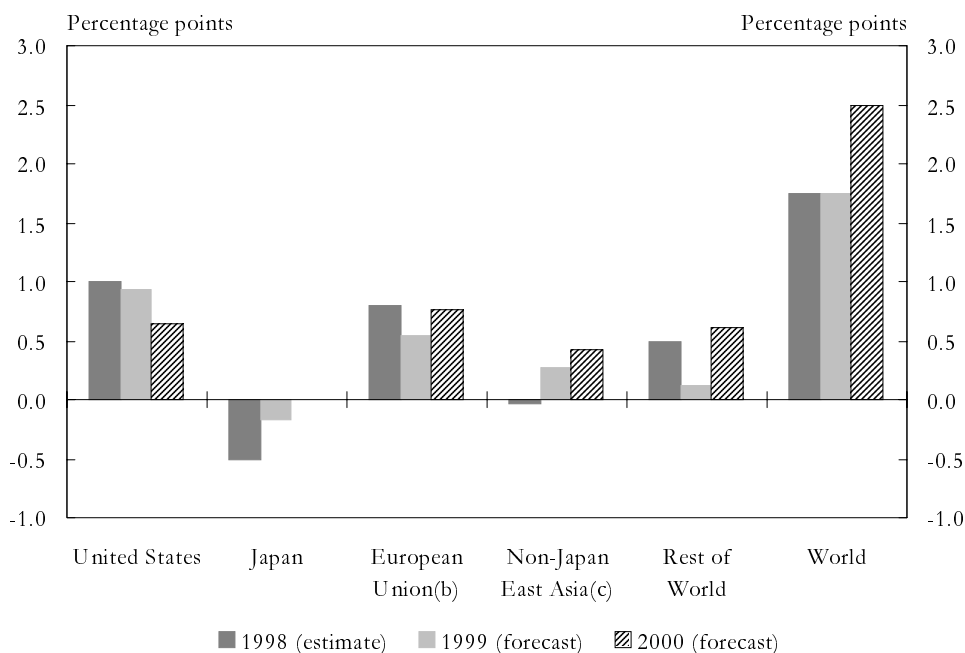
Part II: The Outlook for the International Economy

The severe recession in Japan and the weakness in the East Asian crisis economies detracted significantly from world economic growth in 1998, with growth slowing from 3¼ per cent in 1997 to 1¾ per cent in 1998. Robust growth in the United States economy and solid economic growth in Europe has supported world growth.

Growth in the United States and Europe is expected to be weaker in 1999 and significant contractions are expected in several emerging market economies, in particular Brazil and Russia. Offsetting these are the expected improvement in the troubled economies of East Asia and a moderation in the rate of economic contraction in Japan. On balance, world economic growth should be maintained at its current pace of around 1¾ per cent.

World economic growth is expected to strengthen to around 2½ per cent in 2000, with an anticipated pick-up in growth in the European Union, further improvement in East Asia and recovery in Latin America and Eastern Europe. While growth in the United States could continue to exceed expectations, there remains considerable uncertainty surrounding the outlook for Japan and the strength of recovery in the crisis-affected emerging markets.

Chart 1: Percentage Point Contributions to World Growth Rates^(a)



(a) European Union, Non-Japan East Asia, Rest of World and World GDP growth rates are calculated using GDP weights based on market exchange rates.

(b) Germany, France, Italy, the United Kingdom, Belgium, Netherlands, Greece, Denmark, Sweden, Luxembourg, Austria, Spain, Portugal, Finland and Ireland.

(c) Korea, Singapore, Taiwan, Hong Kong, China, Indonesia, Malaysia, Thailand and the Philippines.

Source: Various national statistical publications, IMF and Treasury.

Table 2: GDP Growth Rates for Selected Countries and Groupings^(a)

	1996	1997	1998(c)	1999(f)	2000(f)
United States	3.4	3.9	3.9	3½	2½
European Union	1.8	2.6	2.8	1¾	2½
Japan	5.0	1.4	-2.8	-1	0
Non-Japan East Asia	7.4	6.2	-0.3	3¼	5
OECD(b)	3.3	3.0	1.9	2	2¼
World	3.5	3.3	1.8	1¾	2½

(a) European Union, Non-Japan East Asia, OECD and World GDP growth rates are calculated using GDP weights based on market exchange rates.

(b) 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.

(c) Treasury estimates for European Union, OECD and World.

Source: Various national statistical publications, IMF and Treasury.

The **United States** economy continued to grow strongly in 1998 and into 1999 — its ninth year of continuous economic expansion — providing considerable support to world growth.

In recent years, above-trend economic growth has reflected particularly robust growth in both consumption and investment. This has been supported by strong employment growth, rising real wages, large gains in the value of equity holdings, significant falls in interest rates and high levels of consumer confidence. Household consumption growth has exceeded income growth as conventionally measured (ie excluding capital gains and losses). Inflation and inflation expectations remain subdued, having fallen significantly in recent years despite strong employment growth and very low rates of unemployment.

The continuation of strong economic growth and subdued inflation probably reflects, in some part, a structural improvement in productivity growth flowing from increased competition in product and labour markets, and substantial investment in new technology. However, this low-inflation growth has also been aided by several positive supply-side developments. These include, in particular, the significant declines in world commodity prices — especially energy prices — and in import prices more generally that have resulted from a weakening in world growth and a strengthening US currency.

The relative strength of the US economy has also attracted large amounts of international capital from less stable markets. This inflow has helped to push down domestic bond yields, boost equity prices and increase investment. However, the associated fall in net exports has impacted significantly on manufacturing output.

The outlook for 1999 and 2000 is for growth to moderate towards a more sustainable rate, with a waning in recent positive supply-side developments expected to provide some direct constraint to growth. Investment should slow with a weaker overall profit outlook, lower capacity utilisation rates and the ongoing impact on industrial production of a strong currency and external weakness. Consumption spending should ease as a result of an expected slowing in employment growth and in the rate of wealth accumulation.

However, US economic growth may continue to exceed expectations. Much of the strength of investment has been in information technology which may distort traditional capacity utilisation measures. If so, investment growth may continue to be strong notwithstanding apparently low capacity utilisation. In the first quarter of 1999, consumption and investment growth has maintained the momentum of 1998 and the stock market has continued to post significant gains supported by indications of continued strong profit performance. That said, there is limited scope for further falls in unemployment and, with some abatement in the factors that have helped offset inflation, the continuation of current growth rates is likely to increase inflationary pressures. In addition, the rapid growth in equity prices in recent years poses concerns about the effects of a possible significant and sustained correction.

Further, while the maintenance of open and competitive markets has helped to cushion the negative impact of external weakness on the US economy, there is a risk that further deterioration in the current account deficit in 1999, as is expected, may give increased voice to protectionist sentiment within the United States.

Growth in the **European Union** maintained the momentum of 1997 into the first half of 1998, with some moderation occurring in the second half of the year. While there was continuing strength in France and the smaller euro economies, weaker growth became evident in Germany, Italy and the United Kingdom. The manufacturing sectors suffered as a result of weakness in the East Asian region and weak business confidence in general, but domestic demand strengthened considerably on the back of productivity increases that boosted household income, along with high levels of consumer confidence and reductions in interest rates.

Stronger growth is expected to resume in the second half of 1999 and continue into 2000. Investment is expected to pick-up steadily during 1999, supported by accommodative monetary conditions including a weaker euro, high capacity utilisation and a gradual improvement in the external sector as world growth strengthens. Consumption strongly supported growth during 1998 and is expected to do the same in 1999. While the external sector is expected to improve through 1999 it is still likely to detract from growth for the year as a whole. The improvement in the external sector is expected to continue in 2000.

Growth in the past two years has been supported by a shift in the balance of macroeconomic policy settings, with significant easings in monetary conditions and substantial improvement in fiscal positions, made in the move toward European Monetary Union (EMU). The operation of EMU, however, will serve to highlight further the persistent structural impediments to growth in both labour and product markets in Europe. Flexibility in these markets will become more important as governments have relinquished the policy options of nationally-set interest rates and internal exchange rate adjustments and have placed limitations on fiscal policy.

The **Japanese** economy remains in protracted recession. Substantial fiscal stimulus measures and growth in the external sector have been unable to offset contraction in private domestic demand, which has been adversely affected by significant deterioration in business and consumer confidence, constrained credit availability arising from problems in the banking sector and weak profitability within the corporate sector.

The outlook is for a further contraction in activity in 1999 before stabilising in 2000. Continued weakness in private demand is expected in 1999, influenced by the ongoing removal of excess industrial capacity and increased restructuring within the corporate sector and further deterioration in employment and household income prospects. In addition, the strengthening of the currency since August 1998 should temper the positive contribution that the external sector provided in 1998. While fiscal stimulus is anticipated to provide some support for activity in 1999 and 2000, high levels of public debt will constrain the sustainability of this course of action in the longer term.

Reforms aimed at restructuring the financial sector and improving profitability within the corporate sector will provide a stronger base for economic recovery in the medium term. In the short term, these reforms may have a contractionary impact, although effective progress may also provide some positive impact on business and consumer confidence. While significant reforms are occurring in the banking and broader financial sector, there are still many problems to be resolved. Further reforms are necessary within the corporate sector, the labour market and in the provision of access to Japan's domestic market.

Several **emerging market economies**, particularly Brazil and Russia, are expected to experience significant contraction in 1999, following severe financial market instability and capital flight experienced over the latter half of 1998 and early 1999. Significant tightening in monetary policy made in response to the instability and significant moves towards fiscal consolidation, particularly in Brazil, are likely to contribute to the deterioration in the outlook for 1999.

These policy measures have been necessary to restore stability and confidence in financial markets and to address underlying structural and fiscal problems that hinder the return to strong sustainable growth. With reform now in progress in a number of these economies, it is anticipated that there will be an improvement in growth in 2000. However, if the implementation of reform in institutional, structural and macroeconomic policies is not ongoing, recovery is likely to be more delayed as confidence deteriorates, which may weaken the expected improvement in world growth in 2000.

The **non-Japan East Asian region**, in aggregate, contracted over the first half of 1998 — the first recession in at least 30 years — after averaging annual output growth of around 8 per cent in the preceding decade. Output fell dramatically in Indonesia, Thailand, Malaysia and Korea, while Hong Kong was also heavily affected. The contraction in activity seen in Singapore and the Philippines was less severe, while solid growth was achieved in China and Taiwan, albeit at lower rates than experienced over recent years.

The worst of the economic contraction would appear to have passed, with the region in aggregate likely to experience a gradual improvement in growth rates over the next few years. Since the middle of 1998, activity in China has strengthened on the back of increased infrastructure spending, while output growth has resumed in Korea, Malaysia and Singapore. Taiwan has maintained solid output growth, while activity in Thailand and the Philippines is likely to stabilise over coming months. In Indonesia, progress will be heavily influenced by political and social developments. Increased stability in regional financial markets in the second half of 1998 allowed authorities to adopt more expansionary monetary and fiscal policies which assisted in halting the declines in output.

However, large divergences in growth performance are likely to remain and many factors could still derail the recovery.

The outlook for exports will be an important factor affecting the recovery prospects of the East Asian economies. The improvement in competitiveness that many regional countries gained from large currency depreciations during the second half of 1997 has, to a large extent, been maintained and has contributed to an increase in exports to the growth economies of the United States and Europe. However, intra-regional exports have remained weak.

The gradual improvement in regional growth rates over the next few years will be a positive for exports within the region. However, the large trade imbalances building between the East Asian region (including Japan) and the growth economies (particularly the United States) have increased trade tensions and calls for trade restrictions. Continued access to the United States and European markets will be an important factor for the outlook for the region over the next few years.

The value of East Asian exports has also been affected by global over-capacity in several key sectors such as textiles and electronics, and the likelihood is that continuing weak global prices in these sectors will constrain export revenue over 1999.

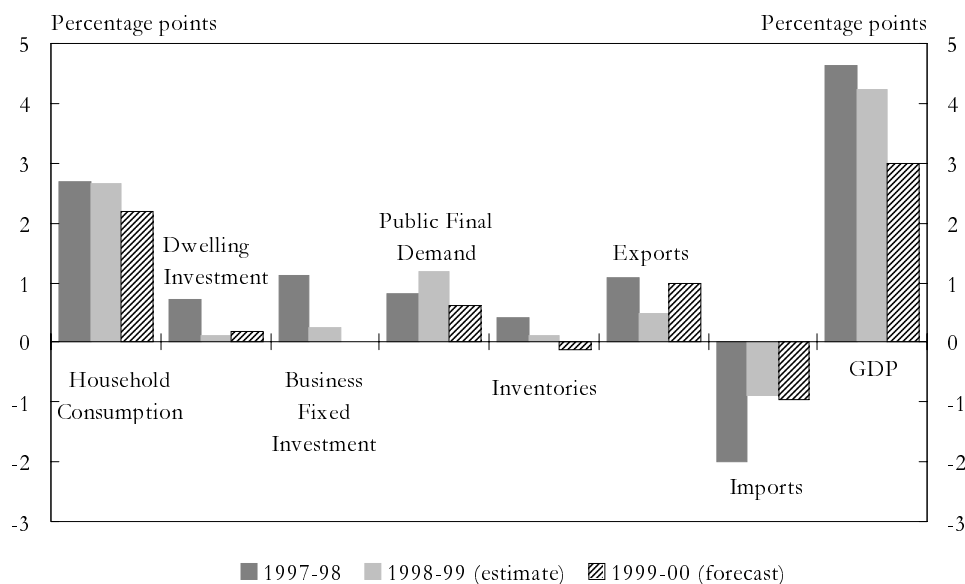
Part III: The Outlook for the Domestic Economy

The forecasts for the domestic economy have been developed taking account of the international outlook outlined above. 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 have been prepared on an assumption of average seasonal conditions over the remainder of 1998-99 and in 1999-2000.

DEMAND AND OUTPUT

Following very strong growth of more than 4 per cent in both 1997-98 and 1998-99, economic growth is expected to remain solid in 1999-2000 at around 3 per cent. The moderation in GDP growth is expected to occur largely in 1999, before picking up in 2000 as the world economy gradually strengthens. The expected moderation in growth largely reflects: more moderate growth in household consumption, closer to the longer-term trend, following very strong growth in the two previous years; a reduction in private non-residential construction from recent high levels; relatively stable activity levels in dwelling investment; and slower growth in public demand. Partially offsetting influences are expected to be a pick-up in export growth and plant and equipment investment as the international economy gradually strengthens through calendar year 2000.

Chart 2: Contributions to GDP Growth^(a)



(a) Adjusted for transfers and one-off transactions as noted in Table 1.
Source: ABS Cat. No. 5204.0 and Treasury.

In 1998-99, GDP is expected to grow by around 4¼ per cent, significantly above the MYEFO forecast of 3¼ per cent. The upward revision largely reflects stronger than expected growth in the December quarter 1998, particularly household consumption, and indications of continuing solid growth in consumer spending and employment in the second half of 1998-99. Measures of business confidence have also rebounded, although these measures are not always a good indicator of future movements in business investment or overall growth.

The overall effects of the Government's taxation reform package on economic activity in 1999-2000 are likely to be muted since the package does not come into effect until the following financial year. While some components of activity are likely to be affected in 1999-2000, the effects on individual components tend to work in offsetting directions. The overall impact is expected to be slightly positive.

HOUSEHOLD CONSUMPTION

Household consumption growth is expected to remain solid in 1999-2000, growing by around 3¾ per cent, following very strong growth of around 4½ per cent in 1997-98 and 1998-99.

The continuing strength in household consumption in 1998-99 has been underpinned by strong employment growth and ongoing real wage growth, low interest rates and wealth effects associated with rising asset prices and the AMP Society demutualisation. The results of recent consumer confidence surveys indicate that consumer optimism is at high levels with regard to consumers' expectations about their personal financial situation, their stated willingness to purchase major household items and, more recently, their confidence in economic conditions over the next twelve months.

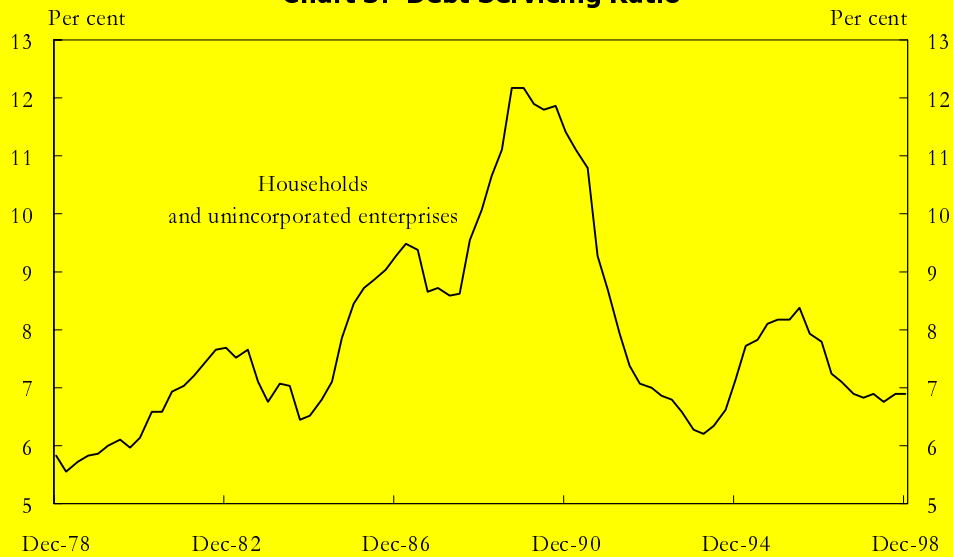
In 1999-2000 more moderate growth in employment and real wages is expected to contribute to some slowing in household consumption expenditure. In addition, much of the impact of the AMP demutualisation on consumer demand, particularly for consumer durables, is likely to have run its course in 1998-99 and hence seems unlikely to contribute to further growth in consumer demand in 1999-2000. As a partial offset recent significant increases in the price of equities, particularly privatised companies such as Telstra and the Commonwealth Bank which are likely to be widely held amongst households, may provide some boost to consumer spending in 1999-2000. There is also likely to be some net increase in household consumption in the latter part of 1999-2000 ahead of the introduction of the *A New Tax System* package. Purchases of currently relatively lightly taxed goods may be brought forward. On the other hand, some spending on items that are currently more highly taxed may be deferred, although this will be softened by transitional arrangements.

Box 1: Households' Financial Position

Very strong growth in household borrowing has occurred over the past five years. Household debt has increased from around 80 per cent of disposable income in 1994 to around 100 per cent in the December quarter 1998. However, by international standards, Australian households have carried relatively little debt in the past and the recent increase in indebtedness has brought Australia more into line with other developed countries.^(a)

The increase in debt is likely to partly reflect consumers responding to lower interest rates, allowing them to service a higher level of debt. Debt servicing ratios, currently at around 7 per cent of gross disposable income, are much lower than the late 1980s peak of around 12 per cent and have been relatively stable over the past six years.

Chart 3: Debt Servicing Ratio



Source: ABS Cat. No. 5206.0.

In conjunction with rising debt, there has also been strong growth on the asset side of the household balance sheet, with net worth increasing solidly. Net household financial assets (ie excluding dwellings and consumer durables) rose 10 per cent in the year to December 1998 and have risen 40 per cent in the past three years, with much of this growth reflecting rising asset prices, particularly equities.

A broader measure of net worth, which includes dwellings and combines the assets and liabilities of the household and business sectors, rose 5.7 per cent in the year to December 1998, after adjusting for inflation. Over the three years to December 1998, this broader measure of net worth increased by 23 per cent in real terms.

(a) *Reserve Bank of Australia Bulletin*, October 1997, 'Some Observations on Low Inflation and Household Finances'.

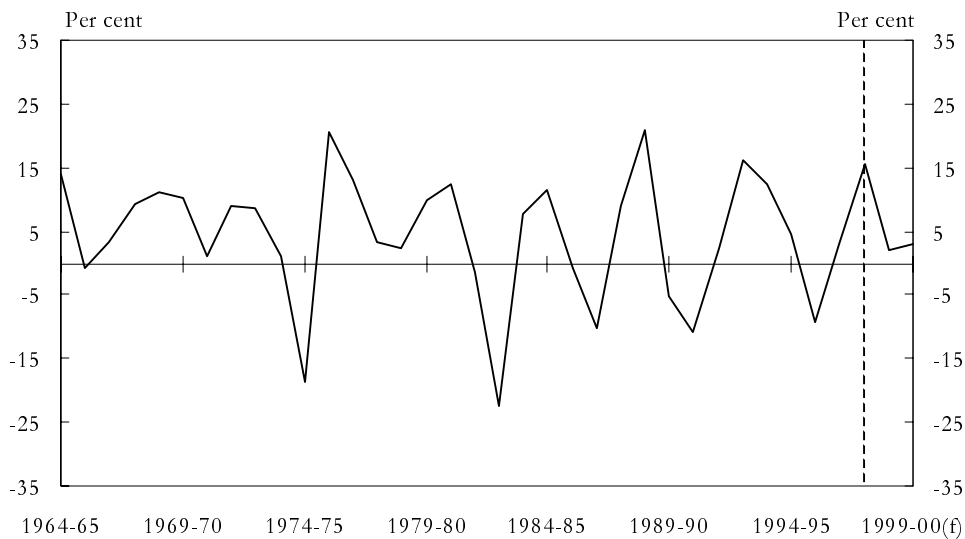
One important uncertainty surrounding the outlook for household consumption is the apparent downward trend in the household saving ratio and rising household debt. If households move to stabilise or increase their saving rates from recent levels and rein in their borrowing, household consumption expenditure could be weaker than forecast. Nevertheless, the household saving ratio as conventionally measured is a rather narrow concept (from an economic perspective) and is likely to give a distorted picture when asset values are changing. Broader measures of households' financial position, such as net worth and debt servicing ratios, remain sound and interest rates are at low levels, suggesting that risks around the outlook for household consumption are relatively evenly balanced (see Box 1).

DWELLING INVESTMENT

Modest increases in dwelling investment are forecast in both 1998-99 and 1999-2000, following very strong growth in 1997-98.

Partial indicators of activity in the housing sector, such as building approvals, housing finance and dwelling commencements, appear to have peaked around the middle of 1998. Importantly, however, the decline in these indicators since then has been relatively mild. In recent decades, dwelling investment has followed a four to five year cycle, with sharp increases in dwelling investment followed by sharp declines, often associated with significant changes in interest rates and inflation rates. However, with interest rates and inflation now more stable than in the past, dwelling investment is likely to be less volatile. It is noteworthy, for example, that in the 1960s low inflation and relatively stable interest rates were associated with a more muted housing cycle (Chart 4).

Chart 4: Dwelling Investment



Source: ABS Cat. No. 5204.0 and Treasury.

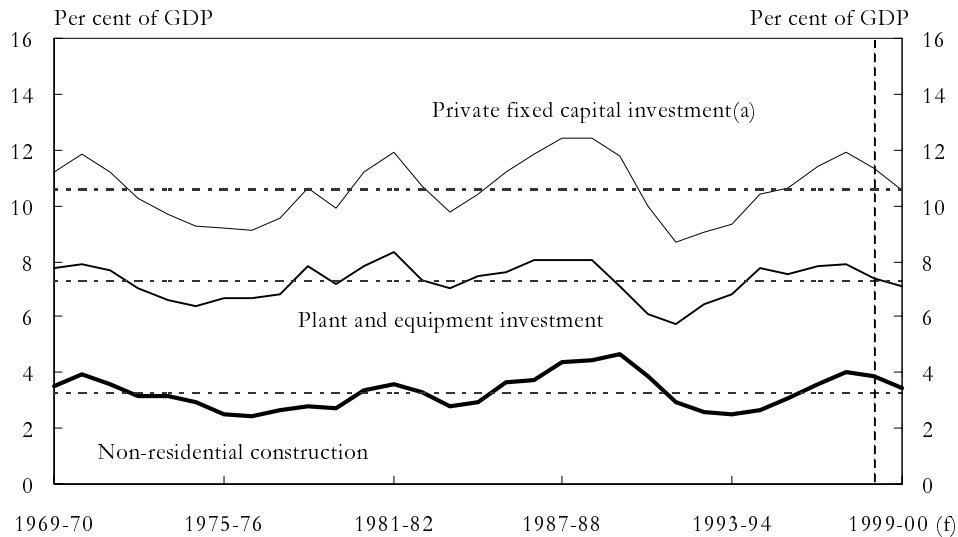
Demand for housing should be supported by continuing high levels of housing affordability and moderately supportive demographic factors. High housing affordability reflects rising household incomes, moderate house price inflation and very low housing interest rates. At the same time, strong demand from 'baby boomers' and the trend to smaller households should cushion the impact of slower population growth across the key household forming age cohorts.

There is also little sign of the overbuilding which has characterised some previous cycles. Supply and demand conditions in the housing sector appear to be broadly in balance, with the current level of housing commencements judged to broadly match the underlying demand for new houses attributable to demographic factors. The long-term structural trend towards larger, more expensive housing and ongoing expenditure on alterations and additions to the existing housing stock is expected to result in dwelling investment growing more strongly than the number of new houses commenced.

BUSINESS INVESTMENT

The sale and purchase of assets between the public and private sectors can have a significant impact on published estimates of business investment and public final demand. This has been the case in recent years, as is evident from a comparison of Panels A and B of Table 1. Such asset sales have no significant impact on aggregate activity, but can provide a misleading view of movements in individual components. For this reason, it is preferable to abstract from such asset sales when assessing underlying economic activity.

Chart 5: Investment as a Percentage of GDP



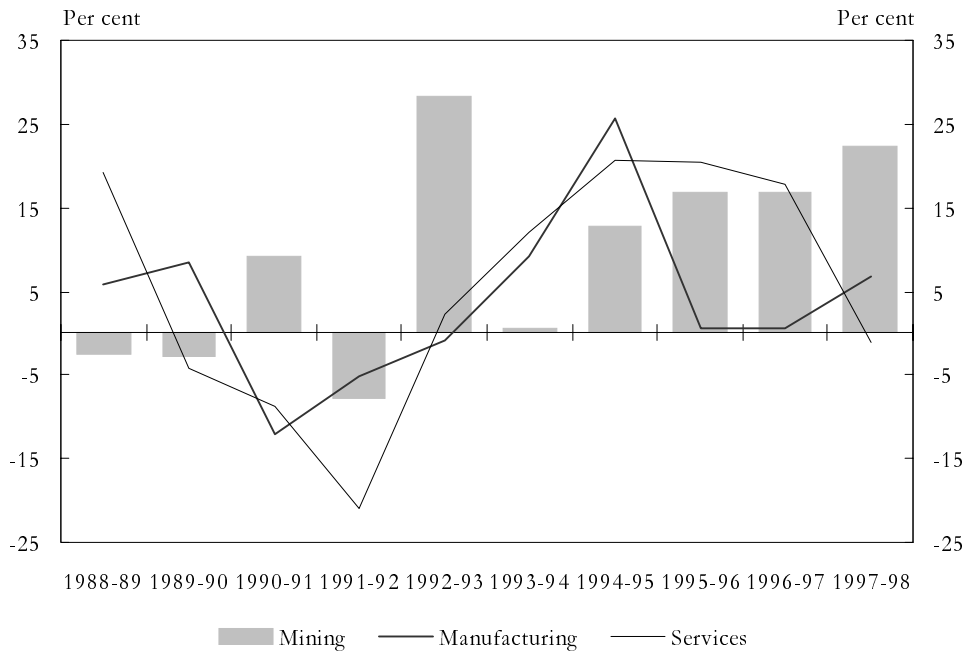
(a) Excludes intangible fixed assets and livestock.

Source: ABS Cat. No. 5204.0 and Treasury.

After six years of strong growth in business investment (abstracting from asset sales), which carried business investment to around historical highs as a share of GDP in 1997-98, only modest growth is expected in 1998-99. In 1999-2000 growth in business investment is forecast to be flat (ie running at the same level as in 1998-99), reflecting the impact of continuing below trend world growth, the maturity of the current investment cycle and some deferral of investment spending ahead of the introduction of the *A New Tax System* package. Nevertheless, business investment is expected to be around its long-run average share of GDP in 1999-2000 (Chart 5).

While the Australian economy has grown very strongly notwithstanding the international downturn, international developments are having a significant impact on some components of business investment. Some firms have responded to the uncertainty surrounding the international outlook and low world commodity prices by deferring investment plans until the outlook becomes clearer. This trend seems to be most marked in the mining sector, although it follows several years of very strong growth in investment in that sector (Chart 6).

Chart 6: Annual Growth in Business Investment



Source: ABS Cat. No. 5646.0.

Acting against these factors, however, is a range of relatively positive fundamental influences: nominal and real interest rates are low; overall capacity utilisation is at above average levels; most measures of business confidence have returned to pre East Asian crisis levels; and profitability and balance sheets are healthy. The corporate profit share increased to a record level in 1998 and broader measures of profitability, which include unincorporated enterprises, are also at high levels. While gearing ratios have drifted up

slightly in recent years, they remain well below the highs experienced in the late 1980s and early 1990s.

On an industry basis, the weakness in business investment intentions is largely concentrated in the mining industry, consistent with current low commodity prices and the subdued outlook for the resources sector. Investment intentions in the manufacturing and, to a lesser degree, services sectors, are relatively strong and more in line with the favourable fundamentals noted above.

In terms of the components of business investment, underlying plant and equipment investment is expected to grow by around 3 per cent in 1999-2000 after declining by around 2 per cent in 1998-99. Key influences are expected to be stronger growth in manufactured exports, in line with a gradually strengthening world economy and the generally favourable investment climate outlined above. As a partial offset, the introduction of the GST on 1 July 2000 and the removal of wholesale sales tax from business inputs will generally reduce the cost of investment and hence is likely to result in some deferral of plant and equipment investment in the latter part of 1999-2000.

Surveyed business investment intentions data also point to a return to growth in plant and equipment investment in 1999-2000. Applying a five-year average realisation ratio to the initial intentions data for 1999-2000 implies growth of around 7 per cent in the value of plant and equipment investment. However, there is always a wide band of uncertainty around estimates based on the first set of investment intentions data for a particular year, with investment plans being firmed up as the year progresses and often sensitive to changing economic trends.

Non-residential construction investment (in underlying terms) is expected to peak in 1998-99 at a relatively high level as a share of GDP, before turning down in 1999-2000. This follows several years of strong growth in investment in projects such as offices, hotels, casinos, sporting arenas and infrastructure, including projects linked to the Sydney 2000 Olympics. Lower mining investment is also expected to dampen non-residential construction activity. Approvals and financing data have been trending down since around mid-1998. While a large stock of work yet to be done should support a high level of activity for some time, it is expected to only partly offset the decline in the flow of new projects. Surveyed business investment intentions also point to a significant fall in non-residential construction in 1999-2000.

PUBLIC FINAL DEMAND

Following strong growth in 1998-99, public final demand (abstracting from asset sales) is expected to moderate in 1999-2000, reflecting slower growth in both public investment and consumption.

Growth in investment spending at the Commonwealth, State and local government levels is expected to slow in 1999-2000. This largely reflects slower growth in public trading enterprise investment at the Commonwealth and State levels of government, with the completion of some major investment projects in 1998-99. While general government

investment is expected to be underpinned by some infrastructure programmes of State Governments in 1999-2000, the effect of this will be partly offset by the conclusion of Olympic-related spending.

Public consumption growth is expected to slow in 1999-2000, reflecting ongoing fiscal consolidation programmes at both Commonwealth and State government levels.

NON-FARM INVENTORIES

Private sector non-farm inventories are expected to contribute around $\frac{1}{4}$ percentage point to growth in 1998-99 and detract around $\frac{1}{4}$ percentage point from growth in 1999-2000 (after adjusting for the privatisation of Wool International in the September quarter 1999). The inventories-sales ratio appeared to have fallen below desired levels in 1997-98, reflecting unexpectedly strong sales growth over that period. The increase in inventories in recent quarters has returned stockholding to levels more in line with requirements. A resumption in the structural decline in the inventories-sales ratio associated with improved inventory management practices is expected to more than offset any increase in demand for stockholding stemming from ongoing solid sales growth over the course of 1999-2000.

FARM SECTOR

The level of farm gross domestic product is forecast to remain broadly unchanged in 1999-2000, reflecting the usual assumption of normal seasonal conditions. Of the main components, production of canola and dairy products in particular are expected to rise over the period. These increases are expected to offset a decline in grain and wool production and livestock slaughterings as some rebuilding of the herd takes place.

NET EXPORTS AND THE CURRENT ACCOUNT BALANCE

The slower world economy and continued strength in domestic demand is expected to result in net exports detracting from GDP growth in 1998-99, although the detraction is likely to be smaller than in 1997-98. In 1999-2000, net exports are expected to contribute slightly to GDP growth ($\frac{1}{4}$ percentage point), as exports pick-up in line with the gradual strengthening in the international economy.

The pick-up in export volume growth in 1999-2000 is expected to be to around 5 per cent, with growth across resources, manufactures and service exports. Nevertheless, such an outcome would mean that the growth rate for exports would remain below the longer-term trend rate for the third consecutive year as world economic growth remained below trend. A feature of Australia's export performance in the first year of the economic downturn in East Asia was a significant diversion of exports, particularly commodities, away from the troubled East Asian economies and toward faster growing economies elsewhere. This export diversion may moderate in 1999-2000 as the economies of some of

Australia's major trading partners in East Asia stabilise and begin to recover and growth slows in the United States.

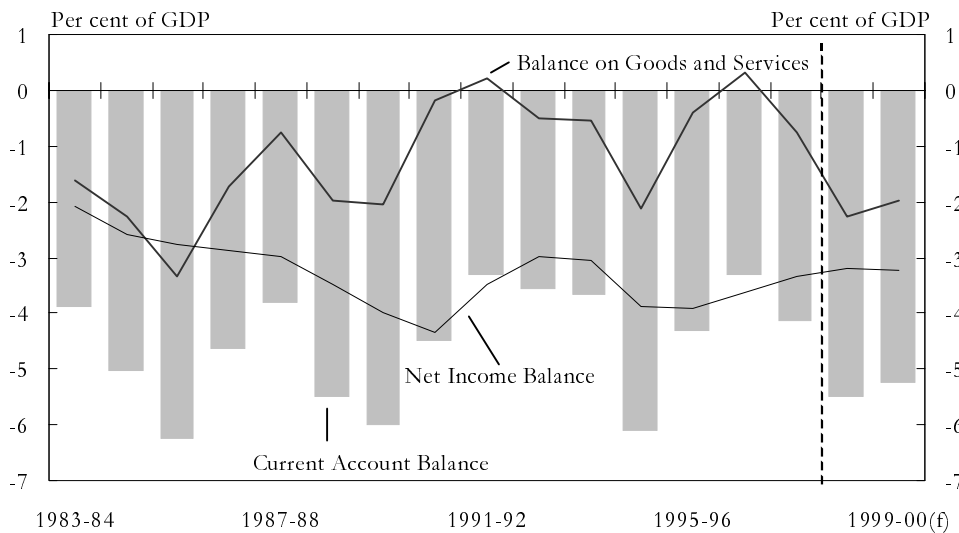
The expected pick-up in the volume of resource exports in 1999-2000 primarily reflects additional supply capacity coming on stream, coupled with stronger growth in traditional export markets in East Asia. The volume of elaborately transformed manufactures (ETMs) exports is estimated to have declined in 1998-99, reflecting very weak activity in some of Australia's major ETM trading partners in the region and the relative difficulty in establishing alternative markets for such items in the short term. A return to positive growth in ETM exports is expected in 1999-2000, supported by strengthening activity in key regional markets. The outlook for stronger world growth also points to a return to moderate growth in services exports.

Import volume growth in 1999-2000 is forecast to remain relatively subdued, reflecting the net impact of more moderate growth in domestic demand, against a slight fall in import prices. The outlook for import prices across-the-docks and at the retail level remains uncertain. Strong international and domestic competitive pressures have produced lower than expected outcomes over recent quarters (see discussion in Box 2 and Statement 3).

The CAD is forecast to decline slightly relative to GDP (to 5¼ per cent or \$32 billion) in 1999-2000 as compared with a forecast outcome of 5½ per cent of GDP (\$32½ billion) in 1998-99.

The increase in the CAD in 1998-99 primarily reflects a deterioration in the balance of trade (Chart 7), coming from continued weak net exports and weaker terms of trade.

Chart 7: Contributions to Current Account Deficit



Source: ABS Cat. No. 5302.0 and Treasury.

There has been a decline in the terms of trade since the onset of the crisis in East Asia albeit modest. While export prices on world markets, particularly for commodities, have declined significantly in foreign currency terms, there has also been a significant decline in the foreign currency prices of Australia's imports. The latter reflects various factors including technological and productivity gains, as well as the impact of slow world economic growth and the very competitive world markets for many items, such as motor vehicles and computers, which are important import items for Australia.

The terms of trade is expected to decline by around 4³/₄ per cent in year-average terms in 1998-99. A slight increase is expected in 1999-2000 as commodity prices stabilise overall and import items remain competitively priced. This outlook hinges on a gradual strengthening in the world economy in 2000 placing a floor under commodity prices.

Unlike previous episodes in Australia when the CAD has increased significantly as a percentage of GDP, growth in the net income deficit is expected to be subdued over the forecast period, reflecting the continuation of a low interest rate environment and the absence of significant exchange rate valuation effects. More detail on the performance of Australia's external sector relative to other periods of slow world economic growth is contained in Statement 3.

The forecast decline in the CAD as a share of GDP in 1999-2000 reflects the outlook for a gradual pick-up in growth in Australia's major export markets and a slight increase in the terms of trade. In keeping with past experience, considerable volatility is likely from quarter to quarter.

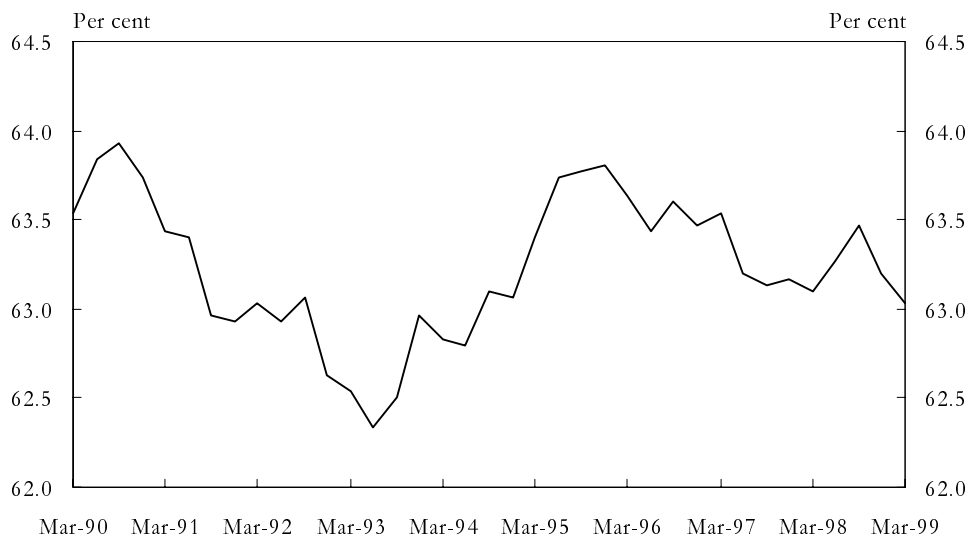
LABOUR MARKET

Conditions in the labour market are expected to remain firm in 1999-2000, although some moderation in employment growth is expected over the course of the year in response to slower growth in the domestic economy. The unemployment rate is expected to average around 7¹/₂ per cent in 1999-2000, consolidating the decline in the unemployment rate since mid-1997.

Employment has grown solidly through 1998-99 to date, underpinned by the strength in overall economic growth. Given the usual lags between output growth and employment, further solid growth is likely in the early part of 1999-2000. This is consistent with the high level of the major job vacancies surveys, with both the ANZ and Skilled Vacancy surveys at their highest levels in over nine years. Some easing in the rate of employment growth is expected later in 1999-2000 as economic growth moderates.

Following very strong average labour productivity growth in recent years, a cyclical slowing in productivity growth is expected in 1999-2000, as employment growth responds with a lag to slower growth in activity. The forecast rate of labour productivity growth is consistent with the experience of the mid-1990s, although average labour productivity has been quite volatile from year to year and is therefore difficult to predict.

Chart 8: The Participation Rate



Source: ABS Cat. No. 6202.0.

The unemployment rate is forecast to average around 7½ per cent over 1999-2000, with the participation rate drifting up a little from recent levels to average around 63¼ per cent. There is a larger than normal degree of uncertainty concerning the participation rate at this time. Short-term movements in the participation rate tend to largely reflect changes in employment opportunities, although this does not seem to have been the case during 1998-99.

A range of factors may have contributed to a stable participation rate over recent quarters, notwithstanding the favourable employment outlook. For example, continued high levels of housing affordability and rising household wealth may be creating opportunities for some households to rearrange their work/leisure choices. Further, longer-term demographic factors, such as the ageing of the population and the movement of the 'baby boomer' generation into the lower participation cohorts, are also likely to be exerting a negative influence on the participation rate (as discussed in the Summer 1999 *Economic Roundup* and in Statement 3).

Overall, a modest increase in the participation rate from recent levels is expected over the course of 1999-2000, with the continuing favourable employment outlook assumed to outweigh the various forces which may be working in the opposite direction.

WAGES

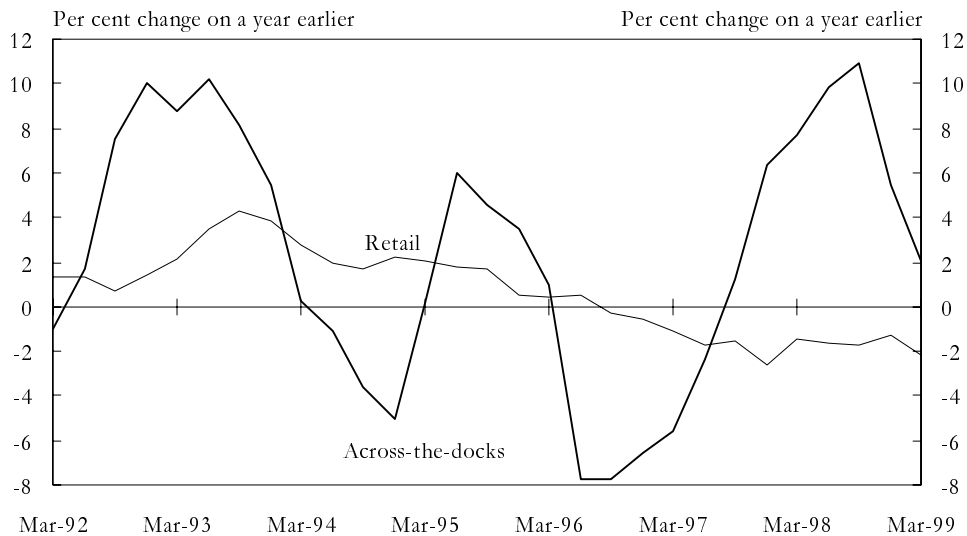
Wages growth on a National Accounts basis is currently running at around 4 per cent per annum, similar to outcomes in 1997-98. This is somewhat higher than other measures of wages growth. A slight moderation in wages growth generally is expected in 1999-2000, as labour market conditions remain firm but employment growth slows relative to 1998-99. This outlook incorporates the contribution to wages growth flowing from the recent Australian Industrial Relations Commission safety net decision.

PRICES

Inflation is expected to increase modestly from recent low outcomes. In year-average terms, inflation is forecast to be around 2 per cent in 1999-2000, up from around 1¼ per cent in 1998-1999. Through the year to the June quarter 2000, inflation is expected to be around 2¼ per cent.

The forecast slight rise in inflation in 1999-2000 partly reflects faster growth in nominal unit labour costs in response to a cyclical slowing in average labour productivity growth from its recent high rates, more than offsetting a slight moderation in the rate of nominal wage increases. Some lessening in the downward pressure on the world prices of Australia's imports is also expected in 1999-2000, following significant falls in world prices of these items (when expressed in \$US terms) since mid-1997 (see Box 2 and the discussion in Statement 3). There may also be some move on the part of wholesalers and retailers to rebuild profit margins on imported items, following an apparent squeezing of margins over recent quarters (Chart 9). Acting in the opposite direction will be the moderating effect of some easing in domestic demand pressures as activity slows.

Chart 9: Prices of Imported Consumption Goods



Source: ABS Cat. Nos. 6414.0 and 6444.0.

Box 2: Australia's Recent Inflation Performance

CPI inflation has been well below 2 per cent in through-the-year terms for the past two years, with other measures of inflation, such as underlying inflation and the household consumption deflator, also indicating subdued price pressures. While an improved inflation performance has been a feature of most developed countries, in Australia it has occurred in an environment of strong demand growth and rising import prices across-the-docks.

Australia's low inflation outcomes reflect an improved monetary policy framework and the success of labour and product market reforms, which have resulted in a more dynamic, efficient and competitive economy. The benefits of these reforms are evident in recent productivity outcomes. Growth in average labour productivity (GDP per employed person) has thus far averaged above 2¼ per cent per annum in the 1990s growth period, up from around 1¼ per cent per annum in the 1980s growth cycle. In 1997-98 average labour productivity growth was even stronger at around 3¼ per cent, resulting in historically very low growth in nominal unit labour costs. Taking into account lags between changes in production costs and changes in final retail prices, this has been a key factor keeping inflation at low levels in recent quarters.

Falling world prices for a number of Australia's consumer imports, such as cars and computer equipment, have also contributed to recent low inflation outcomes. While import prices across-the-docks have risen in \$A terms, the increase has been considerably less than might have otherwise been expected, given the sharp decline in the \$A against the major currencies. Import prices have fallen significantly in \$US terms, with falling commodity prices and the East Asian downturn having been important, though not the only, underlying factors (see Statement 3). Falling commodity prices have helped to reduce production costs in many manufacturing industries overseas. In addition, the East Asian downturn has meant that demand for manufactured items has been very weak in many East Asian economies and East Asian manufacturers have benefited from low exchange rates, boosting their competitiveness.

It is expected that some of these downward pressures on world prices of Australia's imports may begin to weaken in 1999-2000 as world commodity prices and the troubled East Asian economies begin to recover. Nevertheless, ongoing low inflation in the major economies, strong productivity growth and technological advances should ensure that world prices of imports remain subdued.

It is also noteworthy that, to date the (relatively modest) increases in import prices across-the-docks in \$A terms have not been reflected in rising prices at the retail level (Chart 9). In part, this probably reflects an increasingly competitive market place putting pressure on businesses' margins. Moreover, retailers review and change prices infrequently, attempting to avoid excessive price volatility so as to maintain stability and customer loyalty. Over the past 15 years or so, greater use of financial instruments to hedge exchange rate risk has also assisted retailers in reducing the volatility of retail prices relative to changes in import prices across-the-docks. In addition, any discounts that may be provided directly from overseas suppliers to domestic wholesalers or retailers may not be captured in measured prices across-the-docks.

The inflation forecasts in both 1998-99 and 1999-2000 also partly reflect the one-off impact on the Consumer Price Index (CPI) of changes in government policy. Inflation in 1998-99 has been reduced by the impact on health insurance costs as a result of the introduction of the 30 per cent health insurance rebate in the March quarter 1999 (which is estimated to have reduced the CPI by around 0.6 percentage points). Conversely, the introduction of the 'per stick' tobacco excise in the December quarter 1999 is expected to increase the CPI by around $\frac{1}{4}$ percentage point.

Part IV: Uncertainties Surrounding the Outlook

There continues to be significant uncertainty surrounding the international economic outlook and with that the outlook for Australia's export industries and the terms of trade. Although there are several factors pointing to an improved international economic outlook in calendar year 2000, there are questions about the sustainability of a strong East Asian recovery, and considerable uncertainty is attached to the outlook for Japan and some emerging market economies. Against this, economic growth in the United States could continue to exceed expectations.

The export outlook will, of course, be heavily dependent on the gradual recovery of the international economy and accordingly also remains subject to a high degree of uncertainty. The forecast slight decline in the CAD in 1999-2000 reflects the outlook for a gradual pick-up in growth in Australia's major export markets and a slight increase in the terms of trade. Should the world economy not pick-up as expected in 2000, then the export outlook would be more subdued and the CAD may be a little higher.

Against the backdrop of these international risks, considerable uncertainty remains about the timing and extent of the slow down in the domestic economy from the very strong growth in 1997-98 and 1998-99. Business investment, which is forecast to slow after six years of strong growth, is by nature quite volatile, with surveys of business investment intentions only providing a broad guide to likely outcomes.

Some uncertainty remains around the extent to which the recent strength in household consumption expenditure will be sustained once the effects of recent increases in household wealth have run their course. A related area of uncertainty is the apparent downward trend in the household saving ratio and rising household debt. If households move to stabilise or increase their saving rates from recent levels and to rein in the growth in household debt, household consumption expenditure could be weaker than forecast. On the other hand, broader measures of households' financial position, such as net worth and debt servicing ratios, remain sound and interest rates are at low levels, suggesting that risks around the outlook for household consumption are relatively evenly balanced.

The timing of business and dwelling investment and household consumption in the latter part of 1999-2000 will also be affected to some extent by the introduction of the GST and the abolition of the wholesale sales tax.

Some increase in spending and business stocks may occur in the December quarter 1999 in response to lingering concerns about Y2K related disruptions. However, it seems likely that such spending and stock building would be largely reversed in the March quarter 2000, with minimal effect on average growth outcomes for 1999-2000 as a whole. There remain uncertainties, however, in relation to Australia's international trade if Y2K effects disrupt some of our major trading partners.

A modest increase in the labour force participation rate from recent levels is expected over the course of 1999-2000, reflecting the continuing favourable employment outlook. Nevertheless, given recent trends, the participation rate is an important area of uncertainty

surrounding the outlook for unemployment. If the participation rate were to remain around current levels then, other things being equal, the unemployment rate would continue its downward trend, despite the moderating economic growth rate.

STATEMENT 3: ECONOMIC POLICY REFORM AND AUSTRALIA'S RECENT ECONOMIC PERFORMANCE

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STATEMENT 3: ECONOMIC POLICY REFORM AND AUSTRALIA'S RECENT ECONOMIC PERFORMANCE

Part I: Introduction

Since the onset of the East Asian economic and financial crisis in late 1997 the Australian economy has continued to record strong growth, despite many of Australia's Asian major trading partners (MTPs) experiencing recession and a consequent slowdown in world economic growth.

Defining features of the Australian economy are a sound macroeconomic policy framework and greater efficiency and flexibility that have resulted from significant microeconomic reforms affecting product, capital and labour markets. This allowed the exchange rate to decline since late 1997 in an orderly fashion against the United States dollar and European currencies, while maintaining a stable and low interest rate environment that has helped to sustain domestic demand. In short, sound policies have underpinned the resilience of the economy in weathering the Asian downturn.

The decline in the exchange rate cushioned the effect of lower commodity prices and provided opportunities for commodity exporters to find alternative markets outside the recessed Asian economies. This has been assisted by the relative strength in the United States and European economies.

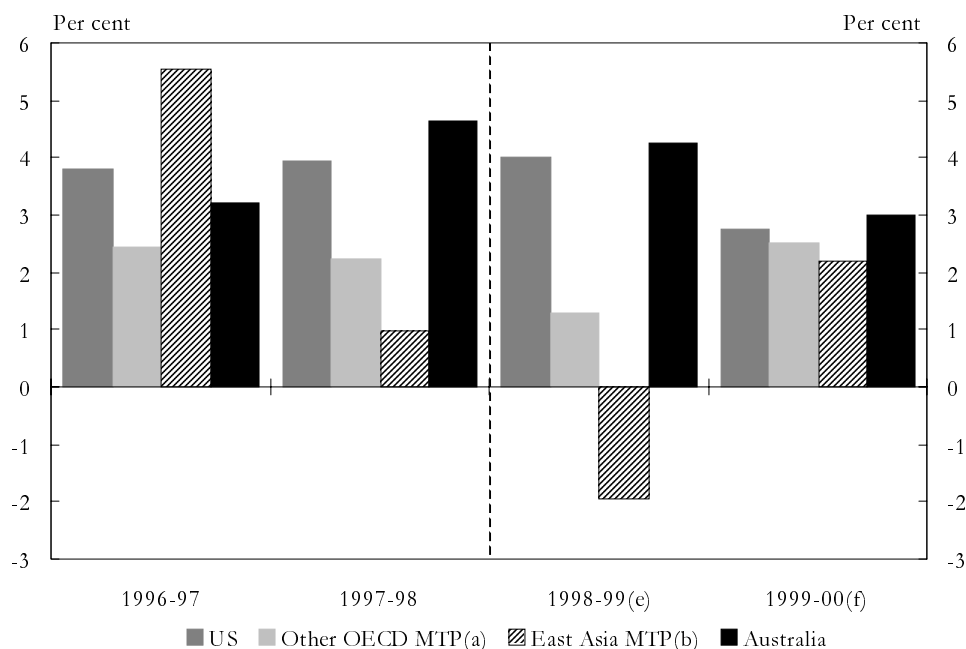
On the other hand, exports of elaborately transformed manufactures (ETMs) and services have been affected to a much larger extent — not only compared with the impact on commodity exports, but also with respect to previous periods of weak world growth in the early 1980s and early 1990s. This reflects the importance of Asian markets and the difficulty in finding alternative markets for these items in the short term. As regards Australia's terms of trade, the decline has been relatively moderate compared with past episodes, with the effects of lower world commodity prices being partly offset by falls in world prices for many of our imports.

The Australian economy has been cushioned by the ongoing strength in domestic demand, supported by: lower short and long-term interest rates; strong productivity growth; sustainable wages growth; strong employment growth and falling unemployment; healthy corporate profits; and low inflation and inflationary expectations. This favourable combination is the outcome of a sound macroeconomic policy framework that has delivered sustained low inflation and sound public sector finances, coupled with an ongoing microeconomic reform agenda that has delivered higher productivity growth and a more responsive and flexible economy.

Part II: The Nature of the External Environment and the Economy's Response

The current slowdown in world economic growth substantially reflects the deep recession in Japan and the crisis in a number of East Asian economies. Economic activity in Australia's MTPs fell in 1998, with only weak growth expected in 1999 and a modest strengthening in 2000 (Charts 1 and 2). This contrasts with previous slowdowns in world growth in the early 1980s and the early 1990s when East Asian economies, and to a lesser extent Japan, remained relatively buoyant.

Chart 1: Australian and MTP GDP Growth



- (a) Germany, France, the United Kingdom, Italy, Canada and New Zealand (weighted by merchandise exports).
 (b) Japan, Korea, Singapore, Taiwan, Hong Kong, China, Indonesia, Malaysia, Thailand and the Philippines (weighted by merchandise exports).

Source: ABS Cat. No. 5206.0, various national statistical publications and Treasury.

The world economic downturn has contributed to a sharp 17 per cent fall in world prices of Australia's commodity exports. Moreover, export volume growth has been affected more on this occasion than in the past. This is particularly the case for ETMs and services, for which East Asian economies are major markets and diversion to other markets is relatively difficult.

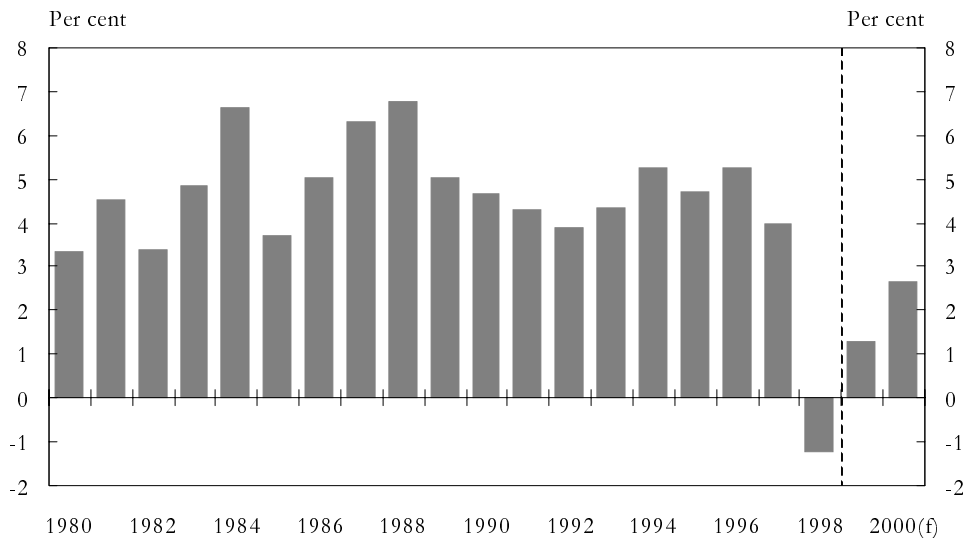
In contrast, the decline in the exchange rate since late 1997 and the ability of commodity exporters, in particular, to divert sales to more buoyant markets in the United States and Europe have cushioned the effects of the downturn to some extent. Furthermore,

Australia's terms of trade have been less affected than in the mid-1980s and early 1990s, with weakness in East Asia putting downward pressure on the world prices for some of Australia's major imports, helping to offset weakness in world commodity prices. World interest rates have also been lower on average than during the early 1990s, and that has cushioned the slowdown in world growth during the period and has helped Australia maintain a low interest rate environment.

The Nature of the External Environment

Japan and the troubled East Asian economies (ie Korea, Indonesia, Malaysia and Thailand) are significant trading partners for Australia, accounting for around 39 per cent of total merchandise exports, including 44 per cent of commodity exports and 19 per cent of ETM exports, over the 1990s. As a result, the severe recessions in these economies contributed to negative MTP growth in 1998 and the prospect of growth well below trend in 1999 and 2000 (Chart 2).

Chart 2: MTP GDP Growth^(a)



(a) Major trading partner growth weighted by merchandise exports share.
Source: Various national statistical publications and Treasury.

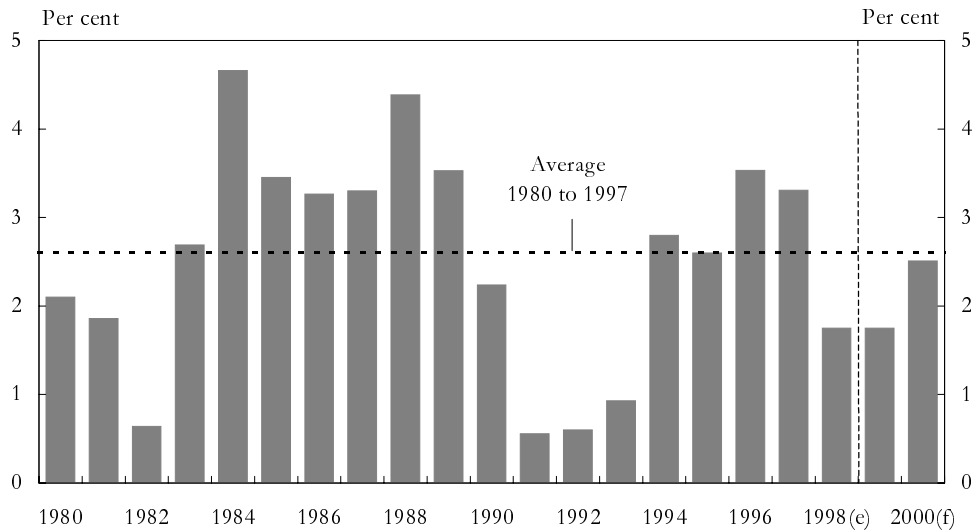
However, some of the effects of lower MTP growth have been avoided by commodity exporters diverting export sales from East Asian MTPs to other, more strongly growing, markets. For example, through the year to the September quarter 1998, the value of commodity exports (excluding gold) to the troubled East Asian economies fell by 11 per cent, while commodity exports to countries outside Asia rose by 18 per cent. While data are not readily available to calculate a price-volume split by country of destination, for commodity exports much of the relative change in values is likely to be attributable to changes in volumes.

