

**MID-YEAR ECONOMIC AND
FISCAL OUTLOOK
1999-2000**

STATEMENT BY
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MID-YEAR ECONOMIC AND FISCAL OUTLOOK 1999-2000

FOREWORD

The 1999-2000 Mid-Year Economic and Fiscal Outlook (MYEFO) has been prepared in accordance with the *Charter of Budget Honesty Act 1998*. The Charter requires that, *inter alia*, the Government provide a report by the end of January each year which provides updated information to allow the assessment of the Government's fiscal performance against its fiscal strategy.

Consistent with these requirements:

- **Part I** provides an overview and update of the fiscal outlook.
- **Part II** discusses the economic forecasts which underpin the expenses, capital and revenue estimates.
- **Part III** provides details of the financial position and outlook.
- **Part IV** provides details of the general government revenue estimates.
- **Part V** provides details of the general government expenses and capital estimates.
- **Appendix A** provides details of decisions taken since the 1999-2000 Budget which affect expenses, capital and revenue estimates.
- **Appendix B** discusses the sensitivity of the forward estimates to changes in economic and other parameters.
- **Appendix C** provides the general government financial statements consistent with the Australian Accounting Standard *Financial Reporting by Government* (AAS31). It also includes the Statement of Risks.
- **Appendix D** provides the general government and consolidated whole of government financial statements on a Government Finance Statistics basis, also consistent with the *Uniform Presentation Framework*.

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NOTES

(a) The following definitions are used in the MYEFO:

- 'real' means that the effect of inflation has been removed;
- real growth in expenses is measured by the non-farm Gross Domestic Product (GDP) deflator;
- Y2K refers to the Year 2000 computer issue;
- Budget year refers to 1999-2000, while the forward years refer to 2000-01, 2001-02 and 2002-03; and
- one billion is equal to one thousand million.

(b) Figures in tables and generally in the text have been rounded. Discrepancies in tables between totals and sums of components are due to rounding:

- estimates under \$100,000 are rounded to the nearest thousand;
- estimates \$100,000 and over are generally rounded to the nearest tenth of a million;
- estimates midway between rounding points are rounded up; and
- the percentage changes in statistical tables are calculated using unrounded data.

(c) For the budget balance, a negative sign indicates a deficit while no sign indicates a surplus.

(d) The following notations are used:

NEC/nec	not elsewhere classified
AEST	Australian Eastern Standard Time
ADEST	Australian Daylight Eastern Standard Time
-	nil
..	not zero, but rounded to zero
na	not applicable (unless otherwise specified)
nfp	not for publication
\$m	\$ million
\$b	\$ billion

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

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

Differences between Australian Accounting Standard (AAS31) and Government Finance Statistics (GFS) Reporting

Budget estimates in the 1999-2000 MYEFO are presented on both a Government Finance Statistics (GFS) and Australian Accounting Standard *Financial Reporting by Government* (AAS31) basis. While the two standards are generally consistent, there are some significant differences in the treatment of some items.

In particular, revaluations of financial and non-financial assets and liabilities are classified differently under AAS31 and GFS standards. For example, gains or losses from foreign exchange variations are treated as revenues or expenses in the AAS31 operating statement, but are omitted from the GFS operating statement. Other differences between the two standards include the treatment of items such as provisions or allowances for doubtful debt, abnormal and extraordinary items and finance leases.

A more detailed discussion of the differences between the GFS and AAS31 reporting standards is provided in Appendix D.

MID-YEAR ECONOMIC AND FISCAL OUTLOOK

Part I: Overview and Fiscal Outlook

A stronger than expected world economic outlook is ameliorating the slowing in the Australian economy and the growth forecast for 1999-2000 has been revised upwards. This has not had a significant effect on the fiscal outlook, where policy measures have been the dominant factor in some decline in expected surpluses in the near term.

Economic growth in Australia is expected to be a very solid 3½ per cent in 1999-2000, following robust growth of around 4½ per cent in the two previous years. The forecast for 3½ per cent economic growth in 1999-2000 has been revised up from 3 per cent at Budget.

Employment is expected to increase by around 2¼ per cent, with unemployment now forecast to average around 7 per cent in 1999-2000, down from 7.6 per cent in 1998-99. Inflation is forecast to increase slightly to around 2¼ per cent, while the current account deficit is expected to remain at around 5½ per cent of GDP in 1999-2000, although with a declining trend through the year.

In 2000-01, growth is expected to be a strong 3¾ per cent, with employment growth remaining