Since late 1998 there has been some recovery in commodity exports to the troubled East Asian economies as these economies have begun to recover slowly. Commodity exports (excluding gold) to these economies rose by 18 per cent in the three months to March 1999 compared with a year earlier, while commodity exports to countries outside Asia fell by 1 per cent over this period as economic growth in other regions has moderated. Commodity exports to Japan have continued to weaken, as the Japanese economy remains recessed, falling by 8 per cent in the three months to March 1999 compared with a year earlier.

Much less diversion of exports of ETMs away from troubled East Asian markets seems to have occurred. For example, the value of ETM exports to these economies and Japan declined by 42 per cent in the first year of the crisis. The value of exports to countries outside Asia increased by 5 per cent, with ETM export values declining by 6 per cent in total.

The scope for Australian commodity exporters in particular to raise or lower sales in various markets in response to changing economic conditions means there is merit in considering a broader measure of international economic activity than MTP growth. One such measure is overall world GDP growth. Most of the recent slowdown in world growth is attributable to Japan, which accounts for around 15 per cent of world GDP. While the contractions in other East Asian economies have been particularly severe, the economies of Korea, Indonesia, Malaysia and Thailand constitute only around 3 per cent of world GDP. World growth has been buoyed by the strength in the United States and, to a lesser extent, Europe, which together account for a little more than half of world GDP. Hence, the slowdown in world growth has been less significant than the sharp downturn in Australia's MTP growth (Chart 3).

Chart 3: World GDP Growth



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

One reason economic growth has remained strong in the United States and relatively firm in Europe over this period is the macroeconomic policy environment in these countries. When the slowdown in East Asia emerged in late 1997, interest rates were already at low levels in the United States and Europe. The maintenance of this policy framework has meant that interest rates have remained at relatively low levels throughout the current period of below-trend world growth. This contrasts with the experience of the early 1990s when interest rates in the industrialised economies were generally at very high levels, as world growth initially fell below trend, and were reduced only gradually over the next three years of below-trend growth.

The Impact on Export Volumes

The concentration of slower growth in Australia's East Asian MTPs has resulted in a sharp downturn in export volume growth. This has occurred despite the success of commodity exporters in diverting their product away from the troubled East Asian economies. ETM and service exports are more sensitive to changes in income in the importing country, with less scope for diversion to alternative markets than commodity exports.¹ As a result, exports of ETMs have been most affected by severe recession in a number of East Asian economies. ETM exports fell by 6.6 per cent in 1998, compared with an average growth rate of 10.3 per cent since the early 1980s (Chart 4). This is a much more severe impact than was felt with the slowdown in world growth in the early 1980s or the early 1990s.

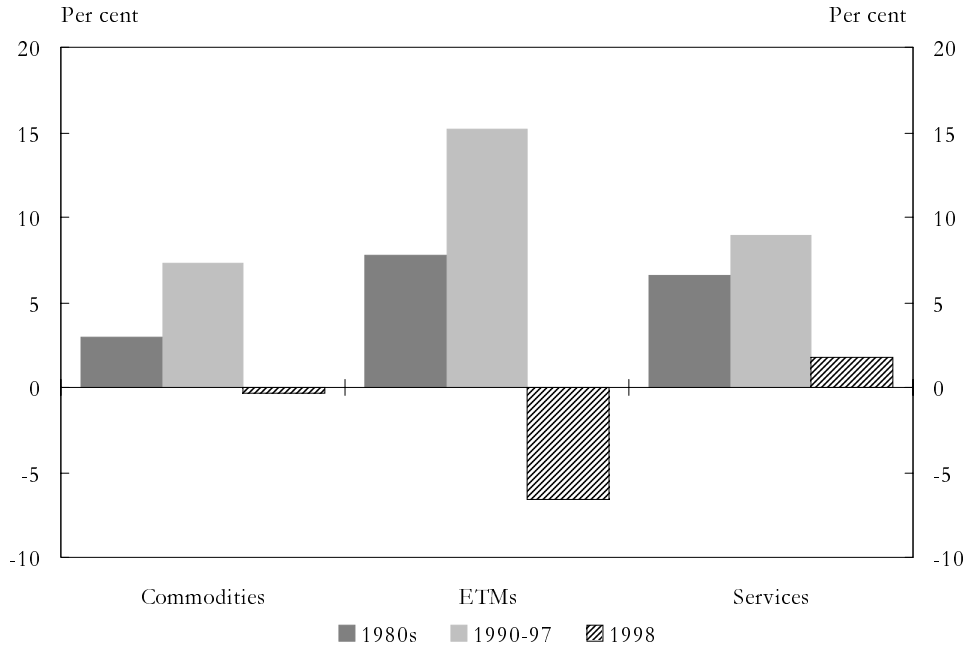
Service export volumes have continued to grow over the past year and a half, but at rates well below the longer-term trend. Volumes grew by 1.8 per cent in 1998, down from an average growth rate of 7.4 per cent since the early 1980s.

Despite significant diversion of commodity exports to markets outside East Asia, there was no growth in the volume of commodity exports in 1998. This compares with an average annual growth rate of 4.6 per cent over the past two decades. However, the relative weakness in commodity exports partly reflects the impact on farm production of the return to normal seasonal conditions in 1997-98, following very strong farm product growth in 1996-97, and so is not entirely attributable to the international downturn.

Overall, total export volumes fell by 0.5 per cent from the September quarter 1997 to the December quarter 1998. This compares with average annual export volume growth over the past two decades of 6 per cent and is a much sharper slowdown than that experienced in the mid-1980s and early 1990s (Chart 5). The very large fall in export volumes in the early 1980s was exacerbated by the fall in rural production due to the drought that affected much of Australia.

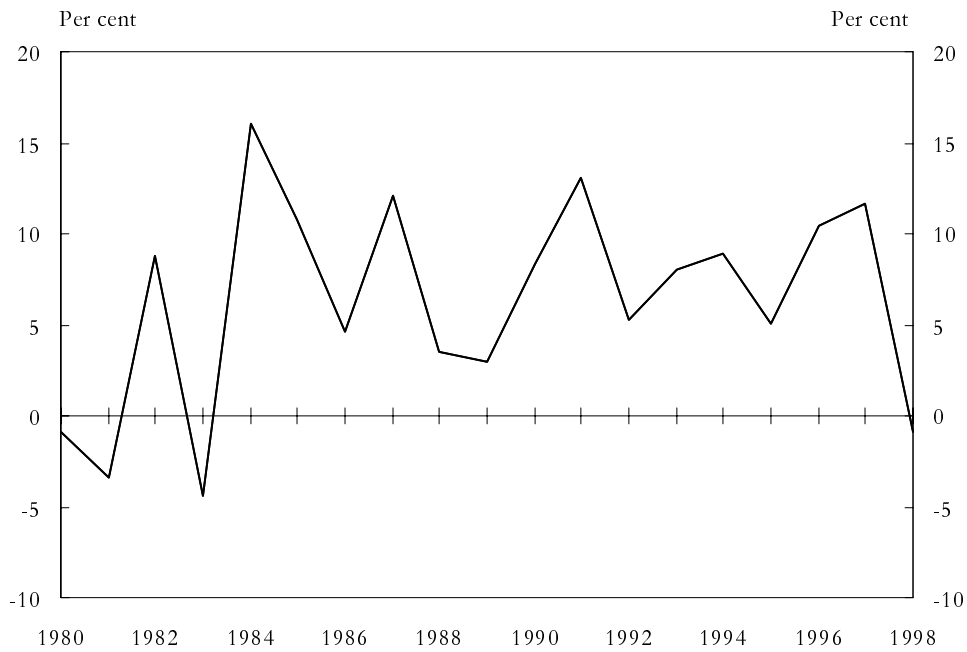
¹ See discussion in *1998-99 Budget Paper No. 1*, Statement 2.

Chart 4: Annual Growth in Export Volumes — Period Averages



Source: ABS Cat. No. 5302.0.

Chart 5: Annual Growth in the Total Export Volumes



Source: ABS Cat. No. 5302.0.

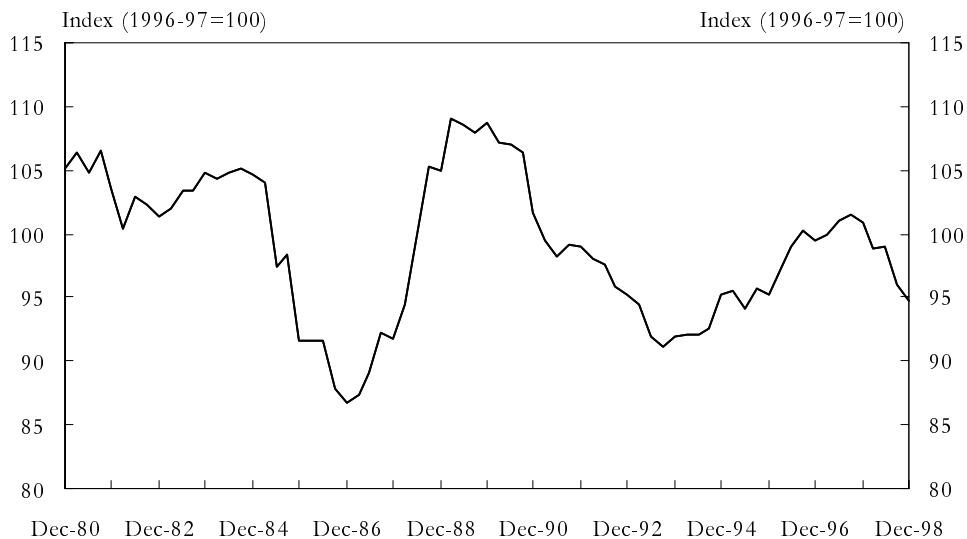
The Impact on the Terms of Trade

The weakness in export volumes contrasts with the relatively mild fall in Australia's terms of trade. The terms of trade have fallen by 6.6 per cent since the September quarter 1997. This has been a more modest fall than those which occurred in the mid-1980s and early 1990s (Chart 6). While commodity prices on world markets have fallen sharply, exerting a negative influence on the terms of trade, this has been partly offset by falls in the prices of a range of other goods on world markets, including the prices of many items that Australia imports. The relatively mild fall in the terms of trade over this period is one factor helping to limit the impact of the international downturn on Australia.

In United States dollar (\$US) terms, import prices across the docks have declined by nearly 10 per cent since mid-1997. For example, the prices of cars and computer equipment across the docks have fallen in \$US terms by 6 per cent and 24 per cent respectively since September 1997. These two items account for around 20 per cent of Australia's goods imports. In contrast, during the previous international downturn in the early 1990s, import prices in \$US terms were relatively stable.

The recent falls in world prices of Australia's imports reflect a combination of lower global production costs, resulting from falling commodity prices, technological advances and stronger productivity growth in a number of countries, a more competitive global trading environment, and very low inflation and inflationary expectations in most industrial economies. The downturn in East Asia is likely to have added considerably to the strength of competition in world markets for manufactured items, with domestic demand in East Asian economies very weak and Asian manufacturers benefiting from lower exchange rates.

Chart 6: Terms of Trade



Source: ABS Cat. No. 5302.0.

A Lower Australian Dollar Supports the Export Sector

The significant overall decline in the Australian dollar (\$A) against major currencies since the onset of the Asian crisis has partly cushioned Australia's commodity exporters from the effects of the sharp fall in world commodity prices. Between the September quarter 1997 and the March quarter 1999 commodity prices fell by 17 per cent in \$US terms but fell only slightly in \$A terms.²

While the \$A and commodity prices tend to move broadly in the same direction, movements in the \$A generally only provide a partial offset to changes in world commodity prices, particularly where changes in the overall terms of trade are relatively small.

On this occasion, the decline in the \$A has probably reflected not only the decline in commodity prices and the terms of trade, but also the difficulties faced by exporters of ETMs and services in attempting to maintain export volumes in the face of the downturn in East Asia. The decline in the \$A has helped all parts of Australia's export sector to adjust to the international downturn.

The fact that the overall decline in the \$A over this period did not result in significant inflationary pressures, and hence could be accommodated with both short and long-term interest rates trending down, owes much to Australia's sound fiscal and monetary policy framework. This issue is discussed further below.

² However, this does not include the impact of the large reductions in prices of bulk ores (coal and iron ore) sold under contract to Japan, that came into effect on 1 April 1999. The renegotiation of the contracts resulted in price falls in \$US terms in excess of 10 per cent compared with the previous year.

Part III: The Benefits of Policy Reform

Australia's economic performance in the period since the emergence of the East Asian financial crisis has benefited from a robust policy framework, reflecting both improvements in macroeconomic policy settings in recent years, and structural reforms that have been implemented progressively over a longer period of time.

THE MACROECONOMIC POLICY FRAMEWORK

Australia's economic performance in recent decades has been constrained by the tendency for inflation and current account pressures to emerge following even relatively brief periods of strong economic growth, and at a point where unemployment was still high. Policy has periodically allowed, or even contributed to, the emergence of excess demand pressures. Subsequent policy tightening to control rising inflation and current account deficits (CADs) has then contributed to short-term economic downturns. Policy has too often been reactive and short-term in its focus, and unclear in its objectives.

The forward-looking medium-term frameworks now in place for fiscal and monetary policy mean that each arm of policy is anchored by a clear primary objective that it is best suited to achieving: fiscal policy to ensuring adequate public saving; and monetary policy to maintaining low inflation. This strategy has two key facets.

First, it is directed at keeping the economy growing at a strong but sustainable rate that avoids excess demand pressures spilling over into inflation and the current account. This is essential to sustain expansions for longer and avoid the 'boom-bust' syndrome that has plagued the Australian economy, and contributed to a ratcheting up of unemployment over the past quarter-century.

Fiscal and monetary policies are now more likely to operate in a complementary fashion to limit, and not exacerbate, demand fluctuations. For example, the medium-term framework for fiscal policy implies that a loosening can be used to support the economy in the event of a downturn, but that the budget will need to be returned to surplus in the expansion phase of the cycle. This should assist the operation of monetary policy, as it is less likely that fiscal policy will contribute to excess demand pressures during the cyclical upswing.

A steadily growing economy that gradually approaches its capacity constraints can also help to lower the threshold at which inflation pressures start to emerge. In a steadily growing economy, firms are better placed to avoid short-run supply constraints because they are able to anticipate developments and plan ahead to expand capacity through investment and the hiring and training of new staff. This may make a modest contribution to lowering structural unemployment, as those who are unemployed are given more opportunity to gain skills and work experience that assist their future employability.

Second, policy is directed at raising the economy's growth capacity over time; by reducing the rate of unemployment that can be sustained without increasing inflation, and by raising the growth rate that is sustainable once the economy reaches that point. Over the

longer-term these are primarily the outcome of structural factors. Structural reform — which encompasses a wide range of policy, including taxation and labour market reform, competition policy, tariff reduction, and financial sector and corporate law reform — has been, and continues to be, the key to raising the economy’s productive potential. This is discussed below.

That said, macroeconomic policy can also play a role. Higher public saving should reduce the average CAD over time and lead to a more soundly-based CAD. This should reduce the risk that a cyclical increase in the CAD may trigger financial market concerns that limit the scope for growth. A credible macroeconomic policy framework provides greater certainty as to how policy will be conducted over time. Monetary policy credibility, through its effects on inflationary expectations, may of itself help to lower the unemployment rate at which inflationary pressures start to emerge.

Higher public saving and lower inflation can also contribute to raising potential economic growth through positive effects on national saving and investment. Low and stable inflation provides more certainty for long-term investment planning. High inflation tends to mask relative price signals and distort saving and investment decisions.

MONETARY POLICY AND INFLATION

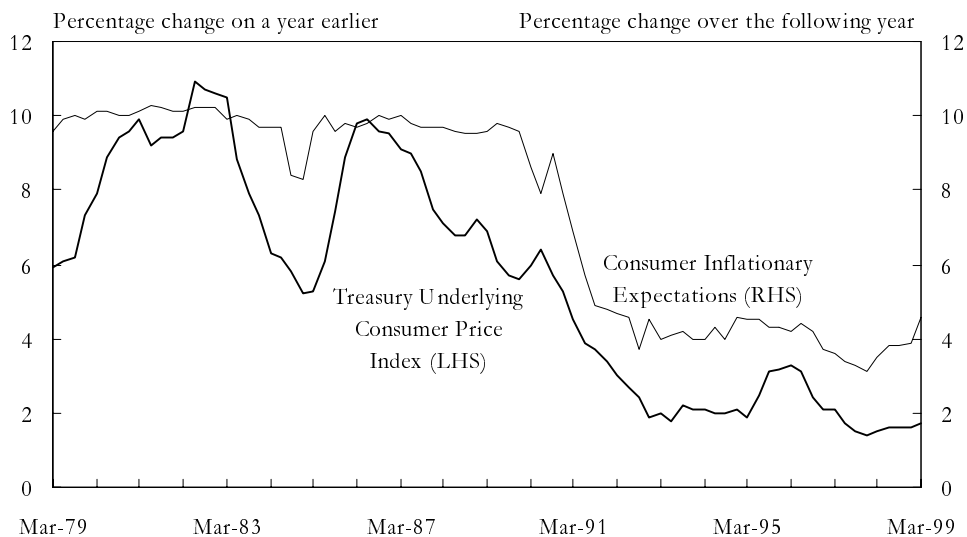
Australia began the 1990s lacking a clearly articulated monetary policy framework and, despite a decline in inflation, retained a reputation as an ‘inflation-prone’ economy. Critics of Australia’s monetary policy approach saw the lack of a specific target anchor for monetary policy decisions, and a perception of limited Reserve Bank independence in setting monetary policy, as impediments to achieving sustained low inflation.

The Reserve Bank first indicated an informal objective for inflation in 1993. In August of 1996, a clear and transparent *Statement on the Conduct of Monetary Policy* was agreed between the Treasurer and the Reserve Bank Governor. It formalised the target of ‘keeping underlying inflation between 2 and 3 per cent, on average, over the cycle’.³ Importantly, the Statement formalised a clearer recognition of the independence of the Reserve Bank in conducting monetary policy. The Statement was important in first setting policy, then explaining it, and finally enhancing the credibility and responsibility for executing it.

Both inflation and inflationary expectations have declined sharply over the 1990s (Chart 7). Underlying inflation has averaged around 2 per cent per annum in the second half of the 1990s, compared with over 8 per cent in the 1980s. This success has been supported by favourable circumstances that have restrained global producer prices in recent years and the heightened competitive pressures engendered by product and labour market reforms. But clearly, the process has been anchored by wage and price-setters accepting the authorities’ commitment to the inflation target.

³ Following changes to the measurement of the Consumer Price Index (CPI), notably to remove the effect of mortgage interest rate changes, the Bank has recently changed to targeting CPI inflation.

Chart 7: Australian Inflation and Inflationary Expectations



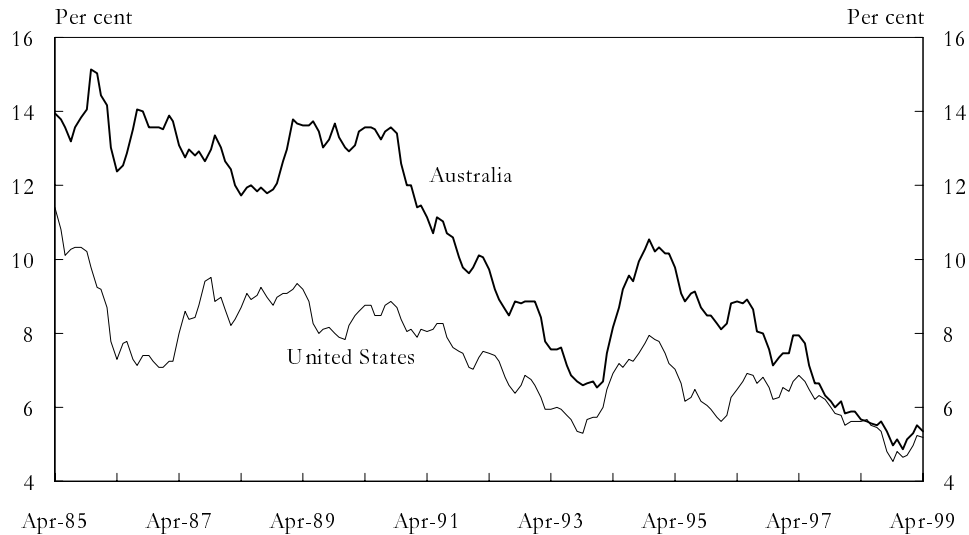
Source: ABS Cat. No. 6401.0 and Melbourne Institute of Applied Economic and Social Research, *Survey of Consumer Inflationary Expectations*.

Sustained low inflation allowed sharply lower nominal interest rates and has contributed to lower real interest rates in recent years. In periods of high and variable inflation, lenders tend to seek a premium to compensate them for uncertain future returns. As the credibility of Australia's fiscal and monetary policy frameworks has been established with financial markets, long-term interest rates have fallen, both absolutely and relative to other economies (Chart 8). For example, the interest rate differential between Australian and United States 10-year Treasury bonds has averaged around 70 basis points over the past three years, compared with an average of around 350 basis points over the 1980s.

Monetary policy credibility means that firms and individuals expect that the Reserve Bank will act to maintain low and stable inflation, and are likely to factor this into their decision-making. This change in behaviour should, of itself, reduce the extent of interest rate increases needed over the course of the economic cycle to head off inflationary pressures.

Low and stable inflationary expectations also reduce the likelihood that domestic inflation will respond in a sustained way to transitory pressures. Consequently, there is less need for monetary policy to respond to such developments. The onset of the East Asian financial crisis in 1997 contributed to a significant depreciation of the Australian dollar, particularly against the currencies of the major economies. In the past, falls in the currency have flowed through into higher consumer price inflation. This time, a better policy framework and a more competitive economy have helped minimise the flow-on of import price rises into domestic prices and wages, as discussed in Statement 2. The recent Australian experience, in which short-term interest rates were reduced, contrasts with that of New Zealand and Canada, which had raised interest rates in the face of declining exchange rates.

Chart 8: Yields on Australian and United States 10-year Treasury Bonds^(a)



(a) Data are the average of daily yields in each month.
Source: Datastream.

FISCAL POLICY AND PUBLIC SAVING

In the mid-1990s, fiscal policy was at a critical juncture. In 1995-96, the fifth year of recovery, the underlying Commonwealth budget deficit still stood at 2 per cent of GDP. This followed a long period in which fiscal policy had generally been conducted without a clearly articulated and demonstrated medium-term framework. Over the period from 1975-76 to 1995-96 inclusive, the Commonwealth's underlying budget deficit had averaged 1.4 per cent of GDP. Commonwealth general government net debt, which was non-existent in 1974-75, had increased to over 19 per cent of GDP in 1995-96.

The deterioration in the Commonwealth's fiscal position from the mid-1970s has been associated with a structural increase in Australia's CAD. The CAD averaged around 2½ per cent of GDP over the 1960s and 1970s, but has averaged almost 4¾ per cent of GDP over the 1980s and 1990s. Against this background, a perception that governments lacked commitment to sound fiscal policy principles undoubtedly contributed to the interest rate differentials required to induce foreign lenders to hold Australian debt.

The Government moved quickly after its election in 1996 to develop fiscal credibility by adopting a medium-term objective of achieving underlying balance, on average, over the economic cycle. Credibility was also enhanced through a legislated Charter of Budget

Honesty. The budget was returned to underlying surplus in 1997-98 and is projected to remain in surplus over the forward estimates period.⁴

As the Commonwealth general government sector is not projected to be drawing on private saving over the forward estimates period to fund its own activities, it is no longer directly contributing to the national saving-investment imbalance reflected in the CAD. This compares to an average Commonwealth saving-investment imbalance of around 1½ per cent of GDP over the previous two decades. The general government sector will contribute to raising national saving and lowering the structural CAD over time, other factors equal.⁵

As discussed in Statement 1, sustained improvement in public saving can be expected to improve national saving over time. This improvement may also encourage greater private investment, through lower interest rates and confidence effects, but this is unlikely to offset on an ongoing basis the effect on the CAD of higher national saving. Notwithstanding this, increases in the CAD may occur during periods in which public saving is improving, as a result of other factors. For instance, in the late 1980s a cyclical boom boosted both investment (and, thereby, the CAD) and the budget surplus. In the absence of higher public saving, the CAD would otherwise have been even larger.

An improvement in public saving is helping to limit the recent rise in the CAD in response to the downturn in many of our East Asian export markets, and has been crucial to retaining the confidence of the financial markets. Importantly, the increase in the CAD on this occasion reflects private saving and investment decisions, rather than government borrowing.

Sound macroeconomic policy settings have allowed Australian interest rates to remain low, and this has contributed to subdued growth in the net income deficit. Australian financial corporations have taken advantage of the low world interest rate environment and the benefits of Australia's more open and efficient financial markets to access opportunities in global markets to lower financing costs. Continued low world interest rates and an increasingly open financial sector are expected to continue to support this over the medium term.

In addition, compared to earlier periods, there has been a change in the make-up of Australia's external assets and liabilities. Australian external liabilities denominated in foreign currencies are now more than offset by external assets denominated in foreign currencies. Thus the depreciation of the Australian dollar since the onset of the economic downturn in East Asia has had a broadly neutral impact on the net income deficit. This compares to previous periods when Australia's external liabilities denominated in foreign currencies clearly exceeded assets and thus net payments in Australian dollar terms escalated when the Australian dollar depreciated.

4 Surplus was achieved in 1997-98 in terms of the former cash underlying balance measure that was targeted by Government policy at that time.

5 A detailed discussion of structural improvements in the CAD is contained in *1998-99 Budget Paper No. 1*, Statement 3.

STRUCTURAL REFORM, PRODUCTIVITY AND ECONOMIC EFFICIENCY

Structural reform is concerned with improving economic efficiency by making the economy more competitive and more dynamic and by removing distortions that misallocate resources.⁶ Effective competition in markets for goods and services provides greater impetus for firms to seek productivity improvements and ensures that more of these gains are distributed in the form of lower prices rather than higher profits. Competition also provides a spur to innovation. By increasing the supply potential of the economy, structural reform allows the economy to grow further before inflationary pressures arise. Ultimately, this allows stronger sustainable growth in incomes and employment.

Structural reform (including labour market reform) is likely to have contributed to the economy's recent resilience in a number of ways.

- Underlying the economy's recent growth performance is an upturn in multifactor productivity growth (Chart 9) in recent years that has reversed the decline that occurred during the 1970s and 1980s.
- As outlined previously, the fact that the economy is now subject to markedly increased competitive pressures has helped to maintain low inflation in the face of a large currency depreciation.
- Structural reform has also resulted in a more flexible and outward-looking business sector and this has contributed to the ability of Australian firms to take advantage of the real exchange rate depreciation.
- By improving the quality of investment decisions throughout the economy, structural reform is likely to have contributed to the willingness of financial markets to accept a private sector-induced expansion in the CAD.

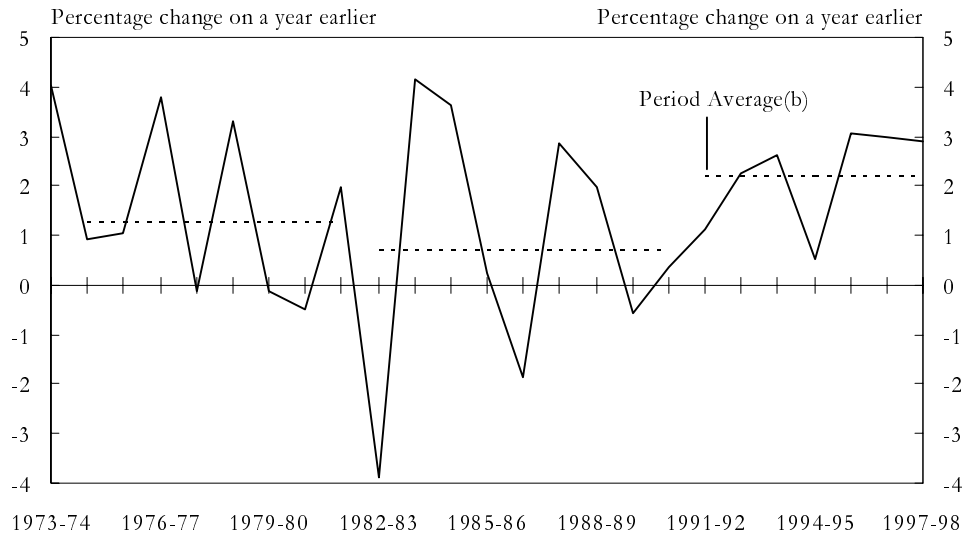
Productivity is difficult to measure and is affected by a range of factors not directly attributable to structural reforms. For instance, advances in information and other technologies may be contributing to an upturn in productivity growth globally. However, the extent of structural reforms that have been instituted over the past decade or so, and the productivity gains that have occurred in sectors that have been a specific focus of reform — particularly sectors that were formerly dominated by publicly-owned monopolies — suggest that such reforms have been a significant factor.

Earlier reforms substantially reduced barriers to external trade, and more recent reforms are increasing competitive disciplines in the non-tradables sector. An important element of structural reform in recent years has been the National Competition Policy, which was agreed to by all Australian Governments in April 1995. This includes a nationally applied competition law and requirements to ensure that government businesses and privatised

⁶ A detailed discussion of structural reform and its benefits is contained in *1997-98 Budget Paper No. 1*, Statement 3.

public monopolies do not enjoy an unfair advantage over competitors. Governments are also required to review anti-competitive legislation, which must be reformed unless there are net benefits that can only be achieved by restricting competition.

Chart 9: Multifactor Productivity Growth in the Market Sector^(a)



(a) Multifactor productivity growth accounts for output increases beyond those explained by increases in capital and labour inputs. The estimates of multifactor productivity assume constant returns to scale; and are subject to errors in the measurement of labour inputs, the capital stock and their respective output elasticities.

(b) Dotted lines are average multifactor productivity growth rates for business cycle periods, measured from the year following each cyclical trough year to the next trough year (to 1997-98 for the current expansion).

Source: ABS Cat. No. 5204.0.

A key objective has been to increase competition in sectors where it has been limited by regulatory barriers, particularly in the communications, energy and transportation sectors. A fully open market for telecommunications was introduced in 1997, a National Electricity Market allowing electricity to be freely traded between the eastern mainland States has recently commenced, and regimes are being developed to allow private operators access to natural gas pipelines and rail infrastructure.

The full benefits from more recent reforms, including labour market reforms, are yet to be seen, and this is likely to provide a continued boost to productivity growth over the next few years. The potential for further productivity gains in sectors like telecommunications and electricity is likely to be significant. Moreover, the dynamic effects of reform, in terms of providing a continuing impetus to innovation and productivity improvement, should have an ongoing positive effect on productivity growth.

LABOUR MARKET REFORM

Reforms to workplace relations arrangements and labour market regulation and assistance have sought to increase the responsiveness of the labour market to changes in the economy, and reduce impediments to job creation, participation in employment and improving productivity.

Significant reforms to workplace relations have been implemented, including encouragement for direct enterprise bargaining, freedom of association and tighter limits on industrial action. The introduction of the *Workplace Relations Act 1996* has accelerated the move from centralised wage fixing to enterprise bargaining — ensuring that wages and workplace practices are consistent with the circumstances faced by individual firms — while providing a genuine safety net for low paid workers.

Policies have been implemented to assist and encourage job search by unemployed people, including the new Job Network, changes to activity tests, and tighter eligibility conditions for a range of benefits. Other initiatives are directed at improving workforce skills and abilities in order to improve the employment prospects of unemployed people and to enhance long-run productivity growth.

Labour market reform has contributed to the upturn in productivity growth discussed above. Importantly, the recent period of strong economic growth has not been associated with the emergence of unsustainable wage pressures that have contributed to increasing inflation in past periods when the economy has grown strongly at an advanced stage of the expansion. This is likely to be attributable in no small part to workplace relations reforms.

FINANCIAL MARKET AND CORPORATE LAW REFORMS

The crisis in East Asia emphasises the importance of sound corporate governance and prudential supervision, and these issues are at the forefront of international efforts to reduce the risk of similar crises occurring in the future. The soundness of Australia's arrangements is a key ingredient in its ability to maintain a high level of business and investor confidence.

The stability, integrity and efficiency of the financial sector are critical to the performance of the economy and its ability to adapt to changing circumstances. Deregulation in the 1980s substantially increased competition and innovation in the financial sector, resulting in improved access to capital markets, a greater range of financial products and better allocation of savings to investment. It also highlighted weaknesses in the operations of markets and the need for comprehensive prudential regulation. The major package of reforms implemented following the Wallis Inquiry build on these foundations by reducing artificial barriers to competition between different types of financial service provider.

The recent reforms also establish a more flexible regulatory system, with a functional rather than institutional focus, that is better able to respond to a rapidly changing

environment without stifling innovation and competition. This will meet the need for regulation to ensure stability and integrity, without endangering efficiency.

In addition, the Corporate Law Economic Reform Program is modernising and giving an economic focus to regulatory requirements regarding fundraising, takeovers, corporate governance, financial reporting and conduct and disclosure practices in financial markets. Again, the focus is on providing the regulation necessary for well-functioning markets, without compromising efficiency.

Part IV: The Challenge Ahead

THE ECONOMY'S GROWTH POTENTIAL

Sound macroeconomic policy and sustained structural reform represent major steps toward addressing inflation and current account problems. The full benefits of more recent reforms have not yet been seen, which raises the question of how fast the economy can grow sustainably over the medium term.

As noted in Statement 1, for the purposes of Budget figuring, real GDP growth of 3½ per cent is assumed in the forward estimate years from 2000-01 to 2002-03. This is not a forecast, nor is it an estimate of 'potential' growth. Rather, it is a projection based on historical averages and broad underlying trends.

The prospect of continuing strong productivity and employment growth, flowing from the reform processes discussed above, suggests that real GDP has the potential to grow at a rate above 3½ per cent on average over the medium term, provided the macroeconomic policy framework is sustained.

As noted above, market sector multifactor productivity growth in the 1990s expansion has so far averaged around 2¼ per cent per annum, well above the average of the 1980s growth cycle of around ¾ per cent per annum. Similarly, growth in average labour productivity (GDP per employee) has thus far averaged above 2¼ per cent per annum in the 1990s expansion, up from around 1¼ per cent per annum in the 1980s growth cycle. Average labour productivity growth was very rapid at around 3¼ per cent in 1997-98, but is estimated to moderate to around 2 per cent in 1998-99. The forecasts for 1999-2000 incorporate a cyclical slowing in average labour productivity growth to around 1¼ per cent. On these estimates, the growth rate of average labour productivity between 1997-98 and 1999-2000 would be around 2 per cent per annum, close to the average for the 1990s as a whole, despite the recent international downturn. The strong productivity performance during this recent period has helped the economy to withstand the international downturn by supporting growth in real household incomes and profits and by contributing to low inflation.

Looking ahead to the early years of the next decade, there are several factors likely to influence the productivity outlook. A significant factor behind the rapid growth in productivity in the 1990s has been the ongoing programme of microeconomic reforms, including reforms to the labour market. It seems likely that some of the benefits of more recent reforms, such as the *Workplace Relations Act 1996* and the application of the mutual obligation principle, have yet to be felt and will influence outcomes during the early years of the next decade, although these effects are difficult to quantify. Outcomes will also be influenced, of course, by future microeconomic reforms, further reforms in the labour market, and the new taxation system.

It is also likely that part of the strong labour productivity growth in the 1990s expansion reflects significant growth in the capital/labour ratio through the 1990s, compared with a

relatively constant ratio over the 1980s cycle. However, as outlined in Statement 2, business investment growth is expected to moderate in 1998-99 and 1999-2000 after six years of very strong growth. If business investment were to be around its long-term average share of GDP in the early years of the next decade (see Chart 5 in Statement 2), then the capital/labour ratio would be likely to grow at around its long-term trend. This, in turn, would point to some slight moderation in average labour productivity growth, other factors unchanged.

On balance, given the microeconomic reforms already in place and current levels of investment, average labour productivity growth of between 1½ and 2 per cent would seem to be sustainable over the early years of the next decade.

The other key element in sustaining a relatively high rate of economic growth over the medium term is strong employment growth. The potential, or sustainable, rate of employment growth depends upon labour force growth and also the structural rate of unemployment. Neither of these factors is constraining present employment growth, but both could come into play in the period ahead.

The current unemployment rate is above most estimates of the structural rate of unemployment. For example, the OECD noted that most estimates of the structural rate of unemployment in Australia are in the 6½ to 7½ per cent range for the mid-1990s.⁷ However, such estimates generally do not include an allowance for the likely beneficial effects on structural unemployment of recent reforms to product and labour markets. As noted above, these benefits are likely to be still accruing. Nor do such estimates make any allowance for future reforms in the labour market. More fundamentally, they do not acknowledge that structural unemployment may have a dynamic element, such that the rate will fall as actual unemployment falls. This appears to have been part of the recent United States experience.

In short, there is scope for the unemployment rate to fall significantly below its present level of around 7½ per cent (and hence for employment growth to outstrip labour force growth) over the medium term without igniting inflationary pressures. The extent of these further falls in unemployment depend, in part, on the extent of further labour market reform, taxation reform, social security reform, and microeconomic reform more generally.

That said, a factor influencing likely employment growth over the medium term is lower projected labour force growth than in recent decades, due to demographic effects (see Box 1). Labour force growth could be around 1½ per cent per annum in the medium term, lower than the average growth of recent decades. This reflects expected lower growth in the working age population and only a relatively small net increase in the participation rate in the medium term.

7 *OECD Economic Surveys, 1998-99, Australia.*

BOX 1: DEMOGRAPHIC INFLUENCES ON MEDIUM-TERM LABOUR FORCE GROWTH

Labour force growth is expected to be lower over the medium term than the average of recent decades, as a result of lower projected growth in the working age population and relatively moderate growth in the total participation rate. While average working age population growth over recent decades was around 1¾ per cent per annum, it is expected to fall to around 1¼ per cent per annum in the medium term.

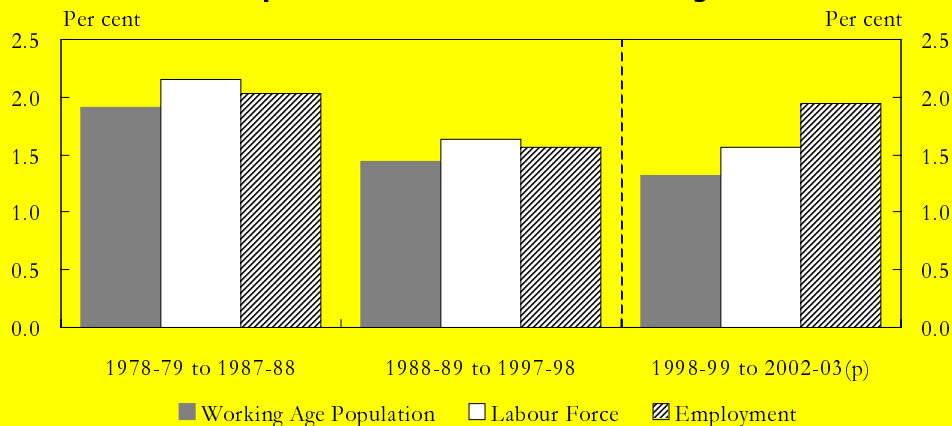
The total participation rate has risen steadily in recent decades, but only a modest increase from its average level in 1998-99 is likely in the medium term.

As participation rates vary markedly between different age groups, changes in the age-structure of the working age population can influence the total participation rate. The ageing of the population (in isolation) has placed downward pressure on the total participation rate in recent decades. This is expected to continue to be the case, possibly at an increased rate, over the medium term. This issue was discussed in more detail in the Summer 1999 *Economic Roundup*.

Against this trend, increased employment opportunities over the medium term are expected to encourage some discouraged workers to re-join the labour force, resulting in continued increases in female participation rates (within age groups) and a flattening of the decline in male participation rates (within age groups).

On balance, it is expected that, with slower working age population growth and a small net increase in the participation rate (relative to recent levels), labour force growth could be around 1½ per cent per annum in the early years of the next decade (Chart 10). This would be somewhat lower than the average labour force growth over the 1980s and marginally lower than in the 1990s to date. It would also mean, of course, that the rate of employment growth needed to reduce unemployment would be lower than has been the conventional wisdom over recent decades.

Chart 10: Employment, Labour Force and Working Age Population Growth — Period Averages



Source: ABS Cat. No. 6202.0 and Treasury forecasts and projections.

On balance, given the demographic influences on medium-term labour force growth, employment growth of around 2 per cent per annum would seem to be achievable on average in the early years of the next decade, associated with further falls in the unemployment rate. Together with average labour productivity growth of 1½ to 2 per cent per annum, this implies that the Australian economy has the potential to sustain growth of 3½ to 4 per cent over that period.

POLICY PRIORITIES IN THE PERIOD AHEAD

Achieving sustained growth in output and employment in line with the economy's growth potential will require ongoing attention to the macroeconomic policy framework and continued microeconomic reform, including taxation reform and examination of the remaining rigidities that inhibit improved labour market outcomes.

Macroeconomic policy

It is important that macroeconomic policy maintain a consistent forward-looking focus on medium-term objectives. Policy credibility is won by discipline over many years, but the gains can be put at risk by relatively short periods of neglect. Policy should aim to maximise growth, subject to maintaining the medium-term inflation and fiscal balance objectives. This entails keeping the economy operating within sustainable bounds, so that excess demand pressures that might spill over into inflation and the current account do not emerge.

Fiscal policy will continue to focus on medium-term public saving objectives. The medium-term fiscal strategy is essential if the private sector is to continue to be able to tap into foreign saving to fund a substantial part of its investment without having to pay significant risk premia.

The fiscal strategy will ensure that the CAD over time is essentially the outcome of decisions by private sector borrowers and lenders, and not of government borrowing (one role of structural policies is to ensure that these private sector decisions are soundly based). The general government sector presently holds only 15 per cent of Australia's net external debt. Private sector saving and investment decisions are now better based than they have been in past cycles, as a result of microeconomic reform and low inflation. In this environment the nation's ability to service external debt should not be at issue.

The fiscal strategy must continue to take account of the economic cycle. Adequate surpluses will be required while the economy is expanding to allow room for policy to respond in the event of a downturn, at least to the extent of allowing automatic reductions in the surplus, from lower tax receipts and higher unemployment assistance payments, to support demand.

Monetary policy must continue to focus on the objective of achieving 2 to 3 per cent inflation on average over the medium term. Inflation has been persistently below the

bottom of the band over the past two years, and the outlook is for continued low inflation in the period ahead.

Taxation reform

The existing taxation system is a significant impediment to improving Australia's economic potential.

The tax reform package currently before Parliament includes changes to personal income tax rates and family and social security payments that will significantly lower effective marginal income tax rates, and improve incentives to work and save. Introduction of a broad-based Goods and Services Tax (GST), to replace the present Wholesale Sales Tax (WST) and a range of inefficient State taxes, will result in an indirect tax system that has lower costs, is less distorting to consumer decisions, and avoids taxing business inputs. The new tax system will lift the tax burden imposed by the WST on Australian exports, and reduce business costs, including costs of investment goods.

Similarly, the current Review of Business Taxation is directed at achieving a business tax system that minimises distortions to business decisions and reduces compliance costs, as well as providing a competitive regime for attracting international capital.

These reforms will contribute to raising the economy's growth potential through more efficient resource allocation, as decisions throughout the economy better reflect underlying costs and benefits, and better incentives.

Taxation reform will also contribute to maintaining sound public finances. The narrowly-based WST is levied on a portion of economic activity that is declining over time as the relative importance of services in the economy increases. Revenue from the GST, which is to be allocated to the States, will grow in line with the economy. This will provide a revenue base that is capable of meeting spending needs over the medium to long term, without requiring periodic increases in taxation rates.

Labour market reform

Reducing unemployment in a sustained way will require a continuing focus on integrating sound macroeconomic policies and workplace relations reform with policies to ensure that the welfare system, and its interaction with the tax system, does not discourage people from seeking jobs.

Further reforms to the industrial relations system are being pursued to build upon those already implemented. Amendments to the current unfair dismissal laws and the preservation and extension of age-based junior wage rates are policies designed to overcome restrictions on employment growth. Other policies being pursued to enhance productivity and streamline enterprise bargaining include further award simplification, reducing the role of third parties in the agreement-making process and ensuring that union membership is voluntary.

Securing better labour market outcomes, particularly ongoing reductions in structural unemployment, will require an ongoing focus on the link between productivity and wages. One facet of this is ensuring that the award system fulfils its role of providing a genuine safety net.

The Government's tax reform package will significantly reduce disincentives to work, which particularly affect low and middle-income earners. The principle of mutual obligation for unemployment beneficiary recipients is also important in ensuring that the welfare system does not discourage job seeking. The Budget extends the scope of mutual obligation arrangements and broadens the Work for the Dole scheme.

Attention to the education and training system is also important to ensure that the skills of the workforce are appropriate for the future demands of the economy. The Budget provides additional funding for education and training, including continued funding for programmes to enhance the skills and experience of young people seeking work.

It is important that the various elements of the labour market strategy are not considered in isolation. Recent international research demonstrates that labour market policies are complementary, and that broad, integrated reforms are more effective in achieving lower unemployment and sustainable improvements in productivity growth.

Part V: Conclusion

The recent performance of the Australian economy would not have been possible in the absence of a sound domestic policy framework. The institution of sound and credible frameworks for monetary and fiscal policies in recent years, and the return of the Budget to surplus, have been fundamentally important. Reforms in the areas of competition policy, the labour market, the financial sector and corporate law have also contributed to creating an economy that is more efficient and flexible, subject to more competitive pressures and more conducive to productivity growth.

Sound policy has been assisted by the fact that the downturns affecting our East Asian trading partners have occurred against a background of other international developments that have been favourable. World growth has been supported by the strength of the United States and European economies, together accounting for a little more than half of world GDP. In addition, the fall in our terms of trade from lower commodity prices has been limited by an international environment that has been reducing the world prices of Australia's imports.

In this environment, the economy has been assisted by a large currency depreciation that has given Australian producers a competitive boost that has assisted export diversion to other markets. Large currency depreciations, however, cannot be effective unless sustained as real depreciations, a demanding policy requirement.

The favourable combination of exchange rate depreciation and continued low interest rates made possible by sound macroeconomic policy has been the key. Financial markets have retained confidence in Australia's economic fundamentals, and long-term interest rate differentials have remained low. As the exchange rate depreciation has not been dissipated in higher domestic inflation, the economy has been able to enjoy the benefits of improved competitiveness, while maintaining relatively low interest rates; and the negative effects of international developments have been cushioned by ongoing strength in domestic demand.

As a result of sound macroeconomic policy and structural reforms, the Australian economy should be able to continue to grow strongly over the medium term and to achieve further sustainable reductions in unemployment. The extent to which the economy can grow and unemployment can be reduced will depend on continued adherence to sound macroeconomic policy and further microeconomic reform — including, in particular, reform of the taxation system and further action to improve the functioning of the labour market.

STATEMENT 4: FINANCIAL OUTLOOK

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STATEMENT 4: FINANCIAL OUTLOOK

Overview

The introduction of accrual budgeting with an output and outcomes framework further intensifies the Commonwealth's focus on responsible financial management and accountability. Consolidated financial statement projections for the general government sector are presented for the first time in the 1999-2000 Budget.

Operating result

The Commonwealth's operating result before abnormals is expected to improve further in 1999-2000 (see Chart 1). The estimated operating result for 1999-2000 is a surplus of \$5.7 billion, an improvement of \$2.5 billion from the operating surplus of \$3.2 billion expected in 1998-99. This improvement reflects a 6.2 per cent increase in revenue, partly offset by a 4.6 per cent increase in expenses.

After including abnormal and extraordinary items, an operating surplus of \$16.7 billion is expected in 1999-2000. Movements in abnormal items over the forward estimates period are largely due to the Government's asset sales programme, particularly the proposed sale of the Government's remaining share in Telstra.

Statement 5 contains detailed descriptions of expenses and Statement 6 contains detailed descriptions of revenues. *Budget Paper No. 2* contains detailed descriptions of individual budget measures.

Chart 1: Operating Result

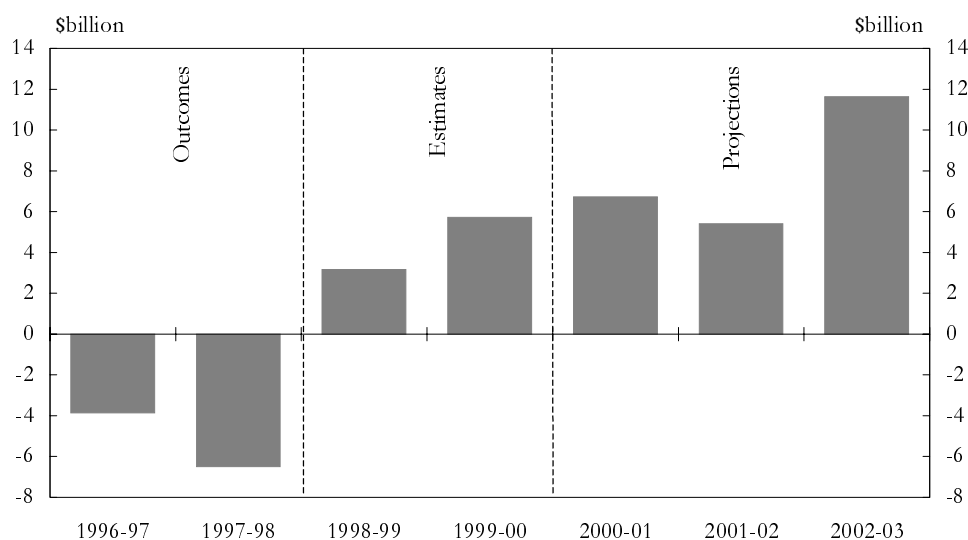


Table 1: Operating Result Estimates

	Estimates		Projections		
	1998-99	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m	\$m
Revenue					
Total taxation	140847	147779	139223	142465	150723
Total non-taxation	12502	15050	11271	11294	12343
Total	153349	162828	150494	153759	163065
Expenses	150183	157111	143776	148357	151432
Operating result	3166	5717	6718	5402	11633

Net Assets

The consolidated financial position of the general government sector is expected to improve in 1999-2000 with an increase in net assets of \$16.8 billion, or 20.8 per cent, relative to the expected outcome for 1998-99. This improvement will reduce the excess of liabilities over assets to \$63.8 billion by 30 June 2000. Unlike private profit making enterprises, governments are able to record negative net asset positions as they have access to a guaranteed stream of revenue to service current and future liabilities.

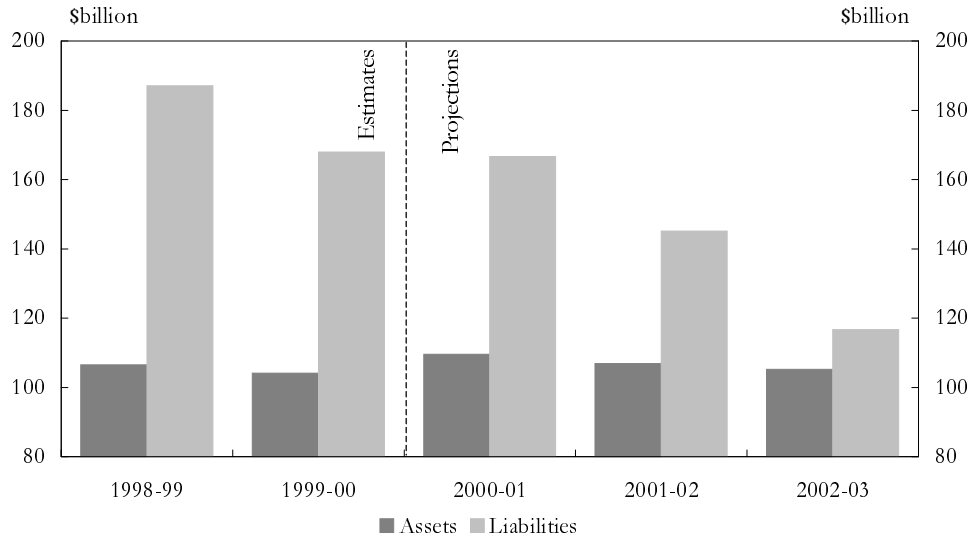
The Commonwealth's net asset position is expected to improve substantially over the budget and forward estimates period (see Chart 2). It is expected that the negative net assets position will be further reduced to \$11.5 billion, or 1.6 per cent of GDP, by 2002-03.

Table 2: Balance Sheet Estimates

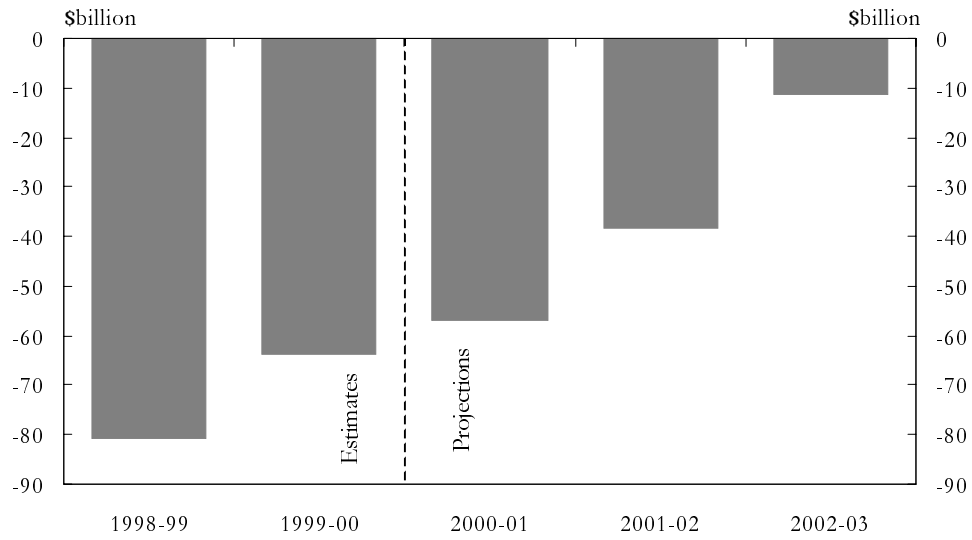
	Estimates		Projections		
	1998-99	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m	\$m
Assets					
Financial	52958	49248	53794	50180	47537
Non-financial	53520	54889	55789	56662	57666
Total assets	106478	104137	109583	106842	105203
Liabilities					
Debt	96688	75651	73960	51403	22009
Provisions and payables	90342	92273	92664	93708	94670
Total liabilities	187030	167924	166624	145111	116679
Net assets	-80551	-63787	-57041	-38269	-11476
Equity	-80551	-63787	-57041	-38269	-11476

Chart 2: Balance Sheet Aggregates

Panel A: Assets and Liabilities



Panel B: Net Assets



New Agency Banking Arrangements

As part of the introduction of an accrual framework, the Department of Finance and Administration is introducing agency banking arrangements which will apply from 1 July 1999. These apply to agencies covered by the *Financial Management and Accountability Act 1997* (ie Departments of State, Parliamentary Departments and prescribed FMA agencies) and will allow agencies to manage departmental resources, including cash, in a more business-like manner. To encourage better cash management agencies will receive the benefit of being able to retain interest on departmental account balances. Agencies will be responsible for establishing their own bank accounts, processing their payments and receipts, maintaining detailed transactional records and meeting bank fees and charges associated with operating their bank accounts.

Primary Financial Statements

Statement of Revenue and Expenses for the Commonwealth General Government Sector

	Note	Estimates		Projections		
		1998-99	1999-00	2000-01	2001-02	2002-03
		\$m	\$m	\$m	\$m	\$m
Revenues						
Taxation						
Income tax		104060	109950	111080	114200	121160
Indirect tax	2	30902	31979	22122	21960	23060
Other taxes fees and fines		5885	5849	6021	6305	6503
Total taxation revenue		140847	147779	139223	142465	150723
Non-taxation						
Sales of goods and services		2505	2496	2562	2537	2494
Interest and dividends	3	6502	8844	5535	5605	6694
Net foreign exchange gains		360	0	0	0	0
Net gains from sales of assets		27	9	2	2	2
Other sources of non-tax revenue	4	3107	3700	3173	3150	3153
Total non-tax revenue		12502	15050	11271	11294	12343
Total revenue		153349	162828	150494	153759	163065
Expenses						
Goods and services						
Employees	5	15033	15016	14843	14912	15002
Suppliers	6	11670	13670	12198	12073	11700
Depreciation and amortisation	7	2308	2477	2776	2956	3169
Net write down of assets		1497	1431	1341	1277	1294
Net foreign exchange losses		-140	2	2	2	2
Net losses from the sale of assets		25	43	15	24	13
Other goods and services expenses		4899	5246	4913	5046	5292
Total goods and services		35292	37885	36089	36289	36472
Subsidies benefits and grants						
Personal benefits		59105	61939	68851	71682	75956
Subsidies		3508	3824	4215	4540	4734
Grants	8	43013	44602	26607	28724	27760
Total subsidies benefits and grants		105626	110366	99674	10495	108449
Interest and other						
Interest and other financing costs		9265	8860	8012	7122	6511
Total Interest and other		9265	8860	8012	7122	6511
Total expenses		150183	157111	143776	148357	151432
Operating result		3166	5717	6718	5402	11633
Abnormal and extraordinary items		624	10990	0	13293	15131
Operating result after abnormal items		3790	16707	6718	18695	26764

Balance Sheet for the Commonwealth General Government Sector

	Note	Estimates		Projections		
		1998-99	1999-00	2000-01	2001-02	2002-03
		\$m	\$m	\$m	\$m	\$m
Assets						
Financial assets						
Cash		1875	2006	1755	1581	1307
Receivables		20125	19964	24355	21942	20646
Investments	12	29319	25328	25491	24142	22720
Accrued revenue		385	423	399	447	522
Other financial assets		1254	1527	1795	2069	2342
Total financial assets		52958	49248	53794	50180	47537
Non-financial assets						
Land and buildings		14448	14152	13895	13482	13526
Infrastructure		33955	35628	36947	38318	39431
Intangibles		601	740	709	616	528
Inventories		2902	2746	2639	2646	2584
Other non-financial assets	9	1615	1624	1599	1600	1597
Total non-financial assets		53520	54889	55789	56662	57666
Total assets		106478	104137	109583	106842	105203
Liabilities						
Debt						
Government securities	12	87322	64143	62541	38429	9257
Loans		5607	7455	7392	9330	9265
Leases		216	191	236	223	210
Deposits		559	632	705	778	851
Overdrafts		2	2	2	2	2
Other debt		2984	3228	3085	2642	2425
Total debt		96688	75651	73960	51403	22009
Provisions and payables						
Employees	10	74710	75864	76881	77636	78351
Suppliers		2011	1851	1855	1844	1831
Personal benefits payable		1096	2261	2459	2639	2904
Subsidies payable		72	71	69	68	67
Grants payable	11	8147	8123	8162	8256	8089
Other provisions and payables		4305	4103	3239	3265	3428
Total provisions and payables		90342	92273	92664	93708	94670
Total liabilities		187030	167924	166624	145111	116679
Net assets		-80551	-63787	-57041	-38269	-11476
Equity						
Accumulated results		-104822	-86603	-79870	-59679	-31274
Reserves		24271	22817	22829	21410	19798
Total equity		-80551	-63787	-57041	-38269	-11476

Statement of Cash Flows for the Commonwealth General Government Sector

	Note	Estimates		Projections		
		1998-99	1999-00	2000-01	2001-02	2002-03
		\$m	\$m	\$m	\$m	\$m
Operating activities						
Cash received						
Taxes fees and fines	13	139202	145411	134086	142894	150882
Sales of goods and services		3003	2811	2752	2584	2826
Interest		2158	2704	2662	2729	4135
Dividends		4258	6065	2915	2756	2393
Other		3043	3646	3078	3115	2655
Total operating cash received		151664	160637	145493	154078	162891
Cash used						
Payments to employees		15574	13862	13826	14156	14287
Payments to suppliers		11244	13473	11796	11652	11304
Subsidies paid		3635	3826	4217	4541	4735
Personal benefits		58402	60774	68653	71503	75690
Grant payments		41666	44627	26569	28630	27927
Interest and other financing costs		9265	8860	8012	7122	6511
Other		5354	5449	5779	5021	5130
Total operating cash used		145141	150871	138854	142625	145585
Net cash from operating activities		6523	9766	6639	11453	17306
Investing activities						
Cash received						
Proceeds from asset sales program		5511	15828	-	15658	16698
Proceeds from sales of property, plant and equipment and intangibles		701	810	725	699	553
Other		170	3	25	-	-
Total investing cash received		6382	16641	750	16356	17251
Cash used						
Purchase of property, plant and equipment and intangibles		4579	4989	4838	5055	4967
Net advance receipts		-	-	923	-	-
Other	12	783	248	187	372	458
Total investing cash used		5362	5237	5949	5427	5425
Net cash from investing activities		1020	11404	-5199	10930	11826

	Note	Estimates		Projections		
		1998-99 \$m	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
Financing activities						
Cash received						
Other		630	317	118	73	73
Total cash received		630	317	118	73	73
Cash used						
Net repayments of borrowings	12	6288	21330	1666	22174	29249
Other		995	25	143	456	230
Total cash used		7283	21355	1809	22629	29479
Net cash to/from financing activities		-6653	-21038	-1691	-22556	-29406
Net increase/decrease in cash held		890	131	-251	-174	-274

Appendix A — Statistics, Concepts and Notes to the Financial Statements

Note 1: External Reporting Standards

The *Charter of Budget Honesty Act 1998* requires that the budget is based on external reporting standards and that departures from applicable external reporting standards are identified.

The 1999-2000 Budget financial statements have been prepared on an accrual basis in accordance with applicable Australian accounting standards, including Australian Accounting Standard No. 31 'Financial Reporting by Governments' (AAS31). AAS31 is the relevant accounting standard for financial reporting by governments.

AAS31 requires the adoption of a full accrual basis of accounting. This means that assets, liabilities, revenues and expenses are recorded in financial statements when they have their economic impact, rather than when the cash flows associated with these transactions occur. Consistent with AAS31, an operating statement, a statement of financial position and a statement of cash flows have been prepared using estimates for the current year, budget year and the three forward years.

The accounting policies in this budget document are consistent with the accounting policies in AAS31. While the scope for financial reporting recommended in AAS31 is the whole-of-government (that is, the Commonwealth public sector), the 1999-2000 Budget financial estimates cover the general government sector only. However, a whole-of-government approach for reporting financial outcomes is adopted in the Commonwealth's Consolidated Financial Statements.

In relation to revenue, AAS31 suggests revenue be recognised at the time the income (or economic activity) giving rise to a tax liability occurs, where this can be measured *reliably*. The Commonwealth does not consider its revenues can be reliably forecast on this basis. Revenue in the budget is therefore recognised at the time the relevant tax law indicates the existence of a requirement to pay an amount in tax or when a tax assessment is raised by the Australian Taxation Office (ATO) and the Australian Customs Service (ACS). That is, revenue is only recognised when the taxpayer makes a self-assessment or the ATO/ACS issues an assessment. This differs from the method used for recording taxation revenue in previous accrual outcome reports.

In order to ensure that all dividends are reported on a consistent basis, in the Budget Financial Statements for the forecast years, dividends are recorded in the year that they are declared, rather than the year in which the income was earned. For the RBA dividend this treatment differs from that applied in the 1997-98 Consolidated Financial Statements.

The Commonwealth collects a number of taxes on an agency basis for the States and Territories, principally Revenue Replacement Taxes (which replaced business franchise fees), mirror taxes on Commonwealth places and from 1 July 2000, the goods and services

tax. The revenue from these taxes is passed to State and Territory Governments (with an adjustment for administration costs in the case of Revenue Replacement taxes). AAS31 and other relevant accounting standards would suggest the gross amount of these taxes be included in the Commonwealth's financial statements. However, given the Commonwealth's agency role in the collection of these taxes, the accrued revenues and associated payments to the States and Territories are not recorded in the budget estimates.

Note 2: Indirect Tax

	Estimates		Projections		
	1998-99	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m	\$m
Sales tax	16080	16710	2050	870	890
<i>Of which Revenue Replacement</i>	1000	1054	88	0	0
<i>Less transfers to States and Territories in relation to revenue replacement</i>	997	1052	88	0	0
Sales tax revenue	15083	15659	1962	870	890
Excise duty	17640	18200	16470	16730	17310
<i>Of which Revenue replacement</i>	5469	5528	257	0	0
<i>Less transfers to States and Territories in relation to revenue replacement</i>	5463	5523	256	0	0
Excise duty revenue	12177	12677	16214	16730	17310
Customs duty	3820	3820	3950	4360	4860
<i>Of which Revenue replacement</i>	178	176	4	0	0
<i>Less transfers to States and Territories in relation to revenue replacement</i>	177	176	4	0	0
Customs duty revenue	3643	3644	3946	4360	4860
GST revenue			27409	32290	33259
<i>Less transfers to States and Territories in relation to GST revenue</i>			27409	32290	33259
GST revenue			0	0	0
Mirror taxes	123	127	111	115	120
<i>Less transfers to States and Territories in relation to mirror revenue</i>	123	127	111	115	120
Mirror tax revenue	0	0	0	0	0
Indirect tax revenue	30902	31979	22122	21960	23060

Note 3: Interest and Dividends

	Estimates		Projections		
	1998-99	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m	\$m
Interest					
Interest from other governments					
State and Territory debt	226	194	114	76	69
Housing agreements	224	175	172	169	166
Total interest from other governments	449	369	286	245	235
Interest from other sources					
Swap interest	1515	1690	1428	1491	1710
Advances	34	39	44	49	53
Deposits	6	20	23	26	28
Bills receivable	6	6	6	6	6
Bank deposits	86	100	106	116	126
Other	154	554	726	916	2144
Total interest from other sources	1801	2410	2334	2604	4066
Total interest	2250	2779	2620	2849	4301
Dividends					
Dividends from associated entities	4126	5958	2819	2650	2283
Other dividends	126	108	96	106	110
Total dividends	4252	6065	2915	2756	2393
Total interest and dividends	6502	8844	5535	5605	6694

Note 4: Other Sources of Non-taxation Revenues

	Estimates		Projections		
	1998-99	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m	\$m
Industry contributions	179	144	133	135	132
Indexation of HECS receivable and AUSTUDY loans	79	144	143	175	166
International Monetary Fund related revenue	57	69	69	69	69
Other	2791	3343	2827	2771	2785
Total other sources of non-taxation revenues	3107	3700	3173	3150	3153

Note 5: Employees

	Estimates		Projections		
	1998-99	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m	\$m
Salaries and wages	9384	9419	9305	9422	9352
Superannuation ¹	2788	2801	2821	2827	2823
Leave and other entitlements	285	271	258	278	282
Separations and redundancies	135	63	29	24	26
Workers compensation premiums	35	34	34	34	34
Other	2407	2428	2397	2326	2484
Total employees	15033	15016	14843	14912	15002

Note 6: Suppliers

	Estimates		Projections		
	1998-99	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m	\$m
Supply of goods and services	8845	10623	9117	9055	8698
Operating lease rental expenses	961	926	918	930	943
Other	1864	2121	2164	2088	2059
Total suppliers	11670	13670	12198	12073	11700

Note 7: Depreciation and Amortisation

	Estimates		Projections		
	1998-99	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m	\$m
Depreciation					
Specialist military equipment	1036	1124	1317	1463	1655
Buildings	437	444	437	436	440
Other infrastructure, plant and equipment	708	768	857	880	886
Total depreciation	2181	2336	2611	2779	2981
Total amortisation	127	140	165	177	188
Total depreciation and amortisation	2308	2477	2776	2956	3169

¹ The amounts contained in this note do not reflect the Commonwealth's total superannuation expense. That can be obtained from the GFS operating statement (superannuation expense and superannuation interest) in Statement 9.

Note 8: Grants

	Estimates		Projections		
	1998-99	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m	\$m
State and Territory Governments	32524	33687	15794	17742	17402
Non-profit organisations	1120	1106	1110	1106	1118
Overseas	533	229	450	496	223
Private sector	-26	558	262	252	101
Local governments	7	188	202	206	200
Other	8855	8835	8790	8922	8715
Total grants	43013	44602	26607	28724	27760

Note 9: Other Non-financial Assets

	Estimates		Projections		
	1998-99	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m	\$m
Prepayments	837	835	835	838	838
Other	778	788	764	762	760
Total other non-financial assets	1615	1624	1599	1600	1597

Note 10: Employee Liabilities

	Estimates		Projections		
	1998-99	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m	\$m
Superannuation	69088	70174	71136	71811	72421
Leave and other entitlements	2945	3022	3099	3194	3294
Accrued salaries and wages	575	631	651	677	713
Workers compensation claims	2021	1972	1927	1886	1854
Separations and redundancies	30	16	15	13	14
Workers compensation premiums	0	0	0	0	0
Other	51	49	52	55	55
Total employee entitlements	74710	75864	76881	77636	78351

Note 11: Grants Payable

	Estimates		Projections		
	1998-99	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m	\$m
State and Territory Governments	2331	2542	2616	2713	2783
Non-profit organisations	30	10	9	8	8
Private sector	7	6	5	5	2
Overseas	1373	1110	1090	1111	865
Local governments	2	2	2	2	2
Other	4403	4453	4439	4416	4428
Total grants payable	8147	8123	8162	8256	8089

Note 12: Government Securities

Transactions relating to government securities and financial assets acquired for debt management purposes have been netted in the statements of financial position and cash flows. In the statement of financial position, the financial assets — investments category excludes financial assets acquired for debt management purposes, while the debt — government securities category is shown net of financial assets acquired for debt management purposes. Likewise, in the statement of cash flows, the investing activities — cash used — other category excludes cash used to acquire financial assets for debt management purposes while the financing activities — cash used — repayment of borrowings category includes cash used to acquire financial assets for debt management purposes.

This netting treatment has been applied because of the considerable uncertainty associated with the split between government securities and financial assets acquired for debt management purposes. Debt management strategies in respect of government securities and financial assets are highly dependent on prevailing market conditions and other factors. The balance to be struck between gross debt retirement and financial asset acquisition cannot be accurately estimated in advance.

Note 13: Taxes Fees and Fines

	Estimates		Projections		
	1998-99	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m	\$m
Total taxes fees and fines	145840	152530	161954	175299	184261
<i>Less</i> payments to States and Territories in relation to revenue replacement	6638	6751	348	0	0
<i>Less</i> payments to States and Territories in relation to GST revenue	0	0	27409	32290	33259
<i>Less</i> payments to States and Territories in relation to mirror tax revenue	0	368	111	115	120
Taxes fees and fines	139202	145411	134086	142894	150882

Appendix B: Sensitivity of Fiscal Aggregates to Economic Developments

Table B1 provides a guide to the sensitivity of the forward estimates of expenses and revenue to variations in economic parameters in 1999-2000. 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 and other parameters.

Table B1: Sensitivity of Financial Aggregates to Changes in Economic Parameters

	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m
Expenses				
Prices	270	310	640	480
Wages	80	310	360	370
Unemployment Benefit Recipients	300	300	300	300
Safety Net Adjustment	60	180	310	390
Revenue				
Prices	70	240	250	260
Wages	1100	1020	1080	1180
Employment	720	670	700	760
Private Final Demand	340	270	280	280

EXPENSES

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

- prices — all price deflators are assumed to increase by one percentage point at the start of the September quarter 1999, with wage deflators left unchanged;
- wages — all wage and salary rates are assumed to increase by one percentage point from the beginning of the September quarter 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 5 per cent from the beginning of the September quarter 1999; and
- Safety Net Adjustment — the Safety Net Adjustment (SNA) determined by the Australian Industrial Relations Commission (AIRC) is assumed to increase by \$2 per week in the budget and forward years from the 1998-99 financial year. The SNA is used in the calculation of Wage Cost Indexes. Changing the SNA in the 1998-99 year will produce a full year impact in the budget year (1999-2000).

In addition, about \$28 billion of expenses, comprising agency departmental expenses, other Commonwealth Own Purpose Expenses of a departmental expense nature and Specific Purpose Payments to the States of a departmental expense nature, are indexed to weighted averages of movements in underlying inflation and the SNA determined by the AIRC.

The profile of the prices sensitivity has changed when compared to previous analysis. This is primarily due to the introduction of *A New Tax System* and its interaction with financial assistance grants to the States. This has the most impact during the transition period in 2000-01 and 2001-02. There are also flow-on effects to other accounts (other than expenses) which are not included in the above analysis.

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 B1 only includes the impact of changes in the number of unemployment benefit recipients (ie Newstart Allowance and unemployed Youth Allowance recipients) on the estimates.

REVENUE

The assumptions underlying the sensitivity of the revenue estimates to changes in prices and wages are identical to those used for expenses. 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 show the effect of the following assumptions:

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

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

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 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.

Appendix C: Statement of Risks

OVERVIEW

The forward estimates of revenue and expenses in the 1999-2000 Budget incorporate assumptions and judgements based on information available at the time of publication. A range of factors may influence the actual budget outcome in future years. The *Charter of Budget Honesty Act 1998* requires these to be disclosed in a Statement of Risks in each Economic and Fiscal Outlook Report. The purpose of this disclosure 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 expenses. 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 expenses and revenues in any year is typically changes in forecasts of economic and non-economic parameters. Over time, differences between the economic parameter forecasts and outcomes have not caused any clear bias toward understatement or overstatement of expenses and revenue — and therefore the budget balance. The sensitivity of the estimates to major economic parameters (but not other parameters) is discussed in Appendix B.

Differences in non-economic (programme-specific) parameter forecasts and outcomes have been biased towards an understatement of expenses in recent years. This year, considerable effort has been made to reduce the extent of this bias. 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. The Contingency Reserve contains an allowance for this conservative bias.

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 expenses and/or revenue and may be positive or negative.

Specific sources of fiscal risk include:

- litigation currently before the courts; and
- possible Senate rejection or amendment of budget measures or other legislation before the Parliament.

Some fiscal risks are reflected in the Contingency Reserve and are therefore included in the aggregate expenses figuring. The Contingency Reserve is an allowance included in aggregate expenses 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 to govern 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 fiscal or operating 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 30 April 1999. In general, information on contingent liabilities is based on information provided by departments and agencies and is current to 31 March 1999 (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 degree of uncertainty 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 its taxation reform package, *A New Tax System*. The reforms encompass both expense and revenue measures. Key revenue measures include: lower personal income tax rates; abolition of Wholesale Sales Tax (WST); abolition of nine State and Territory taxes; introduction of a Goods and Services Tax (GST); and reform of business taxes.

The forward estimates fully incorporate the revenue effects of the taxation reform package. 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 GST which will enable the abolition of 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.

Review of Business Taxation

The *Review of Business Taxation* is due to report to the Government no later than 30 June 1999. Its terms of reference require a revenue neutral package. There will be an impact on revenue collections if the package of measures implemented is not revenue neutral either in aggregate or in individual years.

Taxpayer Behaviour

The estimates of revenue make an allowance for changes in taxpayer behaviour in the period before the full implementation of tax reform. It is, however, very difficult to quantify the extent to which taxpayers will manage their affairs to take advantage of opportunities to minimise tax over this period. To the extent that taxpayers are able to reduce tax beyond the forecast allowance, revenue will be reduced.

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 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 by way of a fundamental tax reform programme that 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 engineering has expanded. An Issues Paper on the taxation of financial arrangements was released by Treasury and the ATO in December 1996. Consultations have continued 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 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 higher rates of personal income tax, to derive income through a corporate structure to take advantage of features of the corporate tax regime (for example, the lower company tax rate). 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 1996-97 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 then Minister for Industry, Science and Tourism announced a review of all tariffs less than five per cent and which raise less than \$100,000 in revenue in a year ('nuisance tariffs'). Industry has been consulted on all tariff items that raise little revenue and provide little or no protective benefit to Australian industry. The review has been completed and is currently under government consideration.

Review of the General Tariff Rate

Under the 1994 Bogor Declaration, Asia-Pacific Economic Cooperation 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 end of the year 2000.

Sale of Radio Frequency Spectrum Licenses

The Commonwealth has announced the release of spectrum licenses for sale. The estimates of the proceeds from the sale of spectrum licenses are based on current market information. However, the actual amount realised will also depend on market conditions. Further sales are expected to occur in 1999-2000 and may be deferred if market conditions prove unfavourable.

Fiscal Risks — Expenses

Agriculture, Fisheries and Forestry

Exceptional circumstances

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.

Attorney-General's

Native Title cost sharing

The Commonwealth has previously offered to assist States and Territories (hereafter States) 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 financial assistance agreements with the States 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 bodies established under State alternative provisions approved by the Commonwealth Minister to deal with native title claims, and to hear and determine objections to proposed future acts. 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 (i.e. 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 \$31 million.

Sale of Telstra

The *Telstra (Transition to Full Private Ownership) Bill 1998* includes provision for a social bonus totalling \$351 million over five years for improved communications, particularly in rural and regional areas. This funding could be placed at risk if the Bill does not pass Parliament.

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 Common Law liability and claims before the Human Rights and Equal Opportunity Commission, claims relating to HMAS Stalwart, HMAS Voyager, HMAS Melbourne, asbestos litigation, and alleged defective administration by the Department. In total there are some 513 claims with a value of \$92 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 in 2000-01. 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 2000-01 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, but it is expected to be minimal.

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. Relevant legislation was introduced in the Autumn Sittings 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 was introduced in the Autumn Sittings 1999, with a commencement date to be fixed by proclamation. If this measure does not pass the Senate, estimated expenditure would increase by some \$50 million over the budget and forward estimates period.

Possible Social Security Agreements

The Government is continuing negotiations with a number of countries regarding possible revisions to, or new, social security agreements which would cover those people who have lived part of their working lives in both countries. Depending on their terms, individual agreements could have financial implications ranging from net savings to costs of up to \$25 million a year.

Finance and Administration

Asset sales

The major asset sale provided for in the 1999-2000 Budget figuring was the sale of a further 16 per cent 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. Revenue from the sale could be placed at risk if the *Telstra (Transition to Full Private Ownership) Bill 1998* does not pass Parliament.

While the sale of Telstra does not impact on the operating result, any profit on the sale of Telstra would be classified as an abnormal item and impact on the adjusted operating result.

Australia Post — notional account surplus

The employer payments made by Australia Post for its past and present employees who are members of the Commonwealth Superannuation Scheme (CSS) are in excess of the payments required to fund past and future liabilities for these members. The adequacy of these payments is tracked through an actuarial assessment of Australia Post's notional account.

Every three years an actuarial review of the notional account is undertaken. The review revalues the notional account taking into consideration demographic and financial changes since the previous review. A review of Australia Post's notional account is currently being undertaken based on data as at 30 June 1998. It is expected that the surplus will increase, however, it is not possible at this time to quantify the amount.

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 Budget has increased expected superannuation payments 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 cash payments (ie. discharge of liability) and therefore represent no additional expense to the Budget.

Health and Aged Care

Australian Health Care Agreements

The Commonwealth and all States and Territories, except Western Australia and Tasmania, signed 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 1 April 1999. 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. However discussions with the States on specification of the index in 1999-2000 and beyond have not been completed. 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 \$60 million a year.

Immunisation funding mechanism

Future vaccine technology will result in new vaccines substituting for ones already in use (eg multivalent vaccines which combine several vaccines into one) and, as a consequence, could 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, specific vaccine costs cannot be precisely quantified at this stage. The inclusion of new essential vaccines within the routine schedule has the potential to increase Commonwealth outlays by up to \$120 million in total over the next four years.

Litigation cases in train — Department of Health and Aged Care

The Department is presently involved in 61 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

From time to time new items are added to the Medicare Benefits Scheme and Pharmaceutical Benefits Scheme schedules. To a certain extent the existing forward estimates take account of these additions. However, major new developments in medicines or medical procedures could result in increases in expenses which exceed the provision in the forward estimates. It is not possible to quantify the fiscal risk arising from such potential developments.

Immigration and Multicultural Affairs

Temporary safe have in Australia for displaced Kosovars

The Government's decision on 1 May 1999 to activate plans to provide temporary safe haven in Australia for 4,000 displaced Kosovars will result in some financial impact in both 1998-99 and in 1999-2000. Whilst extensive preparations were under way in Australia, the uncertainty at the time of finalising the 1999-2000 Budget was such that the resource implications were not included in the budget estimates.

Industry, Science and Resources

Repayment of Snowy Mountains Hydro-electric Scheme debt

The expected corporatisation of the Scheme in 1999-2000 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 \$20 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 children from their families. Some 2,200 claims for damages are underway against the Commonwealth in relation to alleged forced separations. If the applicants 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, which could amount to hundreds of millions of dollars.

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 expense (grants) or revenue (taxation concession) measures.

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, give rise to an estimated risk of \$30 million.

Maritime Industry Reform

On 18 August 1998 the Commonwealth provided a guarantee to cover borrowings made by the Maritime Industry Finance Company (MIFCo) to finance redundancy related payments in the stevedoring and maritime industries. MIFCo's borrowing facility, negotiated with its bankers, is presently \$155 million. This facility is expected to be increased to meet the larger than originally anticipated redundancy costs in the stevedoring industry. Amendments will be introduced as part of the 1999-2000 Budget to increase the expenditure cap in the *Stevedoring Levy (Collection) Act 1998* from \$250 million to \$350 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 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 Reserve Bank of Australia (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.

Australia has offered to provide supplementary financing or 'second tier' financing of up to \$US1 billion for each of Indonesia and Korea. This financing would be provided via a loan on a non-concessional basis. With subsequent improvement in economic conditions in Korea, no payment is now expected to be required. Negotiations for the provision of up to \$US300 million to Indonesia are proceeding.

Contingent Liabilities — Quantifiable

Agriculture, Fisheries and Forestry

Australian Wheat Board (AWB)/AWB Ltd

Under the *Wheat Marketing Act 1989*, the Commonwealth underwrites borrowings by the AWB and AWB Ltd that fund advance and related payments from open wheat pools up to a maximum of \$3,018 million as at 22 March 1999. Borrowings are repaid as the wheat is sold. The Commonwealth's responsibility for the underwriting of borrowings will cease after the 1998-99 season and previous season's pools are finalised by AWB Ltd.

Queensland Fisheries Management Authority

The Commonwealth guaranteed a loan of up to a maximum of \$40.9 million to encourage the restructuring of the Northern Prawn Fishery. As at 31 March 1999, the amount outstanding on the loan was \$3.5 million, which is to be paid off within one year. 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 \$235 million as at 31 March 1999.

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 March 1999 was \$155 million. These loans were largely used to meet costs relating to the construction of premises for the Corporation at Southbank (Melbourne) and Ultimo (Sydney).

Special Broadcasting Service

The Commonwealth has guaranteed loans taken out by the Special Broadcasting Service. The principal amount covered by the guarantee as at 31 March 1999 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 March 1999 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

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. 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.

Art Indemnity Australia

The amount indemnified for artworks on loan to galleries participating in exhibitions under the Scheme has decreased to \$19.4 million as at 31 March 1999. The decrease is due to only one exhibition being covered by the program 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 30 April 1999 was \$40 million.

Military Compensation

Contingent liabilities exist in relation to military compensation claims to the value of some \$27.9 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 companies by commercial lenders in the period 18 February 1999 to 30 June 2001. These guarantees assist Group Training Companies to gain access to additional working capital required to expand the number of apprentices and trainees that may be employed through Group Training companies. The maximum guarantee of each loan is \$175,000 with the total value of all guarantees capped at \$30 million.

Commonwealth Loan Guarantees — ABSTUDY Financial Supplement Loan Scheme

The ABSTUDY Financial Supplement Loan Scheme provides tertiary students with the option of obtaining additional living and educational expenses while studying. Loans are made to students through an arrangement with the Commonwealth Bank of Australia (CBA) and the Commonwealth purchases the loans on 31 May in the fifth year after the loan was taken out. The Commonwealth commences recovery action when a student's income reaches the pre-determined threshold.

In the 1998-99 Budget there was an ABSTUDY Loan Supplement contingent liability of \$146 million, relating to loans which had not been purchased back from the CBA. As at 16 April 1999, the value of loan guarantees outstanding for ABSTUDY Supplement recipients was in the order of \$175 million.

Finance and Administration

Telstra Corporation Ltd — Notional Account Surplus

The employer payments made by Telstra for its past and present employees who are members of the Commonwealth Superannuation Scheme (CSS) are in excess of the payments required to fund past and future liabilities for these members. The adequacy of these payments is tracked through an actuarial assessment of Telstra's notional account.

A review of Telstra's notional account was completed earlier this financial year. The total surplus was determined at \$1,428 million as at the valuation date of 30 June 1997. This surplus will be paid to Telstra Superannuation Scheme either by way of a 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 March 1999, the contingent liability totals \$7,681.3 million, comprising contracts of insurance and guarantees (\$3,606.1 million), liabilities (\$965.7 million) and national interest provisions (\$3,109.5 million).

Assistance for East Timor

The Government has made clear that Australia will provide substantial assistance to an autonomous or independent East Timor. Assistance during and after the transition process will be crucial to peace and stability, and the longer-term development of East Timor. Australia has already pledged \$20 million in 1998-99 to assist the UN consultation process that will allow the East Timorese people determine their future. This is in addition to the \$7 million provided in 1998-99 through our aid program to Indonesia. An expansion of the aid program to East Timor is planned for 1999-2000. Decisions on the level and nature of this assistance will be taken once the outcome is clearer. Some financial provision for support for East Timor has been allowed for in the Contingency Reserve for the 1999-2000 Budget.

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).

Australian Industry Development Corporation (AIDC) in relation to the Australian Submarine Corporation

On 16 December 1998, the Department of Defence (Defence) accepted a Commonwealth guarantee for \$26.6 million in relation to the Commonwealth's interest in the Australian Submarine Corporation (ASC). The Commonwealth through the Australian Industry Development Corporation (AIDC) holds a substantial but minority interest in the ASC.

The Commonwealth provided the guarantee to cover the AIDC's obligations under an agreement with the Westpac Banking Corporation in which the bank provides an extended performance guarantee to Defence in respect to the Collins class submarines. The termination date of the guarantee is 31 December 2001.

The Commonwealth has also agreed to indemnify the AIDC in relation to its obligations under the performance guarantee agreement.

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 \$181.5 million with the net amount guaranteed (excluding the unamortised discount on the issue of inscribed stock) being \$98.2 million.

Transport and Regional Services

Federal Airports Corporation (FAC) — 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.

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 7 April 1999, Notes on Issue totalled \$23,697 million.

The other major liability consists of deposits with the RBA by the banking sector. At 7 April 1999, these deposits amounted to \$5,928 million. In total, the guarantee for the Reserve Bank was \$37,916 million as at 7 April 1999.

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 \$A4,496.7 million at 31 December 1998), the Asian Development Bank (\$US2,477.5 million — estimated value \$A4,022.6 million), and the European Bank for Reconstruction and Development (\$US71,220 million — estimated value \$A115,635.7 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. Funding has been provided for the costs expected to be incurred over the next two years, but actual expenditure is subject to the number of staff separations. In 1999, the Government will consider proposals to extinguish the Australian Federal Police Adjustment Scheme liabilities.

Communications, Information Technology and the Arts

Year 2000 compliance

The Commonwealth provided \$120 million to agencies to upgrade their systems during 1998-99 for redeveloping or replacing non-compliant software and hardware, and developing contingency plans to permit business operations to continue should systems fail on 1 January 2000. Progress by agencies in ensuring that their systems are Year 2000 compliant is monitored by quarterly reporting to Government, with the results of these reports being published. The exact costs of the Year 2000 compliance program will not become apparent until some time after 1 January 2000.

Defence

HMAS Melbourne compensation

The decision in the *Mewett v Commonwealth* case may be used as a precedent by up to 900 crewmen of HMAS Melbourne, in relation to the Voyager incident, to lodge claims

against the Commonwealth. Some 95 claims have been lodged to date (noted in *Fiscal Risks—Expense*) however there is no basis for quantifying further claims.

Employment, Workplace Relations and Small Business

Possible increased workers' compensation costs to the Commonwealth

The decision in *Australian Postal Corporation v Burch* handed down by the Full Federal Court on 5 August 1998 may increase workers' compensation costs for the Commonwealth.

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 Civilian Superannuation Liability

Every three years an actuarial review of the Commonwealth's unfunded liability in respect of the Public Sector Superannuation Scheme (PSS) and the Commonwealth Superannuation Scheme (CSS) is undertaken. The next review, due by 30 June 2000, will be based on data as at 30 June 1999. The review revalues the unfunded liability to take account of demographic and financial changes since the previous review. It is not possible at this time to quantify the net change in the unfunded liabilities.

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 — 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.

The Commonwealth is also in dispute with Macquarie Fleet Leasing on matters associated with the Tied Contract.

New Commonwealth Insurable Risk Managed Fund (Comcover)

From 1 July 1998, the Government has progressively replaced the previous non-insurance policy with one of self-insurance via a managed fund (Comcover). The managed fund will produce better risk management and therefore reduce costs over time.

Comcover is also progressively covering the insurable risks of bodies under the *Commonwealth Authorities and Companies (CAC) Act 1997* within the general government sector. Premiums are being charged by the fund to cover the long-term cost of risk and associated administrative costs.

A reinsurance programme has been put in place to reduce the likelihood of significant impacts on the Budget from CAC body and FMA agency exposures.

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 credit rating on invested funds. The Commonwealth has not had to make a payment in relation to this guarantee.

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.

Sale of Australian River Co. Limited (formerly ANL Limited)

The sale of Australian River Co.'s businesses has been completed. The sale terms provide for certain contingent liabilities related to warranties, indemnities and employee matters. 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.

Sale of the National Transmission Network

The National Transmission Company Pty Ltd was established by the Commonwealth to effect the sale of the National Transmission Network. An indemnity was provided to the person appointed as the sole director, secretary and public officer of the Company pending the sale of the shares. The indemnity covers all costs, losses, expenses or liabilities incurred as an officer of the Company, and was issued on 16 February 1999.

Privatisation of Wool International

Indemnities were issued to the Members of Wool International indemnifying them against all actions, suits, claims demands or proceedings and costs, arising from, or as a consequence of providing information and assistance for the purposes of the privatisation. The indemnities cover assistance given in accordance with a Ministerial Direction and the Memorandum of Understanding (between the Commonwealth and the Members of Wool International). The indemnity is a continuing indemnity in respect of any liability that arises from assistance prior to completion of the project.

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, for example see pages 100-103 in the 1998-99 MYEFO.

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

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.

Tripartite Deed relating to the Core Regulated Airports

Tripartite Deeds apply to the 12 Core Regulated Airports (Sydney, 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.

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.

Stevedoring Industry Finance Committee (SIFC)

The Stevedoring Industry Finance Committee (SIFC) has 18 claims for asbestos related damage awaiting High Court decision. These claims were inherited from the Australian Stevedoring Industry Authority. Costs that may arise from these claims can not be determined and are therefore unquantifiable. Any future claims made resulting from the High Court's decision are also unquantifiable.

Treasury

Changes in the net principal value of cross currency swaps and foreign currency denominated debt resulting from changes in the nominal exchange rate

Significant net foreign exchange gains or losses may be recorded in the operating statement if there is a significant change in the nominal exchange rate. This is because a change in the nominal exchange rate results in a change in the net principal value of cross currency swaps and foreign currency denominated debt. The direction of movement in the exchange rate will determine whether there is a net foreign exchange gain or a loss. A gain is a positive risk to the operating result, while a loss is a negative risk. Net foreign exchange gains or losses do not have any impact on the fiscal balance.

Veterans' Affairs

Vietnam Veterans' Health Study

A clear commitment on the part of the Government has been made to fund the results of the Vietnam Veterans Health Study. Finalisation will occur as soon as the results are validated. This is expected in the latter part of 1999.

STATEMENT 5: EXPENSES

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STATEMENT 5: EXPENSES

Part I: Overview of General Government Expenses

INTRODUCTION

Statement 5 presents general government sector expenses in 1998-99, the Budget year and forward estimates. Expenses represent the full costs of an activity, whereas the outlays presentation in previous budgets only covered direct cash costs.

Recording estimated expenses rather than estimated cash transactions is in accord with international best practice in government budgeting and consistent with world-wide private sector practices. Budgeting in this fashion reflects more accurately the full cost of achieving the Government's objectives, eliminates the distortions associated with the timing of certain payments and provides a better basis for assessing inter-generational equity.

The general government sector provides public services that are mainly non-market in nature, are mainly for collective consumption by the community, involve the transfer or re-distribution of income, and are generally financed through taxes and other compulsory levies.

General government sector expenses are based upon a system of rolling forward estimates consolidated by the Department of Finance and Administration largely from estimates supplied by other agencies. There are 48 agencies in the general government sector which comprise more than 99 per cent of the Budget. A full set of estimates is maintained for each of these agencies. In the Budget papers, these agencies are referred to as material agencies. The estimates of the remainder, a large number of very small agencies in the general government sector, are not material from either a budgeting or an accounting perspective. In the Budget papers, these agencies are referred to as small agencies. In order to avoid placing an undue administrative burden on these agencies, only limited estimates information is maintained on those small agencies that receive an appropriation from government. Table 1 shows the total estimated expenses of the general government sector in 1998-99, the Budget year and the forward estimates.

Table 1: Estimated Expenses (\$m)

	1998-99	1999-00	2000-01	2001-02	2002-03
Expenses	150183	157111	143776	148357	151432

OVERVIEW OF GENERAL GOVERNMENT EXPENSES

Part IV of Budget Statement 1 addresses in detail the Government's budget priorities. In addition to a significant overhaul of the taxation system and associated adjustments to family and incomes support payments and transitional payments to the States and Territories to compensate for the impact of *A New Tax System*, the 1999-2000 Budget includes major initiatives in the areas of health, education and employment.

Measures to improve health care, to support the elderly, to support literacy and numeracy programmes and to expand the Work for the Dole scheme and support indigenous employment are also outlined in Budget Paper No. 2.

The Government has indicated that it will invest for the nation's growth by supporting families, investing in the development of national infrastructure - particularly roads - and supporting education and scientific research to increase our competitive advantage. This budget also sees measures for a safer and fairer Australia, especially to counter the major threat posed to society by illicit drugs, and for improving the environment.

In addition, the Government has reviewed a large range of programmes and services to ensure that they contribute to a vital rural and regional Australia, and to fostering stability in our region of the world.

Measures in these areas, and further initiatives to ensure efficiencies in Government operations, see all portfolios contributing to the vision for a better Australia that the Government outlined in its 1998 election platform.

The level of expenses incurred largely reflects the economic cycle. For example, during a period of strong economic growth, expenses incurred on personal benefits can fall substantially. The level of expenses is also significantly affected by discretionary policy decisions. Expenses increased in the early 1990s due to the combined effects of slower economic growth and spending initiatives designed to stimulate growth.

TABLES AND DATA IN STATEMENT 5

The overview section of Statement 5 discusses trends in aggregate expenses. Part II describes expenses by portfolio. The tables in Part II show 1998-99, the Budget year and forward estimates expenses by portfolio for all material agencies as well as those small agencies, which are in receipt of appropriations in the budget year. These expenses are at the agency level and have not been consolidated to eliminate either inter agency transactions within each portfolio, or those between agencies in different portfolios. In this form, the expenses show the consumption of resources by each individual agency.

Expenses shown for material agencies reflect the expenses of those agencies in accordance with accounting standards and as disclosed in their operating statements. They do not include payments of the capital user charge to the Budget. These payments are in the nature of dividends which are not treated as expenses.

Estimates of expenses for small agencies that are in receipt of appropriations are derived from estimates of their revenue (appropriations from government for the price of outputs, including funding for payments of the capital user charge to the Budget, and revenues from independent sources). While in general terms the Government does not fund these agencies to make a profit, in any year timing differences may result in minor discrepancies between small agency revenues and the expenses disclosed for these agencies in their Portfolio Budget Statements. They, therefore, are more properly described as “proxy expenses”, which is the term used in the affected tables in Part II of this statement.

It should be noted that the Budget provides for a contingency reserve to fund anticipated events that cannot be assigned to particular agencies at time of the Budget. The expense estimates for individual portfolios for the budget and forward years will tend therefore to be understated, pending the assignment of the contingency reserve during the year.

Tables in Part III show expenses incurred or estimated to be incurred by the general government sector over recent years and the Budget and forward estimates years. This includes information on trends in departmental expenses and staffing levels, and expenses by economic type. Departmental expenses are those expenses which are within the control of the relevant agency; they are reported on separately from those expenses agencies simply administer on behalf of government. Departmental expenses are similar to - but more comprehensive in coverage than - the former running costs of agencies.

Policy decisions affecting expenses are summarised in Budget Statement 4 in this Budget Paper and described in detail in *Budget Paper No. 2*.

Part II: Expenses by Portfolio

AGRICULTURE, FISHERIES AND FORESTRY

Table 1: Estimated Expenses* (\$m)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Agriculture, Fisheries and Forestry Departmental	322.6	312.8	277.9	248.1	231.3
Agriculture, Fisheries and Forestry Administered	1221.7	974.9	679.5	665.9	657.8
Australian Wool Research and Promotion Organisation Departmental	153.5	122.5	121.5	127.4	129.3
Grains Research and Development Corporation Departmental	96.5	102.2	93.0	91.9	90.8

* This table shows the gross expenses of each agency.

Overview

The overarching objective of the Agriculture, Fisheries and Forestry portfolio (AFFA) is to contribute to sustainable, competitive and profitable Australian agricultural, fisheries, food and forestry industries. The portfolio enhances the ability of these industries to take control of their futures, enhance export growth, and realise investments that balance economic development and environmental outcomes. This approach promotes job creation in rural and regional Australia and promotes community prosperity.

The portfolio's objective requires it to pursue a number of strategic priorities. The industry development strategies pursued by the portfolio recognise the benefits of a "through-chain" framework which builds stronger and more cooperative relationships along the chain from producer to consumer. This requires self reliant producers possessing a strong skills base and positive attitudes to acquiring knowledge and to the management of risk. Institutional arrangements are also required to assist industry and farm family households cope with change.

In the international sphere, the portfolio works to maintain and improve market access and a favourable international trading environment, including through the Supermarket to Asia Programme and international trade negotiations. The portfolio ensures ongoing access of Australian products to current and new export markets through provision of a national regulatory service to protect the safety and health of Australia's agricultural, fisheries, food and forestry industries.

At the consumer end, the portfolio contributes to improvements in the promotion, coordination and marketing of agriculture, fisheries and forestry products. Australian consumers are also protected through the portfolio's quarantine services and imported food inspection services.

In order to ensure that Australia's natural resources are available for use by future generations, the portfolio works to ensure that the land and water resource base is managed and used on a sustainable basis. This is done through resource management strategies which are research-driven, through the efficient use of scarce land and water resources and by addressing land degradation and salinity issues.

In this Budget, funding is being committed to support existing and new elements of the Supermarket to Asia Strategy and to implement the Food and Fibre Supply Chain programme. Resources are also being provided to support the sustainability of the Great Artesian Basin, the Northern Australian Quarantine Strategy and to deter fishing in Australia's subantarctic waters.

Major Outputs and Administered Items

The Department's major outputs include policy advice, economic research, scientific advice, programme administration, export certification services and quarantine services. The reduction in departmental expenses in 1999-2000 and the forward years reflects in large part the reduction in expenses in Australian Quarantine and Inspection Service (AQIS), as the already announced meat inspection reforms are implemented. There are programmes being finalised such as the implementation of the Regional Forest Agreements, and some lapsing programmes such as funding for the Nairn Quarantine Review which will be considered in future budgets. In addition the Department will achieve savings through efficiencies arising from the application of competitive tendering and contracting and other performance improvement initiatives.

The bulk of the reduction in administered expenses in 1999-2000 and the forward years is the result of the Government returning the Australian Wheat Board (AWB Limited) and the Wool International stockpile to growers and the cessation of the red meat industry levy arrangements from 1998-99. In addition from 2000-01 expenses are forecast to decline as the domestic milk market support scheme winds down.

Policy advice includes advice to the Government on issues which impact on portfolio interests, as well as policy development and implementation. The provision of well-informed policy advice is assisted by independent and timely economic research produced by the portfolio's major research bodies like the Australian Bureau of Agricultural and Resource Economics.

The portfolio also produces independent and timely scientific advice consisting of analysis and research, resource assessments and natural resource databases for input into decision making and policy development.

All activities associated with export inspection and certification of Australian food and other agricultural products are handled by the portfolio. This is done in accordance with importing country requirements, including the audit of certification activities conducted under quality assurance systems or contestable third-party systems.

The portfolio provides quarantine services, including all activities associated with quarantine requirements, inspection and certification services, and client/stakeholder expectations. Audit of its certification activities is conducted under quality assurance systems.

The portfolio administers 21 key statutory authorities which are partially or fully levy funded. The levies are used to fund activities such as research and development, undertaken by research and development corporations, and marketing and promotion, undertaken by statutory marketing authorities. Major portfolio agencies include the AWB, the Dairy Research and Development Corporation, and the Australian Wool Research and Promotion Organisation.

The Government announced in March 1999 that it had agreed to a new constitution for AWB Limited, effective from 1 July 1999, through which wheat growers will assume ownership of the company. The Government has also announced that it intends to introduce legislation which will pass ownership and control of the wool stockpile to growers, ending the Government's involvement in the management of the stockpile.

The portfolio also administers a number of key programmes. Some of the most significant initiatives are described below.

The Rural Adjustment Scheme provides for ongoing interest rate subsidy assistance to farm businesses in exceptional circumstances; payments to farmers of remaining interest rate subsidy commitments and re-establishment grants which were approved before the scheme closed in 1997; and payments under the Commonwealth/State Rural Partnership Programme. Assistance under this scheme is being phased out and replaced by the *Agriculture – Advancing Australia* (AAA) package of initiatives which was launched by the Prime Minister in September 1997.

The Farm Family Restart Scheme is an AAA initiative that helps low income farmers by providing access to improved welfare support, and adjustment assistance if they wish to leave the industry. Farm Business (FarmBis) and Community Programmes are also AAA initiatives. FarmBis is a Commonwealth/State programme which makes grants available to provide farmers with training and skills development in areas such as business planning, management and marketing. Community Programmes assist rural communities to identify needs and plan for the future through counselling, information and community services.

The National Landcare Programme supports a community-based approach to address environmental degradation and to protect the future of our natural resources. The Programme supports collective action by communities to sustainably manage natural resources and the environment in partnership with government. There are now more than 4,250 landcare groups across Australia. Achieving sustainable agriculture is a major environmental goal for Australia.

The Forest Industry Structural Adjustment Package assists native forest industry employers and employees to adjust to the changes in the forest resources available to the industry as a result of the negotiation of Regional Forest Agreements.

ATTORNEY-GENERAL'S

Table 2: Estimated Expenses* (\$m)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Attorney-General's Department					
Departmental	170.1	195.8	181.8	173.6	166.3
Attorney-General's Department					
Administered	317.9	201.4	227.3	224.2	217.1
Australian Federal Police Departmental	281.1	316.1	301.2	279.3	280.5
Australian Federal Police Administered	7.3	7.6	7.7	7.8	7.9
Family Court of Australia Departmental	121.8	114.7	114.5	116.2	118.4
Australian Customs Service					
Departmental	544.6	533.5	531.3	534.4	541.5
Australian Customs Service					
Administered	0.3	0.3	0.3	0.3	0.3
<i>Small Agency Proxy Expenses**</i>					
Administrative Appeals Tribunal					
Departmental	26.2	28.2	27.6	27.8	28.3
Australian Security Intelligence					
Organisation Departmental	60.9	65.9	63.7	58.3	58.4
Australian Transaction Reports and					
Analysis Centre Departmental	7.7	11.8	10.9	10.8	11.0
Federal Court of Australia					
Departmental	60.1	64.9	66.2	67.7	69.4
Human Rights and Equal Opportunity					
Commission Departmental	16.0	16.0	17.0	17.0	17.3
National Crime Authority					
Departmental	47.5	52.3	44.7	45.2	40.9
Office of Film and Literature					
Classification Departmental	5.9	5.4	5.4	5.4	5.4
Office of Parliamentary Counsel					
Departmental	6.5	6.4	6.5	6.5	6.6
Office of the Director of Public					
Prosecutions Departmental	60.9	56.5	58.8	57.2	58.3
National Native Title Tribunal					
Departmental	23.7	22.3	22.4	22.6	23.0
Australian Institute of Criminology					
Departmental	4.1	4.3	4.6	4.0	4.1
Australian Law Reform Commission					
Departmental	3.0	3.0	3.1	3.1	3.2
Criminology Research Council					
Administered	0.6	0.4	0.4	0.4	0.4
High Court of Australia Departmental	7.8	24.9	25.0	25.1	25.3

* This table shows the gross expenses of each agency.

** Derived from the estimated agency revenues.

Overview

The Attorney-General's portfolio covers a broad range of law and justice matters and services including legal policy and services to the Commonwealth; administrative, constitutional, civil, family, and international law; law reform; bankruptcy estate

administration and regulation; Commonwealth courts and tribunals; legal aid; native title; national and international human rights issues; censorship; the provision of protective services to property and individuals; criminal law and law enforcement; national security; and some aspects of customs and border control.

The portfolio's agencies progress government priorities including direct services to the community within a legislative framework; the purchase of services on behalf of the community; the provision of services to the Government, Ministers, Commonwealth Departments and agencies and the provision of services to other clients.

The structure of agencies within the portfolio is aligned to the Government's overall commitment to a fairer and safer Australian society. A new National Crime Information System (CrimTrac) and a national crime prevention programme are Budget measures which give expression to the Government's commitment in this area. The portfolio comprises the Attorney-General's Department and a number of statutory and non-statutory bodies. The Department is the central policy and coordinating agency within the portfolio.

As the result of a Government initiative in the 1999-2000 Budget, the portfolio will soon include the Federal Magistrates Service which will deal with less complex cases, enabling judges of both the Family and Federal Courts to concentrate on the more complex cases of law. This will be augmented by initiatives to increase the availability of alternative dispute resolution and provide greater access to justice for disadvantaged people in rural and regional areas.

Through its law enforcement and security roles, the portfolio plays a major role in implementing the Government's *Tough On Drugs* strategy. Additional resources are provided in the Budget to boost the illicit drugs search capacity of the Australian Customs Service and to establish four new mobile strike teams in the Australian Federal Police. The portfolio will play a pivotal role in Olympic security issues at the Sydney 2000 Games.

The Department and portfolio agencies are grouped as follows:

- Legal policy and services to the Commonwealth – to advance and protect the interests of the Commonwealth, its ministers and agencies by the provision of sound, constructive, highly professional and timely legal policy advice and legal services;
- Community affairs – to enhance and promote the rights of individuals and their reasonable access to justice;
- The justice system – to promote the effective and timely adjudication of disputes and resolutions of questions of law in courts and tribunals with appropriate jurisdictions; and to interpret and uphold the Australian Constitution; and
- Maintenance of law, order and safety – to contribute to the maintenance of law and order, combat crime and respond effectively to acts of politically motivated

violence; maintain effective measures against espionage and subversive activities and against attacks directed at individuals, information and assets; and maintain effective border management.

Major Outputs and Administered Items

The outputs produced by the portfolio encompass a wide range of law and justice matters and services. Along with the Department, the major agencies in the portfolio are the Australian Customs Service, the Australian Federal Police and the Family Court of Australia. The major outputs produced by these agencies include:

- Attorney-General's Department: policy advice and development; performance of statutory obligations; provision of protective security services under the *Australian Protective Service Act 1987*;
- Australian Customs Service: facilitation of the legitimate movement of goods and people across the border while intercepting prohibited and restricted imports and exports and identifying illegal movements; coastal and offshore surveillance and response;
- Australian Federal Police: undertaking investigations into organised crime, illicit drug trafficking, fraud against the Commonwealth, corporate and other economic crime, money laundering and other serious crime; and
- Family Court of Australia: provision of equitable and timely access to justice where family disputes are litigated; provision of services to assist the resolution of family related disputes without litigation.

Detailed information on agencies' outputs is shown in the *Attorney-General's Portfolio Budget Statement 1999-2000*. The Portfolio Budget Statement provides descriptions of outputs, either individually or as output groups, for each agency together with price and performance measure information. The increase in the departmental expenses of the Attorney-General's Department in 1999-2000 includes \$15.7 million for The Republic Referendum Advertising Campaign, \$20 million for CrimTrac and \$5.2 million for the establishment of the Federal Magistrates Service. The increase in departmental expenses for the Australian Federal Police provides for enhanced law enforcement activities.

Administered items for the portfolio are centred in the Attorney-General's Department. The major items of administered expenses include payments for the provision of legal aid \$101.5 million, grants to supplement community and voluntary legal aid schemes \$25.2 million, grants to family relationship support organisations \$21.2 million (administered in partnership with the Department of Family and Community Services), and provision for assistance to the States and Territories under Part 9 of the *Native Title Act 1993* \$20 million.

In 1999-2000, the administered expenses of the Department are essentially restored to the base level of funding, following the substantial additional funding provided in 1998-99 for

the Gun Buy Back Scheme. Further, some discretionary grants have been brought forward from 1999-2000 to 1998-99.

COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS

Table 3: Estimated Expenses* (\$m)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Department of Communications, Information Technology and the Arts Departmental	273.1	180.7	168.9	157.5	158.0
Department of Communications, Information Technology and the Arts Administered	442.2	473.4	482.1	375.0	226.4
Australian Broadcasting Corporation Departmental	613.1	661.2	685.2	715.9	736.3
Australia Council Departmental	74.1	77.1	75.5	68.4	70.0
National Gallery of Australia Departmental	26.1	27.3	28.0	28.6	29.4
National Library of Australia Departmental	49.8	50.8	50.4	50.6	50.3
Special Broadcasting Service Corporation Departmental	111.0	121.7	124.7	126.3	126.1
<i>Small Agency Proxy Expenses**</i>					
Australian Broadcasting Authority Departmental	13.8	16.1	16.5	16.4	15.7
Australian Film Commission Departmental	16.6	17.5	17.5	17.6	17.8
Australian Film, Television and Radio School Departmental	13.6	19.0	19.6	19.9	20.3
Australian National Maritime Museum Departmental	17.7	25.7	26.7	25.6	25.7
Australian Communications Authority Departmental	47.1	53.7	51.6	49.9	50.9
National Museum of Australia Departmental	13.8	15.6	37.1	40.5	40.9

* This table shows the gross expenses of each agency.

** Derived from the estimated agency revenues.

Overview

The Government recognises that improved communications and continuing advances in information technology are fundamentally changing the way Australians live and work. A major objective of the Communications, Information Technology and the Arts portfolio is to ensure that Australians fully realise the extraordinary potential of these advances in terms of job creation and other opportunities.

In this Budget, the Government will provide additional funding for a range of arts and cultural programmes, including programmes targeted to regional Australia. The community broadcasting sector will receive funding to increase access and reach of that sector and assist with costs from commercialisation of the national transmission network. The Australian Broadcasting Authority will be provided with additional funding to

facilitate the transition to digital television broadcasting, the regulation of online services and restriction of access to adult telephone services.

Major Outputs and Administered Items

The portfolio is comprised of the Department of Communications, Information Technology and the Arts (DOCITA) and 11 statutory authorities. The portfolio's principal functions include policy development, regulatory activities and programme delivery relating to the telecommunications, broadcasting, information technology (IT) and cultural sectors. In addition, the portfolio has oversight responsibilities for Commonwealth owned companies including Telstra, Australia Post, Film Australia Limited and the Australian Film Finance Corporation Limited. The portfolio also has responsibility for public television, radio and internet-based broadcasting conducted by the Australian Broadcasting Corporation (ABC) and the Special Broadcasting Service (SBS).

The Administrative Arrangements Order changes in October 1998 transferred the former Office of Government Information Technology and the National Office for the Information Economy, together with IT components of the former Department of Industry, Science and Tourism, into the Department. This is the first time all Commonwealth information technology functions have been brought together in one portfolio.

In 1998-99 departmental expenses included, amongst other things, the cost of running the National Transmission Network (NTN), which was sold in April 1999. This accounts for the bulk of the reduction in expenses for 1999-2000 and the forward years. Funding for the costs of operating the network has been transferred to the ABC and SBS, that will pay the service provider directly. The increase in departmental expenses of the ABC and SBS also includes provision for the introduction of digitilisation of television. The reduction in administered expenses for DOCITA from 2001-02 onwards reflects completion of projects for the Federation Fund and the Regional Telecommunications Infrastructure Fund – *Networking the Nation*.

The portfolio provides on-line government information, encourages the wide acceptance of electronic commerce and works to enhance Australia's presence in the international IT market.

The portfolio manages Australia's cultural heritage through national collecting institutions such as the National Library of Australia and the National Gallery of Australia; and produces programmes which encourage enjoyment of the arts and development of an Australian culture. The major arts project during 1999-2000 will be to continue development of new buildings for the National Museum of Australia and the Australian Institute of Aboriginal and Torres Strait Islander Studies, which will be opened in 2001.

DEFENCE

Table 4: Estimated Expenses* (\$m)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Department of Defence Departmental	10165.8	10124.7	10441.1	10839.9	11123.3
Department of Defence Administered Defence Housing Authority	1866.9	1952.9	1890.7	1832.2	1977.3
Departmental	244.6	243.1	245.6	245.6	245.6

* This table shows the gross expenses of each agency.

Overview

The Defence portfolio is primarily concerned with the prevention or defeat of armed force against Australia or its interests through the development and delivery of a strong military combat capability and the promotion of a favourable regional and global security environment.

The efficiency and effectiveness of Australia's defence effort are being enhanced through identification of emerging priorities for the Australian Defence Force (ADF). For example, major capital equipment and facilities expenditures are being directed towards maintaining the Defence Force's technological advantage, providing effective ADF strike capability, along with the capacity to overcome threats to Australian territory and its maritime and air approaches.

In addition, the Defence Reform Programme, initiated by the Government during its first term of office, reduces unnecessary administration and duplication, and channels the savings into improvements in defence capabilities. Australia's combat capability will be strengthened by having 65 per cent of uniformed personnel in combat and combat-related positions.

Major Outputs and Administered Items

In order to prevent or defeat armed aggression against Australia or its interests the Defence portfolio strives for a strong combat capability. This will enhance regional and global stability and Australia's standing in the region, thus reducing the likelihood of the threat or use of armed force against Australia or its interests. Australia's standing in the region is also raised through activities which promote regional and global security and stability.

The Defence portfolio also delivers non-combat related services, such as civil search and rescue, to support the nation in times of need. These services are made possible by using the capabilities which have been developed for the defence of Australia.

The Defence portfolio contributes strategic, military and defence advice to assist the Government in the development of relevant policies.

The Department of Defence also administers a number of items on behalf of the Commonwealth, namely, military superannuation schemes, investments in ADI Limited and the Defence Housing Authority, and the Young Endeavour youth training scheme.

EDUCATION, TRAINING AND YOUTH AFFAIRS

Table 5: Estimated Expenses* (\$m)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Department of Education, Training and Youth Affairs Departmental	241.1	195.4	197.8	199.6	209.2
Department of Education, Training and Youth Affairs Administered	10577.7	10806.3	11041.5	11305.8	11477.3
<i>Small Agency Proxy Expenses**</i>					
Australian National Training Authority Departmental	11.3	10.9	11.0	11.1	11.3
Australian National Training Authority Administered	954.1	968.0	975.8	991.4	1011.3

* This table shows the gross expenses of each agency

** Derived from the estimated agency revenues.

Overview

Through the Education, Training and Youth Affairs portfolio the Government is seeking to create a flexible education and training system that is available to all Australians, regardless of age or background. The portfolio supports Australia's research and research training efforts and promotes Australian education and training services overseas.

The education and training system allows young Australians to make informed choices about their career aspirations and gives them flexibility in their choices. Opportunities are provided for Australians, as they mature, to upgrade their skills so that they may maintain and enhance their contribution to Australia's economic and community life. For their part, employers benefit from the greater capacity of the education and training system to meet the changing needs of the marketplace.

Government initiatives in past years have focused on providing outcome-based incentives to encourage higher performance and achieve more efficient funding arrangements. The bulk of portfolio expenses is provided as grants to the suppliers of education services, namely government and non-government schools and providers of post-school education and training.

Schools

Commonwealth funding directed to the schools sector facilitates quality school education while also acknowledging the shared responsibility of the Commonwealth, State and Territory governments and the private sector for educating students.

From total Commonwealth resourcing of around \$4.8 billion per annum for this sector, an amount of \$4.1 billion will be provided to government and non-government schools

and school systems in the form of general recurrent and capital grants. Additionally, \$717 million will be provided for specific programmes targeted at improving participation and educational attainment for Indigenous students and other groups requiring support.

The Government will meet in this Budget all of its 1998 election commitments for schooling announced in *Raising Standards*. The schools sectors will benefit from a range of initiatives including increased funding for literacy and numeracy, enhancement of the National School Drug Education Strategy, new funding for a Quality Teacher Programme and an extension of Commonwealth funding for the National Asian Languages and Studies in Australian Schools (NALSAS) Strategy. Revised funding arrangements for the 2001-04 Quadrennium will also provide a greater focus on outcomes and outputs and more equitable funding arrangements for non-government schools through the introduction of a new needs-based allocation methodology based on the socio-economic status of the school community.

Higher Education (including research)

The Commonwealth's role in higher education is to support and develop a diverse higher education system that takes a long-term and independent approach in providing quality teaching, scholarship and research.

To promote Australians' access to higher education, the Commonwealth subsidises the recurrent and capital costs of higher education through grants to universities. Through portfolio expenses, the Commonwealth will contribute \$4.2 billion to an estimated total higher education sector income of almost \$8.7 billion. This contribution includes around \$1.6 billion for research activities and research training. To meet its election commitments, the Government will commit additional funding for the Strategic Partnerships with Industry - Research and Training Programme, for Research Infrastructure and will introduce a new programme, Science Lectureships.

Vocational Education and Training

The Commonwealth will contribute funding in the order of \$1.6 billion to the vocational education and training sector. The bulk of this funding will be directed through the Australian National Training Authority (ANTA) under the Commonwealth-State Agreement 1998-2000. The 1999-2000 Budget sees the Government meeting its election commitment to boost much needed training in rural and regional Australia as announced in *Skilling Australia for Jobs*. The Rural and Regional New Apprenticeships incentive will provide a \$1,000 payment to employers who progress new apprentices to higher skill levels in trades and occupations experiencing skill shortages in rural and regional areas.

Income support for Indigenous Students

A number of changes will be made to the ABSTUDY programme from 1 January 2000. The initiatives will open up opportunities for indigenous students to access a wider range of assistance. The principle underpinning the changes is that the living allowance and

supplementary benefits payable to indigenous students should be the same as those paid to non-indigenous students unless the disadvantage addressed by the benefit is unique to, or disproportionately concentrated upon, indigenous students. As a consequence of these changes, some monies will be redirected from ABSTUDY through the Indigenous Education Strategic Initiatives Programme.

Internationalisation of Education and Training

The Commonwealth will advance the internationalisation of Australian education and training and promote Australian products and services overseas. Australia's export of education and training services will be enhanced through the work of Australian Education International.

Major Outputs and Administered Items

Due in part to a very large carryover, departmental expenses for the Department of Education, Training and Youth Affairs were relatively high in 1998-99. To some extent, the decline in departmental expenses from 1998-99 to 1999-2000 represents a return to a more realistic base level of funding. It includes the phasing-in of the savings obtained from the information technology outsourcing and a \$10 million per annum reduction in the price of outputs. The portfolio has a significant number of administered items which are grouped by the educational and activity sectors below.

SCHOOLS

The Commonwealth supports infrastructure funding for the schools sector. This contribution provides the Commonwealth with the leverage to influence the national schooling framework.

Assistance is also provided to school students with special needs. This addresses the issue of access to education by all Australians and targets those students who are identified as educationally disadvantaged. Administered items include Indigenous Education, Students with Special Learning Needs and a range of literacy and numeracy initiatives.

The quality of teaching and learning is covered through administered items such as Vocational Education in Schools, Languages, Civics and Citizenship, Drug Education and Teacher Quality.

POST-SCHOOL EDUCATION

Operating and other grants, including funds provided through the Higher Education Contribution Scheme (HECS), provide infrastructure funding for higher education institutions. Infrastructure funding for the vocational education and training sector is provided to ANTA. Income support for indigenous students studying at the post school level is also included.

The role of ANTA is to facilitate a national vocational education and training sector. The ANTA Ministerial Council, comprising Commonwealth, State and Territory vocational education and training ministers, sets annual goals, objectives and priorities for the national system.

The Rural and Regional New Apprenticeships incentive addresses the Government's commitment to apprenticeships and traineeships. A combination of administered items (including employer incentives, personal benefits, infrastructure and support services) is aimed at ensuring that relevant work-based skills and learning outcomes are achieved.

The Commonwealth also assists in the development of skills and support for the individual's transition into the workforce. Other productive forms of engagement are also available to ensure that individuals have the opportunity to develop skills needed both in the workplace and the community. Administered items include provision of training courses for those without literacy, numeracy and English language skills, as well as a number of transitional strategies such as career counselling and pathway programmes.

Young Australians are encouraged to contribute actively to the community. Key administered items in this area are the Green Corps programme and a range of other programmes which assist young people in their transition from school to stable employment. In addition, there are various processes for consulting young people and other activities which aim at improving their profile.

RESEARCH AND INTERNATIONALISATION OF EDUCATION AND TRAINING

The portfolio administers research programmes on behalf of the Government. Support for research training includes administered items such as Research Fellowships, Australian Postgraduate Awards and Postgraduate Research Scholarships. Support for research activities include the wide range of grants that are available on a competitive basis to individuals or teams and as block grants to higher education institutions.

Internationalisation activities include Australian Education International, the recognition of overseas qualifications and a range of initiatives that are aimed at increasing Australia's participation in international study, training and research.

EMPLOYMENT, WORKPLACE RELATIONS AND SMALL BUSINESS

Table 6: Estimated Expenses* (\$m)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Department of Employment, Workplace Relations and Small Business Departmental	416.1	367.7	365.1	363.8	367.8
Department of Employment, Workplace Relations and Small Business Administered	1082.8	1790.7	1294.7	1325.7	1372.6
Comcare Departmental	160.6	156.9	168.6	178.2	187.3
<i>Small Agency Proxy Expenses**</i>					
Affirmative Action Agency Departmental	2.4	2.2	2.2	2.2	2.1
Australian Industrial Registry Departmental	41.6	39.8	41.3	41.5	42.1
Australian Industrial Registry Administered	1.4	1.5	1.5	1.5	1.5
National Occupational Health and Safety Commission Departmental	17.1	20.0	20.0	20.2	20.5

* This table shows the gross expenses of each agency.

** Derived from the estimated agency revenues.

Overview

The portfolio's principal responsibilities relate to facilitating the efficient and equitable performance of the labour market and the promotion of small business as an integral component of the nation's economic growth.

Within its labour market responsibilities, the portfolio aims to increase employment growth through initiatives which improve labour market performance, and encourage more flexible and fair workplace relations. The portfolio also has responsibility for promoting cooperative workplace relations; equality of employment opportunities for women; coordinating national occupational health and safety issues, and management of the Commonwealth workers' compensation scheme.

A significant expense item of \$500 million in administered expenses in 1999-2000 has been provided by the Government to assist small business and the education and charitable sector with the introduction of *A New Tax System*.

Major Outputs and Administered Items

The Department of Employment, Workplace Relations and Small Business contributes to improved labour market performance and more flexible and fair workplace relations through policy advice, legislation development, programme administration, research and evaluation. The Department is a major purchaser of employment services through Job Network and Centrelink. The reduction of departmental expenses in 1999-2000 is due

largely to the finalisation of transitional expenses for restructuring following the winding up of the Commonwealth Employment Service and its replacement by Job Network.

The Department also administers a range of employment programmes for specific target groups, such as indigenous Australians, to support the principle of mutual obligation and promote employment initiatives at the regional level. It has played a major role in developing the Government's workplace relations initiatives, which promote innovative agreement making, including by supporting the adoption of Australian Workplace Agreements through the Office of the Employment Advocate. The Department also administers the International Labour Organisation membership subscription and Coal Mining Industry Long Service Leave financing arrangements.

The Department promotes an improved operating environment for small business through policy advice, building and maintaining effective links with small business and its representative organisations, and managing financial assistance programmes for small business.

The portfolio contains agencies which are responsible for issues concerning workplace relations, equal opportunity and occupational health and safety. These include the Australian Industrial Relations Commission (AIRC); the Affirmative Action Agency (AAA); Comcare and the Safety, Rehabilitation and Compensation Commission; and the National Occupational Health and Safety Commission.

The AIRC contributes to cooperative workplace relations by maintaining an effective award safety net and introducing and maintaining processes that facilitate and support fair and effective agreement making. The Commission also provides conciliation and arbitration for employers, employees and their representatives, and ensures that employer/employee organisations are representative and accountable to members.

The AAA implements legislative requirements related to equality of employment opportunities for women as well as education and training programmes which emphasise best practice affirmative action practices.

Comcare and the Safety, Rehabilitation and Compensation Commission seek to minimise the human and financial costs of workplace injury in Commonwealth employment, through delivery of occupational health and safety and workers' compensation programmes.

The National Occupational Health and Safety Commission assists State and Territory governments to improve the health and safety of work environments through the provision of health and safety related products.

ENVIRONMENT AND HERITAGE

Table 7: Estimated Expenses* (\$m)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Department of the Environment and Heritage Departmental	393.4	388.3	380.6	369.3	344.0
Department of the Environment and Heritage Administered	388.2	360.9	418.1	340.3	7.7
<i>Small Agency Proxy Expenses**</i>					
Australian Greenhouse Office Departmental	31.3	57.0	41.4	32.7	35.0
Australian Heritage Commission Departmental	6.9	7.6	7.6	7.7	7.9
National Parks and Wildlife Service Departmental	35.4	54.0	54.6	55.5	56.4
Great Barrier Reef Marine Park Authority Departmental	25.8	28.3	28.6	28.9	28.0

* This table shows the gross expenses of each agency.

** Derived from the estimated agency revenues.

Overview

The Environment and Heritage portfolio has three overarching roles:

- to protect and conserve the environment, especially those aspects that are of national significance;
- to deliver meteorological and related science services to Australia; and
- to advance Australia's interests in Antarctica.

The portfolio pursues these matters through the Department of the Environment and Heritage; three statutory authorities (the Great Barrier Reef Marine Park Authority, National Parks and Wildlife, and the Australian Heritage Commission); and the Australian Greenhouse Office.

Through leadership and cooperation, the Department promotes conservation and appreciation of our natural and associated cultural heritage, and the ecologically sustainable management of Australia's coastal and marine resources.

The Department also maintains an Australian presence at three stations on the Antarctic continent and one on Macquarie Island. Australia's Antarctic interests are pursued through the Antarctic Treaty System, the administration of the Australian Antarctic Territory and the subantarctic Territory of Heard and McDonald Islands, the protection of the Antarctic environment and the conduct and coordination of scientific research in Antarctica and the Southern Ocean.

The Bureau of Meteorology is the national meteorological authority for Australia with responsibility for meteorological and related services. Under the *Meteorology Act 1955*, the Bureau performs its functions in the public interest generally, with particular support to the Defence forces, navigation, shipping and civil aviation. It assists those engaged in primary production, industry, trade and commerce.

The Australian Greenhouse Office administers greenhouse and climate change measures. A commitment totalling \$180 million was provided over the five years 1998-99 to 2002-03 for a package of greenhouse gas reduction initiatives including renewable energy initiatives, expansion of the successful Greenhouse Challenge Programme, the new Cities for Climate Protection Programme, and Bush for Greenhouse.

In this Budget, the Government maintains its commitment to improve the environment with funding of \$250 million allocated to the Natural Heritage Trust as part of the social bonus derived from selling the second tranche of Telstra. The Budget also contains increased funding for the new Living Cities programme, for the Bureau of Meteorology and for a range of environment protection measures.

The portfolio was provided with \$33.2 million in the 1996-97 Budget across three years to expedite the implementation of the National Forests Policy Statement. The commitment provided for Regional Forest Agreements across 13 forest areas (which has now been revised to 12 with rezoning). Additional funding of \$16 million was provided to cover a range of measures approved during 1997 and 1998 as part of the Tasmanian Regional Forest Agreement. The funding provided for intensive forest management initiatives, infrastructure development projects and plantation establishment, and a programme to protect conservation values on private land.

Major Outputs and Administered Items

The Department advises on and implements policies and programmes for the protection and conservation of the environment. This includes environment protection matters, assistance to the Australian community to appreciate and conserve Australia's natural and cultural (indigenous and historic) heritage places.

The Department also directs research to build up a systematic knowledge of the Antarctic and its environment, and understanding of the role of this region in the global climate system.

The reduction in departmental expenses in 1999-2000 and the forward years reflects the finalisation of programmes including the implementation of the Regional Forest Agreement, and some lapsing programmes such as Living Cities Programme which will be considered in future budgets.

The outputs of the Bureau of Meteorology include producing meteorological information; forecasting the weather, climate and state of the atmosphere; issuing warnings of gales, storms and other weather conditions likely to endanger life or property; providing advice on meteorological matters; publishing reports; conducting meteorological research and

investigations; and supporting international cooperation in meteorology and operational hydrology.

The Australian Greenhouse Office is the lead Commonwealth agency on greenhouse matters. It coordinates domestic greenhouse policy and delivers greenhouse response programmes. Further to the commitment of \$180 million, the Government provided an additional \$3.9 million in 1998-99, and \$4 million in 1999-2000 to the Australian Greenhouse Office for the continued administration of ongoing climate change work, providing a key focus for the strategic policy development at both national and international levels for the coordination of a wide range of greenhouse mitigation measures. The increase in its departmental expenses in 1999-2000 reflects its first full year of operation. The decrease in forward years' expenses are based on the Office's estimates of revenue receipts from other agencies.

The Australian Heritage Commission identifies, values and conserves heritage places. It advises the Government on national estate matters, compiles an inventory of national estate places with natural and cultural heritage values and encourages community appreciation and concern for the National Estate under the *Australian Heritage Commission Act 1975*.

National Parks and Wildlife promotes the conservation and appreciation of wildlife and Commonwealth protected areas by administering statutory responsibilities under the *National Parks and Wildlife Conservation Act 1975*, *Wildlife Protection (Regulation of Exports and Imports) Act 1982*, *Endangered Species Protection Act 1992* and *Whale Protection Act 1980*.

Under the *Great Barrier Reef Marine Park Act 1975*, the Great Barrier Reef Marine Park Authority develops and cares for the Park. It also cares for the conservation and presentation of the world heritage values associated with the Great Barrier Reef.

Administered Items

The fluctuations in the administered expenses of the Department in the above table reflects in large part the timing and scheduling of Natural Heritage Trust programme commitments and the cessation of the programme at the end of 2001-02.

The Natural Heritage Trust of Australia has a commitment of \$1.249 billion over five years (1996-97 to 2000-01), of which \$1.1 billion was provided from the partial sale of Telstra. An additional \$250 million has been committed to the Natural Heritage Trust contingent on the sale of the second tranche of Telstra, to extend the Trust beyond the original package to 2001-02. The objectives of the Trust are to provide a framework for strategic capital investment to stimulate additional investment in the natural environment, achieve complementary environment protection, natural resource management and sustainable agricultural outcomes consistent with national strategies, and provide a framework for cooperative partnerships between communities and all levels of government. Key projects include Bushcare, National Reserve System, Landcare, Coasts and Clean Seas and the Murray-Darling Basin 2001 Project.

Commonwealth funding of \$5 million in 1998-99, \$5.1 million in 1999-2000, \$5.2 million in 2000-01, and \$5.3 million in 2001-02 has been committed to State agencies for the management of world heritage properties. The programme contributes significantly to meeting Australia's obligations under the World Heritage Convention and to implementing the Government's commitment to improve the protection, conservation and presentation of Australia's world heritage properties. Funding for this purpose was also provided under the Natural Heritage Trust.

The Environment and Heritage portfolio administers a number of additional discretionary environmental grant programmes including the Grants to Voluntary Environment and Heritage Organisations and the Australian Biological Resources Study Participatory Programme.

FAMILY AND COMMUNITY SERVICES

Table 8: Estimated Expenses* (\$m)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Department of Family and Community Services Departmental	1980.9	2028.0	2058.0	1986.4	1996.7
Department of Family and Community Services Administered	45331.8	48111.2	53102.6	53997.3	56467.1
Centrelink Departmental	1752.0	1761.0	1787.4	1697.3	1698.2
<i>Small Agency Proxy Expenses**</i>					
Australian Institute of Family Studies Departmental	4.7	4.5	4.6	4.5	4.6

* This table shows the gross expenses of each agency.

** Derived from the estimated agency revenues.

Overview

The Family and Community Services portfolio comprises:

- the Department of Family and Community Services, which identifies and develops policies to address the income support needs of individuals, provides family relationship services, welfare housing and financial support and other services for people with disabilities and families with children;
- Centrelink, which is the principal service delivery organisation for social security payments and is responsible for the delivery of policy through the provision of information, products and services to the Australian community; and
- the Australian Institute of Family Studies, which identifies and researches factors affecting marital and family stability, and provides a national information centre on these issues.

The Family and Community Services portfolio has three broad objectives:

- to strengthen families by ensuring that families, young people and students have access to financial assistance and support services;
- to strengthen communities through access to affordable housing, community support and services, and assistance to those in need; and
- to facilitate participation in labour force and community life by income support measures and services that encourage independence and contribution to the community.

Major Outputs and Administered Items

The forward estimates of administered expenses for the Department of Family and Community Services include provision for the bulk of the compensation arrangements as

set out under *A New Tax System*. This is reflected in the substantial increase in administered expenses commencing in 2000-2001.

Stronger Families

This outcome recognises the contribution of families to the overall health and well-being of individuals and society and reflects the Government's commitment to help families to build their capacity and resilience and to ensure that families can select and receive the help they need at times of transition and crisis.

The Government will incur administered expenses of \$10.5 billion in 1999-2000 rising to some \$13 billion by 2002-03 in direct financial support for families, children and youth mainly through Family Allowance and the Family Tax Initiative. Programmes in this area bring together Commonwealth, State and community activities and have appropriate linkages to a range of other programmes including health, education, family law and crime prevention.

Family Allowance and the Family Tax Initiative provide financial assistance to around 1.8 million families towards the support of their children, and to recognise the role that parents play in caring for children. The portfolio incurs expenses of around \$7 billion per year on these programmes.

The Government has also committed to ensuring the well-being and care of children affected by parental separation and in situations where the child is at risk. This is achieved particularly through the Child Support Agency and the National Council for the Prevention of Child Abuse. The Child Support Agency aims to ensure that separated parents share the cost of supporting their children in a fair manner. The National Council for the Prevention of Child Abuse implements strategies and conducts research aimed at assisting in the prevention of child abuse and neglect.

Youth programmes cost the Government over \$2 billion per year and aim to support young people financially during their education, training and transition into the workforce. The programmes include Youth Allowance, Austudy and the Student Financial Supplement Scheme. Youth Allowance provides flexibility for individuals to move between education, training and job search activities as suits their needs. The Student Financial Supplement Scheme provides students with the choice of increasing their financial support through a Government sponsored loan scheme.

Stronger Communities

The Government will incur administered expenses of \$1.3 billion in 1999-2000 to support and strengthen communities. This commitment will be delivered through a combination of services and community-based programmes that encourage partnerships between government, the community and the business sector. Activities include housing Supported Accommodation Assistance, and rural and regionally focussed programmes and disaster and emergency relief. It also recognises the importance of ensuring that service delivery arrangements do not disadvantage people by virtue of their location, in accessing Government programmes and services.

The Government supports the provision of social housing through its contribution of \$1 billion per year to the Commonwealth-State Housing Agreement. This contribution provides for the expansion and maintenance of public rental housing, along with targeted support for crisis accommodation, indigenous and community housing.

To help homeless people and those in crisis to re-establish independent living and self-reliance, the Government provides approximately \$140 million per year through the Supported Accommodation Assistance Programme, for support services and transitional accommodation.

Australians living in the bush can receive a range of special assistance including help in passing on a viable farm to the next generation under the Retirement Assistance for Farmers Scheme.

Communities in crisis because of natural disasters receive assistance when they need it most, as for example through recent assistance which targeted victims of the Exmouth cyclone.

An important part of the social safety net is delivered to families in need through the Emergency Relief Programme which funds 900 community, charity and religious agencies to deliver much needed cash and other support.

Economic and Social Participation

The Government will incur administered expenses of about \$36.3 billion in 1999-2000, to provide programmes that encourage self-reliance and economic independence for all Australians, while maintaining a highly targeted, comprehensive and affordable safety net for those people who are genuinely in need of assistance. This level of support is expected to rise to more than \$42 billion by 2002-03.

The social security system provides income support for those requiring it due to age, disability, unemployment and carer responsibilities.

The Age Pension aims to ensure that those unable to provide for themselves have adequate income in retirement. This has been guaranteed through the linking of pension payments with Male Total Average Weekly Earnings as well as the Consumer Price Index.

The cost of the Age Pension is expected to rise from \$14.5 billion in 1999-2000 to \$16.9 billion in 2000-01 mainly due to the increased level of support as a result of the introduction of the Government's *A New Tax System*. Programmes to provide incentives to better utilise assets and maximise private income ensure that retirees maintain a high standard of living and that the social security safety net remains sustainable.

The Commonwealth will provide \$21.8 billion in 1999-2000 for other forms of assistance to encourage economic and social participation, including income support to the unemployed, and those unable to work due to illness, disability or their responsibility as a carer. This assistance also encompasses income supplements such as Mobility Allowance and Child Disability Allowance, and services providing labour market assistance, child

care, rehabilitation and other services to facilitate workforce access and the opportunity for community participation.

Government programmes focus on encouraging economic independence by providing opportunities to enter or re-enter the labour market where possible. For the unemployed, income support is provided on the condition that they take appropriate action to help themselves and to contribute to the community. This has been reflected in the Government's commitment to the Work for the Dole programme.

FINANCE AND ADMINISTRATION

Table 9: Estimated Expenses* (\$m)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Department of Finance and Administration Departmental	660.0	488.7	455.3	449.6	446.7
Department of Finance and Administration Administered	3161.3	2839.5	2852.1	2866.2	2865.7
Australian Electoral Commission Departmental	151.1	164.2	84.0	148.6	83.8
Australian Electoral Commission Administered	36.4	-	-	36.4	-
Office of Asset Sales and IT Outsourcing Departmental	16.4	32.9	10.1	0.4	-
<i>Small Agency Proxy Expenses**</i>					
Commonwealth Grants Commission Departmental	5.0	8.1	7.5	5.0	5.1

* This table shows the gross expenses of each agency.

** Derived from the estimated agency revenues.

Overview

The Finance and Administration portfolio consists of the Department of Finance and Administration, the Australian Electoral Commission, the Commonwealth Superannuation Administration, the Office of Asset Sales and Information Technology Outsourcing, and the Commonwealth Grants Commission.

The portfolio advises the Minister and, through him, the Government on the management of Commonwealth resources. It has contributed to the implementation of the Government's comprehensive reform strategy for the Commonwealth public sector, which emphasises improvements to resource management, a clear focus on achieving government outcomes and exposing the provision of government services to competition. The sales and outsourcing activities of the portfolio help to confine the direct activities of the Commonwealth to those matters that are most appropriate and cost effective, while enhancing industry development, competitiveness and structural efficiency.

In the 1999-2000 Commonwealth Budget, public sector financial management has been reformed with the introduction of an integrated framework for accrual budgeting, accounting and reporting. The new framework involves changing the Government's planning, budgeting, reporting and accounting practices. The move to this system will enhance performance management in government agencies.

The portfolio also delivers whole of government services to Commonwealth Departments and agencies. In April 1999, the Government announced its intention to outsource management of \$2.8 billion non-Defence property portfolio, which is administered by the Department of Finance and Administration. The initiative is designed to provide for more effective management of the property portfolio and will enable the Government to gain access to international best practice in the property arena.

The Department of Finance and Administration is introducing agency banking arrangements to allow Commonwealth agencies to manage resources, including cash, in a more business-like manner, by providing greater flexibility for agencies to tailor their banking arrangements to their business needs. As from 1 July 1999, agencies will be responsible for establishing and managing their own bank accounts, processing their payments and receipts, maintaining detailed transactional records, managing their relationships with their chosen transactional banker, and meeting bank fees and charges associated with operating their bank accounts. Under agency banking, each agency will also be responsible for reporting exchange gains (revenues) and losses (expenses) on their foreign transactions. This was previously reported by the Department of Finance and Administration. The reduction in administered expenses in 1999-2000 is attributed to these new arrangements (which is matched by a similar reduction in Administered Revenues).

The Australian Electoral Commission (AEC) provides Australians with a fair, equitable and independent electoral service through its conduct of elections and referendums, maintenance of the Commonwealth electoral roll and the provision of electoral information and education programmes for the community. In addition, the AEC supports Australian foreign policy through the provision of effective international electoral assistance.

At the close of the 1998 Constitutional Convention, the Prime Minister made a commitment to hold a referendum on whether Australia is to become a republic. The 1999-2000 Budget includes two measures to provide funding for the Referendum.

The Commonwealth Grants Commission (CGC) provides advice to the Government on the equitable distribution of funds to State and Territory governments and will now undertake this task on behalf of indigenous Australians. Commonwealth Superannuation Administration (ComSuper) administers the main defined benefit superannuation schemes applying to Commonwealth civilian employees and Defence Force members. ComSuper's sole income is from external sources and therefore there are no appropriations included in the 1999-2000 Budget.

The Office of Asset Sales and Information Technology Outsourcing (OASITO) arranges the sale of major Commonwealth business assets and outsources information technology infrastructure services for the Commonwealth general government sector agencies. By doing so, it contributes to fiscal consolidation objectives by raising savings and sale proceeds in the Budget context.

During 1998-99 the Government sold the National Transmission Network for \$650 million. In the coming year the Government intends to sell the National Rail Corporation, ADI Limited and the second tranche of its shareholding in Telstra.

Major Outputs and Administered Items

The Department of Finance and Administration assists the Government in achieving and maintaining sustainable government finances through budget management and documentation, advice on agency performance, shareholder advice and advice on strategic policy issues.

The commercialisation of property management, as well as improvements in the operation of the department through competitive tendering and contracting, have contributed to a substantial reduction in departmental expenses in 1999-2000 that consolidates over the forward years. Notwithstanding these changes the department has delivered a whole of government reform, in the form of the first accrual budget.

The Department also advises Ministers on implementing frameworks for improved public sector performance and by delivering whole of government services to Commonwealth departments and agencies. This is achieved by providing strong and flexible financial and property management frameworks; superannuation that allows greater flexibility and choice for employees and agencies; and raising awareness of the benefits of competitive tendering and contracting amongst agencies.

In regard to property management, a major strategy is to apply commercial management practices to management activities in order to achieve a commercial rate of return on assets. The 1999-2000 Budget includes a measure for the Department to make an equity return of \$717.7 million over the four years 1999-2000 to 2002-03 from its administration of the domestic and overseas property estate.

The Department also has responsibility for the management of Comcover (the Government's Insurable Risk Managed Fund), Removals Australia (the Commonwealth's relocations brokerage business) and for the management of a number of major contracts. Commercial management practices have been and continue to be applied to the management of these activities.

The Department facilitates public access to government information in order to allow greater understanding of government activities and better quality of service delivery.

The Department also provides advice and services to Ministers and present and former parliamentarians. Strategies for 1999-2000 will focus on clarifying entitlements, improvements to the systems and processes, in particular, the implementation of the Parliamentary Systems Suite, a new information technology system for recording and reporting Senators' and Members' entitlement usage, and improvement in administrative training for Senators, Members and their staff.

The Department's administered items are mainly concerned with the payment on behalf of the Government of superannuation entitlements for former employees and parliamentarians, entitlements for current parliamentarians and expenses of an ongoing administrative nature, rather than grants to the States or other entities.

The major outputs of the AEC are electoral roll management, elections, ballots and referendums and electoral education.

The major outputs of the CGC are reports on fiscal equalisation (5 yearly reviews and annual updates) and an upcoming report on the distribution of funding for programmes to assist the indigenous community.

The two major outputs of OASITO are the sale on optimal terms of major Commonwealth business assets identified by the Government, and the outsourcing of information technology infrastructure services for the Commonwealth general government sector.

FOREIGN AFFAIRS AND TRADE

Table 10: Estimated Expenses* (\$m)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Department of Foreign Affairs and Trade Departmental	618.7	648.7	635.5	639.4	658.6
Department of Foreign Affairs and Trade Administered	139.9	119.3	116.5	115.2	113.7
AusAID Departmental	64.4	65.1	64.0	64.3	65.1
AusAID Administered	1335.4	1088.1	1362.0	1434.8	1202.4
Australian Trade Commission Departmental	165.6	175.1	171.1	170.8	167.9
Australian Trade Commission Administered	159.4	155.6	151.3	150.9	0.5
<i>Small Agency Proxy Expenses**</i>					
Australia-Japan Foundation Departmental	2.2	2.5	2.4	2.4	2.4
Australian Secret Intelligence Service Departmental	37.8	42.5	42.6	42.7	43.5
Australian Centre for International Agricultural Research Departmental	43.7	45.8	46.1	45.9	46.2

* This table shows the gross expenses of each agency

** Derived from the estimated agency revenues.

Overview

The Foreign Affairs and Trade portfolio conducts Australia's foreign relations, helps Australians win export business, generates inward and outwards investment, and provides assistance to developing countries to reduce poverty and achieve sustainable development. In addition to foreign policy, trade and development assistance outputs, the portfolio provides consular and passport services for Australians. The portfolio is committed to improving public understanding of Australia's foreign, trade and aid policy both domestically and internationally.

A high priority in 1999-2000 is the foreign policy challenge created by developments in East Timor. In response, the Budget provides funds to open an Australian Consulate-General in Dili, East Timor and a policy liaison office in Lisbon, Portugal, and for AusAID to establish an office in Dili as part of the Consulate-General.

The portfolio's network of overseas posts plays a key role in maintaining and strengthening the bilateral relations at the core of Australia's national security and economic well-being. East Asia remains a primary focus because of the significant Australian interests involved. The portfolio also devotes particular attention to conveying Australia's point of view to the United States administration and to encouraging continued United States engagement in the security and economic affairs of the region. The portfolio is working to strengthen Australia's commercial relationship and broaden the political dialogue with the European Union and individual member countries.

The portfolio's work in multilateral forums is focused on issues of direct interest to Australia. A priority area has been to implement and, where necessary, strengthen international regimes covering weapons of mass destruction – nuclear, chemical and biological. Another priority area is to protect and advance the important Australian interests engaged in the international environment agenda. In 1999-2000, climate change and the negotiations on a Biosafety Protocol will demand particular attention. Comprehensive treaty consultation processes give effect to the Government's commitment to better channels of communication with those whose interests are affected by international agreements or negotiations.

Keeping markets open through vigorous pursuit of market access issues and working for further multilateral trade liberalisation in bodies such as the World Trade Organization (WTO) and Asia Pacific Economic Cooperation (APEC) are key objectives. In addition, the portfolio is working to achieve agreement for a new comprehensive round of WTO trade negotiations to begin in 2000.

The Government has also developed the Market Development Task Force and the annual Trade Outcomes and Objectives Statement to pursue export markets and identify market development priorities.

Economies around the world are increasingly trading electronically and the portfolio places priority on making Australian exporters effective participants in the digital age. Austrade is particularly focussing its resources in this area, as well as making a sustained effort to serve the needs of small and medium enterprises and companies in regional and rural Australia.

The portfolio is helping Australian exporters and investors to deal with the effect of the Asian economic crisis. In 1998-99 an Australian Embassy was opened in Abu Dhabi, United Arab Emirates and Trade Consulates established in Bucharest, Romania and Lima, Peru to assist our exporters to diversify their markets. The 1999-2000 Budget provides funds to open an Embassy in Zagreb, Croatia including Austrade marketing staff to assess trade opportunities.

Assistance provided to regional countries affected by the Asian crisis is helping them to respond to social needs, resume sustained growth and improve their economic and financial management. Substantial development assistance is also provided to Papua New Guinea. Through its leading role in the Bougainville peace and reconstruction process, the portfolio is working for a peaceful settlement to the dispute on the island. The peaceful and fair resolution of the political future of East Timor, and its long term development needs, are also a key focus. Promoting stability and economic reform in the Pacific Island countries is a continuing priority. Australia will also continue to respond to emergency and humanitarian situations.

The portfolio also plays an important role in international forums, and with multilateral and non government agencies, in pursuing its aid objective. The principles and directions set out in the Government's 1997 policy statement, *Better Aid for a Better Future*, continue to shape the Australian aid programme.

Against the background of a large increase in the number of Australians travelling and living abroad, the portfolio will maintain its delivery of high quality consular and passport services. Demand for these services will be heightened by the challenges presented by international Year 2000 problems.

Major Outputs and Administered Items

In addition to the major outputs outlined above, administered items contribute to portfolio outcomes. DFAT makes payments for Australia's participation in most international organisations although such memberships are of whole-of-government interest. The decline in the Department's administered expenses in the Budget year arises from the shifting of the responsibility for the contributions to the United Nations Food and Agriculture Organisation to the Department of Agriculture, Fisheries and Forestry, and some expenses being treated as departmental rather than as administered from 1999-2000 onwards. The increase of around \$30 million in the Department's departmental expenses in 1999-2000 includes the new policy measures in relation to East Timor and Zagreb, and large foreign exchange and overseas inflation adjustments amounting to \$20 million.

The fluctuations in AusAID's administered expenses reflect the expensing of the contributions to a range of multi-year agreements in the year that the commitments are made, for example contributions to the International Development Agency (IDA) and the Asian Development Fund. A multi-year commitment was made to IDA in 1998-99 and there are no other major multi-year commitments falling due in the Budget year. This accounts for the majority of the fall in expenses in 1999-2000.

Development assistance administered by AusAID plays an important part in Australia's engagement in the region and supports broader bilateral efforts. Financial support provided to eligible Australian companies under the Export Market Development Grants (EMDG) administered by Austrade contributes to Australia's trade performance. Movements in the Australian Trades Commission administered expenses reflect the Government's decision to extend the \$150 million EMDG scheme to 2001-02 (in the Government's response to the Mortimer Review). Further administered items of assistance to exporters are the loans, insurance guarantees and bonds provided under the National Interest provisions of the *Export Finance and Insurance Corporation Act 1991*.

HEALTH AND AGED CARE

Table 11: Estimated Expenses* (\$m)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Department of Health and Aged Care Departmental	646.8	682.3	666.1	662.5	667.7
Department of Health and Aged Care Administered	22175.9	23232.1	24546.9	25986.5	27319.9
Health Insurance Commission Departmental	349.2	378.4	395.6	398.6	373.6
Health Insurance Commission Administered	11015.6	11695.6	12327.2	13020.6	13847.3
<i>Small Agency Proxy Expenses**</i>					
Professional Services Review Departmental	1.6	3.4	4.9	6.9	7.5
Australia New Zealand Food Authority Departmental	8.1	8.4	5.9	5.9	6.0
Australian Institute of Health and Welfare Departmental	15.9	16.3	16.1	16.2	16.3
Australian Radiation Protection and Nuclear Safety Agency Departmental	14.1	14.0	14.4	14.8	14.8
Private Health Insurance Ombudsman Departmental	0.7	1.0	1.0	1.0	1.0

* This table shows the gross expenses of each agency.

** Derived from the estimated agency revenues.

Overview

The portfolio aims to ensure that world class health and aged care services are available to all Australians.

The priorities for the portfolio include population health and safety; ensuring access to Medicare through the Medicare Benefits Schedule, the Pharmaceutical Benefits Scheme and the public hospital system; raising the health status of Aboriginal and Torres Strait Islander people; and enhancing the quality of life for older Australians.

Growth in Commonwealth health and aged care expenditure over the decade to 1998-99 has averaged four per cent in real terms. The growth mainly reflects a steady increase in utilisation of medical and pharmaceutical services over the period and a drift to more costly drugs and medical services. This Budget contains a number of important health initiatives.

Major Outputs and Administered Items

Population Health and Safety

The Commonwealth's role in population health is to provide national leadership and coordination in research and information, education campaigns, service delivery,

evaluation and redevelopment of legislation, and public health education and training. Particular focus is given to the Government's identified core population health priority areas of childhood immunisation, HIV/AIDS and related diseases, the national illicit drug strategy, cancer control and injury prevention.

The Therapeutic Goods Administration (TGA) is responsible for ensuring the quality, safety, efficacy and timely availability of therapeutic goods available in Australia. The TGA recovers its costs from the therapeutic goods industry.

The Australia New Zealand Food Authority develops and maintains appropriate food standards to minimise the community's exposure to food borne disease and chemicals. The Australian Radiation Protection and Nuclear Safety Agency aims to protect the health and safety of people, and the environment, from the harmful effects of radiation.

Government initiatives in the Budget will address the issues of illicit drugs, Hepatitis C, and improve the effectiveness of Australia's food hygiene and the regulatory arrangements for product safety.

Access to Medicare

The Department of Health and Aged Care ensures access, through Medicare, to high quality medical services through quality primary care, medicines and, in cooperation with States and Territories, hospital services.

The Department pays more than \$300 million per annum to the Health Insurance Commission to process Medicare rebates and reimburse pharmacists under the Pharmaceutical Benefits Scheme.

Medical Benefits

The Commonwealth provides financial assistance for medical services provided outside of hospital and for private patients in hospital. Where gap payments for out-of-hospital medical services, for an individual or a family, exceed a certain amount in a year, all further benefits in that year are paid at up to 100 per cent of the Schedule fee.

Pharmaceutical Benefits Scheme

Under the Pharmaceutical Benefits Scheme, the Commonwealth provides assistance towards the cost of pharmaceuticals. Concession card holders (pensioners, the unemployed and low income families) receive a higher subsidy than other members of the general public. A safety net applies on a family basis, to protect those with a high use of medicines.

Public Hospitals

To support free hospital care under Medicare, the Commonwealth provides financial assistance to the States through hospital funding agreements amounting currently to about half the cost of public hospitals. The current Australian Health Care Agreements focus on

increasing public patient access and improving the efficiency and effectiveness of service delivery. These agreements provide for automatic adjustments for costs of population increases, ageing of the population and changes to private health insurance membership levels. There is also provision for expected increases in demand as new and better medical services become available.

Measures taken by the Government in the Budget to improve the administration of, and access to, Medicare will further assist the achievement of this outcome and enhance primary care.

Choice through Private Health Insurance

The portfolio is implementing the new 30 per cent private health insurance rebate and other measures to promote competitive and attractive private health insurance to ensure a viable private health insurance industry and improve the choice of health services for all Australians.

The Private Health Insurance Administration Council regulates the private health insurance industry and the Private Health Insurance Ombudsman protects consumers.

The Government is introducing Lifetime Health Cover, which will enable health funds to charge different premiums to people depending on the age at which they first join a health fund. It maintains the principles of community rating but provides clear incentives for people to take up or retain private health insurance by rewarding early and continuous membership. The Budget also includes a measure to promote simplified billing throughout the private health industry.

Quality Health Care

The Department develops, supports and promotes strategies to improve the quality, integration and effectiveness of health care, in particular, through coordinated care trials. The Department will further advance general practice reforms and promote quality and efficiency within the medical sector.

There is a range of Budget measures in relation to these objectives. These measures address suicide, rural and regional general practitioner services, and medical services for women in rural and remote areas. A major feature of the Budget is enhanced primary care for older people and in particular, more coordinated care services.

Rural Health Care

To achieve the Government's election commitment to rural and remote Australia, the Department will ensure a coordinated approach to the delivery of health care in rural and remote locations.

In this Budget the Government will fund the establishment of 30 Regional Health Service Centres to improve access to quality health care for people living in rural and remote areas. Measures will also assist isolated health professionals to cope with job related

trauma and provide instruction on first line emergency care to health professionals in remote areas.

Hearing Services

The Department aims to reduce the consequences of hearing loss for eligible Australians and reduce the incidence of hearing loss in the broader community.

It does this by funding a range of hearing services to eligible pensioners and all people under the age of 21 years. Consumers have a choice of hearing service providers through the Hearing Services Voucher System. The voucher system entitles eligible pensioners to subsidised hearing services through the Australian Hearing Services (AHS) and private sector providers. AHS continues to provide hearing services to people under the age of 21 years.

The Budget provides a significant increase in funding to provide an extra 67,000 vouchers per year for Australians with hearing loss.

Aboriginal and Torres Strait Islander Health

The Department has a range of strategies to achieve the Government's priority in addressing the health of Aboriginal and Torres Strait Islander people.

The Commonwealth funds a network of community controlled primary health care services for Aboriginal and Torres Strait Islander people. Commonwealth funding also supports a range of specialist services, including mental health, sexual health and hearing services. These services complement general health services. The Commonwealth works with the States and other stakeholders in the planning and funding of Aboriginal and Torres Strait Islander health services to ensure these Australians have access to necessary services.

This Budget provides a major increase in funds to improve access by indigenous people to comprehensive primary health care as well as to provide environmental and health infrastructure to remote Aboriginal and Torres Strait Islander communities.

Enhanced Quality of Life for Older Australians

To provide long-term sustainable aged care services and to improve choice and access, the portfolio provides support for positive, healthy ageing and high quality cost effective services for frail older people, people with disabilities and their carers.

Community Care and Support for Carers

The Commonwealth, in conjunction with the States, funds a range of services for frail aged, and younger people with a disability, to enable them to continue to live in their own homes.

Residential Care

The Commonwealth pays substantial subsidies for residents of aged care facilities, based on their care needs. Residents receive accommodation and nursing and personal care services, such as nursing procedures, medication administration, therapies and help with daily living. The level of Commonwealth funding for each resident is provided according to the relative care needs of residents. The Commonwealth provides 75 per cent of funds for resident care with the contribution of residents based on their ability to pay.

Health Investment

A key strategy for the portfolio is to afford greater attention to investment in research and training in health and to keep up with advances in technology. The portfolio will contribute to the pool of knowledge, which will assist the health and medical community in the development of better strategies to improve the health and well-being of all Australians.

Commonwealth support for health research activities includes funding for health and medical research administered by the National Health and Medical Research Council. Funding is provided for capital works at medical research institutes and for postgraduate specialist training. Funding is also provided to the Australian Institute of Health and Welfare for outputs related to health and welfare information.

The Budget will strengthen health and medical research by more than doubling the base funding for the National Health and Medical Research Council over six years.

IMMIGRATION AND MULTICULTURAL AFFAIRS

Table 12: Estimated Expenses* (\$m)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Department of Immigration and Multicultural Affairs Departmental	436.9	384.8	400.8	404.5	413.9
Department of Immigration and Multicultural Affairs Administered	134.0	130.6	129.1	124.0	117.2
<i>Small Agency Proxy Expenses**</i>					
Refugee Review Tribunal Departmental	18.4	16.3	14.2	14.2	14.0
Migration Review Tribunal Departmental	9.9	10.8	10.2	9.8	9.9

* This table shows the gross expenses of each agency.

** Derived from the estimated agency revenues.

Overview

The portfolio contributes to Australia's economic, social and international interests through programmes directed at:

- the lawful and orderly entry and stay of people;
- the promotion of a society which values Australian citizenship, appreciates cultural diversity and enables migrants to participate equitably; and
- fair and balanced administration of migration and humanitarian related entry into Australia.

The Government's current priorities in this area include ensuring that the migration intake is focused on skilled immigrants, maintaining the integrity of our national border and continuing to promote recognition of the value of cultural diversity and citizenship. It is also concerned to ensure that Australia plays an appropriate and responsible role in relation to refugees, as evidenced in the Government's response to the current Kosovo crisis.

Major Outputs and Administered Items

The Department of Immigration and Multicultural Affairs (DIMA) manages the entry and stay of people in Australia. This is achieved through the assessment of temporary and permanent visa applications. Efficiency in this area has been enhanced by the implementation of the Electronic Transfer Authority System for temporary visas. DIMA is also responsible for the enforcement of immigration law through the management of prevention, detection and removal of unlawful entrants. A large percentage of DIMA's resources are devoted to achieving this objective, including for the provision of overseas immigration posts. A major challenge in 1999-2000 will be the planning arrangements for the large scale movement of people expected for the Sydney 2000 Olympics.

During 1998-99 the department completed a significant internal restructuring, incurring additional expenses. For 1999-2000 departmental expenses have returned to a more normal level, consistent with expected workload variations.

The Government supports the humanitarian entry and stay of people through the provision of the Asylum Seekers Assistance (ASA) Scheme and the assisted passage of refugees and humanitarian entrants. The continued development of effective migration and humanitarian programmes is supported by Australia's membership of international organisations and joint Commonwealth-State research activities.

To enable migrants to participate equitably in Australian society the Department provides settlement services and translating and interpreting services. The Adult Migrant English Programme is an integral support element for migrants and refugees to ensure that they have the capacity to communicate effectively.

The Department promotes the value of Australian citizenship and cultural diversity through sponsoring activities such as the celebration of the 50th anniversary of Australian citizenship in 1999 and the *Living in Harmony* campaign. The *Living in Harmony* campaign, which has been extended by the Government in the 1999-2000 Budget, will promote cultural diversity through a community grants programme, a community awareness strategy and a partnership programme with the private sector.

The portfolio ensures decisions on the migration and refugee status of applicants are fair and balanced by providing independent merit reviews through the Migration Review Tribunal (formerly the Immigration Review Tribunal and the Migration Internal Review Office) and the Refugee Review Tribunal. The Refugee Review Tribunal also contributes to ensuring that Australia meets its obligations under international conventions relating to the status of refugees.

INDUSTRY, SCIENCE AND RESOURCES

Table 13: Estimated Expenses* (\$m)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Department of Industry, Science and Resources Departmental	332.7	298.8	312.8	308.1	305.3
Department of Industry, Science and Resources Administered	965.2	801.9	723.0	795.9	752.9
Australian Nuclear Science and Technology Organisation Departmental	105.6	113.9	115.3	121.8	115.6
Australian Sports Commission Departmental	114.2	117.8	97.0	92.1	95.8
Australian Tourist Commission Departmental	128.6	131.7	133.9	132.0	117.9
Commonwealth Scientific and Industrial Research Organisation Departmental	736.0	756.0	754.8	766.2	778.8
<i>Small Agency Proxy Expenses**</i>					
Australian Institute of Marine Science Departmental	24.3	30.8	32.2	32.0	33.3
Australian Sports Drug Agency Departmental	5.7	5.8	5.9	5.8	5.8
IPAustralia Departmental	68.4	72.3	74.3	75.4	76.8
National Standards Commission Departmental	3.1	3.8	3.8	3.9	3.9

* This table shows the gross expenses of each agency.

** Derived from the estimated agency revenues.

Overview

The Industry, Science and Resources portfolio has responsibility for developing, implementing and administering policies and programmes which aim to maximise the benefits to Australians of Australian industries. It does this through the promotion of activities which range across three areas:

- increasing the international competitiveness of Australian manufacturing, resources and service industries, including tourism;
- developing Australia's science and technology capabilities and infrastructure; and
- encouraging excellence in sports performance, and increasing participation in sport and recreational activities by Australians.

Major Outputs and Administered Items

The Department of Industry, Science and Resources provides strategic leadership and policy advice to the Government on issues which cover all of the objectives outlined in the overview. The \$34 million reduction in its departmental expenses in 1999-2000 is

largely due to internal efficiencies, some lapsing programmes, for example a range of bounties and replacement of the Pharmaceutical Factor F scheme by the Pharmaceutical Industry Investment Programme, and various changes within the department.

The Department delivers a range of administered programmes in those areas on behalf of the Government. These include assistance to the pharmaceutical industry, the Technology Diffusion programme, the Industry Innovation programme (R&D START), the Cooperative Research Centres programme, and the Innovation Investment Fund. Payments of bounties will fall significantly from the end of 1998-99, although this Budget provides for an extension to the Shipbuilding Production Bounty at a cost of \$28.3 million. Fluctuations in administered expenses from 2000-01 reflect the differential impact of new adjustment programmes such as the Textile Clothing and Footwear Post 2000 Investment Scheme which are replacing other forms of assistance. Other Budget measures include \$61.1 million for a new Shipbuilding Innovation Scheme and a new Printing Industry Competitiveness Scheme. The Government will also facilitate growth in other industries through the Action Agendas Programme.

In addition, the Department provides scientific business services through the Australian Surveying and Land Information Group (AUSLIG), the Australian Government Analytical Laboratories (AGAL) and the Australian Geological Survey Organisation (AGSO).

The portfolio includes three science agencies - the Australian Institute of Marine Science (AIMS), the Australian Nuclear Science and Technology Organisation (ANSTO) and the Commonwealth Scientific and Industrial Research Organisation (CSIRO) - which undertake scientific research and provide scientific advice to the Government. These agencies have received a boost in funding in the 1999-2000 Budget.

The National Standards Commission promotes the international competitiveness of Australian industry by ensuring that Australia has a national system of physical measurements in which business, government, the community and our international trading partners have complete confidence. It does this through the coordination of Australia's national measurement system.

The Australian Tourist Commission seeks to increase the number of visitors to Australia from overseas and to maximise the benefits to Australia from those visitors, while protecting Australia from adverse impacts of international tourism. It does this by promoting Australia in overseas markets as a tourist destination.

Measures in the 1999-2000 Budget provide an \$8 million boost to regional Australia to become more tourism ready and a further \$8 million to encourage more Australians to holiday within Australia.

IP Australia seeks to ensure that Australians benefit from the effective use of intellectual property by granting patents, trade marks and designs. The operating expenses of the agency are recovered from user charges and there is no funding from the Budget.

The Australian Sports Commission promotes Australia's sports performance by developing and implementing programmes and policies aimed at delivering an effective national sports infrastructure, improved participation in sporting activities by Australians and excellence in sports performance by Australians. Leading up to the Olympics, a major focus for sports funding has been the Olympic Athletes Preparation Programme. Under *Review 2000* the role of the Commonwealth in sport post 2000 will be examined. The 1999-2000 Budget also meets the Government's 1998 election commitment to provide more than \$144 million to Australian sport from 2000-01 to 2002-03.

The Australian Sports Drug Agency is charged with the responsibility of ensuring that the Australian sporting community can deter athletes from using banned doping practices. It does this by conducting a comprehensive drug testing and awareness programme. The 1999-2000 Budget provides measures to increase the capacity for the Australian Sports Drugs Agency to deter athletes from using drugs.

PARLIAMENT

Table 14: Estimated Expenses* (\$m)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Joint House Department Administered	6.7	6.7	6.7	6.7	6.7
<i>Small Agency Proxy Expenses**</i>					
Department of the Senate					
Departmental	27.2	28.5	28.4	28.7	29.1
Department of the Senate Administered	9.4	9.9	9.9	9.9	9.9
Department of the House of Representatives					
Departmental	24.5	26.6	26.7	26.8	27.1
Department of the House of Representatives Administered	18.6	18.6	18.6	18.6	18.6
Department of the Parliamentary Library					
Departmental	14.9	16.5	16.7	16.7	16.7
Department of the Parliamentary Reporting Staff					
Departmental	37.0	42.6	42.0	43.8	43.3
Joint House Department Departmental	38.7	36.2	36.4	36.8	37.1

* Table shows the gross expenses of each agency.

** Derived from the estimated agency revenues.

Overview

There are five departments which support the Commonwealth Parliament:

- Department of the Senate;
- Department of the House of Representatives;
- Department of the Parliamentary Library;
- Department of the Parliamentary Reporting Staff; and
- Joint House Department.

The Departments of the Senate and House of Representatives contribute to the effective functioning of their respective parliamentary bodies and their committees through advice and secretariat support bodies; a range of support services to office-holders; and the promotion of public knowledge and awareness of the parliamentary bodies and their committees.

The Department of the Parliamentary Library contributes to a more informed Parliament and, through it, to the Australian community by providing Senators, Members and Parliamentary Committees with quality information services, policy analysis and advice.

The Department of the Parliamentary Reporting Staff provides the Parliament and the people of Australia with reporting, information technology, telecommunication and broadcasting.

The Joint House Department provides for an effectively functioning Parliament Building while preserving its value as a heritage complex. It is responsible for raising public awareness of the Australian Federal Parliamentary system and the Parliament House building.

PRIME MINISTER AND CABINET

Table 15: Estimated Expenses* (\$m)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Department of the Prime Minister and Cabinet Departmental	49.8	51.3	46.8	47.5	48.4
Department of the Prime Minister and Cabinet Administered	12.8	20.0	19.7	15.1	15.2
Aboriginal and Torres Strait Islander Commission Departmental	955.9	980.6	1010.2	1042.5	1070.5
Aboriginal and Torres Strait Islander Commission Administered	82.2	83.8	84.5	84.9	86.3
<i>Small Agency Proxy Expenses**</i>					
Office of the Official Secretary to the Governor-General Departmental	7.0	8.5	8.9	9.1	9.4
Office of the Official Secretary to the Governor-General Administered	1.8	1.5	1.0	0.9	0.8
Office of the Commonwealth Ombudsman Departmental	7.8	8.1	8.1	8.2	8.2
Office of Inspector-General of Intelligence and Security Departmental	0.7	0.6	0.6	0.6	0.6
Office of National Assessments Departmental	7.3	6.8	6.7	6.8	6.9
Public Service and Merit Protection Commission Departmental	20.9	19.1	19.1	19.2	19.1
Aboriginal Hostels Limited Departmental	35.9	43.4	44.4	45.3	46.3
Australian Institute of Aboriginal and Torres Strait Islander Studies Departmental	6.7	7.2	7.8	9.4	9.5
Indigenous Land Corporation Departmental	55.4	54.6	55.3	56.0	56.7
Torres Strait Regional Authority Departmental	41.0	45.1	46.0	41.5	42.7
Australian National Audit Office Departmental	52.0	48.5	50.3	50.5	51.9

* This table shows the gross expenses of each agency.

** Derived from the estimated agency revenues.

Overview

The portfolio of Prime Minister and Cabinet is diverse, including a broad range of activities and a significant number of statutory office holders who perform core functions of government.

The Department of the Prime Minister and Cabinet provides economic, social and international policy advice for the Prime Minister, other portfolio Ministers, Cabinet and its committees. As well, the Department has supported the Prime Minister on a number

of policy reviews and statements including the Wik Taskforce on the Native Title Amendment Bill (passed in July 1998) and the *Tough on Drugs* statements.

The Department will support the Government in implementing the Prime Minister's commitment to hold a referendum on the Republic in 1999. This also includes coordinating the preparation of legislation to give effect to the republic model endorsed by the 1998 Constitutional Convention. Increased administered expenses in the Department during 1999 and 2000 are due to the renewal of the successful Partnerships Against Domestic Violence, the continuation of the Aboriginal Reconciliation Programme and the additional costs of visiting dignitaries at the time of the Sydney Olympics.

The portfolio has contributed to major public service reforms relating to the financial and employment management framework for Commonwealth entities. As well, market testing the outsourcing of certain corporate activities has been undertaken with the aim of ensuring Commonwealth resources are focussed on core business.

Early in 1999, five portfolio agencies signed a contract to outsource the provision of payroll, accounts processing and case management rehabilitation. The Department is scheduled to outsource the provision of its information technology and infrastructure services from 1 July 1999.

Since 1996 the Public Service and Merit Protection Commission has been developing a new public service framework, including legislation specifying a set of Australian Public Service values. The Public Service Bill was introduced in the Parliament for the third time in March 1999. The Bill was withdrawn by the Government on two previous occasions when the Senate introduced unacceptable amendments. Pending passage of the Bill, the Government introduced a number of reforms by administrative means in March 1998.

The *Audit Act 1901* was replaced on 1 January 1998 with legislation introducing a modern framework for financial management, including the *Auditor-General Act 1997*. The Act established the Auditor General as 'an independent officer of the Parliament' and is administered by the Prime Minister. Accordingly, the Australian National Audit Office is for administrative purposes part of the Prime Minister and Cabinet portfolio.

The portfolio has provided ministerial advice on Aboriginal reconciliation and a range of specific indigenous policy issues, including reform of Aboriginal and Torres Strait Islander heritage legislation, native title, separated children, housing reform, and business development.

Major Outputs and Administered Items

In addition to providing economic, social and international policy advice, the Department also provides coordination, and support services for the Prime Minister, other portfolio Ministers, Cabinet and its committees.

Key policy activities will be maintained over the budget year, including as they relate to taxation reform, the negotiation of further Comprehensive Regional Assessments and

Regional Forest Agreements, the Sydney 2000 Olympic and Paralympic Games, Aboriginal reconciliation, legislative reform on indigenous issues including *Aboriginal Land Rights (Northern Territory) Act 1976* and the *Aboriginal and Torres Strait Islander Heritage Protection Act 1984* and status of women issues. Additional funding has been provided in the 1999-2000 Budget to continue efforts to prevent domestic violence across Australia. As well, the Department will progress the development and implementation of the CABNET electronic system for the management and circulation of Cabinet documents.

The Office of the Official Secretary to the Governor-General provides support to the Governor-General, maintains associated official properties and administers the Australian system of Honours and Awards.

The Office of National Assessments provides the Government with assessments on international developments of political, strategic or economic importance which bear on Australia's policy interests.

The Office of the Strategic Investment Coordinator advises on the possible use of incentives for investment projects and facilitates government approval process for major projects.

The Public Service and Merit Protection Commission provides advice designed to encourage the development of a professional and innovative public service.

The Office of the Commonwealth Ombudsman investigates and resolves complaints about the administrative actions of Commonwealth agencies and provides advice to improve public administration.

The Office of Inspector-General of Intelligence and Security monitors intelligence agencies and provides a complaints management service.

The Aboriginal and Torres Strait Islander Commission (including the Land Fund and the Aboriginal Benefits Reserve), the Aboriginal Hostels Limited, the Torres Strait Regional Authority, the Australian Institute of Aboriginal and Torres Strait Islander Studies, the Indigenous Land Corporation and the Aboriginal and Torres Strait Islander Commercial Development Corporation ensure indigenous participation in the formulation and implementation of government policies bearing on the Australian indigenous community.

The Australian National Audit Office provides financial statement audit reports to Ministers and Commonwealth entities and performance audit reports on Commonwealth entities to Parliament.

TRANSPORT AND REGIONAL SERVICES

Table 16: Estimated Expenses* (\$m)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Department of Transport and Regional Services Departmental	182.4	165.8	167.1	168.3	162.0
Department of Transport and Regional Services Administered	2576.6	2462.4	1295.4	1259.0	991.3
National Capital Authority Departmental	6.6	12.1	12.6	12.7	13.0
National Capital Authority Administered	13.4	10.2	7.7	7.3	6.3
Australian Maritime Safety Authority Departmental	67.6	68.0	69.9	72.8	73.9
Australian Maritime Safety Authority Administered	-	2.5	2.6	2.6	2.6
Civil Aviation Safety Authority Departmental	86.4	94.0	83.5	80.4	81.8

* This table shows the gross expenses of each agency.

Overview

The Government recognises that, in addition to services specifically aimed at communities in regional, rural and remote Australia, transportation plays an integral part in fostering the social and economic capacity of regional Australia and maintaining its links to the rest of the country. Agencies in the Transport and Regional Services portfolio support government priorities by delivering transport and regional services designed to link Australia.

These services contribute to economic prosperity and employment, accessibility, environmental sustainability, safety, and national culture. The portfolio's role in contributing to each of these key areas is discussed in turn.

The portfolio contributes to Australia's economic prosperity and employment by improving the effectiveness and efficiency of transport facilities - including continued development of a geographically and modally integrated transport system - both at the national and international level. The portfolio pursues strategies to improve Commonwealth, State and Territory, and private sector cooperation and investment in services to regional communities and in transport planning and policy processes. The portfolio also acts to enhance regional and remote communities' access to services.

The portfolio's policies pursue a reduction in the adverse impact transport operations may have on the Australian environment, consistent with the National Greenhouse Strategy, emissions standards and good operating practice. The portfolio also maintains effective and efficient environmental management in Australia's non-self-governing Territories.

By ensuring that high safety standards are maintained in all transport modes (including nationally and internationally harmonised safety standards), the portfolio provides services

to improve the safety of all Australians. It is also a priority of the portfolio to ensure that health and safety services within the non-self-governing Territories and other regional, rural and remote communities are at a reasonable standard when compared with the remainder of Australia.

The portfolio maintains strategies to ensure Canberra remains a national capital that provides a common link to all Australians to symbolise Australia's heritage, values and aspirations; that it is internationally recognised; and that it is one of which Australians can be proud.

The Budget provides additional funding for transport infrastructure including the National Highway System and Roads of National Importance, bridges and Black Spots, as well as funding to improve service delivery to rural and regional Australia.

From 2000-01 funding from the Goods and Services Tax, as part of *A New Tax System*, will replace financial assistance grants to local government and this accounts for the substantial decrease in administered expenses for the department. A number of specific capital projects, including the mainline inter-state rail upgrade and the Alice Springs to Darwin Railway, are to be expected to be completed in 2001-2002, which is reflected in the administered expenses estimates in 2002-03.

Major Outputs and Administered Items

The Department of Transport and Regional Services:

- provides policy advice and ministerial services;
- supplies regulatory, investigative and safety services relating to transport and regional matters;
- supplies services to communities, primarily targeted at fostering the social and economic capacity of communities as well as facilitating and maintaining links throughout Australia; and
- administers and collects revenue from a number of sources on behalf of the Government.

Departmental expenses in 1998-99 reflect work undertaken on a number of specific programmes, including the Environmental Impact Statement for the proposed second Sydney airport at Badgerys Creek and the Supermarket to Asia programme. The finalisation of these programmes accounts for the reductions in expenses 1999-2000.

The Department administers programmes on behalf of the Commonwealth aimed at fostering the social and economic capacity of communities as well as facilitating and maintaining their links with the rest of Australia. These programmes are:

- transport programmes designed to assist the social and economic capacity of Australian communities through access to efficient transport systems; and
- regional services programmes designed to enhance regional and remote communities access to services.

The National Capital Authority (NCA) is responsible for three classes of outputs. These are:

- review, amendment and administration of the National Capital Plan and National Land;
- culture and awareness strategies and programmes for the National Capital; and
- asset and land management and capital enhancement services.

The Australian Maritime Safety Authority (AMSA) provides services to search for, locate and rescue persons in distress within the aviation and maritime environment in the Australian search and rescue region in accordance with national and international obligations. AMSA also provides a framework to contribute to the safety of ships and ships' personnel consistent with community and international standards as well as a marine environment free from ship-sourced pollution.

The Civil Aviation Safety Authority is responsible for aviation standards, compliance and promotion. The increase in its departmental expenses is due to a major restructure of the organisation.

TREASURY

Table 17: Estimated Expenses* (\$m)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Department of the Treasury Departmental	78.8	98.7	88.7	85.6	85.5
Department of the Treasury Administered	26330.9	26985.5	8353.7	8878.4	7607.0
Australian Bureau of Statistics Departmental	252.0	267.7	292.5	376.9	285.8
Australian Taxation Office Departmental	1287.3	1586.3	1597.9	1488.1	1465.3
Australian Taxation Office Administered	1228.4	1260.2	1153.2	1029.2	1049.2
Australian Securities and Investment Commission Departmental	144.7	137.2	133.8	139.7	140.5
Australian Securities and Investment Commission Administered	3.0	2.0	2.0	2.0	2.0
<i>Small Agency Proxy Expenses**</i>					
Australian Competition and Consumer Commission Departmental	39.4	51.4	48.4	44.6	38.2
National Competition Council Departmental	3.0	3.1	3.1	3.0	3.1
Productivity Commission Departmental	23.2	22.1	21.8	21.8	22.0
Companies and Securities Advisory Committee Departmental	0.8	0.8	0.9	0.9	0.9
Australian Prudential Regulation Authority Departmental	48.6	55.1	54.2	52.7	47.3

* This table shows the gross expenses of each agency.

** Derived from the estimated agency revenues.

Overview

The Treasury portfolio undertakes a range of activities aimed at achieving strong sustainable economic growth, a continued reduction in unemployment and the improved well being of Australians. It does this through a number of agencies. This entails the provision of policy advice for portfolio Ministers which promotes a sound macroeconomic environment; effective government spending and taxation arrangements; and well functioning markets. It also entails the effective implementation and administration of policies that fall within Ministers' direct responsibilities.

Fiscal policy advice focuses on the Government's medium term strategy of ensuring that the Budget is in balance over the course of the economic cycle. The strategy is complemented by the Charter of Budget Honesty that holds the Commonwealth to a high level of fiscal transparency and accountability.

The portfolio also has responsibility for advancing Australia's interests at international forums such as the International Monetary Fund, the World Bank, the Asian Development Bank, the Organisation for Economic Cooperation and Development and

Asia Pacific Economic Cooperation. In light of the difficulties in the global economy, the portfolio is making a significant contribution to international efforts to sustain global economic stability and growth.

The management of government debt is undertaken within the portfolio. The 1999-2000 Budget includes a measure to establish the Australian Office of Financial Management within Treasury to significantly enhance the Commonwealth's capacity to manage its net debt exposures in the context of complex domestic and international financial markets.

The portfolio also provides on-going advice to portfolio Ministers on taxation policy; budget policy, including arrangements for the distribution of resources between the Commonwealth and other levels of government; policies to improve the competitiveness and productivity of Australian industries; retirement income policies, including superannuation and the age pension, and other income support arrangements.

At present, the portfolio is devoting significant resources to the development and implementation of the Government's taxation reform agenda, which encompasses significant reforms to income tax, indirect tax, family payments and Commonwealth-State financial relations. The Review of Business Taxation is supported by a Secretariat which includes officers from the Treasury. The 1999-2000 Budget provides additional resources to implement a number of aspects of the Government's tax reforms and this has an impact on the departmental expenses of the Australian Taxation Office (ATO) in particular. The outcome of tax reform will be stronger economic and employment growth and the improved well being of Australians.

The portfolio also advises its Ministers on microeconomic policies to enhance the operation of markets and increase the economy's capacity to grow without running into inflationary and external constraints. Specifically, this includes advice on: structural reforms to the economy and competition policy; the structure and functioning of the Australian financial system; business law and consumer affairs; and foreign investment.

Significant steps have been taken to enhance the framework for financial supervision following the Financial System Inquiry – including the establishment of the Australian Prudential Regulation Authority and the Australian Securities and Investment Commission (ASIC) – and to improve business and company regulation through the Corporate Law Economic Reform Program. The Government is taking these reforms to their next stage. In addition, the Government is providing additional resources in the 1999-2000 Budget with the aim of further enhancing Australia as a financial centre.

Major Outputs and Administered Items

The Department of the Treasury delivers outputs under its Economic, Budget and Markets groups.

Economic group outputs include domestic economic policy advice and forecasting; international policy advice and assessment; and debt management. The group manages significant administered items dealing with official government debt on behalf of the

Commonwealth. The Department of the Treasury's administered expenses contract over the forward estimates period mainly due to the abolition of Financial Assistance Grants to the States and Territories under the transformation of Commonwealth-State financial relations. Through *A New Tax System* the States and Territories will access revenue directly from the proceeds of the GST. In addition the declining debt level leads to lower public debt interest.

Budget group outputs include: budget policy advice and coordination, Commonwealth-State financial policy advice, industry policy advice and taxation and income support policy advice. The most significant administered item relates to financial transfers between the Commonwealth and the States.

Markets group outputs include: foreign investment policy advice and administration, financial system and markets policy advice and business, national competition policy and consumer protection policy advice. The Royal Australian Mint is responsible for producing Australia's circulating coin and like products.

The increase in the Treasury's departmental expenses is due to a number of new policy measures in 1999-2000. They include measures to establish the Australian Office of Financial Management (that will enhance the efficiency of the Commonwealth's debt management), allocating additional resources to the Corporations and Securities Panel so it can provide a more efficient mechanism for reviewing takeover activity and providing funding for initiatives to promote Australia as a Centre for Global Financial Services.

The Australian Bureau of Statistics is Australia's official statistics agency. Outputs are directed at research and informed decision making within governments and the community, based on the provision of a high quality, objective and responsive national statistical service. Its outputs principally relate to the production of economic, population and social statistics. The increase in its departmental expenses in 2000-01 and 2001-02 reflect the costs of conducting the next census.

The ATO's major outputs relate to managing the collection of taxation revenue for government, providing transfers (including collection of Higher Education Contribution, Superannuation Guarantee Levy and the payment of Family Assistance Rebates). The ATO also contributes to policy advice and legislation. Significant administered items relate to income tax, wholesale sales tax, excise and superannuation. The increase in the ATO departmental expenses is due to a number of new policy measures to implement the significant tax reforms announced by the Government in *A New Tax System*, including the administration of the GST.

Productivity Commission outputs include or relate to: Government commissioned projects, performance reporting and other services to government bodies, regulation review, competitive neutrality complaints, and the annual report.

The Australian Competition and Consumer Commission's outputs include: compliance obligations pursuant to the *Trade Practices Act 1974* and the *Prices Surveillance Act 1983*, statutory responsibilities arising from parts of other relevant Acts and subordinate regulatory instruments, and competition initiatives. Additional money has been

appropriated in this Budget for the Commission to conduct retail price monitoring on the introduction of a goods and services tax.

The Australian Prudential Regulation Authority's outputs enhance public confidence in Australia's financial institutions by providing prudential regulations which balance financial safety and efficiency, competition, contestability and competitive neutrality.

The ASIC outputs aim at a fair and efficient financial market through policy and guidance about the laws administered by ASIC, comprehensive and accurate information on companies and corporate activity, enforcement activity, and Corporations Law compliance monitoring.

The Companies and Securities Advisory Committee's outputs include policy advice to the Minister responsible for Corporations Law. The Committee also publishes an annual report and discussion papers.

The National Competition Council's outputs include advice to governments on competition policy and infrastructure access issues and clear, accessible public information on competition policy.

VETERANS' AFFAIRS

Table 18: Estimated Expenses* (\$m)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Department of Veterans' Affairs Departmental	222.4	221.6	220.5	217.5	219.3
Department of Veterans' Affairs Administered	7190.5	7278.6	7817.3	7789.7	7901.9
Australian War Memorial Departmental	19.0	23.2	23.7	24.2	24.6

* This table shows the gross expenses of each agency.

Overview

The Veterans' Affairs portfolio serves Australia's veterans, their widows, widowers and dependants through programmes of care, compensation and commemoration. The portfolio delivers these outcomes through the Department of Veterans' Affairs (DVA), and the Australian War Memorial (AWM).

DVA supports the Repatriation Commission, which is responsible for compensation, income support, health care and other services to veterans, war widows and widowers and dependants. In addition, DVA is responsible for the administration of the Defence Service Home Loans Scheme. The portfolio also includes the Office of the Australian War Graves, the Repatriation Medical Authority, the Specialist Medical Review Council and the Veterans Review Board.

The AWM helps Australians to remember, interpret and understand the Australian experience of war and its enduring impact on Australian society. It does this through the maintenance and development of the national Memorial and its extensive collection of national historical material, and the promotion of commemorative ceremonies, exhibitions and research.

Major Outputs and Administered Items

Through the portfolio the Government will incur expenses of \$7.5 billion in 1999-2000 to support veterans, war widows and other dependants through appropriate compensation, income support, health and other care services and commemoration activities.

Administered expenses on compensation and income support are expected to increase from \$4.6 billion in 1999-2000 to \$5 billion in 2000-01 largely as a result of compensation measures related to the reform of the Australian taxation system. Expenses are expected to fall to \$4.9 billion in 2001-02 and \$4.8 billion in 2002-03 as the increase in pension payments in those years is offset by an expected reduction in the number of service and disability pensioners over the same period (countered in part by an increased number of war widows).

DVA processes and determines claims for pensions and allowances, undertakes reviews and maintenance of those pensions, and provides assistance by way of interest subsidy under the Defence Service Home Loans scheme.

Administered expenses on health and other care services are estimated to increase from \$2.6 billion in 1999-2000 to around \$3.1 billion in 2002-03. This is mainly due to the ageing of the veteran population with consequent increases in demand for services such as veterans' hospital and health services, pharmaceutical services and nursing home subsidies. DVA administers the provision of health and other care services including the administration of contracts for hospital and other services.

The AWM, the Office of the Australian War Graves and the Their Service Our Heritage commemorative programme support the commemoration of the achievements and sacrifices of Australian men and women with specific events at international, national and local levels, the maintenance of war graves in Australia and overseas, and the maintenance and development of the national collection of historic material at the AWM.

Grants and assistance to ex-service organisations facilitate claims by veterans, fund joint ventures, and give veterans access to community information systems and residential and community care grants.

DVA maintains a network of offices and agency arrangements and liaises with veterans through ex-service organisations and through community support and development services which undertake health education and health promotion activities. Information is also disseminated via the publication of *Vetaffairs* and other publications provided to veterans, health providers and ex-service organisations. DVA provides services to the Minister and the Repatriation Commission and it develops policy and internal operating regulations.

CONTINGENCY RESERVE

Table 19: Estimated Expenses (\$m)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Contingency Reserve Departmental	-380.0	470.8	-456.7	-514.8	-560.5
Contingency Reserve Administered	-306.9	309.6	1166.9	2618.1	3791.6

Overview

The Contingency Reserve is the mechanism for which the aggregate estimates (revenues and expenses) are adjusted to take account of unanticipated events as well as anticipated events that cannot be assigned in advance to particular agencies. As such, the provisions in the Contingency Reserve ensure that the aggregate estimates are robust and are based upon the best information at the time of the Budget.

The Contingency Reserve is not set aside for future policy initiatives and is not appropriated in the Budget. Any allowances included in the Contingency Reserve can only be drawn upon once they have been appropriated by the Parliament.

Major Outputs and Administered Items

The major components of the Contingency Reserve for the budget and forward estimates include the following:

- an allowance for the tendency for budget estimates of expenses for existing government policy to be revised upwards in the forward years;
- an allowance for the tendency for estimates of administered expenses for some specific outcomes to be overstated in the budget year;
- commercial-in-confidence and national security-in-confidence items which cannot be disclosed separately;
- minor decisions made late in the Budget process; and
- the effect of economic parameter revisions on the budget and forward estimates received late in the process and hence not able to be allocated to individual agencies.

Part III: Statistical Appendix

Three tables are presented in this appendix covering estimated expenses of and staffing levels in the Commonwealth general government sector.

A list of tables in this appendix is provided below:

Table I Total Departmental Expenses by Agency

Table II Expenses by Type

Table III Estimates of Average Staffing Levels (ASL) of Agencies in the General Government Sector

Table I - Total Departmental Expenses by Agency (\$m)

Agency	1998-99	1999-00	2000-01	2001-02	2002-03
Material Agencies					
Aboriginal and Torres Strait Islander Commission	955.9	980.6	1010.2	1042.5	1070.5
Attorney-General's Department	170.1	195.8	181.8	173.6	166.3
AusAID	64.4	65.1	64.0	64.3	65.1
Australia Council	74.1	77.1	75.5	68.4	70.0
Australian Broadcasting Corporation	613.1	661.2	685.2	715.9	736.3
Australian Bureau of Statistics	252.0	267.7	292.5	376.9	285.8
Australian Customs Service	544.6	533.5	531.3	534.4	541.5
Australian Electoral Commission	151.1	164.2	84.0	148.6	83.8
Australian Federal Police	281.1	316.1	301.2	279.3	280.5
Australian Maritime Safety Authority	67.6	68.0	69.9	72.8	73.9
Australian Nuclear Science and Technology Organisation	105.6	113.9	115.3	121.8	115.6
Australian Securities and Investment Commission	144.7	137.2	133.8	139.7	140.5
Australian Sports Commission	114.2	117.8	97.0	92.1	95.8
Australian Taxation Office	1287.3	1586.3	1597.9	1488.1	1465.3
Australian Tourist Commission	128.6	131.7	133.9	132.0	117.9
Australian Trade Commission	165.6	175.1	171.1	170.8	167.9
Australian War Memorial	19.0	23.2	23.7	24.2	24.6
Australian Wool Research and Promotion Organisation	153.5	122.5	121.5	127.4	129.3
Centrelink	1752.0	1761.0	1787.4	1697.3	1698.2
Civil Aviation Safety Authority	86.4	94.0	83.5	80.4	81.8
Comcare Australia	160.6	156.9	168.6	178.2	187.3
Commonwealth Scientific and Industrial Research Organisation	736.0	756.0	754.8	766.2	778.8
Contingency Reserve - Budget	-380.0	470.8	-456.7	-514.8	-560.5
Defence Housing Authority	244.6	243.1	245.6	245.6	245.6
Agriculture, Fisheries and Forestry	322.6	312.8	277.9	248.1	231.3
Department of Communications, Information Technology and the Arts	273.1	180.7	168.9	157.5	158.0
Department of Defence	10165.8	10124.7	10441.1	10839.9	11123.3
Department of Education, Training and Youth Affairs	241.1	195.4	197.8	199.6	209.2
Department of Employment, Workplace Relations and Small Business	416.1	367.7	365.1	363.8	367.8
Department of the Environment and Heritage	393.4	388.3	380.6	369.3	344.0
Department of Family and Community Services	1980.9	2028.0	2058.0	1986.4	1996.7
Department of Finance and Administration	660.0	488.7	455.3	449.6	446.7
Department of Foreign Affairs and Trade	618.7	648.7	635.5	639.4	658.6

Table I - Total Departmental Expenses by Agency (\$m) - continued

Agency	1998-99	1999-00	2000-01	2001-02	2002-03
Department of Health and Aged Care	646.8	682.3	666.1	662.5	667.7
Department of Immigration and Multicultural Affairs	436.9	384.8	400.8	404.5	413.9
Department of Industry, Science and Resources	332.7	298.8	312.8	308.1	305.3
Department of the Prime Minister and Cabinet	49.8	51.3	46.8	47.5	48.4
Department of the Treasury	78.8	98.7	88.7	85.6	85.5
Department of Transport and Regional Services	182.4	165.8	167.1	168.3	162.0
Department of Veterans' Affairs	222.4	221.6	220.5	217.5	219.3
Family Court of Australia	121.8	114.7	114.5	116.2	118.4
Grains Research and Development Corporation	96.5	102.2	93.0	91.9	90.8
Health Insurance Commission	349.2	378.4	395.6	398.6	373.6
National Capital Authority	6.6	12.1	12.6	12.7	13.0
National Gallery of Australia	26.1	27.3	28.0	28.6	29.4
National Library of Australia	49.8	50.8	50.4	50.6	50.3
Office of Asset Sales and IT Outsourcing	16.4	32.9	10.1	0.4	-
Special Broadcasting Service Corporation	111.0	121.7	124.7	126.3	126.1
Small Agencies - Proxy Expenses					
Aboriginal Hostels Limited	35.9	43.4	44.4	45.3	46.3
Administrative Appeals Tribunal	26.2	28.2	27.6	27.8	28.3
Affirmative Action Agency	2.4	2.2	2.2	2.2	2.1
Australia New Zealand Food Authority	8.1	8.4	5.9	5.9	6.0
Australia-Japan Foundation	2.2	2.5	2.4	2.4	2.4
Australian Broadcasting Authority	13.8	16.1	16.5	16.4	15.7
Australian Centre for International Agricultural Research	43.7	45.8	46.1	45.9	46.2
Australian Communications Authority	47.1	53.7	51.6	49.9	50.9
Australian Competition and Consumer Commission	39.4	51.4	48.4	44.6	38.2
Australian Film Commission	16.6	17.5	17.5	17.6	17.8
Australian Film, Television and Radio School	13.6	19.0	19.6	19.9	20.3
Australian Greenhouse Office	31.3	57.0	41.4	32.7	35.0
Australian Heritage Commission	6.9	7.6	7.6	7.7	7.9
Australian Industrial Registry	41.6	39.8	41.3	41.5	42.1
Australian Institute of Aboriginal and Torres Strait Islander Studies	6.7	7.2	7.8	9.4	9.5
Australian Institute of Criminology	4.1	4.3	4.6	4.0	4.1
Australian Institute of Family Studies	4.7	4.5	4.6	4.5	4.6
Australian Institute of Health and Welfare	15.9	16.3	16.1	16.2	16.3
Australian Institute of Marine Science	24.3	30.8	32.2	32.0	33.3
Australian Law Reform Commission	3.0	3.0	3.1	3.1	3.2
Australian National Audit Office	52.0	48.5	50.3	50.5	51.9

Table I - Total Departmental Expenses by Agency (\$m) - continued

Agency	1998-99	1999-00	2000-01	2001-02	2002-03
Australian National Maritime Museum	17.7	25.7	26.7	25.6	25.7
Australian National Training Authority	11.3	10.9	11.0	11.1	11.3
Australian Prudential Regulation Authority	48.6	55.1	54.2	52.7	47.3
Australian Radiation Protection and Nuclear Safety Agency	14.1	14.0	14.4	14.8	14.8
Australian Secret Intelligence Service	37.8	42.5	42.6	42.7	43.5
Australian Security Intelligence Organisation	60.9	65.9	63.7	58.3	58.4
Australian Sports Drug Agency	5.7	5.8	5.9	5.8	5.8
Australian Transaction Reports and Analysis Centre (AUSTRAC)	7.7	11.8	10.9	10.8	11.0
Commonwealth Grants Commission	5.0	8.1	7.5	5.0	5.1
Companies and Securities Advisory Committee	0.8	0.8	0.9	0.9	0.9
Department of the House of Representatives	24.5	26.6	26.7	26.8	27.1
Department of the Parliamentary Library	14.9	16.5	16.7	16.7	16.7
Department of the Parliamentary Reporting Staff	37.0	42.6	42.0	43.8	43.3
Department of the Senate	27.2	28.5	28.4	28.7	29.1
Federal Court of Australia	60.1	64.9	66.2	67.7	69.4
Great Barrier Reef Marine Park Authority	25.8	28.3	28.6	28.9	28.0
High Court of Australia	7.8	24.9	25.0	25.1	25.3
Human Rights and Equal Opportunity Commission	16.0	16.0	17.0	17.0	17.3
Indigenous Land Corporation	55.4	54.6	55.3	56.0	56.7
Joint House Department (Departmental)	38.7	36.2	36.4	36.8	37.1
Migration Review Tribunal	9.9	10.8	10.2	9.8	9.9
National Competition Council	3.0	3.1	3.1	3.0	3.1
National Crime Authority	47.5	52.3	44.7	45.2	40.9
National Museum of Australia	13.8	15.6	37.1	40.5	40.9
National Native Title Tribunal	23.7	22.3	22.4	22.6	23.0
National Occupational Health and Safety Commission	17.1	20.0	20.0	20.2	20.5
National Standards Commission	3.1	3.8	3.8	3.9	3.9
National Parks and Wildlife	35.4	54.0	54.6	55.5	56.4
Office of Film and Literature Classification	5.9	5.4	5.4	5.4	5.4
Office of Inspector-General of Intelligence and Security	0.7	0.6	0.6	0.6	0.6
Office of National Assessments	7.3	6.8	6.7	6.8	6.9
Office of Parliamentary Counsel	6.5	6.4	6.5	6.5	6.6
Office of the Commonwealth Ombudsman	7.8	8.1	8.1	8.2	8.2
Office of the Director of Public Prosecutions	60.9	56.5	58.8	57.2	58.3
Office of the Official Secretary to the Governor-General	7.0	8.5	8.9	9.1	9.4
Private Health Insurance Ombudsman	0.7	1.0	1.0	1.0	1.0
Productivity Commission	23.2	22.1	21.8	21.8	22.0

Table I - Total Departmental Expenses by Agency (\$m) – continued

Agency	1998-99	1999-00	2000-01	2001-02	2002-03
Professional Services Review	1.6	3.4	4.9	6.9	7.5
Public Service and Merit Protection Commission	20.9	19.1	19.1	19.2	19.1
Refugee Review Tribunal	18.4	16.3	14.2	14.2	14.0
Torres Strait Regional Authority	41.0	45.1	46.0	41.5	42.7

Table II - Expenses by Type (\$m)

	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Goods and Services							
Employees	16234	17649	15033	15016	14843	14912	15002
Suppliers	9885	9044	11670	13670	12198	12073	11700
Depreciation and Amortisation	2457	2295	2308	2477	2776	2956	3169
Net write down of assets	919	3317	1497	1431	1341	1277	1294
Net foreign exchange losses	366	2571	-140	2	2	2	2
Net losses from asset sales	191	239	25	43	15	24	13
Other goods and services expenses	267	5627	4899	5246	4913	5046	5292
Total goods and Services	30319	40742	35292	37885	36089	36289	36472
Subsidies benefits and grants							
Personal benefits	57578	57914	59105	61939	68851	71682	75956
Subsidies	4372	4983	3508	3824	4215	4540	4734
Grants	42251	40662	43013	44602	26607	28724	27760
Total subsidies benefits and grants	104201	103559	105626	110366	99674	104945	108449
Interest and other							
Interest and other financing costs	12444	10391	9265	8860	8012	7122	6511
Total interest and other	12444	10391	9265	8860	8012	7122	6511
Total Expenses	146964	154692	150183	157111	143776	148357	151432

Average Staffing Levels

Commonwealth departments and agencies are seeking to achieve more efficient operations. No staffing targets have been set by the Government and relevant portfolios and agencies are expected to address staffing levels in accordance with output budgeting plans. In previous years, only those agencies operating on the Commonwealth Public Account reported information in the Budget papers. With the introduction of accrual budgeting, the coverage of the report on staffing levels has been expanded in these Budget papers to include all agencies in the general government sector.

This Appendix includes estimates provided by each general government sector agency on Average Staffing Levels (ASL). The total ASL for the general government sector is forecast to decline by some 2,000 in 1999-2000 when compared to 1998-99 figures. The most significant reductions are estimated to be in permanent military personnel as a consequence of the Defence Reform Programme, and in Centrelink as the result of continued restructuring to improve service delivery. The most significant increase in ASL is estimated to occur in the Australian Taxation Office that will carry key responsibility for implementing the Government's tax initiatives under *A New Tax System*.

ASL is the average number of employees receiving salary or wages over the financial year, with adjustments for casual and part-time employees to show the full time equivalent. This measure of employment also includes non-uniformed staff and overseas personnel and therefore represents the totality of general government employment.

A significant number of agencies that operate in the general government sector employ staff under the *Public Service Act 1922*. The total number of these staff (also known as point-in-time estimates) is taken from a survey of these agencies (Public Service Act agencies), which is conducted by the Public Service and Merit Protection Commission (PSMPC).

ASL statistics allow for a comparison between employment in particular financial years, rather than reflecting the actual number of staff being employed at the end of the successive financial years or at specific points in time. Based on point-in-time figures provided by Public Service Act agencies to the PSMPC, it is expected that the total number of people employed (full-time and part-time permanent and temporary staff) under the *Public Service Act 1922* will increase by some 800 between 30 June 1999 and 30 June 2000. A reduction of 4,400 is now expected by Public Service Act agencies to occur between 30 June 1998 and 30 June 1999. In the 1998-99 Budget papers, portfolios predicted a reduction of around 9000 over the same period.

Total ASL is estimated to decline in 1999-2000 while point-in-time figures are estimated to increase for the same period. This is due to differences in the coverage of the two series with total ASL including all general government sector agencies while point-in-time figures are based only on Public Service Act agencies. The impact of the staff reductions in uniformed military personnel are only reflected in the ASL figures and not in the point-in-time figures. Comparisons between the two series are also complicated by the timing of staffing changes during the financial year. In particular the staff increases associated with the Government's new tax initiatives are reflected less heavily in ASL estimates compared with point-in-time estimates because they will not occur until later in 1999-2000.

Table III - Estimates of Average Staffing Levels (ASL) of Agencies in the General Government Sector

	Average Staffing Levels		
	1998-99 Estimate	1999-00 Estimate	Change
Parliament			
Department of the Senate	246.0	250.0	4.0
Department of the House of Representatives	235.0	235.0	0.0
Department of the Parliamentary Library	190.0	186.0	-4.0
Department of Parliamentary Reporting Staff	289.0	289.0	0.0
Joint Houses of Parliament (departmental item expenses only)	265.0	264.0	-1.0
Total	1225.0	1224.0	-1.0
Agriculture, Fisheries and Forestry			
Department of Agriculture, Fisheries and Forestry	2943.1	2852.1	-91.0
Australian Dried Fruits Board	1.0	1.0	0.0
Australian Fisheries Management Authority	101.0	100.0	-1.0
Australian Horticultural Corporation	23.0	26.0	3.0
Australian Pork Corporation	38.7	38.7	0.0
Australian Wine and Brandy Corporation	28.0	29.0	1.0
Australian Wool Research and Promotion Organisation (a)	450.0	404.0	-46.0
Cotton Research and Development Corporation	8.0	8.0	0.0
Dairy Research and Development Corporation	19.5	22.5	3.0
Fisheries Research and Development Corporation	8.0	9.0	1.0
Forest and Wood Products Research and Development Corporation	8.0	9.0	1.0
Grains Research and Development Corporation	35.0	36.0	1.0
Grape and Wine Research and Development Corporation	1.0	1.0	0.0
Horticultural Research and Development Corporation	17.4	19.6	2.2
Land and Water Resources Research and Development Corporation	20.8	20.8	0.0
National Registration Authority for Agricultural and Veterinary chemicals	107.6	109.6	2.0
Pig Research and Development Corporation	10.0	10.3	0.3
Rural Industries Research and Development Corporation	15.7	15.7	0.0
Sugar Research and Development Corporation	5.5	5.5	0.0
Total	3841.3	3717.8	-123.5
Attorney-General's			
Attorney-General's Department	1549.1	1571.3	22.2
Administrative Appeals Tribunal	164.0	162.0	-2.0
Australian Customs Service	4076.0	3980.0	-96.0
Australian Federal Police	2689.0	2751.0	62.0
Australian Institute of Criminology	34.0	35.0	1.0
Australian Law Reform Commission	22.0	22.0	0.0
Australian Secret Intelligence Organisation	513.2	580.3	67.1

Table III - Estimates of Average Staffing Levels (ASL) of Agencies in the General Government Sector - continued

	Average Staffing Levels		
	1998-99 Estimate	1999-00 Estimate	Change
Australian Transaction Reports and Analysis Centre (Austrac)	50.0	46.0	-4.0
Family Court	840.0	800.0	-40.0
Federal Court of Australia	284.0	292.0	8.0
High Court of Australia	86.7	83.0	-3.7
Human Rights and Equal Opportunity Commission	130.0	130.0	0.0
National Crime Authority	260.0	285.0	25.0
National Native Title Tribunal	213.0	215.0	2.0
Office of Film and Literature Classification	39.5	42.8	3.3
Office of Parliamentary Counsel	39.0	43.0	4.0
Office of the Director of Public Prosecutions	437.0	440.0	3.0
Total	11426.5	11478.4	51.9
Communications, Information Technology and the Arts			
Department of Communications, Information Technology and the Arts	1172.0	1135.0	-37.0
Australia Council	118.0	120.0	2.0
Australian Broadcasting Authority	142.0	157.0	15.0
Australian Broadcasting Corporation	4138.0	4138.0	0.0
Australian Communications Authority	425.0	405.0	-20.0
Australian Film Commission	62.0	62.0	0.0
Australian Film Television and Radio School	148.9	146.2	-2.7
Australian National Maritime Museum	90.0	90.0	0.0
National Gallery	210.0	210.0	0.0
National Library of Australia	450.0	450.0	0.0
National Museum of Australia	95.0	125.0	30.0
Special Broadcasting Service Corporation	730.0	730.0	0.0
Total	7780.9	7768.2	-12.7
Defence			
Department of Defence	16730.0	16471.0	-259.0
Military Reserves (b)	3964.0	4230.0	266.0
Permanent Military	52997.0	50000.0	-2997.0
Defence Housing Authority	230.0	250.0	20.0
Department of Veterans' Affairs	2404.0	2394.0	-10.0
Australian War Memorial	215.0	223.0	8.0
Total	76540.0	73568.0	-2972.0
Education, Training and Youth Affairs			
Department of Education, Training and Youth Affairs	1389.0	1303.0	-86.0
Australian National Training Authority	106.4	105.0	-1.4
Total	1495.4	1408.0	-87.4
Employment, Workplace Relations and Small Business			
Department of Employment, Workplace Relations and Small Business	1963.0	1983.0	20.0

Table III - Estimates of Average Staffing Levels (ASL) of Agencies in the General Government Sector - continued

	Average Staffing Levels		
	1998-99 Estimate	1999-00 Estimate	Change
Affirmative Action Agency	19.0	21.0	2.0
Australian Industrial Registry	280.0	290.0	10.0
Comcare	295.0	290.0	-5.0
National Occupational Health and Safety Commission	130.0	136.0	6.0
Total	2687.0	2720.0	33.0
Environment and Heritage			
Department of Environment and Heritage	2505.9	2498.9	-7.0
Australian Greenhouse Office	100.0	125.0	25.0
Australian Heritage Commission	80.9	80.4	-0.5
Director, National Parks and Wildlife	315.0	315.0	0.0
Great Barrier Reef Marine Park Authority	140.0	148.0	8.0
Total	3141.8	3167.3	25.5
Family and Community Services			
Department of Family and Community Services (c)	5340.0	5165.0	-175.0
Australian Institute of Family Studies	36.0	38.0	2.0
Centrelink	22272.0	21400.0	-872.0
Total	27648.0	26603.0	-1045.0
Finance and Administration			
Department of Finance and Administration	1104.0	786.0	-318.0
Australian Electoral Commission	786.0	786.0	0.0
Commonwealth Grants Commission	51.0	64.0	13.0
Commonwealth Superannuation Administration (ComSuper)	348.0	348.0	0.0
Office of Asset Sales and IT Outsourcing	50.0	55.0	5.0
Total	2339.0	2039.0	-300.0
Foreign Affairs and Trade			
Department of Foreign Affairs and Trade	3585.0	3539.0	-46.0
Australia-Japan Foundation	5.0	5.0	0.0
Australian Agency for International Development	580.0	580.0	0.0
Australian Centre for International Agricultural Research	50.0	50.0	0.0
Australian Trade Commission	1019.0	1034.0	15.0
Total	5239.0	5208.0	-31.0
Health and Aged Care			
Department of Health and Aged Care	2629.2	2760.5	131.3
Aged Care Standards and Accreditation Agency	115.0	122.0	7.0
Australia New Zealand Food Authority	68.0	57.0	-11.0
Australian Institute of Health and Welfare	142.7	136.1	-6.6
Australian Radiation Protection and Nuclear Safety Agency	94.0	110.0	16.0
Health Insurance Commission	3700.0	3850.0	150.0
Private Health Insurance Administration Council	7.0	7.0	0.0
Private Health Insurance Ombudsman	6.5	7.5	1.0
Professional Services Review Scheme	6.0	20.0	14.0

Table III - Estimates of Average Staffing Levels (ASL) of Agencies in the General Government Sector - continued

	Average Staffing Levels		
	1998-99 Estimate	1999-00 Estimate	Change
Total	6768.4	7070.1	301.7
Immigration and Multicultural Affairs			
Department of Immigration and Multicultural Affairs	3535.0	3426.0	-109.0
Migration Review Tribunal (includes the former Immigration Review tribunal)	65.0	109.0	44.0
Refugee Review Tribunal	172.0	183.0	11.0
Total	3772.0	3718.0	-54.0
Industry, Science and Resources			
Department of Industry, Science and Resources	2091.3	2087.6	-3.7
Australian Institute of Marine Science	126.0	135.0	9.0
Australian Nuclear Science and Technology Organisation	798.0	800.0	2.0
Australian Sports Commission	365.0	367.0	2.0
Australian Sports Drug Agency	40.6	39.0	-1.6
Australian Tourist Commission	194.5	211.3	16.8
Commonwealth Scientific and Industrial Research Organisation	6299.0	6330.0	31.0
IP Australia	704.0	701.0	-3.0
National Standards Commission	33.9	33.2	-0.7
Total	10652.3	10704.1	51.9
Prime Minister and Cabinet			
Department of Prime Minister and Cabinet	371.0	358.0	-13.0
Aboriginal and Torres Strait Islander Commercial Development Corp	12.0	12.0	0.0
Aboriginal and Torres Strait Islander Commission	1242.0	1242.0	0.0
Aboriginal Hostels Ltd	386.0	403.0	17.0
Australian Institute of Aboriginal and Torres Strait Islander Studies	65.0	64.0	-1.0
Australian National Audit Office	275.0	289.0	14.0
Indigenous Land Corporation	55.2	80.0	24.8
Office of Inspector-General of Intelligence and Security	4.6	4.6	0.0
Office of National Assessments	58.0	66.0	8.0
Office of the Commonwealth Ombudsman	87.0	84.0	-3.0
Office of the Official Secretary to the Governor General	76.6	78.2	1.6
Public Service and Merit Protection Commission	155.0	150.0	-5.0
Torres Strait Regional Authority	29.0	29.0	0.0
Total	2816.4	2859.8	43.4
Transport and Regional Services			
Department of Transport and Regional Services	762.0	818.0	56.0
Australian Maritime Safety Authority	413.0	369.0	-44.0
Civil Aviation Safety Authority	656.9	633.9	-23.0
National Capital Authority	55.0	58.5	3.5
Total	1886.9	1879.4	-7.5

Table III - Estimates of Average Staffing Levels (ASL) of Agencies in the General Government Sector - continued

	Average Staffing Levels		
	1998-99 Estimate	1999-00 Estimate	Change Estimate
Treasury			
Department of the Treasury	509.0	515.0	6.0
Australian Bureau of Statistics	2909.0	2920.0	11.0
Australian Competition and Consumer Commission	357.0	372.0	15.0
Australian Prudential Regulation Authority	378.0	446.0	68.0
Australian Securities and Investment Commission	1267.0	1272.0	5.0
Australian Taxation Office (d)	14217.0	16289.0	2072.0
Companies and Securities Advisory Committee	4.0	4.0	0.0
National Competition Council	20.8	19.8	-1.0
Productivity Commission	215.0	195.0	-20.0
Total	19876.8	22032.8	2156.0
Grand Total (e)	189136.6	187165.9	-1970.8

- (a) Australian Wool Promotion and Research Organisation ASL reflects a large contingent of overseas staff.
- (b) The ASL estimates for reserve military forces are based on full time equivalent salaries of reserve personnel.
- (c) ASL numbers for Family and Community Services includes the Child Support Agency.
- (d) The Australian Taxation Office indicates an increase in ASL of 2072 in 1999-2000 which is necessary for the implementation of the Government's tax initiatives under *A New Tax System* (ANTS). This increase will be funded significantly by financial contributions from the states.
- (e) In the 1998-99 Budget Papers this table reported only on budget funded agencies which included 154312 ASL for the budget year. This year the table has expanded the coverage of agencies from those which belong to the budget sector to the whole of the general government sector. The general government sector includes large agencies outside the budget sector as for example the Commonwealth Scientific and Industrial Research Organisation and the Health Insurance Commission.

STATEMENT 6: REVENUE

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STATEMENT 6: REVENUE

Part I: Budget Estimates

Table 1 compares revenue estimates for 1998-99 with estimates for 1999-2000.¹

Table 1: Revenue Estimates

	1998-99	1999-00	Change on 1998-99	
	Estimate \$m	Estimate \$m	\$m	%
Tax Revenue				
Income Tax				
Individuals -				
Gross PAYE	68270	72970	4700	6.9
Gross Other Individuals(a)	12090	12400	310	2.6
Gross PPS(b)	2650	2710	60	2.3
Medicare Levy	4160	4330	170	4.1
Refunds	9880	11330	1450	14.7
Total Individuals	77290	81080	3790	4.9
Companies(a)	21270	22940	1670	7.9
Superannuation Funds(a)(c)	3870	3900	30	0.8
Withholding Tax	1210	1310	100	8.3
Petroleum Resource Rent Tax	420	720	300	71.4
Total Income Tax	104060	109950	5890	5.7
Indirect Tax				
Wholesale Sales Tax(d)	15083	15659	576	3.8
Excise Duty -				
Petroleum Products and Crude Oil(d)(e)	9544	9745	202	2.1
Other(d)	2633	2931	298	11.3
Customs Duty(d)(f)	3643	3644	2	..
Total Indirect Tax	30902	31979	1077	3.5
Other Taxes, Fees and Fines(g)	5885	5849	-36	-0.6
TOTAL TAX REVENUE(g)	140847	147779	6932	4.9
Non-Tax Revenue	12502	15050	2548	20.4
TOTAL REVENUE(g)	153349	162828	9479	6.2

(a) Includes tax on realised capital gains.

(b) PPS denotes Prescribed Payments System which includes Reportable Payments System payments by individuals (around \$2 million in both 1998-99 and 1999-2000).

(c) Includes superannuation contributions surcharge.

(d) Excludes revenue raised by the Commonwealth on an agency basis for the States and Territories (eg Revenue Replacement Payments).

(e) Estimates for Petroleum Products Excise are net of the Diesel Fuel Rebate Scheme.

(f) Customs duty includes customs duty imposed on imported petroleum products, tobacco, beer and spirits, which is akin to excise duty on these items (around \$870 million in 1998-99 and around \$890 million in 1999-2000).

(g) Consistent with GFS reporting standards, excludes Fringe Benefits Tax collected from Commonwealth Government agencies (estimated at \$245 million in 1998-99 and \$274 million in 1999-2000).

¹ All references to 'revenue' in this Statement refer to accrual revenue unless explicitly noted otherwise. Totals and sub-totals in tables may not add due to rounding.

In 1999-2000, taxation revenue is expected to grow by 4.9 per cent over estimated revenue in 1998-99. As a share of GDP, tax revenue is expected to remain unchanged at 23.8 per cent in 1999-2000. Total revenue is expected to increase by 6.2 per cent, with the ratio of revenue to GDP increasing slightly to 26.3 per cent from 25.9 per cent in 1998-99.

The growth in taxation revenue in 1999-2000 reflects ongoing expansion of economic activity, with growth expected in all revenue heads except for other taxes, fees and fines. Particularly strong growth is expected in: company tax, reflecting income growth through 1998-99; petroleum resource rent tax, as a result of the resumption of production in Victoria; and other excise, due to reform of tobacco taxation announced in *A New Tax System* (see Part I of *Budget Paper No. 2*).

Non-taxation revenue is expected to grow by 20.4 per cent in 1999-2000. This largely reflects expectations of higher dividend payments from Government Business Enterprises and the Reserve Bank of Australia.

Revenue measures contained in this Budget add \$27.7 million to revenue in 1999-2000, \$21.9 million in 2000-01, \$16.6 million in 2001-02 and \$25.9 million in 2002-03. Further details of revenue measures introduced since the 1998-99 Budget are included in Appendix A, and all measures introduced in the 1999-2000 Budget are described in full in *Budget Paper No. 2*.

The revenue estimates are influenced by the forecast pace and composition of economic activity. The 1999-2000 revenue estimates are based on the following major economic parameter forecasts:

- growth in nominal GDP of around 4¾ per cent;
- average earnings (national accounts basis, excluding Superannuation Guarantee Charge) growth of around 3¾ per cent;
- growth in wage and salary employment of 1½ per cent;
- an increase in nominal private consumption of around 5¾ per cent; and
- growth in 1998-99 company income of around 4½ per cent.

Taxation Revenue

Individuals Income Tax

Estimates for 1998-99 and 1999-2000 for the major categories of individuals income tax are shown in Table 1.

Gross Pay-As-You-Earn (PAYE) Instalment Deductions

Wage and salary earners pay income tax on a PAYE basis through tax instalment deductions made by their employers.

Gross PAYE collections are expected to rise by 6.9 per cent in 1999-2000 in response to forecast growth in average earnings and growth in wage and salary employment.

Gross Other Individuals

The Gross Other Individuals category includes all income tax paid by individuals, other than those made through the PAYE and Prescribed Payments System (PPS) categories. Tax revenue comprises provisional tax payments and debit assessments on income tax returns (ie where PAYE, PPS or provisional tax credits are insufficient to meet the tax assessed on income). Taxpayers in this category derive their income from salaries and wages, business, primary production, property and capital gains.

A taxpayer's provisional tax liability in a given year is generally determined by increasing the previous year's assessed income by a provisional tax uplift factor (referenced to the year-average growth rate of nominal GDP for the preceding calendar year). Taxpayers who expect their income to grow by less than the uplift factor may elect to lodge a provisional tax variation to reduce provisional tax instalments. Current year tax revenue for other individuals is made up of provisional tax instalments, where necessary, together with any balance on assessment.

Gross revenue from this item is expected to rise by 2.6 per cent in 1999-2000. The relatively slow growth in forecast revenue in 1999-2000 is largely due to expected slow growth in 1998-99 incomes. However, strong debit assessments in 1998-99 are expected to contribute positively to revenue in 1999-2000 via higher provisional tax (arising from both a higher tax base and the uplift factor).

Gross Prescribed Payments System (PPS)

The PPS is a withholding system for income tax collection, which applies to certain payments made under contracts for the performance of work. The PPS operates in certain industries (eg building and construction). A payer who makes a prescribed payment is required to make tax instalment deductions from the payment and remit the amount deducted to the Australian Taxation Office. The payee claims a credit for the amount deducted in his or her tax return. For the PPS to apply, the relationship between the payer and the payee must not be one of common law employment, in which case the PAYE system will operate.

Revenue from this item in 1999-2000 is expected to increase by 2.3 per cent, reflecting ongoing growth in residential construction activity, partly offset by weaker non-residential construction.

Medicare Levy

Revenue from the Medicare levy in 1999-2000 is expected to rise by 4.1 per cent, mainly reflecting growth in the taxable income of individuals.

Individuals Income Tax Refunds

A final assessment of tax liability for individual taxpayers is made on the basis of returns lodged after the end of a financial year. Refunds are made where tax credits exceed the final assessment. Where tax credits are insufficient to meet the final tax liability, taxpayers make an additional payment, which is collected under the Other Individuals income tax category.

Refunds in 1999-2000 are estimated to grow by 14.7 per cent, largely due to ongoing growth in income tax collected from individuals during 1998-99, and a number of measures. These include the savings rebate announced in the 1997-98 Budget and the 30 per cent private health insurance rebate announced in *A New Tax System*.

Company and Other Income Tax

Table 2 contains estimates for 1998-99 and 1999-2000 for company and other income tax items.

Table 2: Company and Other Income Tax

	1998-99 Estimate \$m	1999-00 Estimate \$m	Change on 1998-99 %
Companies(a)	21270	22940	7.9
Superannuation Funds(a)(b)	3870	3900	0.8
Withholding Tax			
Resident	130	130	-
Non-resident			
Interest	540	570	5.6
Dividend	179	239	33.5
Royalty	360	370	2.8
Mining	1	1	-
Total Withholding Tax	1210	1310	8.3
Petroleum Resource Rent Tax	420	720	71.4
TOTAL	26770	28870	7.8

(a) Includes tax on realised capital gains.

(b) Includes superannuation contributions surcharge.

Company Income Tax

The general tax rate for companies is 36 per cent, with concessional rates applying to certain income of life assurance companies, registered organisations, pooled development funds, small credit unions and offshore banking units.

Company tax revenue is recognised as accruing to the Commonwealth when a liability for a taxation instalment arises, either through assessment by the Australian Taxation Office or through self-assessment by the taxpayer. Companies, other than small companies, are required to make one or two quarterly instalment payments (depending on the size of the company's estimated tax liability) in the year income is earned, with the remainder paid in the following year (or substituted accounting period). Small companies are required to make a single instalment payment in the financial year (or substituted accounting period) following the year income is earned. From the 2000-01 income year, the new company tax payment arrangements announced in *A New Tax System* will bring payments of company tax forward.

Company income tax is forecast to grow by 7.9 per cent in 1999-2000, largely reflecting the estimated growth in company taxable income in 1998-99. The new company tax payment arrangements will also begin to take effect for companies with early balancing dates, resulting in higher revenue in 1999-2000.

Superannuation Funds Tax

Superannuation funds are generally taxed at the concessional rate of 15 per cent in relation to investment income and certain contributions received. Superannuation funds tax is recognised as accruing to the Commonwealth on a similar basis to companies. Payments are made according to the same schedule as applies to company income tax.

Superannuation funds tax is expected to rise only slightly in 1999-2000. While contributions to superannuation funds in 1998-99 are expected to continue to rise, taxable earnings are expected to slow following strong growth in the previous income year.

Withholding Tax

Withholding tax is levied on:

- income payments to residents who, when making an investment, do not supply the investment body with a tax file number;
- certain interest, dividend and royalty payments to non-residents; and
- payments made to Aboriginal groups for the use of Aboriginal land for mineral exploration and mining.

The estimated increase in withholding tax in 1999-2000 of 8.3 per cent is largely due to the introduction of deferred company tax (announced in *A New Tax System*) on dividends paid to non-residents.

Petroleum Resource Rent Tax (PRRT)

Under the Commonwealth's *Petroleum (Submerged Lands) Act 1967*, PRRT applies to offshore areas other than the North West Shelf production license areas and associated exploration permit areas, which are subject to excise and royalty arrangements. PRRT is levied at the rate of 40 per cent of taxable profit from a petroleum project.

PRRT is expected to increase by 71.4 per cent in 1999-2000 mainly due to a recovery in Bass Strait oil production following the disruption to Victorian gas supplies in late 1998.

Indirect Tax

Table 3 shows estimates for 1998-99 and 1999-2000 of various indirect taxes.

Table 3: Indirect Tax

	1998-99 Estimate \$m	1999-00 Estimate \$m	Change on 1998-99 %
Wholesale Sales Tax	15083	15659	3.8
Excise Duty			
Petroleum Products -			
Leaded Petrol	1783	1491	-16.4
Unleaded Petrol	4702	5092	8.3
Diesel	2908	2912	0.1
Other(a)	121	135	11.7
Total Petroleum Products	9515	9631	1.2
Crude Oil	29	115	293.5
Other Excise -			
Beer	840	857	2.0
Potable Spirits	265	271	2.0
Tobacco Products	1528	1804	18.1
Total Other Excise	2633	2931	11.3
Total Excise	12177	12677	4.1
Customs Duty(b)	3643	3644	..
TOTAL	30902	31979	3.5

(a) Includes aviation gasoline, aviation turbine fuel, fuel oil, heating oil and kerosene, and refunds/drawbacks relating to petroleum products excise.

(b) Customs duty collections include customs duty imposed on imported petroleum products, tobacco, beer and spirits, which is akin to excise duty on these items (around \$870 million in 1998-99 and around \$890 million in 1999-2000).

Wholesale Sales Tax (WST)

WST is imposed on a range of goods destined for consumption in Australia and is levied at the last wholesale or import point on the wholesale sales value of taxable goods. In 1999-2000, taxable goods will continue to be variously subject to tax rates of 12, 22, 26, 32 and 45 per cent, depending on the classification of the goods involved. These rates do not include the surcharge rates on alcohol arising from the safety net arrangements

implemented following the High Court decision invalidating State and Territory business franchise fees (which are collected by the Commonwealth on an agency basis for the States and Territories). The 32 per cent WST rate (other than that applying to furs and jewellery) will be reduced to 22 per cent 21 days after Royal Assent is given to the Goods and Services Tax (GST) legislation. This seeks to remove the incentive for consumers to delay purchases of items which they expect will fall in price under the GST.

The estimated increase in WST revenue of 3.8 per cent in 1999-2000 mainly reflects forecast growth in the nominal value of taxable goods, partly offset by changes in consumption patterns prior to the introduction of the GST. Due to the difficulty in predicting the likely behavioural responses of consumers to the expected relative price changes, there is greater than usual uncertainty associated with the 1999-2000 WST estimate.

Excise Duty

Petroleum products excise includes excise on motor spirit (petrol), diesel fuel, aviation gasoline, aviation turbine fuel, fuel oil, heating oil and kerosene. It is imposed at specific rates per litre of product. *Crude oil excise* includes excise collected from offshore fields in the North West Shelf production license areas which are not subject to PRRT, and onshore fields and coastal waters.

Excise revenue from other petroleum products, which include aviation gasoline, aviation turbine fuel, fuel oil, heating oil and kerosene, is expected to grow by 11.7 per cent, primarily reflecting the introduction of new excise rates for aviation gasoline and aviation turbine fuel. The introduction of these new excise rates will partly fund the implementation of air safety programmes and help maintain air navigation services at regional and general aviation airports (see Part I of *Budget Paper No. 2*).

Excise revenue from total petroleum products is expected to increase by 1.2 per cent in 1999-2000 mainly reflecting an expected increase in consumption of unleaded petrol and the indexation of excise rates. The fall in excise collections from leaded petrol reflects a continuing decline in the number of vehicles that exclusively use leaded petrol.

Other excise is derived from beer, potable spirits and tobacco products. It is imposed at a specific rate per kilogram on tobacco products, on the alcoholic content of beer in excess of 1.15 per cent by volume and on the distilled alcohol in other products such as spirits and mixed drinks. Wine, wine products and other fermented alcohol are exempt from excise.

Excise revenue from these products is expected to increase by 11.3 per cent in 1999-2000, largely reflecting moderate growth in alcohol consumption and a rise in the value of tobacco excise resulting from the reform to tobacco taxation announced in *A New Tax System* (also see Part I of *Budget Paper No. 2*).

Excise Indexation

The rates of duty for excisable commodities (with the exception of crude oil) are adjusted each August and February in line with half-yearly Consumer Price Index (CPI) movements. If the change in the CPI is negative, the excise rate is not reduced but instead the decline is carried forward to be offset against the next positive CPI movement.

All revenue from the excise duty on aviation gasoline and aviation turbine fuel contributes to the funding of aviation programmes. In addition to the impact of indexation described above, the rates of excise and customs duty applying to aviation fuels are adjusted, as necessary, depending on the funding requirements of those programmes (see Part I of *Budget Paper No. 2*).

Existing excise rates are shown in Table 4.

Table 4: Excise Rates^(a)

Commodity	Rates applying from 1 August 1998 \$	Rates applying from 1 February 1999 \$
Petroleum (per litre)		
Leaded Petrol	0.37093	0.37353
Unleaded Petrol	0.34905	0.35149
Diesel (gross)	0.34905	0.35149
Aviation Gasoline	0.01721	0.01733
Aviation Turbine Fuel	0.01796	0.01809
Fuel Oil	0.07243	0.07294
Heating Oil	0.07243	0.07294
Kerosene	0.07243	0.07294
Beer (per litre of alcohol over 1.15 per cent)	15.99	16.10
Potable Spirits (per litre of alcohol)		
Brandy	31.78	32.00
General rate for Other Spirits	37.21	37.47
Tobacco Products (per kg)	84.78	85.37

(a) These rates refer to the Commonwealth component of excise.

Customs Duty

Ad valorem tariffs are applied to many categories of imports. Customs duty revenue is affected by the Australian dollar value of imports, the level of the statutory tariff rates applied to imports and the composition of imports between high and low tariff rates. Around 60 per cent of total imports by value enter duty free.

Customs duty revenue is expected to remain almost unchanged in 1999-2000, with moderate growth in the value of imports being offset by continuing tariff rate reductions.

Other Taxes, Fees and Fines

Table 5 shows estimates for 1998-99 and 1999-2000 of the various categories of other taxes, fees and fines.

Table 5: Other Taxes, Fees and Fines

	1998-99 Estimate \$m	1999-00 Estimate \$m	Change on 1998-99 %
Fringe benefits tax - external entities	3235	3286	1.6
Primary industry charges and levies - domestic	705	542	-23.1
Primary industry charges and levies - export	4	3	-16.4
License fees	109	110	0.7
Corporation law fees	349	353	1.1
Immigration fines	8	8	-0.5
Immigration fees	190	183	-3.9
Wool tax	87	74	-14.2
Departure Tax	217	247	13.7
Other(a)	981	1044	6.4
TOTAL	5885	5849	-0.6

(a) Includes all other tax revenue collected by Commonwealth agencies.

Fringe Benefits Tax (FBT)

FBT applies to a range of benefits provided by employers to their employees or associates of their employees. FBT is expected to rise by 1.6 per cent in 1999-2000, with the effect of general remuneration growth being partly offset by the effects of fringe benefits being included on employee group certificates, as announced in *A New Tax System*. This change is expected to result in some conversion of fringe benefits into ordinary income, resulting in lower FBT and higher individuals income tax.

Primary Industry Charges and Levies

Domestic primary industry charges and levies are expected to fall by 23.1 per cent in 1999-2000, mainly due to the privatisation of the Wool and Wheat Boards, and restructuring of the red meat industry. Primary industry charges and levies are used to fund various boards and bodies that operate in the primary industry sector.

Non-Taxation Revenue

Table 6 shows estimates for 1998-99 and 1999-2000 of the various categories of non-taxation revenue.

Table 6: Non-Taxation Revenue

	1998-99 Estimate \$m	1999-00 Estimate \$m	Change on 1998-99 %
Sales of goods and services	2505	2496	-0.4
Interest			
Interest from Other Governments	449	369	-17.9
Interest from Other Sources(a)	1852	2461	32.9
Total Interest	2301	2830	23.0
Dividends			
Dividends from Associated Entities	4126	5958	44.4
Dividends from Other Sources	75	57	-24.1
Total Dividends	4201	6014	43.2
Net foreign exchange gains	360	-	na
Net gains from sale of assets	27	9	-66.6
Other sources of non-tax revenue(b)	3107	3700	19.1
TOTAL	12502	15050	20.4

(a) Includes mainly interest revenue from swaps (around \$1.5 billion in 1998-99 and around \$1.7 billion in 1999-2000, which have been netted off from swap interest payments in previous budgets) and interest revenue from cash balances.

(b) Includes all other non-tax revenue collected by Commonwealth agencies.

Interest

Interest from Other Governments

This item mainly comprises revenue from the States and Territories on General Purpose and Specific Purpose Borrowings.

The Commonwealth receives interest payments from the States in respect of borrowings made on behalf of the States under the State Governments' Loan Council Programme and from the Northern Territory in respect of advances made under similar general purpose capital assistance arrangements. Payments relating to these advances are made in turn by the Commonwealth to bond-holders.

Interest from the States on General Purpose Borrowings is declining as a result of the June 1990 Loan Council decision that the States make additional payments to the Debt Retirement Reserve Trust Account (with analogous payments from the Territories) each year, to facilitate the redemption of all maturing Commonwealth securities issued on their behalf. The reduction in interest revenue from the States and Territories is matched by a reduction in public debt interest expense. Interest will be lower in 1999-2000 compared to 1998-99, reflecting repayments of outstanding debt to the Commonwealth in 1998-99.

The Commonwealth also receives interest on advances made under Commonwealth-State Housing Agreements, States (Works and Housing) Assistance Acts, Northern Territory Housing Advances and from the Australian Capital Territory on debts assumed upon self-government. Interest from the States on Specific Purpose Borrowings will be lower in 1999-2000 compared to 1998-99, reflecting repayments of advances to the Commonwealth in 1998-99.

Interest from Other Sources

This item includes interest income on Commonwealth cash balances and on other financial assets, including swap transactions entered into as a component of debt management operations. Interest revenue from swaps is included on a gross basis for the first time. Previously interest revenue from swaps was netted off from swap interest payments.

Dividends

The main providers of dividends to the Commonwealth are its Government Business Enterprises (GBEs) and the Reserve Bank of Australia (RBA).

Dividends are expected to rise by 43.2 per cent in 1999–2000, mainly due to higher dividend payments from some GBEs and an above average dividend payment from the RBA. Dividend payments received from the RBA are affected by movements in interest rates and the exchange rate over the course of the financial year and hence can be quite volatile.

The Royal Australian Mint also provides dividend revenue to the Commonwealth. This includes seigniorage from circulating coin production, royalties from numismatic coin sales and annual dividends from the profits the Mint makes as the manufacturer of these products. An increase in revenue mainly reflects anticipated increases in circulating coin sales and higher numismatic royalties and profits associated with growth in the Sydney 2000 Olympic Coin Programme.

Other Sources of Non-Tax Revenue

This item is expected to increase by 19.1 per cent in 1999-2000, in part due to slippages in the expected timing of the sale of Special Drawing Rights (SDRs), from an International Monetary Fund SDR allocation, to the RBA. Approximately \$470 million of revenue that was originally expected to accrue in 1998-99 is now expected to accrue in 1999-2000. There is an offsetting movement on the expenses side.

In addition, the Australian Taxation Office will accrue \$350 million in revenue from the States in the form of GST administration costs in 1999-2000. However, the cash payment will not be received until 2000-01.

Part II: Forward Estimates of Revenue

Estimates of the major categories of revenue, for 1999-2000 to 2002-03, are shown in Table 7.

Table 7: Forward Estimates of Revenue

	1999-00		2000-01		2001-02		2002-03	
	Estimate \$b	Change on 1998-99 %	Estimate \$b	Change on 1999-00 %	Estimate \$b	Change on 2000-01 %	Estimate \$b	Change on 2001-02 %
Individuals Tax	81.1	4.9	71.4	-12.0	77.9	9.1	82.4	5.9
Per cent of GDP	13.1		10.9		11.2		11.1	
Other Income Tax	28.9	7.8	39.7	37.5	36.4	-8.5	38.7	6.6
Per cent of GDP	4.7		6.0		5.2		5.2	
Total Income Tax	110.0	5.7	111.1	1.0	114.2	2.8	121.2	6.1
Per cent of GDP	17.7		16.9		16.4		16.4	
Indirect Tax	32.0	3.5	22.1	-30.8	22.0	-0.7	23.1	5.0
Per cent of GDP	5.2		3.4		3.2		3.1	
Total Tax(a)	147.8	4.9	139.2	-5.8	142.5	2.3	150.7	5.8
Per cent of GDP	23.8		21.2		20.4		20.4	
Non-Tax Revenue	15.0	20.4	11.3	-25.1	11.3	0.2	12.3	9.3
Per cent of GDP	2.4		1.7		1.6		1.7	
TOTAL REVENUE	162.8	6.2	150.5	-7.6	153.8	2.2	163.1	6.1
Per cent of GDP	26.3		22.9		22.1		22.1	

(a) Includes Other Taxes, Fees and Fines.

The revenue projections have been made on the conventional assumption of no change in current policy. Therefore, the forward estimates of revenue are principally affected by projected growth in economic parameters and policy measures contained in this and previous budgets, including *A New Tax System*.

Taxation revenue generally mirrors economic activity during periods of fairly steady economic growth (as depicted by the economic projections in this Budget), but tends to swing more sharply during periods of economic contraction and expansion and more sharply than nominal GDP growth. The forward revenue estimates are also particularly susceptible to changes in the extent of tax minimisation and avoidance action by taxpayers.

Total revenue as a proportion of GDP is expected to:

- slightly increase to 26.3 per cent in 1999-2000 from 25.9 per cent in 1998-99; and
- fall to significantly lower levels in 2000-01, 2001-02 and 2002-03, due largely to the impact of *A New Tax System*.

Individuals tax falls in 2000-01 due to the introduction of lower personal tax rates in that year. Other income tax rises sharply in 2000-01 before falling in 2001-02. This is a result of the move to the new company tax payment arrangements, which result in some companies being assessed under both the new and existing arrangements in 2000-01. This results in higher accrued revenue in that year, even though companies will be allowed to defer payment of part of their liability to later years.

Indirect tax falls sharply in 2000-01 as a result of the abolition of WST. Revenue from the GST is not reported as the Commonwealth will be collecting this tax on an agency basis for the States and Territories.

Table 8 reconciles revenue estimates at the time of the *Mid-Year Economic and Fiscal Outlook 1998-99* (1998-99 MYEFO) and the 1999-2000 Budget in terms of policy decisions and parameter and other variations.

Table 8: Reconciliation of Revenue Estimates

	1998-99 \$m	1999-00 \$m	2000-01 \$m	2001-02 \$m
Revenue at 1998-99 MYEFO(a)	153224	158492	151258	154327
Changes from MYEFO to 1999-2000 Budget				
Effect of policy decisions	-118	-124	-121	-21
Effect of parameter and other variations	243	4459	-642	-546
Total variations	125	4336	-764	-568
Revenue at 1999-2000 Budget	153349	162828	150494	153759

(a) Estimates of revenue at the 1998-99 MYEFO are based on accrual data collected for the 1999-2000 Budget.

Appendix A: Revenue Measures

Table A1 provides a summary of the revenue measures introduced since the 1998-99 MYEFO. A full description of all 1999-2000 Budget revenue measures can be found in Part I of *Budget Paper No. 2*.

Table A1: Revenue Measures since the 1998-99 MYEFO^(a)

	Estimated Change in Revenue ^(b)			
	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
Measures introduced in the 1999-2000 Budget				
Income Tax				
Amendments to the Pooled Development Funds programme	-	-2.0	-3.0	-5.0
Cessation of the Tax Incentive for Heritage Conservation	-	1.1	1.1	1.1
Indirect Tax				
Civil Aviation Safety Authority cost recovery	8.6	8.6	8.6	8.6
Funding for Airservices (location specific pricing) subsidy	11.4	5.1	-	-
Non-Tax				
Australian Communications Authority cost recovery	-	0.7	0.3	-
Cost recovery for Australian Broadcasting Authority costs associated with digital television	1.2	1.2	1.0	-
Phasing out of the Higher Education Equity Merit Scholarship Scheme	-	0.2	0.5	0.8
Increase Private Health Insurance Levy	0.3	0.3	0.3	0.3
Review package - enhancement of portfolio review tribunals and extension of Asylum Seekers Assistance scheme	8.2	7.8	7.9	8.1
Increase in the non-Electronic Travel Authority visitor visa charge	6.9	7.7	8.4	9.2
Increase in the onshore long-stay visitor visa application charge	1.2	1.4	1.5	1.6
Establish an immigration presence at the Australian Consulate General post in East Timor	1.0	1.1	1.2	1.4
Non-recovery for the Australian Geological Survey Organisation's offshore petroleum programme	-11.0	-11.0	-11.0	-
Civil Aviation Safety Authority restructuring	-0.1	-0.3	-0.2	-0.2
Sub-Total	27.7	21.9	16.6	25.9
Measures introduced up to the 1999-2000 Budget				
Income Tax				
Taxation of collective investment vehicles	na	*	*	*
Tax relief for post-judgment interest awards in personal injury compensation cases	-14.0	-2.0	-2.0	-2.0
Taxation measures to encourage philanthropy	-5.5	-51.0	-61.0	-71.0
Deductibility of gifts	*	*	*	*
Software expenditure	*	*	*	*
Superannuation Surcharge – abolition of advance instalment	-	-120.0	-10.0	-5.0
New investment rules for superannuation funds	-	-	-	-

Table A1: Revenue Measures since the 1998-99 MYEFO^(a) (continued)

	Estimated Change in Revenue ^(b)			
	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
Indirect Tax				
Luxury car tax	na	35.0	40.0	40.0
Reduction in 32 per cent WST rate: date of effect	13.0	-	-	-
Reform of tobacco taxation – deferral of start date ^(c)	-140.0	-	-	-
Tariff on steel tinsplate and aluminium cansheet	0.3	-	-	-
Removal of tariff on machine tool parts	-5.0	-5.0	-5.0	-5.0
Privatisation of the wool stockpile – tax treatment of trading stock	*	*	*	*
Sub-Total	-151.3	-143.0	-38.0	-43.0
TOTAL IMPACT OF REVENUE MEASURES ^(d)	-123.6	-121.1	-21.4	-17.1

* The nature of this measure is such that a reliable estimate cannot be provided.

(a) Accrual revenue.

(b) A minus sign before an estimate indicates a reduction in revenue; no sign before an estimate indicates a gain to revenue.

(c) The reported cost reflects only the delayed introduction of the measure. Incorporating this measure and parameter changes since MYEFO, the announcement to reform tobacco taxation is expected to raise \$440 million in a full year. There will be an increase in revenue in 1999-2000 over that announced in *A New Tax System* of around \$50 million.

(d) Measures may not add due to rounding.

Table A2 provides a summary of the revenue measures introduced between the 1998-99 Budget and the 1998-99 MYEFO.

Table A2: Revenue Measures up to the 1998-99 MYEFO^(a)

	Estimated Change in Revenue ^(b)			
	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
Measures included in the 1998-99 MYEFO^(c)				
Measures introduced up to the <i>1998 Pre-Election Fiscal Outlook</i>				
Defer start date for opting out of the Superannuation Guarantee System	-	-	-	-
Cessation of the TCF Import Credit Scheme	-	107.0	120.0	133.6
Extension of the TCF Overseas Assembly Provisions	-	-8.0	-8.0	-8.2
A New Tax System	739.0	-16651.0	-17541.0	-20708.0
Student Visa Programme – additional revenue from visa processing	4.1	4.6	5.2	5.3
Extension of Electronic Travel Authority to Hong Kong and Taiwan from 1 July 1999 ^(d)	-9.5	-10.5	-11.6	-12.4
Sub-Total	733.6	-16557.9	-17435.5	-20589.7
Measures Introduced Since the <i>1998 Pre-Election Fiscal Outlook</i>				
Administrative Changes to Project By-Law Scheme	-0.6	-0.6	-0.7	-0.7
Removal of Tariffs on Medical and Scientific Equipment	-28.4	-33.2	-38.8	-45.4
Taxation Treatment on Disposal of Mining Property	*	*	*	*
Sub-Total	-28.9	-33.8	-39.5	-46.1
TOTAL IMPACT OF REVENUE MEASURES^(e)	704.5	-16591.7	-17475.0	-20635.8

* The nature of this measure is such that a reliable estimate cannot be provided.

(a) Cash revenue.

(b) A minus sign before an estimate indicates a reduction in revenue; no sign before an estimate indicates a gain to revenue.

(c) Descriptions of these measures are provided in the *Mid-Year Economic and Fiscal Outlook 1998-99*.

(d) Further information on client numbers since the *Mid-Year Economic and Fiscal Outlook 1998-99* suggests that the impact of this measure may be lower than originally estimated.

(e) Measures may not add due to rounding.

Appendix B: Tax Expenditures

Overview

This appendix discusses the effect on revenue of concessional taxation treatment of specific groups and/or activities. Consistent with data published in previous Tax Expenditures Statements (TES), all the data contained in this appendix have been compiled on a cash basis.

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

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

Aggregate Tax Expenditures

Table B1 shows estimates for the period 1995-96 to 2002-03 of aggregate tax expenditures. The availability of new information, and decisions taken since the 1996-97 TES was published, has led to a re-estimation of actual costs and forward projections for aggregate tax expenditures. The 1997-98 TES will be published shortly.

The document *A New Tax System* outlined significant reforms to both expenses and revenues — some of which will impact on the costings of tax expenditures. The treatment of *A New Tax System* in the figures in Table B1 is as follows.

- Those measures that do not fundamentally alter the way in which a tax is assessed, and therefore do not affect the benchmarks against which a tax expenditure is costed (see Attachment A of the 1996-97 TES), include the impact of *A New Tax System* in their estimates/projections. For example, any tax expenditures relating to personal income will take into account the new personal income tax rates which, under *A New Tax System*, come into effect from July 2000.
- The impact of *A New Tax System* measures that fundamentally alter the way in which a tax is assessed, and which therefore require an alteration to the benchmark, such as changes to the taxation regime applying to trusts, have not been included in the tax expenditure costings below.

The treatment reflects the difficulty of defining a benchmark prior to legislation being passed by the Parliament. Further, substantial elements of the package will not be decided until the *Review of Business Taxation* (which is currently examining many of these tax expenditures in consultation with business) has completed its work.

Table B1: Aggregate Tax Expenditures 1995-96 to 2002-03

Year	Superannuation (\$m)	Other Tax Expenditures(a) (\$m)	Total (\$m)	Tax Expenditures as a Proportion of GDP (%)
1995-96	8315	9506	17821	3.50
1996-97	9160	10117	19277	3.62
1997-98	9110	10359	19469	3.45
1998-99 (est)	9440	11623	21063	3.56
1999-2000 (est)	9900	12427	22327	3.60
2000-01 (proj)	8745	10868	19613	2.98
2001-02 (proj)	8855	10068	18923	2.71
2002-03 (proj)	9265	10423	19688	2.66

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

In analysing the data presented in Table B1, there are a number of considerations that must be kept in mind.

- These figures will understate the total cost to revenue of tax expenditures. The TES does not provide a comprehensive listing of all tax expenditures, and some of those that are identified have not been costed due to a lack of data.
- Tax expenditures in the form of delayed tax payments (such as depreciation allowances, which merely defer tax revenue collections to a later date), have been excluded from the estimates of aggregate tax expenditures.
- Changes over time in methodology and available data used for calculating the cost of particular expenditures means that there can be quite large revisions to tax expenditure estimates. Therefore particular tax expenditure estimates may not be strictly comparable from year to year.
- Forward projections for the outyears can be subject to considerable uncertainty. Caution should be exercised when trying to draw strong conclusions on longer-term trends.

Tax Expenditures by Functional Categories

Table B2 compares the costs of identified tax expenditures for which a cost has been estimated in 1997-98 with underlying outlays by functional category.

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

Table B2 indicates there is considerable variation in the importance of tax expenditures to particular sectors of the economy. For example, while a relatively small level of assistance was provided through tax expenditures to the Education sector, over 91 per cent of the total Government assistance to the Fuel and Energy sector was provided in the form of tax expenditures.

The most significant category of tax expenditures was Social Security and Welfare, accounting for \$14.2 billion, or about 73 per cent of total tax expenditures. This compares with the next largest category (Mining and Mineral Resources other than fuels, Manufacturing and Construction) at almost \$1 billion, or about 5 per cent of total tax expenditures.

Table B2: Aggregate Tax Expenditures and Direct Outlays by Functional Category, 1997-98

Functional Category	Tax Expenditures(a) \$m	Budget Outlays(b) \$m	Total \$m
General Public Service			
Legislative and Executive Affairs	< 1	532	532
Financial and Fiscal Affairs	-	1726	1726
Foreign Economic Aid	206	1719	1925
General Research	< 1	1225	1225
General Services	5	-231	-226
Government Superannuation Benefits	-	1596	1596
Defence	65	10473	10538
Public Order and Safety	-	999	999
Education	15	10756	10771
Health	552	20647	21199
Social Security & Welfare	14155	50182	64337
Housing and Community Amenities	217	1028	1245
Recreation and Culture	50	1287	1337
Fuel and Energy	571	55	626
Agriculture, Forestry and Fishing	236	1991	2227
Mining and Mineral Resources other than Fuels; Manufacturing; and Construction	974	1649	2623
Transport and Communication	36	1066	1102
Other Economic Affairs			
Tourism and Area Promotion	70	91	161
Labour and Employment Affairs	23	2555	2578
Other Economic Affairs, nec	963	288	1251
Other Purposes			
Public Debt Interest	-	8401	8401
General Purpose Inter-Government Transactions	-	17842	17842
Natural Disaster Relief	-	76	76
Contingency Reserve	-	-	-
Asset Sales	-	-151	-151
Not Allocated to Function	1331	-	1331
TOTAL	19469	135803	155272

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

(b) Outlays are reported on an underlying basis.

Appendix C: Revenue Statistics 1988-89 to 1999-2000 (Cash Basis)

Table C1: Commonwealth Revenue (\$m)^(a)

	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99(b)	1999-00(b)
Tax Revenue												
Income Tax												
Individuals -												
Gross PAYE	39106	41322	41704	41388	43035	44451	48078	53302	57401	62116	67630	72310
Gross Other	9666	9958	10932	8865	7905	8217	8971	9538	11110	11499	11770	12070
Gross PPS(c)	1440	1912	1693	1563	1589	1781	2049	2059	2110	2384	2600	2660
Medicare Levy(d)	2320	2545	2480	2385	2415	2870	3030	3350	4150	3760	4100	4270
Refunds	4984	5672	6546	7516	7433	6743	7481	7835	8318	8935	9880	11330
Total Individuals	47548	50065	50263	46685	47511	50575	54647	60414	66453	70822	76220	79980
Companies	10265	12926	14166	13419	13071	12700	15588	18252	19173	19406	21060	22040
Superannuation	7	376	1053	1139	1522	1191	1913	1634	2595	3093	3770	3940
Withholding Tax	737	915	901	941	764	877	903	1349	1080	1137	1210	1310
Petroleum Resource Rent Tax	-	42	293	876	1389	1072	865	791	1308	907	420	720
Fringe Benefits Tax	990	1168	1262	1327	1344	1417	2740	3031	3163	3168	3230	3280
Total Income Tax	59547	65493	67938	64387	65602	67833	76656	85470	93773	98534	105910	111270
Indirect Tax												
Sales Tax	9402	10132	9365	9113	9252	10414	11624	12955	13308	14085	15080	15450
Excise Duty -												
Crude Oil and LPG	1188	1232	1354	64	116	62	27	13	9	16	29	115
Petroleum Products	5828	6416	6642	7093	7200	8499	9406	10224	10543	10895	9521	9635
Other Excise Duty	2252	2239	2364	2324	2361	2253	2567	2612	2739	2663	2630	2930
Total Excise Duty	9268	9888	10360	9482	9677	10814	12001	12849	13291	13574	12180	12680
Customs Duty	3752	3954	3319	3299	3331	3226	3474	3124	3289	3637	3640	3640
Total Indirect Tax	22422	23974	23044	21893	22260	24455	27099	28928	29888	31296	30900	31770

Table C1: Commonwealth Revenue (\$m)^(a) — continued

	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99(b)	1999-00(b)
Tax Revenue (cont.)												
Other Taxes, Fees and Fines	1928	1876	2243	1690	1572	1736	1933	1988	2154	2387	2392	2371
TOTAL TAX REVENUE	83897	91343	93225	87970	89434	94024	105687	116386	125815	132217	139202	145411
Non-Tax Revenue												
Interest Received	3755	3473	3309	2976	2477	2051	1790	1403	1126	1139	2158	2704
Dividends and Other	1144	1178	1558	2563	3150	4671	2952	3899	4089	3610	10304	12523
TOTAL NON-TAX REVENUE	4899	4651	4867	5539	5627	6722	4743	5302	5216	4749	12462	15226
TOTAL REVENUE	88796	95995	98093	93509	95062	100747	110430	121688	131031	136966	151664	160637

(a) Figures up to and including 1997-98 are on a Budget Sector basis. Figures for 1998-99 and 1999-2000 are on a General Government sector basis.

(b) Estimates for 1998-99 and 1999-2000 are derived using cash flow data from the Commonwealth's new accrual accounting system. As a result, the categories 'Interest Received' and 'Dividends and Other' now include items that were netted off in previous budgets. For example, Interest Received now includes receipts from swaps (around \$1.5-2 billion) and Dividends and Other now includes 'Sales of goods and services' (around \$2.5-3 billion) and 'Other sources of non-tax revenue' (around \$3 billion), which were previously netted off. Estimates for Petroleum Products Excise are net of the Diesel Fuel Rebate Scheme.

(c) PPS denotes Prescribed Payments System.

(d) The Medicare levy was increased from 1.5 to 1.7 per cent for the period from 1 July 1996 to 30 June 1997 to fund the guns buy-back scheme.

Table C2: Major Categories of Revenue as a Proportion of Gross Domestic Product (per cent)

	Tax Revenue													Non-Tax Revenue			Total Revenue		
	Income Tax				Other Tax Revenue									Total Tax Revenue	Interest	Dividends and Other	Total Non-Tax Revenue	Total Revenue	
	Individuals				Excises					Total Other Tax (f)	Sales Tax	Customs Duty							
	Gross PAYE (a)	Gross Other (a)	Gross PPS (a)	Total (b)	Companies	Super Funds	FBT	Total (c)	Petroleum Products (d)				Other (e)	Total Excises					
1988-89	11.8	2.9	0.4	13.6	2.9	..	0.3	17.0	2.0	0.6	2.6	2.7	1.1	7.0	23.9	1.1	0.3	1.4	25.3
1989-90	11.4	2.7	0.5	13.1	3.4	0.1	0.3	17.1	2.0	0.6	2.6	2.6	1.0	6.8	23.9	0.9	0.3	1.2	25.1
1990-91	11.1	2.9	0.4	12.7	3.6	0.3	0.3	17.2	2.0	0.6	2.6	2.4	0.8	6.4	23.6	0.8	0.4	1.2	24.8
1991-92	10.8	2.3	0.4	11.5	3.3	0.3	0.3	15.9	1.8	0.6	2.3	2.3	0.8	5.8	21.7	0.7	0.6	1.4	23.1
1992-93	10.6	2.0	0.4	11.2	3.1	0.4	0.3	15.4	1.7	0.6	2.3	2.2	0.8	5.6	21.0	0.6	0.7	1.3	22.3
1993-94	10.5	1.9	0.4	11.3	2.8	0.3	0.3	15.1	1.9	0.5	2.4	2.3	0.7	5.8	21.0	0.5	1.0	1.5	22.5
1994-95	10.8	2.0	0.5	11.5	3.3	0.4	0.6	16.2	2.0	0.5	2.5	2.5	0.7	6.1	22.3	0.4	0.6	1.0	23.3
1995-96	11.1	2.0	0.4	11.9	3.6	0.3	0.6	16.8	2.0	0.5	2.5	2.6	0.6	6.1	22.9	0.3	0.8	1.0	24.0
1996-97	11.5	2.2	0.4	12.5	3.6	0.5	0.6	17.7	2.0	0.5	2.5	2.5	0.6	6.0	23.7	0.2	0.8	1.0	24.7
1997-98	11.7	2.2	0.4	12.6	3.4	0.5	0.6	17.5	1.9	0.5	2.4	2.5	0.6	6.0	23.5	0.2	0.6	0.8	24.3
1998-99(g)	12.1	2.1	0.5	12.9	3.6	0.6	0.5	17.9	1.6	0.4	2.1	2.5	0.6	5.6	23.5	0.4	1.7	2.1	25.6
1999-00(g)	12.3	2.1	0.5	12.9	3.6	0.6	0.5	17.9	1.6	0.5	2.0	2.5	0.6	5.5	23.5	0.4	2.0	2.5	25.9

(a) The totals for these categories include Medicare levy collections.

(b) The total for the individuals category includes Medicare levy collections and refunds.

(c) The total for the income tax category also includes refunds, Medicare levy collections, PRRT and withholding tax.

(d) Petroleum products excise includes crude oil and LPG excise.

(e) The 'Other' category comprises excise from beer, potable spirits and tobacco.

(f) As well as excises, sales tax and customs duty, 'Other Tax Revenue' includes other taxes, fees and fines.

(g) Estimates for 1998-99 and 1999-2000 are on a General Government sector basis and are derived using cash flow data from the Commonwealth's new accrual accounting system. Note that the categories 'Interest' and 'Dividends and Other' include significant new items that were netted off in previous budgets. Estimates for Petroleum Products Excise are net of the Diesel Fuel Rebate Scheme.

Table C3: Major Categories of Revenue as a Proportion of Total Revenue (per cent)

	Tax Revenue															Non-Tax Revenue		
	Income Tax								Other Tax Revenue							Interest	Dividends and Other	Total Non-Tax Revenue
	Individuals				Companies	Super Funds	FBT	Total (c)	Excises			Sales Tax	Customs Duty	Total Other Tax (f)				
	Gross PAYE (a)	Gross Other (a)	Gross PPS (a)	Total (b)					Petroleum Products (d)	Other (e)	Total Excises							
1988-89	46.5	11.3	1.6	53.5	11.6	..	1.1	67.1	7.9	2.5	10.4	10.6	4.2	27.4	94.5	4.2	1.3	5.5
1989-90	45.5	10.8	2.0	52.2	13.5	0.4	1.2	68.2	8.0	2.3	10.3	10.6	4.1	26.9	95.2	3.6	1.2	4.8
1990-91	44.8	11.6	1.7	51.2	14.4	1.1	1.3	69.3	8.2	2.4	10.6	9.5	3.4	25.8	95.0	3.4	1.6	5.0
1991-92	46.8	9.8	1.7	49.9	14.4	1.2	1.4	68.9	7.7	2.5	10.1	9.7	3.5	25.2	94.1	3.2	2.7	5.9
1992-93	47.7	8.8	1.8	50.0	13.7	1.6	1.4	69.0	7.7	2.5	10.2	9.7	3.5	25.1	94.1	2.6	3.3	5.9
1993-94	46.8	8.6	1.9	50.2	12.6	1.2	1.4	67.3	8.5	2.2	10.7	10.3	3.2	26.0	93.3	2.0	4.6	6.7
1994-95	46.1	8.6	2.0	49.5	14.1	1.7	2.5	69.4	8.5	2.3	10.9	10.5	3.1	26.3	95.7	1.6	2.7	4.3
1995-96	46.4	8.3	1.8	49.6	15.0	1.3	2.5	70.2	8.4	2.1	10.6	10.6	2.6	25.4	95.6	1.2	3.2	4.4
1996-97	46.7	9.0	1.7	50.7	14.6	2.0	2.4	71.6	8.1	2.1	10.1	10.2	2.5	24.5	96.0	0.9	3.1	4.0
1997-98	48.0	8.8	1.8	51.7	14.2	2.3	2.3	71.9	8.0	1.9	9.9	10.3	2.7	24.6	96.5	0.8	2.6	3.5
1998-99(g)	47.1	8.2	1.8	50.3	13.9	2.5	2.1	69.8	6.3	1.7	8.0	9.9	2.4	22.0	91.8	1.4	6.8	8.2
1999-00(g)	47.5	7.9	1.7	49.8	13.7	2.5	2.0	69.3	6.1	1.8	7.9	9.6	2.3	21.3	90.5	1.7	7.8	9.5

(a) The totals for these categories include Medicare levy collections.

(b) The total for the individuals category includes Medicare levy collections and refunds.

(c) The total for the income tax category also includes refunds, Medicare levy collections, PRRIT and withholding tax.

(d) Petroleum products excise includes crude oil and LPG excise.

(e) The 'Other' category comprises excise from beer, potable spirits and tobacco.

(f) As well as excises, sales tax and customs duty, 'Other Tax Revenue' includes other taxes, fees and fines.

(g) Estimates for 1998-99 and 1999-2000 are on a General Government sector basis and are derived using cash flow data from the Commonwealth's new accrual accounting system. Note that the categories 'Interest' and 'Dividends and Other' include significant new items that were netted off in previous budgets. Estimates for Petroleum Products Excise are net of the Diesel Fuel Rebate Scheme.

STATEMENT 7: GENERAL GOVERNMENT EXPENDITURE AND FUNDING

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INTRODUCTION

This is the first Capital Budget Statement to be prepared for the Commonwealth general government sector.

As owner, the Government is responsible for ensuring that agencies have access to new capital when additional investment is required to deliver outputs efficiently and competitively, having regard to the cost of capital.

Agencies are responsible for ensuring that the value of the Government's investment is maintained in accordance with Government policies. Normally, this requires each agency to ensure that revenues cover all expenses, including depreciation.

The purpose of this statement is to show the Government's capital management by detailing agency investment and funding decisions.

CAPITAL EXPENDITURE

Capital expenditure involves the purchase of non-current assets necessary for agencies to produce their outputs and achieve their outcomes. Capital expenditure may be funded by:

- **INTERNAL FUNDS, WHICH CAN BE MADE UP OF:**
 - cash from operations;
 - capital appropriations made by the Government in preceding years; and
 - sales of agency assets; or

- **CAPITAL APPROPRIATIONS, WHICH INCLUDES EQUITY INJECTIONS AND LOANS.**

Details of capital expenditure by agency by portfolio are shown in Table A.

CAPITAL APPROPRIATIONS

A capital appropriation is the means by which the Government can provide capital funding to its agencies. There are four types of capital appropriation:

- **EQUITY INJECTIONS;**

- **LOANS;**
- **APPROPRIATION OF PREVIOUS YEARS CARRYOVERS; OR**
- **ADMINISTERED CAPITAL.**

Details of capital appropriations by agency by portfolio are shown in Table B.

Tables A and B are aggregations of agency data. That is, they are not consolidated tables as they do not eliminate transactions between general government sector agencies. This presentation improves the visibility of the Commonwealth's investment in its individual agencies.

Not all capital appropriations shown in Table B will be reflected in Table A as being applied to capital expenditure. Capital appropriations may be used to extinguish liabilities or to fund one-off expenses such as agency internal restructuring. Further, there will be some instances where a capital appropriation in one year is used to finance capital expenditure in another year.

Equity injections are a direct injection of cash into an agency, where the Government earns a return on its investment in the form of a dividend and/or improved performance. In the case of loans the Government provides cash which is repayable with interest by the agency.

In the move to accrual budgeting, there is a transitional difficulty associated with carryovers of 1998-99 running costs appropriations. Under the previous running cost arrangements agencies might have received additional funding for appropriations not expended in the previous year. In order to avoid a distortion of the price of outputs, it was decided that carryovers of running costs from 1998-1999 would be made available to agencies in the form of a specifically identified equity injection. This is a transitional issue for 1999-2000 only.

Administered capital comprises equity injections and carryovers for activities administered by agencies in their fiduciary capacity, on behalf of the Government. In this role agencies do not provide a service for which they earn revenue, rather they implement government policy on the behalf of the Government.

A STRATEGIC OVERVIEW OF CAPITAL EXPENDITURE AND CAPITAL APPROPRIATIONS IN THE GENERAL GOVERNMENT SECTOR

Total capital expenditure for the general government sector is estimated at \$5.0 billion in 1999-2000 and \$14.9 billion over the period 2000-01 to 2002-03.

Chart 1: Total capital expenditure in general government sector agencies

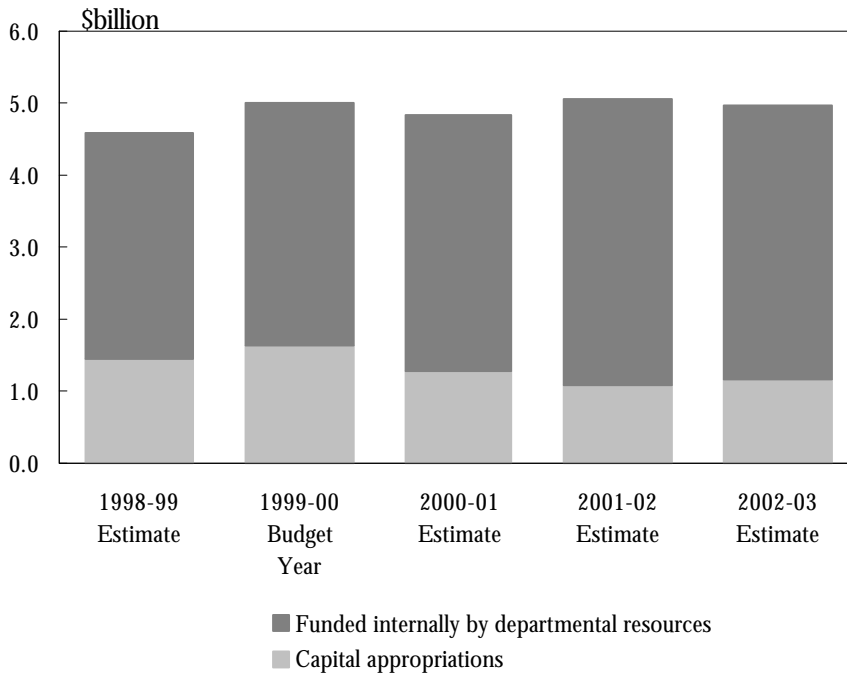
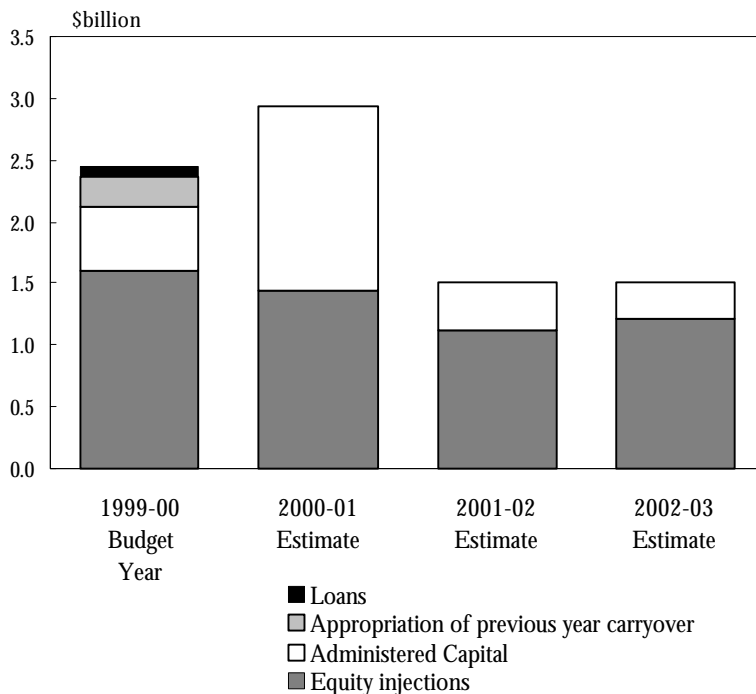


Chart 1 shows that the Commonwealth is moving towards agencies funding a greater proportion of their capital expenditure from internal sources. This reflects the adoption of the accrual framework, which funds agencies for the full price of their outputs, including the depreciation of their assets.

Although the Government provides a high level of direct capital funding, internally generated funding represents the dominant source of financing for capital expenditure for agencies in the general government sector. This largely reflects agencies' plans to maintain their capacity to deliver outcomes for the community. Funding for depreciation will enable agencies to replace capital assets as their useful life comes to an end.

Chart 2: Capital appropriations to general government sector agencies



The Government anticipates making an aggregate capital investment in general government sector agencies, of \$2,447 million in 1999-2000, and a total of \$5,947 million over the period 2000-01 to 2002-03. At the present time, the Government provides capital primarily in the form of direct equity injections to agencies.

The Defence portfolio accounts for around three quarters of total equity injections over the Budget and forward years. The Defence capital budget is financed from within an overall global budget for Defence funding. This global budget covers both recurrent and capital requirements and reflects the Government's commitment to no real change in Defence spending over the period 1999-2000 to 2000-01.

The large increase in Administered Capital in 2000-01 relates to the Commonwealth's commitment that the States and Territories will be no worse off under the implementation of *A New Tax System*. The States and Territories will be advanced \$1.1 billion in 2000-01, which will be repayable without interest.

LOANS AND EQUITY INJECTIONS

The Commonwealth uses the two basic forms of capital injection – loans and equity injections – to meet different requirements.

Equity forms part of the capital base of an agency and is increased or decreased depending on whether the agency runs an operating surplus or a deficit. An equity injection is most appropriate to provide an agency with start-up capital, or to enable it to purchase assets that have useful lives of five years or more. If an agency creates surpluses over time, it may be required to return a dividend to the Commonwealth.

Loans are another form of investment and may be appropriate where an agency has a short-term need to pay for increased expenses, or to buy assets that are consumed over a 1 to 5 year period. Under the accrual framework, all requests for loans of more than 6 per cent of an agency's revenue must be supported by rigorous investment proposals.

OVERVIEW OF SPECIFIC CAPITAL EXPENDITURE AND CAPITAL APPROPRIATIONS

This section sets out the major areas of capital expenditure across the general government sector, by portfolio.

In this Budget, the Government is announcing a number of new capital measures involving several portfolios. These measures are separately described in *Budget Paper No. 2, Budget Measures*.

Agriculture, Fisheries and Forestry Portfolio

Department of Agriculture, Fisheries and Forestry

The Government is providing an administered capital appropriation of \$22.6 million to the Department of Agriculture, Fisheries and Forestry for the unspent cash portion of grants expensed in 1998-99 but not paid until 1999-2000.

Attorney-General's Portfolio

Attorney-General's Department

The Government is providing an administered capital appropriation of \$56.7 million to the Attorney-General's Department for the rescheduling of discretionary grants from the 1998-99 financial year which were not included in the 1998-99 Appropriation Bills.

Australian Federal Police

Capital expenditure by the Australian Federal Police (AFP) will amount to \$29.9 million over the period 1999-2000 to 2002-03 to provide equipment upgrades for forensic and technical analysis, deployable operational and intelligence support and information technology and the construction of forensic facilities at the Weston complex. These purchases will be funded from internal sources using funds provided by the Government as part of the AFP reform programme.

Australian Customs Service

Capital expenditure by the Australian Customs Service (ACS) is expected to peak at some \$54.6 million in 1999-2000, falling to \$21.1 million in 2000-01, \$12.1 million in 2001-02 and \$13.2 million in 2002-03. The 1999-2000 estimate includes investment in new search capacity and x-ray technology as part of the Government's *Tough on Drugs* initiative, completion of a major refurbishment and investment in software development.

The Government will provide ACS with an equity injection of \$26.6 million in 1999-2000, including some \$7 million to implement the *Tough on Drugs* strategy for which a further \$2.3 million will be provided in 2000-01.

Communications, Information Technology and the Arts Portfolio

Department of Communications, Information Technology and the Arts

The Government will provide an equity injection of \$1.9 million in 1999-2000, \$1.7 million in 2000-01, and \$1.1 million in 2001-02 to the National Science and Technology Centre to fund essential building repairs and maintenance.

The Government will provide an equity injection of \$1 million in 1999-2000 to the Australian National Maritime Museum to fund essential building repairs.

The new building for the National Museum of Australia will move to the main construction phase in 1999-2000 with expected expenditure of \$94.2 million and a further \$33.5 million in 2000-01. The Department will fund the construction from capital previously provided by the Government from the Federation Fund.

Australian Broadcasting Corporation

The ABC is to conduct asset maintenance, replacement of plant and equipment and will invest in digital conversion for studio and broadcasting equipment. Funds will be internally sourced and amount to \$73.6 million in 1999-2000; \$80.7 million in 2000-01; \$99.2 million in 2001-02 and \$75.3 million in 2002-03.

Special Broadcasting Service Corporation

Capital expenditure by the SBS will amount to \$30.4 million over the budget and forward years. The Government is providing SBS with an equity injection of \$5.4 million for the relocation of its transmission service from Gore Hill to Artarmon. SBS is also receiving an equity injection of \$14.5 million for the purchase of digital equipment.

Defence Portfolio

Department of Defence

The Defence capital budget is financed from within an overall global budget for Defence funding. This global budget covers both recurrent and capital requirements and reflects

the Government's commitment to no real change in Defence spending over the period 1999-2000 to 2000-01. Total capital expenditure by Defence in 1999-2000 is expected to be \$3.6 billion and includes initiatives to progress the Government's policy of enhancing capabilities across the priority areas of the knowledge edge, defeating air and maritime threats, and strike and land forces.

Defence Housing Authority

The Defence Housing Authority plans to spend approximately \$1.5 billion over four years on the purchase of new properties. These purchases are to be funded internally by the receipts from property sales.

Employment, Workplace Relations and Small Business Portfolio

Department of Employment, Workplace Relations and Small Business

Administered capital injections of \$346 million over the budget and forward years will be provided to extinguish outstanding administered liabilities relating to labour market programmes.

The Department is planning capital expenditure of \$38.1 million over the budget and forward years. These will be funded through the use of carryovers and internal sources.

Environment and Heritage Portfolio

Department of the Environment and Heritage

The Department of the Environment and Heritage will make capital acquisitions estimated at \$39.5 million in 1999-2000. Acquisitions mainly involve the purchase of property, plant and equipment for the Commonwealth Bureau of Meteorology including computing equipment and systems; equipment to support land based surface, upper air, marine and satellite-derived observations; and capital works, property fitout and furniture and fittings.

The Government has agreed that a Sydney Harbour Federation Trust be established to manage surplus Defence lands on the Sydney Harbour foreshore. The Department will receive a loan of \$770,000 in 1999-2000 and \$45,000 in 2000-01 to facilitate the establishment of the Sydney Harbour Federation Trust. The costs of relocating Defence facilities and remediating other foreshore areas will be met from the Federation Fund.

National Parks and Wildlife Service

Capital expenditure by the National Parks and Wildlife Service is expected to be \$13.4 million in 1999-2000. Included in this are repairs to the main access and associated roads to the Norfolk Island National Park, which were damaged by floods in August 1998. These repairs will be funded by a \$3.5 million equity injection from the Government.

Family and Community Services Portfolio

Department of Family and Community Services

Capital expenditure of \$12.2 million is expected in 1999-2000 for capital works required to support the introduction and implementation of *A New Tax System*. The Government is providing an equity injection of \$0.2 million to cover this expenditure with the remainder being internally funded.

Centrelink

Centrelink is anticipating capital expenditure of \$132.2 million in 1999-2000, \$125.9 million in 2000-01, \$106.5 million in 2001-02 and \$117 million in 2002-03. This expenditure is to fund internally developed software, office fitout and IT acquisitions that relate to the development of the new service delivery model. Capital expenditure of \$10.7 million in 1999-2000, \$14.8 million in 2000-01, \$7.6 million in 2001-02 and \$7.4 million in 2002-03 will be required to purchase computer and office equipment and software to support the implementation of *A New Tax System*.

The Government will provide capital by way of an equity injection of \$11.2 million in 1999-2000, \$15.1 million in 2000-01, \$7.8 million in 2001-02 and \$7.6 million in 2002-03 and loans of \$64.1 million in 1999-2000 and \$5.3 million in 2000-01 in addition to loans provided in 1998-99. An equity injection will be provided to fund the purchases supporting the implementation of *A New Tax System* with the remainder to be funded internally.

Finance and Administration Portfolio

Department of Finance and Administration

The Department of Finance and Administration will receive an equity injection of \$37.5 million over four years for the refurbishment of the Treasury Building in Canberra. An amount of \$36 million over 4 years will be injected to meet essential remediation works including Year 2000 compliance and occupational health and safety works necessary to maintain and prepare a large number of special purpose, industrial, and public interest properties for commercialisation and possible sale.

The Government has agreed to the construction of a new law court building to house the Federal Court, High Court and Family Court in Adelaide. Equity of \$7.2 million will be provided in 1999-2000 for project planning and \$66.5 million in 2002-03 for payment on completion. This meets the Government's objective of ensuring appropriate and accessible Commonwealth court buildings in each state.

Other capital projects within the Department totaling approximately \$100 million over four years will also be progressed using a combination of previously approved capital appropriations and existing special account moneys.

Foreign Affairs and Trade Portfolio

Department of Foreign Affairs and Trade

As part of the Government's decision to open an Australian Consulate-General in Dili, East Timor, the Department will receive an equity injection of \$3.5 million to fund office fitout, communications and office equipment, furniture and motor vehicles. At the same time, a policy liaison office is to be established in Lisbon, Portugal.

The Department will receive a further equity injection of \$2.1 million over four years to fund the opening of an embassy in Zagreb. This will fund fitout as well as communications and office equipment.

Additionally, the Department is spending \$7 million over two years on the purchase of a new financial and human resources management information system.

Australian Agency for International Development (AusAID)

AusAID will extinguish liabilities to the World Bank of \$200 million in each year from 1999-2000 to 2002-03. AusAID will receive an equity injection of \$0.2 million to fund the establishment of an AusAID office in Dili, East Timor.

Health and Aged Care Portfolio

Department of Health and Aged Care

The Department has planned capital acquisitions for office fitout and IT development of \$17.6 million in 1999-2000 and \$9 million in each of the three subsequent years. These capital expenditure programmes will be internally funded.

Industry Science and Resources Portfolio

Australian Nuclear Science and Technology Organisation

The Australian Nuclear Science and Technology Organisation (ANSTO) will receive an equity injection of \$286.4 million over nine years to fund the construction of a replacement research reactor at Lucas Heights, NSW. Of this total, \$10.0 million is to be drawn down in 1999-2000; \$33.8 million in 2000-01; \$66.9 million in 2001-02; and \$84.6 million in 2002-03.

ANSTO is internally funding normal repair, refurbishment and replacement of buildings and infrastructure as well as maintenance and replacement of scientific instrumentation, safety equipment and transport vehicles to the value of \$82.9 million over four years.

Commonwealth Scientific and Industrial Research Organisation

CSIRO will spend approximately \$48 million per annum on research plant and equipment and \$34 million per annum on replacement and refurbishment of land and buildings for each of the next three years.

In addition the Public Works Committee has approved two financial initiatives:

- construction of the national centre for petroleum and minerals resources research in western australia funded by a \$37.5 million finance lease over 25 years through the western australian government; and
- stage 2 of the centre for advanced technologies in queensland funded by a \$22.5 million finance lease over 19 years through the queensland government.

This capital expenditure will be funded from within the triennium funding arrangements.

Triennium funding provides CSIRO certainty for funds availability during a fixed three year period. The next triennium commences with the 2000-01 year.

Transport and Regional Services Portfolio

Department of Transport and Regional Services

The Department is anticipating capital expenditure of \$34.5 million over four years. This includes capital works projects on the Cocos (Keeling) Islands and Christmas Island. This supports the Government's objective of bringing the public infrastructure in the Indian Ocean Territories up to mainland standards.

The Government has provided an equity injection to cover the Christmas Island and Cocos Island expenditure. The Department will fund the Norfolk Island expenditure from capital previously allocated by the Government.

Treasury Portfolio

Treasury

The Government will establish a specialist Australian Office of Financial Management to increase the efficiency of Commonwealth debt management. This will involve a capital expenditure of \$2.9 million and \$0.5 million in 1999-2000 and 2000-01 respectively.

The Department of the Treasury has an Administered Capital estimate of \$1.2 billion for 2000-01, which includes \$1.1 billion in advances to the States and Territories relating to the implementation of *A New Tax System*. Under the terms of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, the Government will make

transition payments in the form of interest free loans to the States and Territories (as necessary) to ensure that no State or Territory is worse off from the introduction of the Government's tax package.

Australian Taxation Office

The Government's taxation reform initiatives under *A New Tax System* will require the establishment of a legislative basis and supporting administrative systems. These systems will involve capital expenditure of \$150 million over four years for the establishment of major infrastructure items including a GST collection system and an Australian Business Number register.

The Government's reform of business taxation will require capital expenditure of \$4.5 million to establish a legislative basis and supporting administrative systems.

All Australian Tax Office capital expenditure will be funded by the Government through equity injections.

Australian Bureau of Statistics

The Australian Bureau of Statistics (ABS) anticipates capital expenditure of \$23.2 million in 1999-2000; \$31.9 million in 2000-2001; \$48.9 million in 2001-2002; and \$19.8 million in 2002-2003. Included in these are expenditures on central office fitout and the purchase of computer software and general property and equipment.

The ABS' capital expenditure programmes in the 1999-2000 Budget and forward years are funded internally.

Table A: Capital Expenditure by Portfolio 1999-2000 to 2002-03 (\$m)

	1998-99	1999-00	2000-01	2001-02	2002-03
Joint House Department					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	2.5	2.5	2.5	2.5	2.5
Total	2.5	2.5	2.5	2.5	2.5
Parliamentary Departments					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	2.5	2.5	2.5	2.5	2.5
Total	2.5	2.5	2.5	2.5	2.5
Department of Agriculture, Fisheries and Forestry					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	14.7	7.0	12.9	7.8	8.9
Total	14.7	7.0	12.9	7.8	8.9
Australian Wool Research and Promotion Organisation					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	3.5	3.0	3.0	3.0	3.0
Total	3.5	3.0	3.0	3.0	3.0
Grains Research and Development Corporation					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	0.1	0.1	0.1	0.1	0.1
Total	0.1	0.1	0.1	0.1	0.1
Agriculture, Fisheries and Forestry - Portfolio					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	18.3	10.1	16.0	10.9	12.0
Total	18.3	10.1	16.0	10.9	12.0
Attorney-General's Department					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	6.0	0.6	1.6	5.6	2.6
Total	6.0	0.6	1.6	5.6	2.6

Table A: Capital Expenditure by Portfolio 1999-2000 to 2002-03 (\$m) - continued

	1998-99	1999-00	2000-01	2001-02	2002-03
Australian Customs Service					
Funded by capital appropriation	-	34.9	2.3	-	-
Funded internally by departmental resources	42.9	19.7	18.7	12.1	13.2
Total	42.9	54.6	21.1	12.1	13.2
Australian Federal Police					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	12.8	11.2	10.9	3.9	3.9
Total	12.8	11.2	10.9	3.9	3.9
Family Court of Australia					
Funded by capital appropriation	-	4.9	-	-	-
Funded internally by departmental resources	10.9	6.9	11.8	6.2	6.2
Total	10.9	11.8	11.8	6.2	6.2
Attorney-General's - Portfolio					
Funded by capital appropriation	-	39.8	2.3	-	-
Funded internally by departmental resources	72.6	38.5	43.1	27.7	25.9
Total	72.6	78.3	45.4	27.7	25.9
Department of Communications, Information Technology and the Arts					
Funded by capital appropriation	7.3	2.6	-	-	-
Funded internally by departmental resources	49.6	104.5	43.3	7.7	6.5
Total	56.8	107.1	43.3	7.7	6.5
Australian Broadcasting Corporation					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	38.6	73.6	80.7	99.2	75.3
Total	38.6	73.6	80.7	99.2	75.3
Australia Council					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	0.9	0.9	0.2	0.6	0.5
Total	0.9	0.9	0.2	0.6	0.5
National Gallery of Australia					
Funded by capital appropriation	4.0	4.0	4.0	4.0	4.0
Funded internally by departmental resources	12.6	4.5	6.6	6.7	6.8
Total	16.6	8.5	10.6	10.7	10.8

Table A: Capital Expenditure by Portfolio 1999–2000 to 2002-03 (\$m) - continued

	1998-99	1999-00	2000-01	2001-02	2002-03
National Library of Australia					
Funded by capital appropriation	-	1.0	1.0	1.0	1.0
Funded internally by departmental resources	11.1	5.3	5.2	5.2	5.2
Total	11.1	6.3	6.3	6.3	6.3
Special Broadcasting Service Corporation					
Funded by capital appropriation	-	7.9	3.9	4.1	4.0
Funded internally by departmental resources	5.8	2.5	2.9	2.5	2.6
Total	5.8	10.4	6.8	6.6	6.6
Communications, Information Technology and the Arts - Portfolio					
Funded by capital appropriation	11.3	15.5	8.9	9.1	9.0
Funded internally by departmental resources	118.5	191.3	139.0	121.8	96.8
Total	129.8	206.8	148.0	131.0	105.8
Department of Defence					
Funded by capital appropriation	1238.8	1278.2	1061.7	914.7	919.9
Funded internally by departmental resources	2137.4	2300.4	2462.8	2746.6	2837.3
Total	3376.1	3578.6	3524.5	3661.3	3757.2
Defence Housing Authority					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	325.9	334.1	378.3	381.9	384.9
Total	325.9	334.1	378.3	381.9	384.9
Defence - Portfolio					
Funded by capital appropriation	1238.8	1278.2	1061.7	914.7	919.9
Funded internally by departmental resources	2463.3	2634.5	2841.1	3128.5	3222.2
Total	3702.0	3912.7	3902.8	4043.2	4142.1
Department of Education, Training and Youth Affairs					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	11.3	11.2	11.1	16.5	17.3
Total	11.3	11.2	11.1	16.5	17.3

Table A: Capital Expenditure by Portfolio 1999-2000 to 2002-03 (\$m) - continued

	1998-99	1999-00	2000-01	2001-02	2002-03
Education, Training and Youth Affairs - Portfolio					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	11.3	11.2	11.1	16.5	17.3
Total	11.3	11.2	11.1	16.5	17.3
Department of Employment, Workplace Relations and Small Business					
Funded by capital appropriation	-	8.0	-	-	-
Funded internally by departmental resources	4.4	1.0	12.3	12.4	12.4
Total	4.4	9.0	12.3	12.4	12.4
Comcare					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	1.5	1.0	1.0	1.0	1.0
Total	1.5	1.0	1.0	1.0	1.0
Employment, Workplace Relations and Small Business - Portfolio					
Funded by capital appropriation	-	8.0	-	-	-
Funded internally by departmental resources	5.9	2.0	13.3	13.4	13.4
Total	5.9	10.0	13.3	13.4	13.4
Department of the Environment and Heritage					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	44.4	39.5	32.5	39.2	43.9
Total	44.4	39.5	32.5	39.2	43.9
Environment and Heritage - Portfolio					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	44.4	39.5	32.5	39.2	43.9
Total	44.4	39.5	32.5	39.2	43.9

Table A: Capital Expenditure by Portfolio 1999-2000 to 2002-03 (\$m) - continued

	1998-99	1999-00	2000-01	2001-02	2002-03
Department of Family and Community Services					
Funded by capital appropriation	-	10.2	0.1	0.1	0.1
Funded internally by departmental resources	26.6	2.0	9.3	10.5	8.7
Total	26.6	12.2	9.5	10.6	8.8
Centrelink					
Funded by capital appropriation	95.0	75.3	20.4	7.8	7.6
Funded internally by departmental resources	44.7	57.0	105.6	98.8	109.4
Total	139.7	132.2	125.9	106.5	117.0
Family and Community Services - Portfolio					
Funded by capital appropriation	95.0	85.4	20.5	7.9	7.7
Funded internally by departmental resources	71.3	59.0	114.9	109.3	118.1
Total	166.3	144.4	135.4	117.2	125.8
Department of Finance and Administration					
Funded by capital appropriation	55.2	32.6	52.4	26.3	80.7
Funded internally by departmental resources	-	-	14.7	15.0	26.0
Total	55.2	32.6	67.1	41.3	106.6
Australian Electoral Commission					
Funded by capital appropriation	-	4.0	-	-	-
Funded internally by departmental resources	4.4	0.6	5.0	4.3	4.7
Total	4.4	4.6	5.0	4.3	4.7
Office of Asset Sales and IT Outsourcing					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	0.2	-	-	-	-
Total	0.2	-	-	-	-
Finance and Administration - Portfolio					
Funded by capital appropriation	55.2	36.6	52.4	26.3	80.7
Funded internally by departmental resources	4.6	0.6	19.7	19.3	30.7
Total	59.8	37.2	72.1	45.6	111.3

Table A: Capital Expenditure by Portfolio 1999-2000 to 2002-03 (\$m) - continued

	1998-99	1999-00	2000-01	2001-02	2002-03
Department of Foreign Affairs and Trade					
Funded by capital appropriation	-	5.1	0.0	0.0	0.5
Funded internally by departmental resources	28.2	23.0	27.0	29.0	21.3
Total	28.2	28.1	27.0	29.0	21.8
AusAID					
Funded by capital appropriation	-	0.2	-	-	-
Funded internally by departmental resources	3.6	4.6	4.4	4.4	4.4
Total	3.6	4.8	4.4	4.4	4.4
Australian Trade Commission					
Funded by capital appropriation	-	0.2	-	-	0.1
Funded internally by departmental resources	10.5	10.5	10.0	10.0	10.0
Total	10.5	10.7	10.0	10.0	10.1
Foreign Affairs and Trade - Portfolio					
Funded by capital appropriation	-	5.5	0.0	0.0	0.6
Funded internally by departmental resources	42.3	38.1	41.4	43.4	35.7
Total	42.3	43.6	41.4	43.4	36.2
Department of Health and Aged Care					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	26.2	17.6	9.4	9.0	9.0
Total	26.2	17.6	9.4	9.0	9.0
Health Insurance Commission					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	10.5	10.5	10.5	10.5	10.5
Total	10.5	10.5	10.5	10.5	10.5
Health and Aged Care - Portfolio					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	36.7	28.1	19.9	19.5	19.5
Total	36.7	28.1	19.9	19.5	19.5

Table A: Capital Expenditure by Portfolio 1999-2000 to 2002-03 (\$m) - continued

	1998-99	1999-00	2000-01	2001-02	2002-03
Department of Immigration and Multicultural Affairs					
Funded by capital appropriation	-	0.3	-	-	-
Funded internally by departmental resources	3.3	2.3	2.1	2.1	2.1
Total	3.3	2.6	2.1	2.1	2.1
Immigration and Multicultural Affairs - Portfolio					
Funded by capital appropriation	-	0.3	-	-	-
Funded internally by departmental resources	3.3	2.3	2.1	2.1	2.1
Total	3.3	2.6	2.1	2.1	2.1
Department of Industry, Science and Resources					
Funded by capital appropriation	46.7	44.5	32.1	27.8	31.6
Funded internally by departmental resources	12.4	8.9	9.1	9.3	14.5
Total	59.1	53.4	41.2	37.1	46.1
Australian Nuclear Science and Technology Organisation					
Funded by capital appropriation	4.0	10.0	33.8	66.9	84.6
Funded internally by departmental resources	17.1	18.3	23.3	21.8	19.5
Total	21.1	28.4	57.1	88.7	104.1
Australian Sports Commission					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	4.0	6.4	5.0	5.0	5.0
Total	4.0	6.4	5.0	5.0	5.0
Australian Tourist Commission					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	0.8	1.0	1.0	1.0	0.9
Total	0.8	1.0	1.0	1.0	0.9
Commonwealth Scientific and Industrial Research Organisation					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	76.6	90.8	141.7	84.2	82.0
Total	76.6	90.8	141.7	84.2	82.0

Table A: Capital Expenditure by Portfolio 1999-2000 to 2002-03 (\$m) - continued

	1998-99	1999-00	2000-01	2001-02	2002-03
Industry, Science and Resources - Portfolio					
Funded by capital appropriation	50.7	54.6	65.9	94.7	116.2
Funded internally by departmental resources	110.9	125.4	180.1	121.2	121.9
Total	161.6	180.0	246.0	215.9	238.1
Department of the Prime Minister and Cabinet					
Funded by capital appropriation	-	3.0	-	-	-
Funded internally by departmental resources	2.8	0.0	2.6	2.6	2.6
Total	2.8	3.0	2.6	2.6	2.6
Aboriginal and Torres Strait Islander Commission					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	7.4	6.2	6.4	6.5	6.6
Total	7.4	6.2	6.4	6.5	6.6
Prime Minister and Cabinet - Portfolio					
Funded by capital appropriation	-	3.0	-	-	-
Funded internally by departmental resources	10.2	6.2	9.0	9.0	9.2
Total	10.2	9.1	9.0	9.0	9.2
Department of Transport and Regional Services					
Funded by capital appropriation	-	12.0	4.2	2.1	2.1
Funded internally by departmental resources	25.9	5.4	5.9	1.4	1.4
Total	25.9	17.4	10.0	3.5	3.5
Australian Maritime Safety Authority					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	10.2	14.2	8.9	8.6	19.1
Total	10.2	14.2	8.9	8.6	19.1

Table A: Capital Expenditure by Portfolio 1999-2000 to 2002-03 (\$m) - continued

	1998-99	1999-00	2000-01	2001-02	2002-03
Civil Aviation Safety Authority					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	5.3	5.8	2.8	3.2	4.1
Total	5.3	5.8	2.8	3.2	4.1
National Capital Authority					
Funded by capital appropriation	-	3.6	3.6	3.5	0.6
Funded internally by departmental resources	4.1	0.3	0.2	0.2	0.2
Total	4.1	3.9	3.8	3.8	0.8
Transport and Regional Services - Portfolio					
Funded by capital appropriation	-	15.6	7.7	5.7	2.7
Funded internally by departmental resources	45.4	25.8	17.8	13.5	24.8
Total	45.4	41.4	25.5	19.2	27.5
Department of the Treasury					
Funded by capital appropriation	-	1.5	-	-	-
Funded internally by departmental resources	4.2	12.0	5.7	0.1	1.0
Total	4.2	13.5	5.7	0.1	1.0
Australian Bureau of Statistics					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	29.0	23.2	31.9	48.9	19.8
Total	29.0	23.2	31.9	48.9	19.8
Australian Securities and Investment Commission					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	7.9	6.5	8.2	4.4	5.4
Total	7.9	6.5	8.2	4.4	5.4
Australian Taxation Office					
Funded by capital appropriation	-	99.7	53.4	28.8	24.5
Funded internally by departmental resources	96.4	123.5	41.4	57.9	33.6
Total	96.4	223.3	94.8	86.6	58.1
Treasury - Portfolio					
Funded by capital appropriation	-	101.3	53.4	28.8	24.5
Funded internally by departmental resources	137.6	165.2	87.2	111.3	59.8
Total	137.6	266.5	140.5	140.0	84.3

Table A: Capital Expenditure by Portfolio 1999-2000 to 2002-03 (\$m) - continued

	1998-99	1999-00	2000-01	2001-02	2002-03
Department of Veterans' Affairs					
Funded by capital appropriation	-	1.0	1.2	1.2	1.0
Funded internally by departmental resources	-	19.2	7.7	6.4	7.4
Total	-	20.2	8.9	7.6	8.4
Australian War Memorial					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	16.3	12.4	4.7	1.8	1.8
Total	16.3	12.4	4.7	1.8	1.8
Veterans' Affairs - Portfolio					
Funded by capital appropriation	-	1.0	1.2	1.2	1.0
Funded internally by departmental resources	16.3	31.6	12.4	8.2	9.2
Total	16.3	32.6	13.6	9.4	10.2

Table B: Capital Appropriations by Portfolio 1999-2000 to 2002-03 (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Agriculture, Fisheries and Forestry				
Equity injections	2.6	2.6	1.4	0.5
Loans	-	-	-	-
Appropriation of previous years carryover	3.4	-	-	-
Administered Capital	22.6	-	-	-
Total	28.6	2.6	1.4	0.5
Agriculture, Fisheries and Forestry - Portfolio				
Equity injections	2.6	2.6	1.4	0.5
Loans	-	-	-	-
Appropriation of previous years carryover	3.4	-	-	-
Administered Capital	22.6	-	-	-
Total	28.6	2.6	1.4	0.5
Attorney-General's Department				
Equity injections	-	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	8.3	-	-	-
Administered Capital	56.7	-	-	-
Total	65.0	-	-	-
Administrative Appeals Tribunal				
Equity injections	-	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	2.7	-	-	-
Administered Capital	-	-	-	-
Total	2.7	-	-	-
Australian Customs Service				
Equity injections	26.6	2.3	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	13.9	-	-	-
Administered Capital	-	-	-	-
Total	40.5	2.3	-	-
Australian Federal Police				
Equity injections	-	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	10.7	-	-	-
Administered Capital	-	-	-	-
Total	10.7	-	-	-

Table B: Capital Appropriations by Portfolio 1999-2000 to 2002-03 (\$ m) – continued

	1999-00	2000-01	2001-02	2002-03
Australian Security Intelligence Organisation				
Equity injections	-	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	4.0	-	-	-
Administered Capital	-	-	-	-
Total	4.0	-	-	-
Family Court of Australia				
Equity injections	-	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	7.4	-	-	-
Administered Capital	-	-	-	-
Total	7.4	-	-	-
Federal Court of Australia				
Equity injections	-	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	4.0	-	-	-
Administered Capital	-	-	-	-
Total	4.0	-	-	-
Human Rights and Equal Opportunity Commission				
Equity injections	0.1	0.1	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	1.0	-	-	-
Administered Capital	-	-	-	-
Total	1.0	0.1	-	-
National Crime Authority				
Equity injections	-	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	3.4	-	-	-
Administered Capital	-	-	-	-
Total	3.4	-	-	-
National Native Title Tribunal				
Equity injections	-	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	2.4	-	-	-
Administered Capital	-	-	-	-
Total	2.4	-	-	-
Office of Parliamentary Counsel				
Equity injections	-	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	0.7	-	-	-
Administered Capital	-	-	-	-
Total	0.7	-	-	-

Table B: Capital Appropriations by Portfolio 1999-2000 to 2002-03 (\$m) – continued

	1999-00	2000-01	2001-02	2002-03
Office of the Director of Public Prosecutions				
Equity injections	-	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	2.5	-	-	-
Administered Capital	-	-	-	-
Total	2.5	-	-	-
Attorney-General's - Portfolio				
Equity injections	26.7	2.5	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	61.0	-	-	-
Administered Capital	56.7	-	-	-
Total	144.4	2.5	-	-
Department of Communications, Information Technology and the Arts				
Equity injections	1.9	1.7	1.1	-
Loans	-	-	-	-
Appropriation of previous years carryover	31.3	-	-	-
Administered Capital	2.6	-	-	-
Total	35.8	1.7	1.1	-
Australian Broadcasting Corporation				
Equity injections	33.2	27.4	19.8	52.4
Loans	-	-	-	-
Appropriation of previous years carryover	-	-	-	-
Administered Capital	-	-	-	-
Total	33.2	27.4	19.8	52.4
Australian National Maritime Museum				
Equity injections	1.0	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	-	-	-	-
Administered Capital	-	-	-	-
Total	1.0	-	-	-
National Gallery of Australia				
Equity injections	4.0	4.0	4.0	4.0
Loans	-	-	-	-
Appropriation of previous years carryover	-	-	-	-
Administered Capital	-	-	-	-
Total	4.0	4.0	4.0	4.0
National Library of Australia				
Equity injections	1.0	1.0	1.0	1.0
Loans	-	-	-	-
Appropriation of previous years carryover	-	-	-	-
Administered Capital	-	-	-	-
Total	1.0	1.0	1.0	1.0

Table B: Capital Appropriations by Portfolio 1999-2000 to 2002-03 (\$m) – continued

	1999-00	2000-01	2001-02	2002-03
National Museum of Australia				
Equity injections	-	134.2	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	-	-	-	-
Administered Capital	-	-	-	-
Total	-	134.2	-	-
Special Broadcasting Service Corporation				
Equity injections	7.9	3.9	4.1	4.0
Loans	-	-	-	-
Appropriation of previous years carryover	-	-	-	-
Administered Capital	-	-	-	-
Total	7.9	3.9	4.1	4.0
Communications, Information Technology and the Arts - Portfolio				
Equity injections	49.1	172.2	30.0	61.4
Loans	-	-	-	-
Appropriation of previous years carryover	31.3	-	-	-
Administered Capital	2.6	-	-	-
Total	83.0	172.2	30.0	61.4
Department of Defence				
Equity injections	1278.2	1061.7	914.7	919.9
Loans	-	-	-	-
Appropriation of previous years carryover	-	-	-	-
Administered Capital	-	-	-	-
Total	1278.2	1061.7	914.7	919.9
Defence - Portfolio				
Equity injections	1278.2	1061.7	914.7	919.9
Loans	-	-	-	-
Appropriation of previous years carryover	-	-	-	-
Administered Capital	-	-	-	-
Total	1278.2	1061.7	914.7	919.9
Department of Education, Training and Youth Affairs				
Equity injections	-	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	5.0	-	-	-
Administered Capital	1.2	-	-	-
Total	6.2	-	-	-

Table B: Capital Appropriations by Portfolio 1999-2000 to 2002-03 (\$m) – continued

	1999-00	2000-01	2001-02	2002-03
Education, Training and Youth Affairs - Portfolio				
Equity injections	-	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	5.0	-	-	-
Administered Capital	1.2	-	-	-
Total	6.2	-	-	-
Department of Employment, Workplace Relations and Small Business				
Equity injections	-	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	66.0	-	-	-
Administered Capital	117.9	76.5	75.8	75.8
Total	183.9	76.5	75.8	75.8
Australian Industrial Registry				
Equity injections	-	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	0.8	-	-	-
Administered Capital	-	-	-	-
Total	0.8	-	-	-
Employment, Workplace Relations and Small Business - Portfolio				
Equity injections	-	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	66.8	-	-	-
Administered Capital	117.9	76.5	75.8	75.8
Total	184.7	76.5	75.8	75.8
Department of the Environment and Heritage				
Equity injections	-	-	-	-
Loans	0.8	0.0	-	-
Appropriation of previous years carryover	11.8	-	-	-
Administered Capital	-	-	-	-
Total	12.5	0.0	-	-
National Parks and Wildlife Service				
Equity injections	3.5	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	-	-	-	-
Administered Capital	-	-	-	-
Total	3.5	-	-	-

Table B: Capital Appropriations by Portfolio 1999-2000 to 2002-03 (\$m) – continued

	1999-00	2000-01	2001-02	2002-03
Environment and Heritage - Portfolio				
Equity injections	3.5	-	-	-
Loans	0.8	0.0	-	-
Appropriation of previous years carryover	11.8	-	-	-
Administered Capital	-	-	-	-
Total	16.0	0.0	-	-
Department of Family and Community Services				
Equity injections	0.2	0.1	0.1	0.1
Loans	-	-	-	-
Appropriation of previous years carryover	10.0	-	-	-
Administered Capital	-	-	-	-
Total	10.2	0.1	0.1	0.1
Centrelink				
Equity injections	11.2	15.1	7.8	7.6
Loans	64.1	5.3	-	-
Appropriation of previous years carryover	-	-	-	-
Administered Capital	-	-	-	-
Total	75.3	20.4	7.8	7.6
Family and Community Services - Portfolio				
Equity injections	11.3	15.2	7.9	7.7
Loans	64.1	5.3	-	-
Appropriation of previous years carryover	10.0	-	-	-
Administered Capital	-	-	-	-
Total	85.4	20.5	7.9	7.7
Department of Finance and Administration				
Equity injections	63.7	52.4	26.3	80.7
Loans	-	-	-	-
Appropriation of previous years carryover	-	-	-	-
Administered Capital	2.6	2.0	2.0	2.0
Total	66.3	54.4	28.3	82.7
Australian Electoral Commission				
Equity injections	-	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	4.0	-	-	-
Administered Capital	-	-	-	-
Total	4.0	-	-	-
Office of Asset Sales and IT Outsourcing				
Equity injections	-	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	10.7	-	-	-
Administered Capital	-	-	-	-
Total	10.7	-	-	-

Table B: Capital Appropriations by Portfolio 1999-2000 to 2002-03 (\$m) – continued

	1999-00	2000-01	2001-02	2002-03
Finance and Administration - Portfolio				
Equity injections	63.7	52.4	26.3	80.7
Loans	-	-	-	-
Appropriation of previous years carryover	14.7	-	-	-
Administered Capital	2.6	2.0	2.0	2.0
Total	81.0	54.4	28.3	82.7
Department of Foreign Affairs and Trade				
Equity injections	5.1	0.0	0.0	0.5
Loans	-	-	-	-
Appropriation of previous years carryover	8.1	-	-	-
Administered Capital	8.6	-	-	-
Total	21.7	0.0	0.0	0.5
AusAID				
Equity injections	0.2	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	1.6	-	-	-
Administered Capital	206.1	211.5	213.2	207.8
Total	208.0	211.5	213.2	207.8
Australian Trade Commission				
Equity injections	0.2	-	-	0.1
Loans	-	-	-	-
Appropriation of previous years carryover	-	-	-	-
Administered Capital	-	-	-	-
Total	0.2	-	-	0.1
Foreign Affairs and Trade - Portfolio				
Equity injections	5.5	0.0	0.0	0.6
Loans	-	-	-	-
Appropriation of previous years carryover	9.7	-	-	-
Administered Capital	214.7	211.5	213.2	207.8
Total	229.9	211.6	213.2	208.4
Professional Services Review				
Equity injections	0.7	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	-	-	-	-
Administered Capital	-	-	-	-
Total	0.7	-	-	-
Health and Aged Care - Portfolio				
Equity injections	0.7	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	-	-	-	-
Administered Capital	-	-	-	-
Total	0.7	-	-	-

Table B: Capital Appropriations by Portfolio 1999-2000 to 2002-03 (\$m) – continued

	1999-00	2000-01	2001-02	2002-03
Department of Immigration and Multicultural Affairs				
Equity injections	0.3	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	-	-	-	-
Administered Capital	-	-	-	-
Total	0.3	-	-	-
Refugee Review Tribunal				
Equity injections	-	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	1.8	-	-	-
Administered Capital	-	-	-	-
Total	1.8	-	-	-
Migration Review Tribunal				
Equity injections	-	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	0.3	-	-	-
Administered Capital	-	-	-	-
Total	0.3	-	-	-
Immigration and Multicultural Affairs - Portfolio				
Equity injections	0.3	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	2.1	-	-	-
Administered Capital	-	-	-	-
Total	2.4	-	-	-
Department of Industry, Science and Resources				
Equity injections	44.5	32.1	27.8	31.6
Loans	-	-	-	-
Appropriation of previous years carryover	2.6	-	-	-
Administered Capital	-	-	-	-
Total	47.1	32.1	27.8	31.6
Australian Nuclear Science and Technology Organisation				
Equity injections	10.0	33.8	66.9	84.6
Loans	-	-	-	-
Appropriation of previous years carryover	-	-	-	-
Administered Capital	-	-	-	-
Total	10.0	33.8	66.9	84.6

Table B: Capital Appropriations by Portfolio 1999-2000 to 2002-03 (\$m) – continued

	1999-00	2000-01	2001-02	2002-03
Industry, Science and Resources - Portfolio				
Equity injections	54.6	65.9	94.7	116.2
Loans	-	-	-	-
Appropriation of previous years carryover	2.6	-	-	-
Administered Capital	-	-	-	-
Total	57.1	65.9	94.7	116.2
Department of the Prime Minister and Cabinet				
Equity injections	-	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	5.3	-	-	-
Administered Capital	2.0	-	-	-
Total	7.3	-	-	-
Aboriginal Hostels Limited				
Equity injections	2.2	2.3	2.3	2.3
Loans	-	-	-	-
Appropriation of previous years carryover	-	-	-	-
Administered Capital	-	-	-	-
Total	2.2	2.3	2.3	2.3
Australian National Audit Office				
Equity injections	0.7	0.8	0.9	1.0
Loans	-	-	-	-
Appropriation of previous years carryover	5.3	-	-	-
Administered Capital	-	-	-	-
Total	6.0	0.8	0.9	1.0
Office of the Official Secretary to the Governor-General				
Equity injections	-	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	0.7	-	-	-
Administered Capital	0.3	-	-	-
Total	0.9	-	-	-
Public Service and Merit Protection Commission				
Equity injections	-	-	-	-
Loans	-	-	-	-
Appropriation of previous years carryover	0.5	-	-	-
Administered Capital	-	-	-	-
Total	0.5	-	-	-
Prime Minister and Cabinet - Portfolio				
Equity injections	2.9	3.1	3.2	3.4
Loans	-	-	-	-
Appropriation of previous years carryover	11.8	-	-	-
Administered Capital	2.3	-	-	-
Total	17.0	3.1	3.2	3.4

Table B: Capital Appropriations by Portfolio 1999-2000 to 2002-03 (\$m) – continued

	1999-00	2000-01	2001-02	2002-03
Department of Transport and Regional Services				
Equity injections	6.0	4.2	2.1	2.1
Loans	-	-	-	-
Appropriation of previous years carryover	6.0	-	-	-
Administered Capital	2.1	-	-	-
Total	14.1	4.2	2.1	2.1
Civil Aviation Safety Authority				
Equity injections	-	-	-	-
Loans	8.0	-	-	-
Appropriation of previous years carryover	-	-	-	-
Administered Capital	-	-	-	-
Total	8.0	-	-	-
National Capital Authority				
Equity injections	1.0	1.0	0.5	-
Loans	-	-	-	-
Appropriation of previous years carryover	-	-	-	-
Administered Capital	2.6	2.6	3.0	0.6
Total	3.6	3.6	3.5	0.6
Transport and Regional Services - Portfolio				
Equity injections	7.0	5.2	2.6	2.1
Loans	8.0	-	-	-
Appropriation of previous years carryover	6.0	-	-	-
Administered Capital	4.7	2.6	3.0	0.6
Total	25.7	7.7	5.7	2.7
Department of the Treasury				
Equity injections	-	-	-	-
Loans	1.5	-	-	-
Appropriation of previous years carryover	3.2	-	-	-
Administered Capital	93.3	1200.5	104.0	-
Total	98.0	1200.5	104.0	-
Australian Taxation Office				
Equity injections	99.7	53.4	28.8	24.5
Loans	-	-	-	-
Appropriation of previous years carryover	-	-	-	-
Administered Capital	-	-	-	-
Total	99.7	53.4	28.8	24.5
Treasury - Portfolio				
Equity injections	99.7	53.4	28.8	24.5
Loans	1.5	-	-	-
Appropriation of previous years carryover	3.2	-	-	-
Administered Capital	93.3	1200.5	104.0	-
Total	197.8	1253.9	132.8	24.5

Table B: Capital Appropriations by Portfolio 1999-2000 to 2002-03 (\$m) – continued

	1999-00	2000-01	2001-02	2002-03
Department of Veterans' Affairs				
Equity injections	1.0	1.2	1.2	1.0
Loans	-	-	-	-
Appropriation of previous years carryover	8.0	-	-	-
Administered Capital	-	-	-	-
Total	9.0	1.2	1.2	1.0
Veterans' Affairs - Portfolio				
Equity injections	1.0	1.2	1.2	1.0
Loans	-	-	-	-
Appropriation of previous years carryover	8.0	-	-	-
Administered Capital	-	-	-	-
Total	9.0	1.2	1.2	1.0

Statement 8: Budget Funding

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STATEMENT 8: BUDGET FUNDING

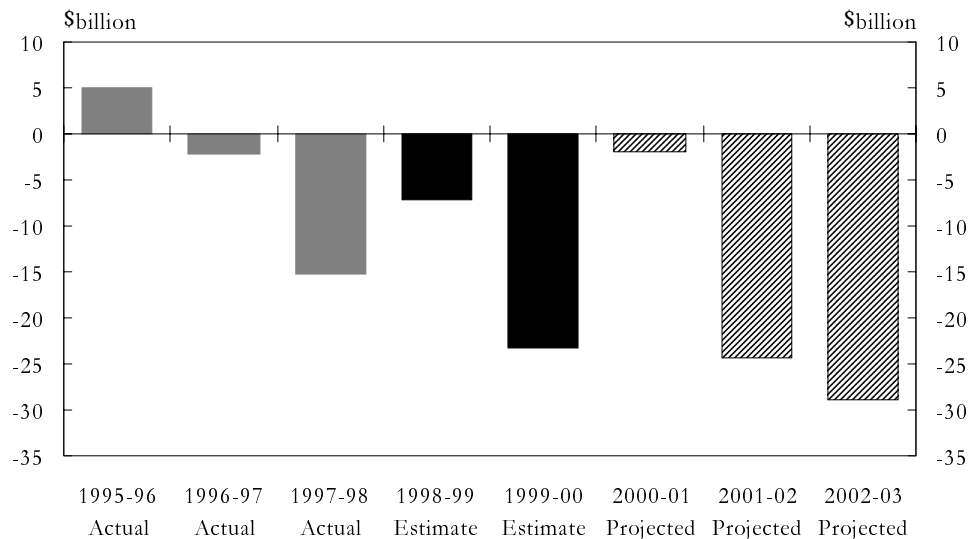
NET FUNDING REQUIREMENT

Commonwealth general government net debt is expected to be reduced by \$20.5 billion in 1999-2000. This represents the largest ever single-year reduction in Commonwealth general government net debt. Further substantial reductions in Commonwealth general government net debt are projected through the forward estimates period. Trends in Commonwealth general government net debt are also discussed in Statement 1.

The capacity to reduce net debt primarily arises from running a budget surplus. This means no borrowing is required to fund the budget thus creating a negative budget funding requirement. In addition asset sales or net advances are not required to fund the budget and can be applied to retire debt. The negative net funding requirement — an estimated \$23.2 billion in 1999-2000 — is the funds the Commonwealth has over and above what is required to meet its budget obligations. Where the government is able to fully fund all its requirements without recourse to borrowing, the net funding requirement is shown as 'negative'. Surplus funds are therefore available to reduce debt.

Chart 1 depicts the net funding requirement in recent years and that projected for each year out to 2002-03. The net funding requirement is projected to remain negative for each of the out-years. This means the Commonwealth is not expected to make any net call on the capital markets through this period. The last year the Commonwealth had a positive funding requirement, and hence needed to borrow funds from the capital markets, was 1995-96.

Chart 1: Net Funding Requirement



As noted in the 1998-99 Budget Papers, it is not envisaged that Commonwealth Government Securities (CGS) on issue will be reduced by the full extent of the reduction in net debt expected over coming years. The reduction in CGS on issue will be managed in line with the objective of maintaining the liquidity and efficiency of the Commonwealth yield curve. This will assist the continued growth and development of a range of domestic derivative and related markets and is consistent with the Government's commitment to the further development of Australia as a centre for global financial services. A range of financial management techniques will be utilised to maintain the desired volume of CGS on issue, while at the same time reducing net debt.

DEBT ISSUE AND REPURCHASE

Consistent with the objectives discussed above, a modest gross new issue programme of around \$4 billion is planned in the year ahead, primarily designed to maintain the length of the yield curve and build and maintain liquidity in key benchmark stocks.

Treasury Bond issuance is expected to be around \$4 billion in 1999-2000. As has been the case in recent years, issuance will be weighted towards the long end of the curve. A new benchmark stock is expected to be issued in the new financial year in order to maintain the length of the yield curve and to ensure, in the longer term, a smooth progression of stocks available to move into the ten year bond futures contract. At this stage, the expectation is that the new benchmark will have a 2013 maturity.

A Treasury Indexed Bond issue programme in line with the norms of recent years is presently envisaged for 1999-2000. However, over the course of 1999-2000 there is expected to be a run-down in the stock of Treasury Notes on issue of about \$1 billion. Treasury Notes are the Commonwealth's primary debt instrument for managing within-year mismatches in expenditure and receipts.

A further programme of early debt repurchases is expected in 1999-2000. Details of the programme are yet to be finalised.

STATEMENT 9: THE PUBLIC SECTOR

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STATEMENT 9: THE PUBLIC SECTOR

Part I: Introduction

Statement 9 examines trends in the finances of the Commonwealth and State/local levels of government, providing a broader context in which to consider developments in the Commonwealth's budget. Part II of this Statement looks specifically at the Commonwealth Government within an accruals framework, considering non-financial public sector fiscal balance and liabilities. The remainder of the Statement considers all levels of government: Part III examines trends in underlying deficits, outlays and revenue, while Part IV discusses movements in net debt.

This budget has seen the Commonwealth move to accrual based reporting. Consequently, the current and out-year Commonwealth cash data in this statement is now derived from accruals figures, rather than collated directly. Thus there is effectively a break in the series between outcome data up to and including 1997-98, and estimates and projections from 1998-99 onwards.

The Statement uses Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) classifications of the non-financial public sector, which provide a consistent basis for comparison. Data are presented both by level of government and institutional sector. The former refers to the distinction between the Commonwealth and the State/local levels while the latter distinguishes between the general government sector and the public trading enterprise (PTE) sector within each main level of government.

- The general government sector, through government departments and agencies, provides public services which are mainly non-market in nature, are mainly for the collective consumption of the community, or involve the transfer or redistribution of income. These services are financed mainly through taxes and other compulsory levies, although user charging and external funding have increased in recent years.
- The PTE sector comprises bodies which provide goods and services that are mainly market, non-regulatory and non-financial in nature, financed mainly through sales to the consumers of these goods and services. In general, PTEs are legally distinguishable from the governments which own them.
- Together the general government sector and the PTE sector comprise the non-financial public sector.

In order to provide a more complete coverage of the public sector, from 1998-99 the ABS has extended the scope of GFS to include public financial enterprises (PFEs). The PFE sector has been shrinking in recent years with the privatisation of government owned banks and insurance offices, but it still comprises entities such as State home and rural finance schemes, the Reserve Bank of Australia and State central borrowing authorities.

Pending a review of the *Uniform Presentation Framework*¹ reporting requirements, this sector is excluded from the analysis in Statement 9, which continues to report on a non-financial public sector basis.

Appendix A outlines the size and structure of the non-financial public sector, including the respective roles of the Commonwealth and State/local governments. Appendix B provides cash data on revenue, outlays, underlying deficits, net interest outlays and net debt. Appendix C provides notes on the data used and developments in GFS, and on classification issues. Appendix D presents budget data on a basis consistent with the *Uniform Presentation Framework* (although in an abridged format), and also on an accrual GFS basis, and for the budget sector. Appendix E provides historical data and forward estimates for Commonwealth General Government underlying outlays, revenue, underlying balances and net debt.

¹ The *Uniform Presentation Framework* is an agreement between the Commonwealth, States and Territories that all jurisdictions publish a common core of financial information in their budget papers.

Part II: Commonwealth Non-financial Public Sector Financial Statements

This part looks at current and projected accrual data for the Commonwealth non-financial public sector. The concepts contained in this part are consistent with those to be used by the Australian Bureau of Statistics in their *Government Finance Statistics* publication (Cat. No. 5512.0), planned for release in July of this year.

COMMONWEALTH NON-FINANCIAL PUBLIC SECTOR FISCAL BALANCE

The key difference between cash and accrual accounting is one of timing: cash indicators record the transaction when cash is exchanged, whereas accrual indicators record the outcome of the transaction when economic value is exchanged. As a consequence accrual measures take into account transactions such as accruing employee entitlements.

The major accrual measure used by the Commonwealth to assess how fiscal policy may affect the national economy is the fiscal balance. The fiscal balance can be conceptualised as revenue minus expenses, adjusted for net capital formation and revaluations. The measure is explained in more detail in Appendix D.

The fiscal balance is effectively a measure of government net lending, the gap between government savings and investment. It measures the government's net call on other sectors in the economy, and so corresponds to government's contribution to the current account deficit. More information on the fiscal balance can be found in Appendix A to Statement 1, and Appendix D to this Statement, and in the Treasury's information paper *Fiscal Policy Under Accrual Budgeting*.

Table 1 shows that the Commonwealth non-financial public sector fiscal balance moved into surplus in 1997-98. A further improvement, to a surplus of 0.7 per cent of GDP, is expected in 1999-2000, driven by falls in non-financial public sector expenses.

For the Commonwealth general government sector, expenses are expected to be broadly unchanged as a per cent of GDP, in 1999-2000. However increased taxation revenue results in an improvement in the general government fiscal surplus from 0.5 per cent of GDP in 1998-99, to 0.9 per cent in 1999-2000. Further improvements over the outyears, to a 1.5 per cent fiscal surplus in 2002-03 are expected to be driven by falls in expenses rather than increased revenue. Revenue is forecast to fall as a percent of GDP, largely as a result of the Commonwealth's proposed tax reform measures.

The Commonwealth PTE fiscal balance is expected to deteriorate slightly in 1999-2000, in a year in which falls in both revenue and expenses are anticipated.

Table 1: Commonwealth Non-financial Public Sector Expenses, Revenue and Fiscal Balance by Institutional Sector as a Percentage of GDP(a)

	General Government				Public Trading Enterprises				Non-financial Public Sector			
	Revenue	Expenses	Net Capital Formation	Fiscal Balance	Revenue	Expenses	Net Capital Formation	Fiscal Balance	Revenue	Expenses	Net Capital Formation	Fiscal Balance
1996-97	26.9	27.6	0.1	-0.8	5.2	4.9	0.2	-0.1	na	na	na	-0.9
1997-98	26.2	27.4	0.1	-0.3	5.2	4.8	0.2	0.4	na	na	na	0.1
1998-99(e)	25.8	25.1	0.2	0.5	4.3	4.1	0.3	0.0	29.5	28.5	0.5	0.5
1999-00(e)	26.2	25.1	0.2	0.9	3.9	3.9	0.2	-0.1	29.4	28.2	0.5	0.7
2000-01(p)	22.9	21.6	0.2	1.1	na	na	na	na	na	na	na	na
2001-02(p)	22.0	21.1	0.2	0.7	na	na	na	na	na	na	na	na
2002-03(p)	22.0	20.4	0.2	1.5	na	na	na	na	na	na	na	na

(a) Accrual data for 1997-98 are taken from the annual Consolidated Financial Statements (CFS). From 1998-99 the accounting treatment of certain revenue items, in particular taxation revenue and some dividends, has changed. See Statement 4 for further information.

(e) estimates

(p) projections

COMMONWEALTH NON-FINANCIAL PUBLIC SECTOR LIABILITIES

This part examines current and projected levels of Commonwealth net debt and net assets. A jurisdiction's levels of net debt and net assets are important indicators of its financial position. High levels of net debt impose a call on future revenue flows to service that debt, and meeting those payments can limit government flexibility to adjust outlays.

Net Debt

The accrual and cash concepts of net debt are equivalent. Net debt comprises the stock of selected gross financial liabilities less financial assets, and broadly reflects the cumulative effect of underlying deficits. The Commonwealth has allocated a high priority to debt reduction in recent years, in order to reduce the share of current outlays allocated to debt servicing, and hence to increase policy flexibility.

In accrual terms, changes in net debt will not correspond exactly to the fiscal balance due to equity proceeds and to revaluations of financial assets and liabilities.

Table 2 shows recent and projected levels of Commonwealth non-financial public sector net debt. Non-financial sector net debt is expected to fall from 13.5 per cent of GDP at the end of 1998-99 to 9.6 per cent at the end of 1999-2000. This is part of a continuing reduction in Commonwealth net debt consistent with the government's programme of fiscal consolidation.

The majority of net debt reduction has occurred within the general government sector. This trend is set to continue, with negative net debt of 0.3 per cent of GDP predicted for 2002-03.

PTE net debt is also trending downwards, but from a much lower base.

Net Assets

Although net debt is an important fiscal indicator, it is limited in that it omits holdings of certain financial assets and liabilities, most notably accrued employee superannuation liabilities. It also fails to include all of a jurisdiction's non-financial assets such as land, fixed assets etc, which may be sold and used to repay debt. A much broader measure, net assets (or net worth) is calculated as total assets — both financial and non-financial — minus total liabilities. The net assets measure provides a more exhaustive picture of a jurisdiction's overall financial position.

Because net assets incorporates changes in the value of physical assets, it more fully reflects the economic impact of the sale of assets than does net debt. Net assets also shows asset acquisition over time, giving an indication of the extent to which borrowings are used to finance asset purchases, rather than just recurrent expenditure.

The change in net assets is equal to the change in net non-financial assets plus the change in net financial assets. This is equivalent to net capital formation, plus the fiscal balance, plus revaluations of financial and non-financial assets.

Table 2 shows recent and projected levels of Commonwealth non-financial public sector net assets. There is a break in the series between 1997-98 and 1998-99, reflecting changes to the accounting treatment of certain revenue items, in particular taxation revenue and some dividends. These revisions had the effect of decreasing measured net assets.

The Commonwealth's non-financial public sector is in a negative net asset position, with financial liabilities exceeding the value of financial and non-financial assets. However this position is expected to improve by 2.9 percentage points in 1999-2000, leaving the non-financial public sector with negative net assets worth 8.9 per cent of GDP.

The Commonwealth general government sector is also in a negative net asset position. However, the ongoing reduction of general government financial liabilities is reducing the gap between liabilities and assets. General government negative net assets of 13.6 per cent of GDP in 1998-99 are expected to fall to 10.3 per cent in 1999-2000, with further decreases expected in the outyears.

A significant proportion of the Commonwealth's non-financial assets are held within the PTE sector. However, PTE privatisations have eroded both non-financial and financial assets held by the Commonwealth in recent years. In 1999-2000, PTE sector net assets are expected to fall by half a percentage point to 2.8 per cent of GDP.

**Table 2: Commonwealth Non-Financial Public Sector Net Debt and Net Assets as a Percentage of GDP
(as at end of financial year)**

	General Government		Public Trading Enterprises		Non-financial Public Sector	
	Net Debt	Net Assets	Net Debt	Net Assets	Net Debt	Net Assets
1996-97	18.1	-14.0	1.6	3.4	19.7	-10.6
1997-98	14.7	-12.1	1.5	3.2	16.2	-8.9
1998-99(a)(e)	12.1	-13.6	1.4	3.3	13.5	-11.8
1999-00(e)	8.2	-10.3	1.4	2.8	9.6	-8.9
2000-01(p)	7.4	-8.7	na	na	na	na
2001-02(p)	3.9	-5.5	na	na	na	na
2002-03(p)	-0.3	-1.6	na	na	na	na

(a) There is a break in the series between 1997-98 and 1998-99 reflecting a change in the accounting treatment of certain dividend payments. This change resulted in a decrease in measured net assets.

(e) estimates

(p) projections

Part III: Trends in Non-financial Public Sector Cash Balances

This Statement examines trends in underlying rather than headline cash deficits. The underlying measure excludes net advances — the transfer or exchange of financial assets, which have no impact on government net lending or net assets. For the Commonwealth general government sector, net advances mainly comprise the proceeds of equity asset sales and State debt repayments to the Commonwealth.

The underlying cash deficit used in this statement up until 1998-99 differs from the ABS deficit measure by not excluding increases in provisions. This is to maintain consistency with the ABS national accounts, in which the classification standard for provisions changed in response to the introduction of the *System of National Accounts, 1993* (SNA 93). The difference is further explained in the statistical notes at Appendix C to this Statement.

The underlying cash deficit may not translate directly into changes in net debt. This is mainly because the proceeds of equity asset sales are classified under net advances, and excluded from the underlying cash deficit. However, such proceeds result in lower borrowing requirements (or repayment of previous borrowings) and therefore lower net debt.

The historical data used in the remainder of Statement 9 have been drawn from the most recent ABS *Government Financial Estimates* and *Public Financial Assets and Liabilities* (FALs) publications. Preliminary 1998-99 data and projections for the States were compiled by the Commonwealth Treasury, drawing on general government sector information provided by the States for their Mid Year Reports, updated where possible for recent State budgets. Projections for the Commonwealth incorporate the parameter assumptions which underlie the Commonwealth Budget forward estimates.

NON-FINANCIAL PUBLIC SECTOR

The Commonwealth government exerts the major influence on non-financial public sector balances in Australia, largely through its substantial general government sector. The PTE sector has a smaller effect on the total and tends to be more important at the State/local level, where most PTEs are concentrated.

Chart 1 shows movements in the non-financial public sector deficit as a share of GDP, and the relative contributions of the general government and PTE sectors. In recent decades the non-financial public sector has recorded consistent deficits, apart from a small surplus in 1988-89. The deficit peaked at 4.7 per cent of GDP in 1992-93 before declining to 0.3 per cent in 1996-97. This succession of deficits added significantly to the government's net lending requirements, and hence to Australia's current account deficit.

However, Chart 1 shows that the non-financial public sector moved into a surplus position in 1997-98, with further surpluses projected in the period to 2002-03.² This improvement largely reflects the fiscal consolidation measures adopted by the Commonwealth.

Chart 1: Non-Financial Public Sector Underlying Cash Deficit by Sector

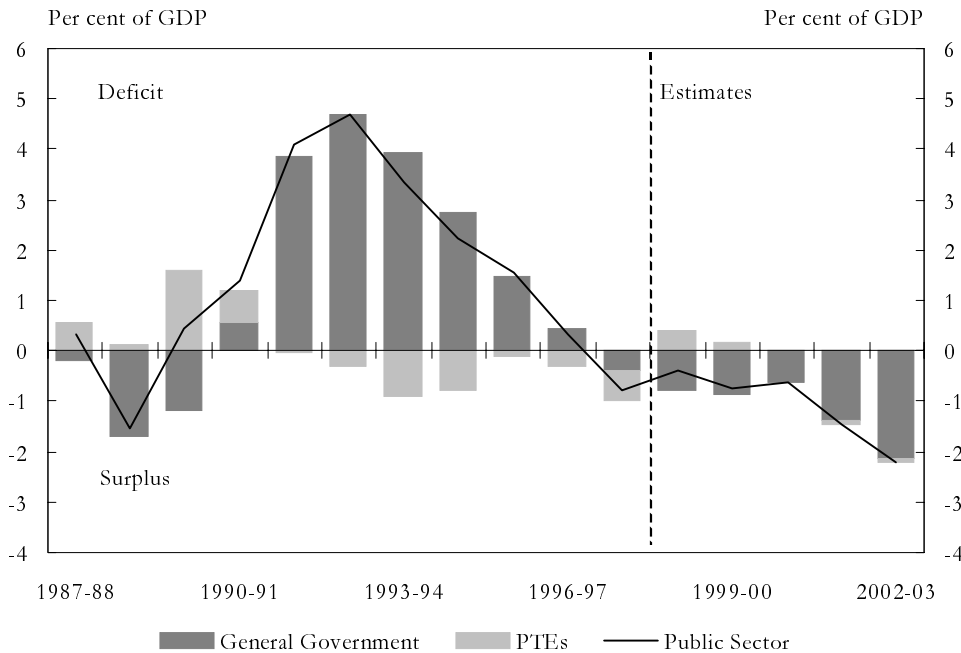


Chart 1 also shows the declining contribution of the PTE sector to the non-financial public sector deficit, in line with the increasing privatisation of government businesses since the late 1980s. The PTE sector is expected to contribute only modestly to non-financial public sector balances over the projection period.

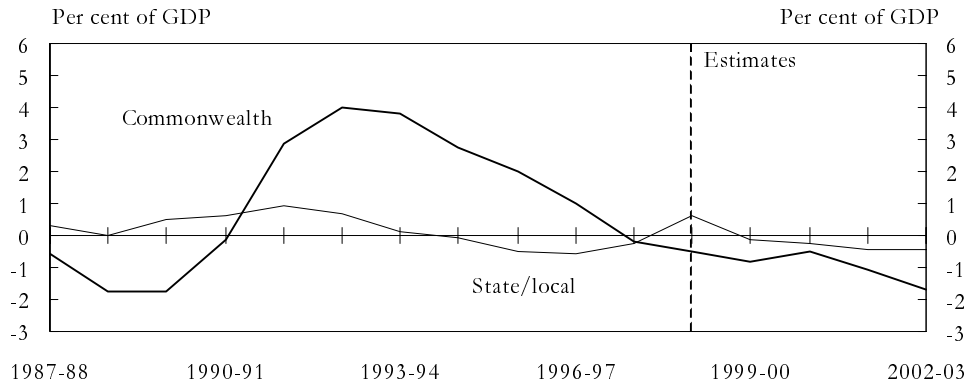
Chart 2 disaggregates the deficits presented in Chart 1 by level of government. It shows the large contribution of past Commonwealth general government cash deficits to the non-financial public sector cash deficit. It also illustrates the recent improvements in the Commonwealth general government sector balance as a result of the Government's fiscal consolidation programme.

The consolidated PTE sector is close to balance, and the State general government sector is projected to remain in small surplus over the outyears. Thus the Commonwealth general government surplus is the driver behind the expected consolidated public sector surplus of 0.8 per cent of GDP in 1999-2000, increasing to 2.2 per cent of GDP in 2002-03.

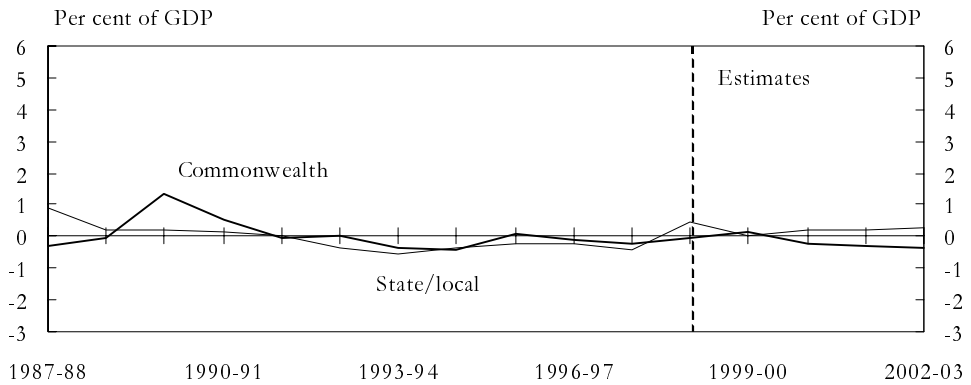
² These projections incorporate the parameter assumptions which underlie the Commonwealth Budget forward estimates and information provided by the States in their Mid Year Reports and recent budgets.

Chart 2: Underlying Cash Deficit by Sector and Level of Government

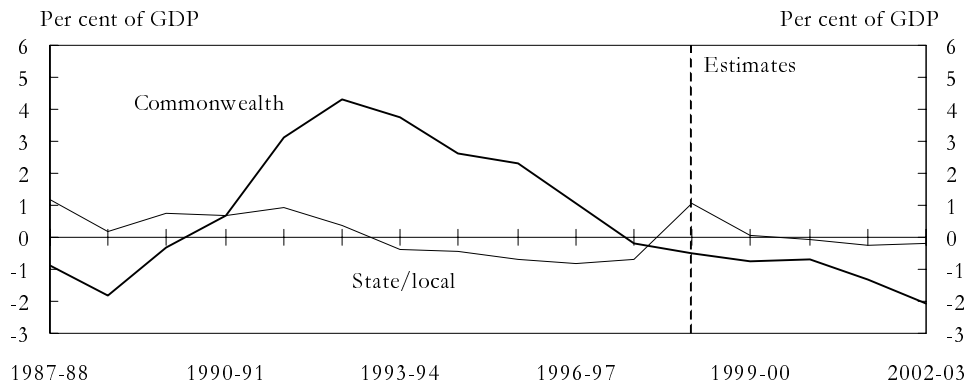
A: General Government



B: Public Trading Enterprises



C: Non-financial Public Sector



GENERAL GOVERNMENT SECTOR

The general government sector is the appropriate primary focus for an assessment of the impact of the public sector on the national economy. It accounts for around 90 per cent of total public sector revenues and outlays and is the sector through which the national government may seek to affect the level of private sector activity. The increased commercial orientation of the PTE sector means that it operates more like the private sector. Its contribution to total public sector balances in the current decade has been minor.

Chart 3 shows trends in general government cash underlying outlays and revenue at the Commonwealth and State/local levels. Underlying outlays are consistent with the underlying cash deficit, in that they exclude net advances paid. Panel A shows the countercyclical relationship between the Commonwealth's outlays and cash revenues. Generally, during economic downturns, such as in the early 1990s, outlays on transfer payments rise and taxation revenues fall, with the reverse happening during periods of strong economic growth. However, the Commonwealth deficits recorded in the first half of the 1990s also reflect structural factors. Outlays were maintained at a high level of GDP during the cyclical upturn, while the low inflation environment depressed the growth in revenue receipts.

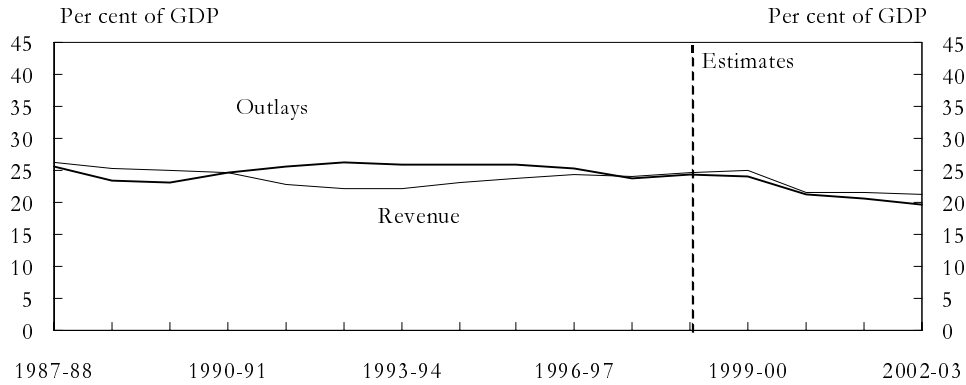
As shown in Panel A of Chart 2, the Commonwealth general government sector is expected to move from a cash deficit of 1.0 per cent of GDP in 1996-97 to a cash surplus of 0.8 per cent of GDP in 1999-2000, increasing to 1.7 per cent in 2002-03. Panel A of Chart 3 shows that this improvement is being achieved through a reduction in outlays as a share of GDP, from 25.4 per cent in 1996-97 to a projected 19.7 per cent in 2002-03 — the lowest level since the early 1970s. Cash revenue is also expected to fall during this period, from 24.4 per cent in 1996-97 to a projected 21.4 per cent in 2002-03. These falls are largely as a result of the Commonwealth's planned tax reforms.

The recent process of fiscal consolidation has been achieved mainly through outlays restraint. This reflects the Government's view that expenditure control holds the key to achieving sustainable improvements in the fiscal position, and that scope has existed for rationalising programmes and making government more efficient. The IMF and OECD have found that fiscal consolidation is more likely to be durable and encourage sustained economic growth if it is achieved through outlays restraint rather than through tax increases, which tend to be syphoned off into higher spending.

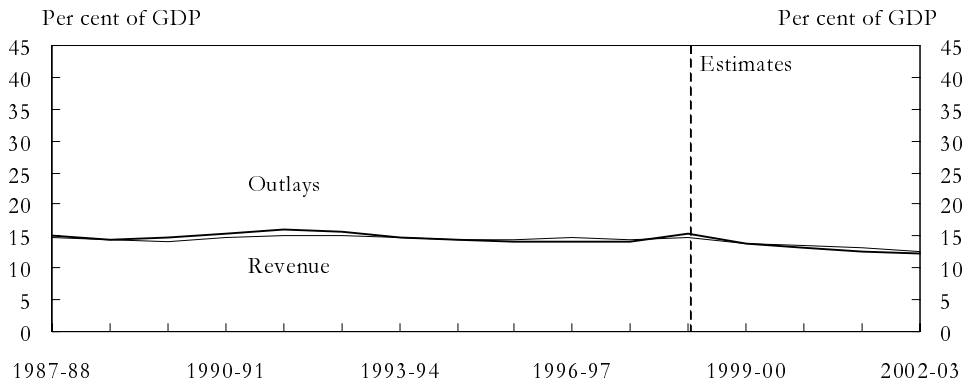
State/local revenue and outlays are less sensitive to the economic cycle than Commonwealth finances. Panel A of Chart 2 shows the sustained improvement in the State/local general government balances achieved over the period 1991-92 to 1996-97, from a deficit of 1.0 per cent of GDP to a cash surplus of 0.6 per cent of GDP. As shown in Panel B of Chart 3, this improvement has largely reflected outlays restraint, helped by lower debt servicing charges, with State/local revenue broadly stable as a share of GDP.

Chart 3: General Government Cash Underlying Outlays and Revenue by Level of Government

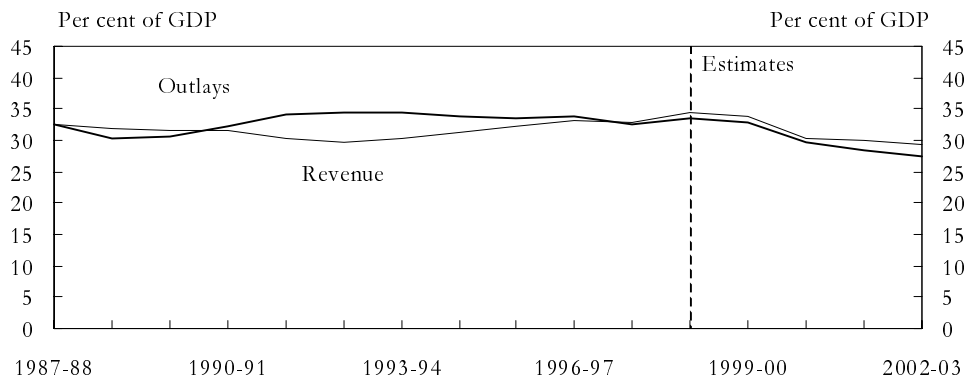
A: Commonwealth



B: State/local



C: Consolidated General Government



However, in 1998-99 the State/local general government sector cash balance is expected to reverse its recent series of small surpluses and move to a deficit of 0.6 per cent of GDP. This sharp turnaround in 1998-99 is due to NSW and Victoria allocating an additional \$3 billion and \$2.5 billion respectively to meeting their unfunded superannuation liabilities. The increased superannuation contribution pushes up the States' levels of current expenditure, and thus their budget deficits for the year, by a corresponding amount. Without these one-off superannuation payments, the State/local general government cash balance for 1998-99 would have been a surplus of around 0.4 per cent of GDP.

Small State/local general government cash surpluses are expected to prevail over the projection period. As shown in Panel B of Chart 3, outlays are projected to decline as a share of GDP. This is mainly due to restraint in current outlays resulting from improvements in public sector efficiency and interest savings associated with declining net debt. Both grants from the Commonwealth and cash own source revenue are also projected to decline as a share of GDP over the outlook period, the latter partly reflecting policies in several States which explicitly seek to restrain tax levels.

All States and Territories have in place medium-term fiscal strategies aimed at improving their fiscal positions over the medium term. These are discussed further in *Budget Paper No. 3 — Federal Financial Relations*. While there remain significant fiscal and economic disparities between the States, any movement towards increased State/local general government cash surpluses will supplement the positive effect of fiscal consolidation at the Commonwealth level, contributing to a lower current account deficit.

Panels A and C of Chart 3 show the influence of outlays restraint at the Commonwealth level on total general government cash outlays and balances. Consolidated general government outlays are projected to fall by more than six percentage points from the 1992-93 level of 34.4 per cent to 28.1 per cent of GDP in 2002-03, which is lower than most other OECD countries.

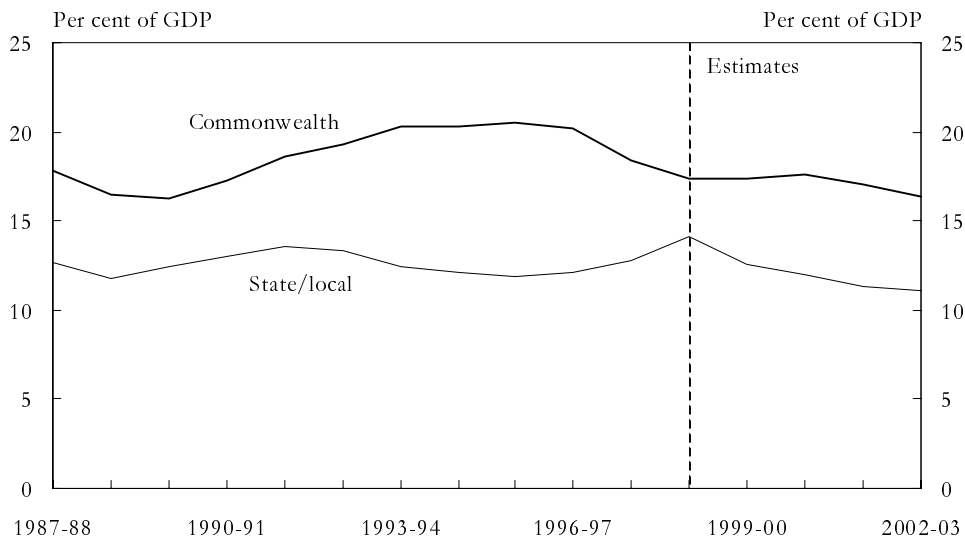
Cash Own Purpose Outlays

Trends in general government cash own purpose outlays are illustrated in Chart 4. Commonwealth own purpose outlays are defined here as cash underlying outlays, adjusted mainly to exclude Commonwealth payments to the States other than specific purpose payments made 'through' the States. This differs from the equivalent ABS measure which excludes all payments to the States, including payments 'through' the States. (The methodology is explained in more detail in Appendix C.) While not without its limitations, the adjusted measure provides a better basis for comparison of relative outlays restraint by the Commonwealth and State/local levels of government.

As shown in Chart 4, Commonwealth general government cash own purpose outlays increased as a proportion of GDP in the six year period to 1995-96, in contrast to a declining trend for the State/local level from 1991-92.

The projections for the Commonwealth show falling own purpose outlays as a share of GDP over the period to 2002-03 as a result of the Government's fiscal consolidation measures. A decline is also expected for the State/local level, after the abnormally high figure caused by NSW and Victoria increasing their superannuation funding in 1998-99.

Chart 4: General Government Cash Own Purpose Underlying Outlays by Level of Government



PUBLIC TRADING ENTERPRISES

The PTE sector is an important provider of economic infrastructure and contributes significant revenue to general government, mainly in the form of dividends (as discussed in Part IV). Where the general government sector is dominated by the Commonwealth, State/local government activity is more significant within the PTE sector. This reflects State responsibility for infrastructure and service provision in areas such as electricity, gas and water and public transport.

During the 1980s, the PTE sector engaged in high levels of capital accumulation (particularly the publicly-owned power providers), with associated growth in debt levels and interest costs. This added significantly to public sector deficits over this period. However, since the late 1980s, with the introduction of corporatisation and privatisation policies, the PTE sector has recorded a series of small cash surpluses. There has been greater emphasis on PTE operating efficiency, profitability and market orientation, often as a precursor to privatisation, and governments have re-evaluated the appropriateness of continued public ownership of many business enterprises.

PTE privatisations over the last decade have occurred in two main sectors — electricity and gas (eg Victoria's electricity assets), and transport and communications (eg Qantas and the one-third sale of Telstra). Proceeds of asset sales have been used largely to reduce, or

contain the growth of government net debt, resulting in ongoing savings in public debt interest.

The 1995 Competition Principles Agreement between the Commonwealth and the States provides a framework for ongoing change within the PTE sector. The Agreement introduced a generalised regime for access to essential infrastructure facilities, set out principles which apply to the reform of public sector monopolies, and initiated competitive neutrality principles that ensure that government businesses do not enjoy competitive advantages over private sector competitors as a result of their public ownership.

As shown in Chart 1, the PTE sector has maintained a cash surplus position through much of the 1990s. However, 1998-99 sees the PTE sector moving to an underlying cash deficit of 0.4 per cent of GDP. This is a result of substantial privatisation in the Victorian PTE sector 1998-99, with proceeds going back to the general government sector to retire debt and reduce the state's unfunded superannuation liability. Projections indicate that the sector will move back to small surpluses over the remainder of the outlook period, in line with economic growth and continued reform within remaining businesses.

Part IV: Non-financial Public Sector Liabilities

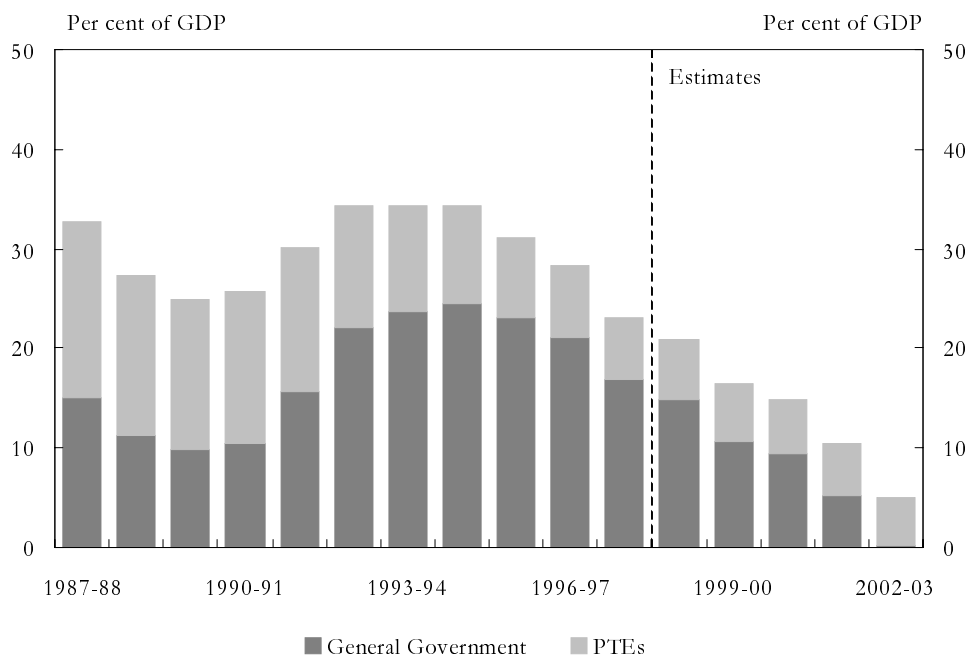
This part examines trends in non-financial public sector net debt and in net interest and dividend flows. As discussed in Part II, the level of net debt and debt servicing costs are important indicators of a jurisdiction's financial position. Governments in Australia have accorded a high priority to debt reduction in order to reduce the debt servicing burden, and enhance policy flexibility.

TRENDS IN NON-FINANCIAL PUBLIC SECTOR NET DEBT

Net debt comprises the stock of selected gross financial liabilities less financial assets, and broadly reflects the cumulative effect of underlying cash balances. However, the change in net debt does not correspond exactly to the cash underlying deficit as the proceeds of equity transactions (such as equity asset sales), which reduce the borrowing task, are classified as net advances and as such are not included in the cash underlying balance. Also, changes in net debt may reflect other factors such as revaluations of financial assets and liabilities.

Chart 5 shows non-financial public sector net debt as a percentage of GDP, and the contribution of the general government and PTE sectors, since the late 1980s.

**Chart 5: Non-financial Public Sector Net Debt by Sector
(as at end of financial year)**



Charts 1 and 5 together indicate the broad relationship between underlying deficits and net debt levels.

Chart 5 shows the increase in general government net debt as a share of GDP following the last recession. This increase reflected the financing of Commonwealth cash budget deficits that continued into the cyclical upturn. Also evident from Chart 5 is the decline in PTE sector net debt as a share of GDP since the late 1980s, reflecting lower levels of capital expenditure, improved efficiency and privatisations. This decline moderated the increase in total public sector net debt as a share of GDP in the first half of the 1990s.

The subsequent improvement in total net debt mainly reflects lower net borrowing requirements for the Commonwealth and the application of privatisation proceeds to debt retirement at both the Commonwealth and State/local levels.

General government net debt as a share of GDP is expected to decline further over the projection period, due mainly to Commonwealth fiscal consolidation. PTE sector net debt as a share of GDP is projected to decline slowly, in line with the expected pattern of small PTE sector cash surpluses.

Total public sector net debt is projected to be only 5.0 per cent of GDP in 2002-03, compared with the most recent peak of 34.4 per cent in 1992-93. The application of any future privatisation proceeds to debt reduction would result in even lower debt levels.

Chart 6 shows trends in net debt by sector and level of government. The usefulness of comparisons is diminished by the fact that between levels of government the distribution of debt across institutional sectors differs widely. Most Commonwealth net debt is owned by the general government sector whereas more than half of State/local net debt is owned by the PTE sector.

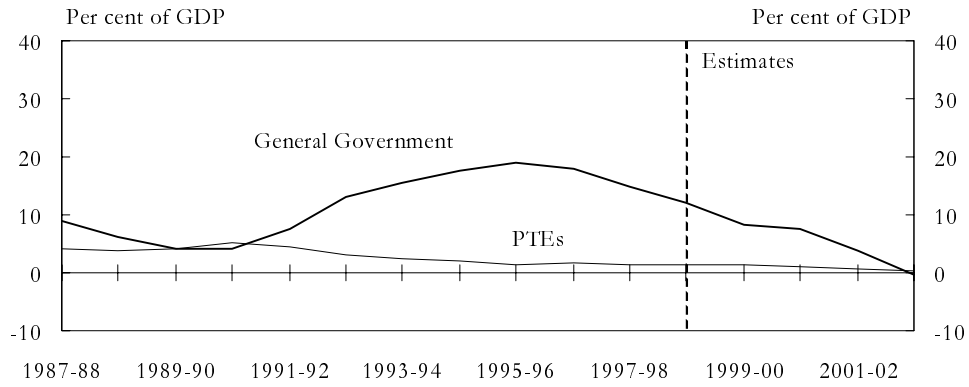
As shown in Panel A of Chart 6 Commonwealth general government net debt as a share of GDP grew from low levels in the late 1980s to a peak of 18.8 per cent in 1995-96, with strong growth in the first half of the 1990s.

In contrast, State/local general government net debt grew only modestly in the early 1990s, and has since declined from a peak of 9.6 per cent in 1992-93 to around 2.7 per cent in 1997-98, as shown in Panel B. This improvement within the State/local general government sector reflects both the impact of asset sales, and fiscal consolidation during the second half of the 1990s.

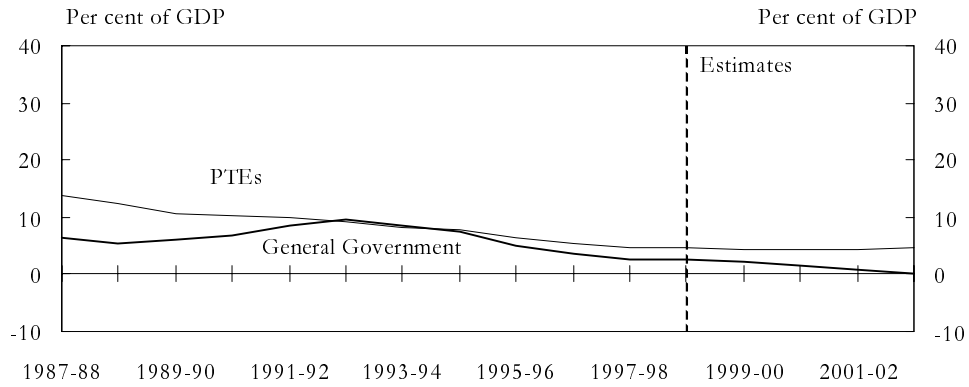
The projections for the Commonwealth in Panel A of Chart 6 include the expected impact of measures announced in this Budget. These projections show that Commonwealth general government sector net debt is projected to decline from a peak of 18.8 per cent of GDP in 1995-96 to around 7.4 per cent in 2000-01, consistent with the Government's announced aim of halving the net debt to GDP ratio over this period. The Commonwealth general government is projecting a small negative net debt figure for 2002-03.

**Chart 6: Non-Financial Public Sector Net Debt
by Level of Government and Sector
(Outstanding Stock as at End of Financial Year)**

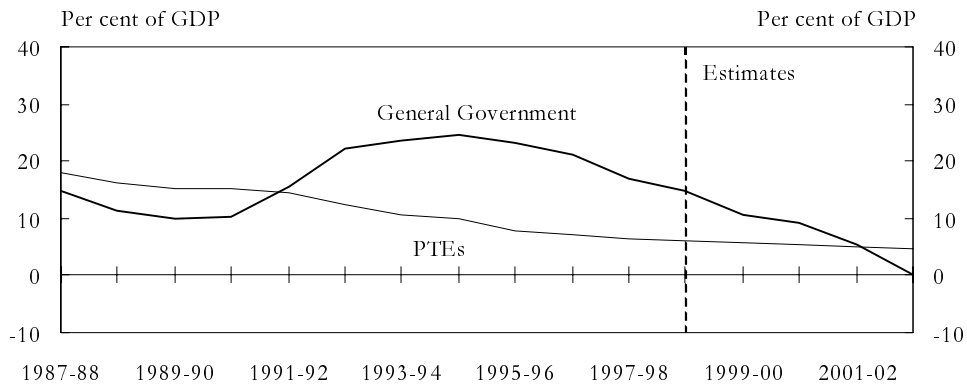
A: Commonwealth



B: State/local



C: Consolidated Non-financial Public Sector

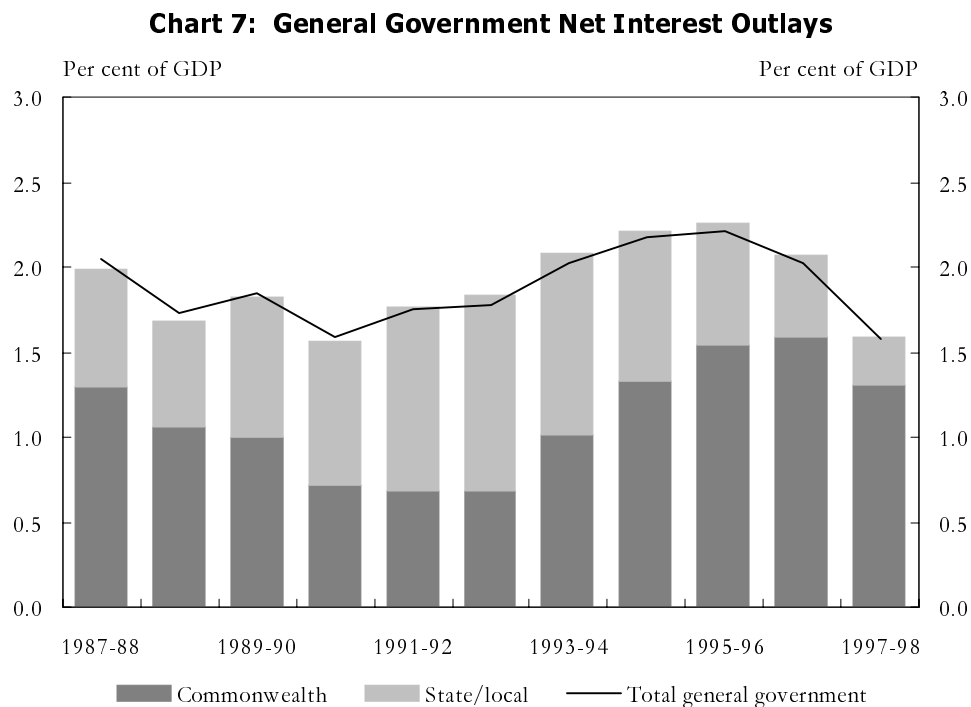


State/local general government net debt as a share of GDP should continue to fall in line with the debt reduction programmes being pursued by the States as part of their medium term fiscal strategies. State/local general government net debt is expected to be close to zero by the end of the projection period. However, some individual States continue to face substantial net debt burdens (see *Budget Paper No. 3 — Federal Financial Relations* for more information).

NET INTEREST AND DIVIDEND FLOWS

Net interest outlays are defined as interest payments on gross debt less interest received on loans and advances, and are affected by the volume of net debt on issue and interest rates.

Chart 7 shows the trend in general government net interest payments by level of government.



As shown in Chart 7, total general government net interest outlays peaked in 1995-96 at around 2.2 per cent of GDP. Levels of this magnitude were previously reached in the mid 1980s when both net debt and interest rates were high. High net interest outlays during the mid-90s climate of relatively lower interest rates, and lower levels of State/local general government net debt, reflected ongoing Commonwealth budget cash deficits during the expansionary phase of the economic cycle.

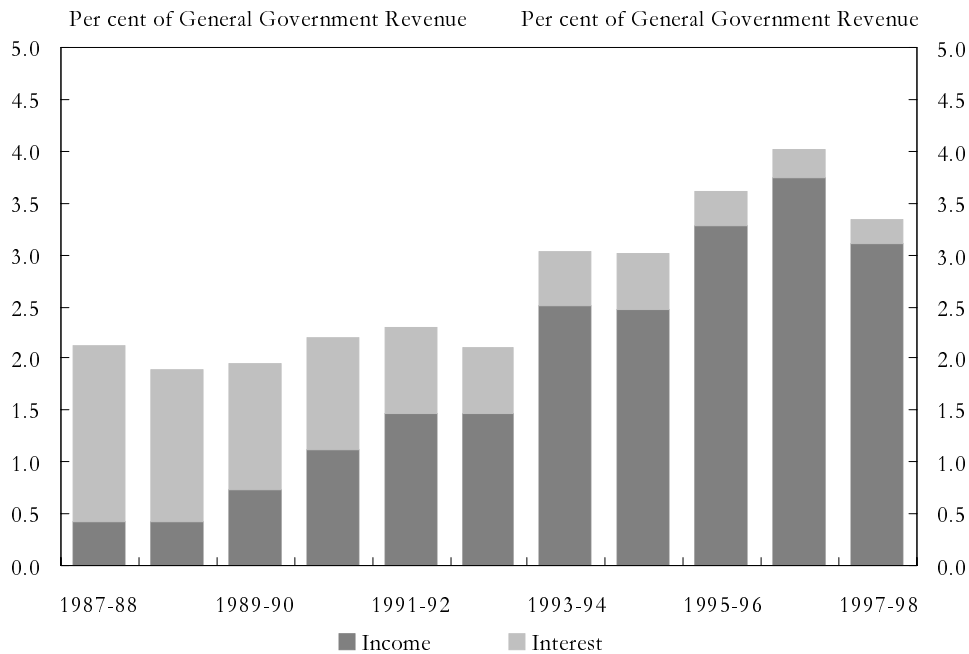
The contribution of the PTE sector to public sector net interest outlays has decreased significantly over the last decade and a half, as reduced capital outlays, improved PTE performance and privatisations have reduced PTE sector net debt as a share of GDP.

The PTE sector provides the general government sector (particularly at the State/local level) with significant revenue in the form of dividends and interest payments. Dividends correspond to general government equity holdings while interest payments reflect the stock of general government loans to the PTE sector.

Chart 8 shows the effect of PTE restructuring on these revenue sources. As PTEs have become more commercial in focus, and less directly controlled by government, they have refinanced general government advances in the market and adopted capital structures and dividend policies more comparable with those applying in the private sector.

Notwithstanding the impact of privatisations, in recent years the PTE sector has paid increasing dividends to its general government owners due to improved profitability and the adoption of commercial dividend policies. The amount of income transferred to general government by PTEs has increased from 0.4 per cent of general government revenue in 1987-88 to 3.1 per cent in 1997-98. This has more than offset a decline in interest paid.

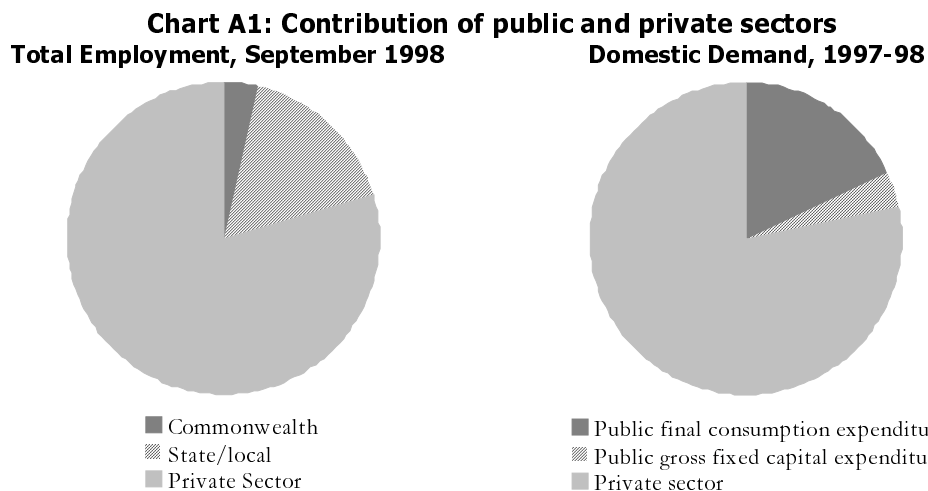
Chart 8: Income and Interest Transferred from PTEs to General Government Sector



Appendix A: Size and Structure of the Non-Financial Public Sector

This Appendix provides an overview of the size and structure of the Australian non-financial public sector to assist in interpreting the trends discussed in Parts II and III of the Statement.

As shown in Chart A1, the public sector directly accounts for around 21 per cent of civilian employment and 22 per cent of final domestic demand³. The State/local level accounts for about 82 per cent of total public sector civilian employment, reflecting its major responsibilities for service delivery — for example in the areas of education and health — and for infrastructure.



There are significant differences in the roles and responsibilities of the two main levels of government. Major Commonwealth outlays include transfer payments in relation to social security, welfare, health and defence expenditure. The Commonwealth also has an important role in funding education and health services provided by the States and the private sector. Major State/local outlays are in the areas of education, health, transport, and public order and safety.

In 1997-98, the Commonwealth raised 73 per cent of total general government revenue. However, Commonwealth own purpose outlays only directly accounted for 57 per cent of total general government outlays. A significant share of Commonwealth revenue is passed on to the State/local level in the form of grants, which account for 39 per cent of State/local general government revenue. Further information on inter-governmental transfers is provided in *Budget Paper No. 3 — Federal Financial Relations*.

³ Transfer payments by the Commonwealth — for example, income support — are not included in public final demand.

Appendix B: Total Non-financial Public Sector — Supplementary Cash Tables

Table B1: Consolidated Non-financial Public Sector Underlying Outlays, Revenue and Underlying Deficit by Institutional Sector as a Percentage of GDP

	General Government			Public Trading Enterprises			Public Sector		
	Outlays(a)	Revenue	Underlying Deficit(a)	Outlays(a)	Revenue	Underlying Deficit(a)	Outlays (a)(b)	Revenue(b)	Underlying Deficit(a)
1987-88	32.5	32.7	-0.2	5.9	4.0	0.6	37.3	35.6	0.3
1988-89	30.3	32.0	-1.7	5.4	3.8	0.1	34.7	34.9	-1.5
1989-90	30.5	31.7	-1.2	6.8	3.7	1.6	36.1	34.3	0.4
1990-91	32.3	31.7	0.6	5.9	3.8	0.7	36.9	34.3	1.4
1991-92	34.2	30.3	3.9	5.5	3.6	0.0	38.2	32.5	4.1
1992-93	34.4	29.7	4.7	5.0	3.6	-0.3	38.1	32.0	4.7
1993-94	34.3	30.4	3.9	4.3	3.7	-0.9	37.1	32.5	3.3
1994-95	33.9	31.2	2.7	4.5	3.4	-0.8	36.9	33.1	2.2
1995-96	33.6	32.2	1.5	4.5	3.0	-0.1	36.4	33.5	1.6
1996-97	33.7	33.3	0.4	4.1	3.1	-0.3	35.8	34.3	0.3
1997-98	32.5	32.8	-0.4	3.6	2.9	-0.6	34.5	34.2	-0.8
1998-99(e)	na	na	-0.8	na	na	0.4	na	na	-0.4
1999-00(e)	na	na	-0.9	na	na	0.2	na	na	-0.8
2000-01(e)	na	na	-0.7	na	na	0.0	na	na	-0.7
2001-02(e)	na	na	-1.4	na	na	-0.1	na	na	-1.5
2002-03(e)	na	na	-2.1	na	na	-0.1	na	na	-2.2

(a) The deficit in this table is the underlying deficit outlined in Appendix C. The outlays and underlying deficit measures abstract from net advances.

(b) Components do not sum to totals due to consolidation of transfers between sectors.

(e) Treasury estimates based on available information.

Table B2: Consolidated Non-financial Public Sector Underlying Outlays, Revenue and Underlying Deficit by Level of Government as a Percentage of GDP

	Commonwealth			State/local					Consolidated Public Sector		
	Outlays(a)	Revenue	Underlying Deficit(a)	Outlays(a)	Own Source Revenue	Grants Received	Total Revenue	Underlying Deficit(a)	Outlays (a)(b)	Revenue(b)	Underlying Deficit(a)
1987-88	26.9	27.2	-0.9	18.8	9.1	7.7	16.9	1.2	37.3	35.6	0.3
1988-89	24.9	26.1	-1.8	17.4	9.4	6.9	16.3	0.2	34.7	34.9	-1.5
1989-90	25.8	25.7	-0.3	17.7	9.2	6.9	16.1	0.7	36.1	34.3	0.4
1990-91	26.6	25.6	0.7	18.0	9.3	7.2	16.5	0.7	36.9	34.3	1.4
1991-92	27.2	23.4	3.1	18.7	9.6	7.3	16.8	1.0	38.2	32.5	4.1
1992-93	27.6	22.8	4.3	18.0	9.5	7.2	16.7	0.3	38.1	32.0	4.7
1993-94	27.0	22.9	3.7	16.7	9.9	6.4	16.3	-0.4	37.1	32.5	3.3
1994-95	27.0	23.8	2.6	16.3	9.5	6.2	15.7	-0.4	36.9	33.1	2.2
1995-96	26.8	24.2	2.3	15.8	9.4	6.1	15.5	-0.7	36.4	33.5	1.6
1996-97	26.2	24.7	1.1	15.6	9.7	6.0	15.6	-0.8	35.8	34.3	0.3
1997-98	24.8	24.7	-0.2	15.3	9.6	5.6	15.2	-0.7	34.5	34.2	-0.8
1998-99(e)	24.7	25.2	-0.5	na	na	na	na	1.1	na	na	-0.4
1999-00(e)	na	na	-0.7	na	na	na	na	0.0	na	na	-0.8
2000-01(e)	na	na	-0.7	na	na	na	na	-0.1	na	na	-0.7
2001-02(e)	na	na	-1.3	na	na	na	na	-0.2	na	na	-1.5
2002-03(e)	na	na	-2.0	na	na	na	na	-0.2	na	na	-2.2

(a) The deficit in this table is the underlying deficit outlined in Appendix C. The outlays and underlying deficit measures abstract from net advances.

(b) Components do not sum to totals due to consolidation of transfers between sectors.

(c) Treasury estimates based on available information.

**Table B3: General Government Underlying Own Purpose Outlays
by Level of Government**

	Commonwealth		State/local	
	\$m	Per cent of GDP	\$m	Per cent of GDP
1987-88	55142	17.8	39103	12.6
1988-89	57646	16.4	41385	11.8
1989-90	62496	16.3	47894	12.5
1990-91	68360	17.3	51383	13.0
1991-92	75640	18.6	55260	13.6
1992-93	82557	19.3	56894	13.3
1993-94	90974	20.2	56120	12.5
1994-95	96535	20.3	57524	12.1
1995-96	104324	20.5	60564	11.9
1996-97	107463	20.2	64205	12.1
1997-98	103711	18.4	72435	12.8
1998-99(e)	128228	21.7	na	14.2
1999-00(e)	na	21.4	na	12.6
2000-01(e)	na	21.7	na	12.0
2001-02(e)	na	21.1	na	11.3
2002-03(e)	na	20.2	na	11.1

(e) Treasury estimates based on available information.

Table B4: General Government Net Interest Outlays by Level of Government

	Commonwealth		State/local	
	\$m	Per cent of GDP	\$m	Per cent of GDP
1972-73	-266	-0.6	440	0.9
1973-74	-306	-0.5	440	0.8
1974-75	-267	-0.4	462	0.7
1975-76	-389	-0.5	516	0.7
1976-77	-161	-0.2	536	0.6
1977-78	-106	-0.1	560	0.6
1978-79	126	0.1	609	0.5
1979-80	290	0.2	634	0.5
1980-81	444	0.3	802	0.6
1981-82	475	0.3	786	0.5
1982-83	654	0.4	1035	0.6
1983-84	1327	0.7	1349	0.7
1984-85	2462	1.1	1404	0.6
1985-86	3626	1.5	1159	0.5
1986-87	4387	1.6	1492	0.5
1987-88	4019	1.3	2128	0.7
1988-89	3722	1.1	2161	0.6
1989-90	3848	1.0	3154	0.8
1990-91	2834	0.7	3365	0.8
1991-92	2739	0.7	4398	1.1
1992-93	2912	0.7	4900	1.1
1993-94	4549	1.0	4771	1.1
1994-95	6310	1.3	4181	0.9
1995-96	7812	1.5	3634	0.7
1996-97	8449	1.6	2516	0.5
1997-98	7381	1.3	1567	0.3

Table B5: Non-financial Public Sector Net Debt

	General Government						PTE Sector		Public Sector	
	Commonwealth		State/local		Consolidated(a)		\$m	Per cent of GDP	\$m	Per cent of GDP
	\$m	Per cent of GDP	\$m	Per cent of GDP	\$m	Per cent of GDP				
1987-88	27359	8.8	20318	6.6	46410	15.0	55293	17.8	101703	32.8
1988-89	21982	6.3	18434	5.3	39232	11.2	56363	16.1	95595	27.3
1989-90	16121	4.2	23614	6.2	37989	9.9	57794	15.1	95783	25.0
1990-91	16936	4.3	27110	6.8	41380	10.4	60745	15.3	102125	25.8
1991-92	31132	7.7	34639	8.5	63525	15.6	59011	14.5	122536	30.2
1992-93	55218	12.9	40849	9.6	94048	22.0	52878	12.4	146926	34.4
1993-94	70223	15.6	38894	8.7	106439	23.7	48021	10.7	154460	34.4
1994-95	83492	17.6	35482	7.5	116412	24.5	46482	9.8	162894	34.3
1995-96	95831	18.8	24746	4.9	117720	23.1	40135	7.9	157855	31.0
1996-97	96281	18.1	19141	3.6	112620	21.2	37748	7.1	150368	28.3
1997-98	82935	14.7	15108	2.7	94858	16.8	35371	6.3	130229	23.1
1998-99(e)	71632	12.1	na	2.5	na	15.0	na	5.9	na	20.9
1999-00(e)	51116	8.2	na	2.1	na	10.7	na	5.8	na	16.5
2000-01(e)	48936	7.4	na	1.6	na	9.4	na	5.5	na	14.9
2001-02(e)	27418	3.9	na	1.0	na	5.3	na	5.2	na	10.4
2002-03(e)	-1895	-0.3	na	0.2	na	0.2	na	4.8	na	5.0

(a) Includes universities.

(e) Treasury estimates based on available information.

Appendix C: Statistical Notes

The ABS is in the process of changing the GFS to an accrual framework, with the first accrual GFS data likely to be available in mid-1999. However, as consistent accruals data are not yet available for all jurisdictions, data in Part III of this statement (Trends in Non-financial Public Sector Cash Balances) are on a cash basis.

MEASURES OF THE CASH UNDERLYING DEFICIT

The underlying cash deficit measure used throughout this Statement is defined as cash outlays minus cash revenue, adjusted for net advances. The latter comprise transactions in financial assets undertaken for policy purposes — ie net policy lending (new policy loans and advances less repayments) and net equity transactions (injections/purchases of equity less equity sales).

Prior to 1998-99, to maintain consistency with the net lending concept in the national accounts, the measure of the general government sector cash underlying deficit used in this Statement is not adjusted for increases in provisions. Subsequent to 1998-99, in line with the *System of National Accounts, 1993* (SNA93), the cash underlying deficit is defined as underlying outlays minus revenue, minus net increase in provisions. For other sectors increases in provisions have consistently been removed in line with the ABS standard. This change mainly affects the data for the Commonwealth general government, which makes significant provisions for Superannuation payments to the PTE sector.

Up until 1997-98 the ABS defined the deficit in headline terms (outlays less revenue less increase in provisions). Since that time the ABS deficit has been defined in underlying terms as outlays (excluding net advances) less revenue less increase in provisions. This is achieved by reclassifying net advances from capital outlays to financing transactions. Although an ABS headline deficit is no longer published, it can be readily derived from published data.

CASH OWN PURPOSE OUTLAYS

The adjusted measure of Commonwealth general government cash own purpose outlays used in this Statement comprises cash underlying outlays adjusted mainly to exclude Commonwealth payments to the States other than specific purpose payments made 'through' the States. This differs from the ABS measure which excludes all payments to the States.

Specifically, the ABS measure excludes all payments to other levels of government and PTEs and PFEs, such as general revenue assistance, specific purpose payments and advances and subsidies, together with interest payments on borrowings undertaken on their behalf. The adjusted measure adds back in to Commonwealth outlays specific purpose payments 'through' the States (other than those for local government purposes)

as these payments are generally not for State-like purposes. A corresponding adjustment is made to the State/local series. The adjusted measure also removes State fiscal contributions from the data on grants to the States.

The adjusted measures for both the Commonwealth and the State/local levels abstract from all net advances. They are thus consistent with measures of the underlying deficit in, for example, removing the impact of equity asset sales which would otherwise be included as offsets to outlays.

GOVERNMENT FINANCE STATISTICS

Data used in this Statement recognises the recent changes made by the ABS to bring its GFS reporting into line with SNA93.

From 1998-99 the State central borrowing authorities (CBAs) have been reclassified from the general government sector to the public financial enterprise (PFE) sector. This change recognises that, while CBAs continue to carry out financial intermediation activities on behalf of the general government sector, their role is now broader and more commercial in nature. In line with the new ABS classification, CBAs are excluded from general government deficits and net debt presented in this Statement.

The reclassification of CBAs is being implemented as part of an extension of the scope of GFS to include PFEs in order to provide a more complete coverage of the public sector. This will ensure that CBAs remain within GFS. It will also make GFS consistent in scope with the new accounting standard for the whole of government accounts (AAS31). However the analysis of the public sector in this Statement excludes PFEs, in line with current *Uniform Presentation Framework* reporting requirements.

The 1998-99 *Government Financial Estimates* publication (Cat. No. 5501.0) also saw the reclassification of regulatory fees and other fines out of the broader taxes, fees and fines category used in previous years. Regulatory fees were reclassified as user charges, thereby reducing taxes and general government final consumption expenditure. Fines were placed into other current revenue, effectively reducing taxes and increasing other revenue.

Appendix D: Alternative Commonwealth Budget Presentations

Commonwealth Classification Concepts and Issues

Commonwealth Budget financial statements have been prepared on an accrual basis in accordance with applicable Australian Accounting Standards.

Consistent with commercial practice, the Budget financial statements are unaudited. However, the Government has released audited Consolidated Financial Statements on an accruals basis for the years 1996-97 and 1997-98 and unaudited Financial Statements for 1994-95 and 1995-96. Audited Financial Statements for 1998-99 will be released later in the year.

The Commonwealth, States and Territories have an agreed framework — the *Uniform Presentation Framework* (UPF) — for the consistent presentation of government financial information on a GFS basis. The existing UPF presentation is on a cash GFS accounting basis. However, the UPF will be reviewed this year as most jurisdictions move to an accrual environment and to ensure consistency with the accrual GFS framework being introduced by the ABS from mid 1999. The data provided in Part I of this appendix are consistent with the new accrual GFS framework. A table of broad level aggregate data on a cash GFS basis for the Commonwealth general government sector is also included in Part II of this appendix.

Consistency with External Reporting Standards

The *Charter of Budget Honesty Act 1998* requires that the budget be based on external reporting standards and that departures from applicable external reporting standards be identified.

The major external standards used in this budget are Australian Accounting Standards and the new accrual GFS framework being introduced by the ABS this year to meet emerging new domestic and international accounting standards for the public sector.

In addition, non-accounting standard classifications have been used in different sections of the budget. 'Outcomes' is a Commonwealth classification framework that indicates the results, impacts or consequences of agency's activities. Functional classifications used in some tables are based on standards maintained by the ABS, but have been extended in some cases to provide greater detail.

Accrual Government Finance Statistics Framework

From 1999 onwards the ABS is changing its recording of government finance statistics (GFS) from a cash accounting to an accrual accounting basis.

This new GFS framework reflects the principles contained in the international standards set out in the United Nations' *A System of National Accounts, 1993* (SNA93). The first presentation by the ABS of public finance statistics on an accrual accounting basis is expected to be in their issue of *Government Finance Statistics, Australia* (Cat. No. 5512.0) for 1997-98, which is planned for release in July 1999.

Accrual recording of GFS will cover some financial items of significant size which are not included in cash-based statistics because they do not have an associated cash flow. These include increases in a government's unfunded superannuation liability and provisions for the depreciation of its capital assets. The inclusion of these types of transactions will enable a more complete analysis of a government's financial situation.

The accrual GFS will include tables on both a stock and flow basis. The operating statement looks at flows of accrual revenue and expenses, and also looks at changes in financial and non-financial assets. The cash flow statement considers a jurisdiction's cash receipts and payments, as well as other cash flows from investments. The cash deficit presented in this statement is the same as the cash underlying deficit generated under the cash GFS. The balance sheet looks at stocks of financial and non-financial assets and liabilities.

The accrual GFS will have a number of new summary measures: increase in net assets, the net operating result, and fiscal balance (net lending).

Increase in net assets, or increase in net worth, is defined as the increase in a jurisdiction's net assets position, including any change in non-financial assets. Increase in net assets may either be read off the Operating Statement, as net increase in non-financial assets plus net increase in financial assets and liabilities, or derived from the Balance Sheet, as end-of-year net assets minus beginning-of-year net assets.

The net operating result is defined as the increase in net assets less revaluations of financial assets and non-financial assets and liabilities. Conceptually, the net operating result may also be viewed as the excess of revenue over expenses, measured on an accruals basis.

The fiscal balance is defined as the net operating result less net capital formation plus other movements in non-financial assets. The fiscal balance is effectively a measure of government net lending, the gap between government savings and investment. It measures the government's net call on other sectors in the economy, and so corresponds to the government's direct contribution to the current account deficit.

Comparison between GFS and accounting standards

There is a general consistency of treatment between GFS and accounting standards. GFS and AAS31 definitions of the scope of the public sector agree in almost all cases. AAS31 also recommends that for presentational purposes, the public sector be segmented into the subsectors required for GFS purposes on the basis of GFS standards.

Transactions are generally treated in a similar manner by GFS and accounting standards. Some of the major differences in the way that GFS treat transactions are included in Table D1.

Table D1: Differences between AAS31 and GFS Accrual Accounting Standards

Issue	AAS31 Treatment	GFS Treatment
Provisions for bad and doubtful debts.	Treated as part of operating expenses.	Treated as internal 'book keeping' entries and removed from operating expenses.
Profit/loss on sale of assets.	Treated as part of operating revenues/expenses, possibly as abnormal gains/losses.	Treated as revaluations and therefore removed from operating revenues/expenses.
Abnormal items	Most abnormal items will be recorded below the operating result, although some (eg changes to the outstanding superannuation liability due to revised assumptions) would be recorded above the line.	Abnormal items are considered on an individual basis to ascertain whether it is an economic transaction and in which period the transaction applies. If it is treated as an economic transaction, it impacts on GFS operating result.
Benefits to households in goods and services (social transfers in kind) component of personal benefits payments.	All personal benefits payments are treated as transfers in operating expenses.	This component of personal benefits payments is treated as part of other expenses in the operating statement.
Regulatory Fees	Included in taxation revenue as 'Fines and regulatory fees'.	Treated as user charges and included in the 'Sales of Goods and Services' component of non-taxation revenue.
Fines	Included in taxation revenue as 'Fines and regulatory fees'.	Treated as transfer income as part of non-taxation revenue.
Finance Leases	Treat finance leases as if an asset were purchased from borrowings ie the lease payment is split into an interest component (which is shown as an operating expense) and a principal component. The asset and the liability are recorded on the balance sheet. However, this convention does not apply to the cash flow statement, which does not record the acquisition of the asset or the liability.	As per the accounting standard, except that the GFS cash flow statement includes the acquisition of the asset and the liability.

Statement 1 provides a reconciliation between this year's Commonwealth general government GFS and AAS31 operating results.

Sectoral Classifications

In accordance with AAS31, Commonwealth budget and other financial documentation now classify agencies according to their institutional sector. Institutional sector is a concept used in GFS and national accounts statistics. The three sectors constituting the Commonwealth public sector are:

- General Government;
- Public Trading Enterprises; and
- Public Financial Enterprises.

Agencies belonging to the Commonwealth general government sector fall within the scope of the budget financial statements. Data is also produced in this Statement, for the Commonwealth PTE and consolidated non-financial sectors, on a GFS consistent basis in this appendix.

The primary function of the general government sector is to provide public services that are mainly non-market in nature, are mainly for the collective consumption of the community, involve the transfer or redistribution of income, and are financed mainly through taxes and other compulsory levies. Examples of agencies that belong to the Commonwealth general government sector are: Commonwealth departments, such as Department of Finance and Administration, Department of Family and Community Services, and Department of Veterans' Affairs; and authorities, such as the ABC and CSIRO.

PTEs are government controlled enterprises which have a primary function of providing goods and services which are mainly market, non-regulatory and non-financial in nature, financed mainly through sales to the consumers of these goods and services. Examples are Telstra and Australia Post.

PFEs are enterprises which are government controlled and which perform central bank functions, accept demand, time or savings deposits or have the authority to incur liabilities and acquire financial assets in the market on their own account. Examples are the Reserve Bank of Australia and Medibank Private Ltd.

Classification of agencies in budget documentation is consistent with ABS classification of agencies. Where an agency's operations change materially (eg as a result of corporatisation), its sector classification is reviewed in conjunction with the ABS. This process has led to a small number of agencies being reclassified to a different sector in budget documentation.

The term government business enterprise (GBE) is not a GFS 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.

Transactions between Commonwealth general government sector agencies — such as payments of fringe benefits tax, customs duty and interdepartmental charges — are eliminated when preparing the Commonwealth's consolidated financial statements. Only transactions into and out of the Commonwealth general government impact on the consolidated financial statements.

PART I: COMMONWEALTH ACCRUAL GOVERNMENT FINANCE STATISTICS

This section presents Commonwealth financial data on an accrual GFS basis. Statistical tables are presented below, showing an operating result, cash flow statement and balance sheet 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 ABS.

Consistent with ABS practice, transactions between the Commonwealth general government and PTE sectors are included in the tables produced for these sectors, but are removed from the consolidated non-financial sector tables as they are transactions internal to that sector.

Transactions between the Commonwealth non-financial and PFE sectors are included in all tables. These transactions include income transfers such as dividends paid to general government, net advances paid by general government to PFEs and taxes paid by PFEs.

Table D2: General Government Operating Statement (\$m)

	1998-99	1999-00	2000-01	2001-02	2002-03
General Government					
Operating Result					
Revenue					
Taxation revenue	139378	146248	137718	140941	149168
Sales of goods and services	3667	3701	3805	3812	3799
Interest income	2250	2779	2620	2849	4301
Other	7576	10001	6258	6064	5704
<i>Total revenue</i>	<i>152871</i>	<i>162728</i>	<i>150401</i>	<i>153666</i>	<i>162972</i>
Expenses					
Gross operating expenses					
Depreciation	2308	2477	2776	2956	3169
Superannuation	2788	2801	2821	2827	2823
Other operating expenses	38150	41678	40921	41867	42562
Total gross operating expenses	43246	46956	46518	47650	48554
Superannuation interest expense	2407	2428	2397	2326	2484
Other interest expenses	8935	8474	7319	6791	6478
Current transfers	0	0	0	0	0
Grant expenses(a)	43013	44602	26607	28724	27760
Subsidy expenses	3508	3824	4215	4540	4734
Other current transfers	46851	49098	54576	56820	60208
Total current transfers	93372	97524	85399	90084	92702
Capital transfers	363	365	367	218	221
<i>Total expenses</i>	<i>148323</i>	<i>155748</i>	<i>142001</i>	<i>147069</i>	<i>150439</i>
Net operating result	4548	6981	8401	6597	12533
Application of Net Operating Result					
Increase in net non-financial assets					
Gross fixed capital formation	3878	4179	4113	4356	4414
<i>less</i> Depreciation	2308	2477	2776	2956	3169
<i>plus</i> Change in inventories	-250	-156	-107	7	-62
<i>equals</i> Total net capital formation	1320	1546	1230	1407	1183
<i>plus</i> Other movements in non-financial assets	123	9	-25	1	-3
<i>plus</i> Revaluations of non-financial assets	-855	-186	-305	-536	-176
<i>Total increase in net non-financial assets</i>	<i>588</i>	<i>1368</i>	<i>900</i>	<i>873</i>	<i>1004</i>
Increase in net financial assets and liabilities					
Advances paid (net)	-5511	-17828	923	-17658	-16698
<i>less</i> Borrowing (net)	-6288	-23330	-1666	-24174	-29249
<i>less</i> Advances received (net)	0	0	0	0	0
<i>plus</i> Other movements in financial assets and liabilities	2327	-76	4606	-1327	-1198
<i>equals</i> Net lending / fiscal balance	3105	5426	7195	5189	11353
<i>plus</i> Revaluations of financial assets and liabilities	-15701	9969	-1350	12711	14437
<i>Total increase in net financial assets and liabilities</i>	<i>-12596</i>	<i>15396</i>	<i>5845</i>	<i>17899</i>	<i>25790</i>
Total increase in net assets (b)	-12007	16764	6745	18772	26794
<i>less</i> Effect of revaluations	-16555	9783	-1655	12175	14261
Net operating result	4548	6981	8401	6597	12533

(a) Consistent with AAS31, there is no distinction between grants for current and capital purposes.

(b) Total increase in net assets equals the total increase in net non-financial assets, plus the total increase in net financial assets and liabilities.

Table D3: Public Trading Enterprises Operating Statement (\$m)

	1998-99	1999-00
	Public Trading Enterprises	
	Operating Result	
Revenue		
Grants and subsidies	176	169
Sales of goods and services	25326	24067
Interest income	113	129
Other	42	29
<i>Total revenue</i>	<i>25657</i>	<i>24395</i>
Expenses		
Gross operating expenses		
Depreciation	3092	3267
Other operating expenses	16016	15408
Total gross operating expenses	19108	18675
Interest expenses	897	819
Other property expenses	2047	2344
Current transfers		
Tax expenses	1964	2145
Other current transfers	0	0
Total current transfers	1964	2145
Capital transfers	0	0
<i>Total expenses</i>	<i>24015</i>	<i>23984</i>
Net operating result	1642	411
	Application of Net Operating Result	
Increase in net non-financial assets		
Gross fixed capital formation	4821	4545
<i>less</i> Depreciation	3092	3267
<i>plus</i> Change in inventories	114	6
<i>equals</i> Total net capital formation	1843	1284
<i>plus</i> Other movements in non-financial assets	0	0
<i>plus</i> Revaluations of non-financial assets(a)	-419	-3164
<i>Total increase in net non-financial assets</i>	<i>1424</i>	<i>-1880</i>
Increase in net financial assets and liabilities		
Advances paid (net)	0	0
<i>less</i> Borrowing (net)	17	354
<i>less</i> Advances received (net)	823	37
<i>plus</i> Other movements in financial assets and liabilities	639	-482
<i>equals</i> Total net lending /fiscal balance	-201	-873
<i>plus</i> Revaluations of financial assets and liabilities	377	470
<i>Total increase in net financial assets and liabilities</i>	<i>176</i>	<i>-403</i>
Total increase in net assets (b)	1600	-2283
<i>less</i> Effects of revaluations	-41	-2694
Net operating result	1642	411

(a) The large movements in 1999-00 reflects the asset changes associated with several entities being privatised or sold and therefore moving out of the PTE sector.

(b) Total increase in net assets equals the total increase in net non-financial assets, plus the total increase in net financial assets and liabilities.

Table D4: Non-Financial Public Sector Operating Statement (\$m)

	1998-99	1999-00
Non-financial Public Sector		
Operating Result		
Revenue		
Taxation revenue	137414	144103
Current grants and subsidies	0	0
Sales of goods and services	28993	27768
Interest income	2267	2885
Other	6170	7269
<i>Total revenue</i>	<i>174844</i>	<i>182025</i>
Expenses		
Gross operating expenses	62354	64331
Superannuation interest expenses	2407	2428
Other interest expenses	9736	9271
Other property expenses	599	883
Current transfers		
Grant expenses	43013	44602
Subsidy expenses	3332	3655
Other current transfers	46851	49098
<i>Total current transfers</i>	<i>93196</i>	<i>97355</i>
Capital transfers	363	365
<i>Total expenses</i>	<i>168655</i>	<i>174634</i>
Net operating result	6190	7391
Application of Net Operating Result		
Increase in net non-financial assets		
Gross fixed capital formation	8699	8724
<i>less</i> Depreciation	5400	5744
<i>plus</i> Change in inventories	-136	-150
<i>equals</i> Total net capital formation	3163	2830
<i>plus</i> Other movements in non-financial assets	123	8
<i>plus</i> Revaluations of non-financial assets	-1273	-3351
<i>Total increase in net non-financial assets</i>	<i>2013</i>	<i>-512</i>
Increase in financial assets		
Advances paid (net)	-4688	-17791
<i>less</i> Borrowing (net)	-6270	-22976
<i>less</i> Advances received (net)	0	0
<i>plus</i> Other movements in financial assets and liabilities	1321	-631
<i>equals</i> Total net lending / fiscal balance	2903	4553
<i>plus</i> Revaluations of financial assets and liabilities	-15323	10757
<i>Total increase in net financial assets</i>	<i>-12420</i>	<i>15310</i>
Total increase in net assets(a)	-10407	14799
<i>less</i> Effects of revaluations	-16597	7407
Net operating result	6190	7391

(a) Total increase in net assets equals the total increase in net non-financial assets, plus the total increase in net financial assets and liabilities.

Table D5: General Government Cash Flow Statement (\$m)(a)

	1998-99	1999-00	2000-01	2001-02	2002-03
General Government					
Cash Flow					
Cash receipts from operating activities					
Taxes received	137733	143880	132581	141370	149328
Receipts from sales of goods and services	4165	4016	3995	3859	4131
Other receipts	9766	12267	8916	8848	9432
<i>Total receipts</i>	<i>151664</i>	<i>160163</i>	<i>145493</i>	<i>154078</i>	<i>162891</i>
Cash payments for operating activities					
Payment for goods and services	23589	26538	26071	26732	27270
Grants and subsidies paid	45301	48453	30786	33171	32662
Interest paid	8936	8541	7424	6791	6725
Other payments for operating activities	67076	67244	73984	75818	79360
<i>Total payments</i>	<i>144902</i>	<i>150776</i>	<i>138266</i>	<i>142512</i>	<i>146017</i>
Cash flows from operating activities	6762	9387	7227	11566	16874
Cash flows from investments in non-financial assets					
Sales of non-financial assets	701	810	725	699	553
<i>less</i> Purchases of non-financial assets	<i>4579</i>	<i>4989</i>	<i>4838</i>	<i>5055</i>	<i>4967</i>
<i>Total</i>	<i>-3878</i>	<i>-4179</i>	<i>-4113</i>	<i>-4356</i>	<i>-4414</i>
<i>Cash flows from investments in financial assets for policy purposes</i>	<i>5511</i>	<i>17828</i>	<i>-923</i>	<i>17658</i>	<i>16698</i>
<i>Cash flows from investments in financial assets for liquidity purposes</i>	<i>-613</i>	<i>-245</i>	<i>-163</i>	<i>-372</i>	<i>-458</i>
<i>Total cash flows from financing activities</i>	<i>-6892</i>	<i>-22659</i>	<i>-2279</i>	<i>-24669</i>	<i>-28974</i>
Net increase/decrease in cash held	890	131	-251	-174	-274
Surplus (Deficit)					
Net cash from operating activities and investments in non-financial assets	2883	5208	3114	7210	12460
<i>plus</i> Finance leases and similar arrangements	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Equals surplus (b)	2883	5208	3114	7210	12460

(a) Classification differences between the GFS and accounting standards mean that some line items in the GFS cash flow statement may differ from similar line items in the accounting standards cash flow statement.

(b) The surplus in the accrual cash flow statement is equivalent to the underlying surplus obtained under the cash GFS.

Table D6: Public Trading Enterprise Cash Flow Statement (\$m)

	1998-99	1999-00
Public Trading Enterprises		
Cash Flow		
Cash receipts from operating activities		
Receipts from sales of goods and services	23376	23477
Grants and subsidies received	179	170
Other receipts	173	161
<i>Total receipts</i>	<i>23728</i>	<i>23807</i>
Cash payments for operating activities		
Interest paid	821	796
Other payments for operating activities	17854	19214
<i>Total payments</i>	<i>18674</i>	<i>20011</i>
Cash flows from operating activities	5054	3797
Cash flows from investments in non-financial assets		
Sales of non-financial assets	343	141
<i>less</i> purchases of non-financial assets	<i>5164</i>	<i>4686</i>
<i>Total</i>	<i>-4821</i>	<i>-4545</i>
<i>Cash flows from investments in financial assets for policy purposes</i>	<i>0</i>	<i>0</i>
<i>Cash flows from investments in financial assets for liquidity purposes</i>	<i>98</i>	<i>-11</i>
<i>Total cash flows from financing activities</i>	<i>-126</i>	<i>390</i>
Net increase/decrease in cash held	205	-370
Surplus (Deficit)		
Net cash from operating activities and investments in non-financial assets	233	-748
<i>plus</i> Finance leases and similar arrangements	<i>0</i>	<i>0</i>
Equals surplus (a)	233	-748

(a) The surplus in the accrual cash flow statement is equivalent to the underlying surplus obtained under the cash GFS.

Table D7: Non-Financial Public Sector Cash Flow Statement (\$m)

	1998-99	1999-00
Non-financial Public Sector		
Cash Flow		
Cash receipts from operating activities		
Taxes received	135769	141735
Receipts from sales of goods and services	27541	27492
Grants and subsidies received	0	0
Other receipts	8395	9645
<i>Total receipts</i>	<i>171706</i>	<i>178872</i>
Cash payments for operating activities		
Payments for goods and services	23589	26538
Grants and subsidies paid	45122	48283
Interest paid	9662	9314
Other payments for operating activities	81519	81552
<i>Total payments</i>	<i>159892</i>	<i>165687</i>
Cash flows from operating activities	11814	13185
Cash flows from investments in non-financial assets		
Sales of non-financial assets	1044	951
<i>less</i> purchases of non-financial assets	9744	9675
<i>Total</i>	<i>-8699</i>	<i>-8724</i>
<i>Cash flows from investments in financial assets</i>		
<i>for policy purposes</i>	<i>4688</i>	<i>17791</i>
<i>Cash flows from investments in financial assets</i>		
<i>for liquidity purposes</i>	<i>-515</i>	<i>-257</i>
<i>Total cash flows from financing activities</i>	<i>-6193</i>	<i>-22233</i>
Net increase/decrease in cash held	1095	-238
Surplus (Deficit)		
Net cash from operating activities and investments in non-financial assets	3116	4460
<i>plus</i> Finance leases and similar arrangements	0	0
Equals surplus (a)	3116	4460

(a) The surplus in the accrual cash flow statement is equivalent to the underlying surplus obtained under the cash GFS.

Table D8: General Government Balance Sheet (\$m)

	1998-99	1999-00	2000-01	2001-02	2002-03
	General Government				
Assets					
Financial assets					
Cash and deposits	1875	2006	1755	1581	1307
Advances paid	16065	15303	15961	15037	15091
Investments, loans and placements	8178	8327	8457	8570	8767
Other non-equity assets	5696	6608	10584	9418	8417
Equity	21144	17003	17035	15574	13955
<i>Total financial assets</i>	<i>52958</i>	<i>49247</i>	<i>53793</i>	<i>50179</i>	<i>47537</i>
Non-financial assets					
Land and fixed assets	51905	53265	54190	55061	56068
Other non-financial assets	1615	1624	1599	1600	1597
<i>Total non-financial assets</i>	<i>53520</i>	<i>54889</i>	<i>55789</i>	<i>56662</i>	<i>57666</i>
<i>Total assets</i>	<i>106478</i>	<i>104136</i>	<i>109582</i>	<i>106841</i>	<i>105203</i>
Liabilities					
Deposits held	559	632	705	778	851
Advances received	0	0	0	0	0
Borrowing	96129	75019	73255	50625	21158
Provisions (other than depreciation and bad debts)	81026	81818	81974	82745	83610
Other non-equity liabilities	9315	10455	10690	10963	11060
<i>Total liabilities</i>	<i>187030</i>	<i>167924</i>	<i>166624</i>	<i>145111</i>	<i>116679</i>
Net assets	-80551	-63787	-57041	-38269	-11476

Table D9: Public Trading Enterprise Balance Sheet (\$m)

	1998-99	1999-00
	Public Trading Enterprises	
Assets		
Financial assets		
Cash and deposits	1674	1311
Advances paid	0	0
Investments, loans and placements	2010	765
Other non-equity assets	3823	2985
Equity	0	0
<i>Total financial assets</i>	<i>7507</i>	<i>5060</i>
Non-financial assets		
Land and fixed assets	32313	30782
Other non-financial assets	2496	2147
<i>Total non-financial assets</i>	<i>34809</i>	<i>32929</i>
<i>Total assets</i>	<i>42316</i>	<i>37989</i>
Liabilities		
Deposits held	0	0
Advances received	47	10
Borrowing	11675	10634
Provisions (other than depreciation and bad debts)	6207	6482
Other non-equity liabilities	5047	3805
<i>Total liabilities</i>	<i>22976</i>	<i>20932</i>
Net assets	19340	17057

Table D10: Non-Financial Public Sector Balance Sheet (\$m)

	1998-99	1999-00
	Non-financial Public Sector	
Assets		
Financial assets		
Cash and deposits	3549	3317
Advances paid	16018	15293
Investments, loans and placements	1364	586
Other non-equity assets	9518	9593
Equity	21144	17003
<i>Total financial assets</i>	<i>51594</i>	<i>45792</i>
Non-financial assets		
Land and fixed assets	84218	84047
Other non-financial assets	4111	3770
<i>Total non-financial assets</i>	<i>88329</i>	<i>87817</i>
<i>Total assets</i>	<i>139923</i>	<i>133609</i>
Liabilities		
Deposits held	559	632
Advances received	0	0
Borrowing	107805	85653
Provisions (other than depreciation and bad debts)	87233	88301
Other non-equity liabilities	14362	14260
<i>Total liabilities</i>	<i>209959</i>	<i>188846</i>
Net assets	-70035	-55237

PART II: COMMONWEALTH CASH GOVERNMENT FINANCE STATISTICS TABLES

Government Finance Statistics

The *Uniform Presentation Framework* (UPF) will be reviewed this year as most jurisdictions move to an accrual environment and the ABS moves to its new accrual GFS framework. Until it is reviewed the UPF remains on a cash GFS accounting basis.

This section includes broad aggregates on a cash GFS basis for the Commonwealth general government, PTE and consolidated non-financial public sectors.

Conceptually, this data is consistent with cash GFS data released in previous budget papers and mid-year reports. However, changes to data sources associated with the Commonwealth's move to an accrual framework may limit direct comparisons with previously published GFS data.

With the move to an accrual budget the Commonwealth has found itself unable to produce the disaggregated data displayed in the cash GFS tables to a satisfactory degree of accuracy. A full range of tables to meet existing UPF requirements on a cash GFS consistent basis have thus not been produced. However, the Commonwealth has produced detailed accrual GFS data (Tables D3 to D11, Part I). This approach is consistent with the Commonwealth's move to a comprehensive accrual budgeting framework.

Table D11: Cash Government Finance Statistics (\$m)(a)

	General Government			Public Trading Enterprises			Non-financial Public Sector		
	Outlays	Revenue	Underlying Deficit	Outlays	Revenue	Underlying Deficit	Outlays	Revenue	Underlying Deficit
1998-99(e)	143917	146800	-2883	5985	6218	-233	146216	149332	-3116
1999-00(e)	149963	155171	-5208	5482	4734	748	150347	154807	-4460
2000-01(p)	139085	142199	-3114	na	na	na	na	na	na
2001-02(p)	143481	150691	-7210	na	na	na	na	na	na
2002-03(p)	145449	157909	-12460	na	na	na	na	na	na

(a) These data are consistent with cash based Government Finance Statistics published in previous Budget Papers. The data are sourced from the relevant components of the accrual based GFS cash flow statements (Tables D5, D6 and D7), and are adjusted to take account of classification differences between the cash GFS and the new accrual GFS.

(e) estimates

(p) projections

PART III: COMMONWEALTH BUDGET SECTOR

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

The difference between the general government and budget sectors lies with Commonwealth general government authorities, such as CSIRO and the ABC, that operate outside the CPA through their own bank accounts and are thus excluded from the budget sector.

However from 1999-2000, with the introduction of devolved banking, all general government agencies will be able to operate outside the CPA through their own bank accounts.

Therefore, in future years no distinction will be made between the budget sector and the general government sector.

Table D12: Summary of Commonwealth Budget Sector Aggregates

	1998-99(a)(c)	1999-00(c)	2000-01(p)	2001-02(p)	2002-03(p)
Revenue (\$b)	152.8	162.9	150.5	153.8	163.1
<i>Per cent of GDP</i>	25.8	26.3	22.9	22.1	22.1
Expenses (\$b)	149.6	157.2	143.9	148.4	151.5
<i>Per cent of GDP</i>	25.3	25.4	21.9	21.3	20.5
Operating Result (\$b)	3.2	5.7	6.7	5.3	11.6
<i>Per cent of GDP</i>	0.5	0.9	1.0	0.8	1.6
Capital Adjustments (\$b)	-1.8	-1.7	-1.0	-1.3	-1.1
Revaluations adjustments (\$b)	1.4	1.3	1.7	1.2	0.9
Fiscal Balance	2.7	5.3	7.3	5.2	11.4
<i>Per cent of GDP</i>	0.5	0.9	1.1	0.8	1.5

(a) Under accrual budgeting, agencies will be appropriated from 1999-2000 on a full accrual basis. However, appropriations in 1998-99 were on a cash basis. As a result, differences between cash and accrual expenses introduce distortions in the relative financial position of the budget sector compared with the general government sector in 1998-99. The data for 1998-99 have therefore been adjusted to partly correct for this distortion.

(c) estimates

(p) projections

Appendix E: Historical Commonwealth General Government Cash Deficit Data

This appendix provides historical data and forward estimates for Commonwealth general government underlying outlays, revenue and underlying cash deficit.

Table E1 provides details of the cash budget aggregates for the period 1962-63 to 2002-03. Table E2 provides details of tax, non-tax and total cash revenue for the period 1962-63 to 2002-03.

Classification differences and revisions, as well as changes to the structure of the budget, can impact on comparisons over such an extended period. Factors which affect the comparability of budget aggregates between years include:

- classification differences in the data relating to the period prior to 1976-77 mean that data for the earlier period may not be entirely consistent with that for 1976-77 and later years;
- adjustments in the coverage of agencies included in the accounts of the different sector;
- the removal of Central Banking Authorities from the General Government sector in 1998-99, and subsequent backcasting to account for this change;
- the 1998-99 reclassification of fees and fines out of the broader taxes, fees and fines category used in previous years;
- transfers of taxing powers between the Commonwealth and the States;
- other changes in financial arrangements between the Commonwealth budget sector, Commonwealth non-budget sector agencies and the State/local government sector; and
- changes in arrangements for transfer payments where tax concessions or rebates are replaced by payments through the social security system. This has the effect of increasing both cash revenues and outlays as compared with earlier periods, but not changing cash balances. Changes in the opposite direction (tax expenditures replacing outlays) reduce both cash outlays and revenue.

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

A detailed discussion of the comparability of budget aggregates since 1962-63 is provided in Statement 5 of *Budget Paper No. 1, 1992-93*.

Table E1: Commonwealth General Government Underlying Outlays, Revenue and Underlying Deficit

	Underlying Outlays			Revenue			Underlying Deficit(a)	
	Estimate \$m	% Real Growth	Per cent of GDP	Estimate \$m	% Real Growth	Per cent of GDP	Estimate \$m	Per cent of GDP
1962-63	3133	4.5	17.8	3569	1.4	20.3	-436	-2.5
1963-64	3450	7.8	17.7	3952	8.4	20.2	-502	-2.6
1964-65	3728	4.0	17.4	4590	11.8	21.4	-862	-4.0
1965-66	4234	9.6	18.8	5064	6.5	22.5	-830	-3.7
1966-67	4774	9.3	19.1	5051	-3.3	20.3	-277	-1.1
1967-68	5275	6.1	19.7	5538	5.2	20.7	-263	-1.0
1968-69	5670	3.1	18.8	6170	6.8	20.5	-500	-1.7
1969-70	6131	2.4	18.3	7094	8.9	21.1	-963	-2.9
1970-71	7176	11.1	19.3	7997	7.0	21.5	-821	-2.2
1971-72	7987	4.3	19.5	8827	3.4	21.5	-840	-2.0
1972-73	9120	6.7	19.7	9414	-0.4	20.3	-294	-0.6
1973-74	10829	4.1	19.4	11890	10.7	21.3	-1061	-1.9
1974-75	15275	14.4	22.8	15325	4.6	22.8	-50	-0.1
1975-76	19876	12.2	25.1	18316	3.1	23.1	1560	2.0
1976-77	22657	1.9	24.8	21418	4.6	23.5	1239	1.4
1977-78	25489	3.7	25.6	23491	1.1	23.6	1998	2.0
1978-79	27753	2.8	24.6	25666	3.1	22.8	2087	1.8
1979-80	31041	1.9	24.2	29780	5.7	23.2	1261	1.0
1980-81	35260	2.5	24.2	35148	6.5	24.1	112	0.1
1981-82	40394	2.4	24.3	40831	3.8	24.5	-437	-0.3
1982-83	47907	6.4	26.7	44675	-1.8	24.9	3232	1.8
1983-84	55966	10.0	27.6	49102	3.5	24.2	6864	3.4
1984-85	63639	7.2	28.3	57758	10.9	25.7	5881	2.6
1985-86	69838	3.6	28.2	64845	6.0	26.2	4993	2.0
1986-87	75392	1.4	27.8	73145	6.0	26.9	2247	0.8
1987-88	79440	-1.0	25.6	81217	4.4	26.2	-1777	-0.6
1988-89	82151	-4.1	23.4	88369	0.9	25.2	-6218	-1.8

Table E1 (continued)

	Underlying Outlays			Revenue			Underlying Deficit(a)	
	Estimate	% Real	Per cent	Estimate	% Real	Per cent	Estimate	Per cent
	\$m	Growth	of GDP	\$m	Growth	of GDP	\$m	of GDP
1989-90	88816	1.9	23.2	95517	1.8	24.9	-6701	-1.7
1990-91	97319	4.6	24.6	97705	-2.3	24.7	-386	-0.1
1991-92	104536	5.4	25.8	92965	-6.6	22.9	11571	2.9
1992-93	111463	5.1	26.1	94447	0.1	22.1	17016	4.0
1993-94	117234	4.2	26.1	100142	5.0	22.3	17092	3.8
1994-95	122893	4.6	25.9	109716	9.3	23.1	13177	2.8
1995-96	131178	3.7	25.8	121103	7.2	23.8	10075	2.0
1996-97	135121	0.9	25.4	129841	5.1	24.4	5280	1.0
1997-98	134619	-1.7	23.8	135778	3.2	24.0	-1159	-0.2
1998-99 (e)	143917	6.1	24.3	146800	7.3	24.8	-2883	-0.5
1999-00 (e)	149963	2.4	24.2	155171	3.9	25.0	-5208	-0.8
2000-01 (e)	139085	-9.5	21.2	142199	-10.6	21.6	-3114	-0.5
2001-02 (e)	143481	0.8	20.6	150691	3.5	21.6	-7210	-1.0
2002-03 (e)	145449	-1.1	19.7	157909	2.3	21.4	-12460	-1.7

(a) Following recent changes in the Australian National Accounts standards, the underlying deficit measures in this table, from 1998-99 onwards, include payments by the Commonwealth in respect of accumulated public trading enterprise (PTE) superannuation liabilities. Estimates prior to 1998-99 exclude these payments.

Table E2: Commonwealth General Government Taxation Revenue, Non-taxation Revenue and Total Revenue

	Taxation Revenue			Non-Taxation Revenue			Total Revenue		
	Estimate \$m	% Real Growth	Per cent of GDP	Estimate \$m	% Real Growth	Per cent of GDP	Estimate \$m	% Real Growth	Per cent of GDP
1962-63	2882	0.4	16.4	687	5.6	3.9	3569	1.4	20.3
1963-64	3219	9.3	16.5	733	4.4	3.8	3952	8.4	20.2
1964-65	3788	13.3	17.7	802	5.3	3.7	4590	11.8	21.4
1965-66	4187	6.6	18.6	877	5.5	3.9	5064	6.5	22.5
1966-67	4455	3.1	17.9	596	-34.1	2.4	5051	-3.3	20.3
1967-68	4916	5.9	18.4	622	0.2	2.3	5538	5.2	20.7
1968-69	5488	7.1	18.2	682	5.1	2.3	6170	6.8	20.5
1969-70	6337	9.4	18.9	757	5.1	2.3	7094	8.9	21.1
1970-71	7145	7.0	19.2	852	6.8	2.3	7997	7.0	21.5
1971-72	7887	3.5	19.2	940	3.4	2.3	8827	3.4	21.5
1972-73	8411	-0.4	18.1	1003	-0.3	2.2	9414	-0.4	20.3
1973-74	10832	12.9	19.4	1058	-7.5	1.9	11890	10.7	21.3
1974-75	14141	5.9	21.1	1184	-9.2	1.8	15325	4.6	22.8
1975-76	16920	3.2	21.3	1396	1.7	1.8	18316	3.1	23.1
1976-77	19714	4.2	21.6	1704	9.2	1.9	21418	4.6	23.5
1977-78	21428	0.2	21.6	2063	11.6	2.1	23491	1.1	23.6
1978-79	23409	3.1	20.7	2257	3.3	2.0	25666	3.1	22.8
1979-80	27473	6.9	21.4	2307	-6.9	1.8	29780	5.7	23.2
1980-81	32641	7.2	22.4	2507	-1.9	1.7	35148	6.5	24.1
1981-82	37880	3.7	22.8	2951	5.2	1.8	40831	3.8	24.5
1982-83	41025	-2.8	22.8	3650	11.0	2.0	44675	-1.8	24.9
1983-84	44849	3.0	22.1	4253	9.7	2.1	49102	3.5	24.2
1984-85	52970	11.4	23.6	4788	6.1	2.1	57758	10.9	25.7
1985-86	58841	4.9	23.8	6004	18.4	2.4	64845	6.0	26.2
1986-87	66467	6.1	24.5	6678	4.5	2.5	73145	6.0	26.9
1987-88	75076	6.2	24.2	6141	-13.6	2.0	81217	4.4	26.2
1988-89	83452	3.1	23.8	4917	-25.7	1.4	88369	0.9	25.2

Table E2 (continued)

	Taxation Revenue			Non-Taxation Revenue			Total Revenue		
	Estimate \$m	% Real Growth	Per cent of GDP	Estimate \$m	% Real Growth	Per cent of GDP	Estimate \$m	% Real Growth	Per cent of GDP
1989-90	90773	2.5	23.7	4744	-9.1	1.2	95517	1.8	24.9
1990-91	92738	-2.4	23.4	4967	0.0	1.3	97705	-2.3	24.7
1991-92	87363	-7.5	21.5	5602	10.7	1.4	92965	-6.6	22.9
1992-93	88759	0.1	20.8	5688	0.0	1.3	94447	0.1	22.1
1993-94	93361	4.2	20.8	6781	18.1	1.5	100142	5.0	22.3
1994-95	104919	12.1	22.1	4797	-29.4	1.0	109716	9.3	23.1
1995-96	115698	7.1	22.7	5405	9.5	1.1	121103	7.2	23.8
1996-97	124556	5.5	23.4	5285	-4.2	1.0	129841	5.1	24.4
1997-98	130982	3.8	23.2	4796	-10.5	0.8	135778	3.2	24.0
1998-99 (e)	139378	5.6	23.6	7422	53.6	1.3	146800	7.3	24.8
1999-00 (e)	146248	3.1	23.6	8923	18.1	1.4	155171	3.9	25.0
2000-01 (e)	137718	-8.1	21.0	4481	-51.0	0.7	142199	-10.6	21.6
2001-02 (e)	140941	0.0	20.2	9750	112.6	1.4	150691	3.5	21.6
2002-03 (e)	149168	3.3	20.2	8741	-12.5	1.2	157909	2.3	21.4

(e) Estimates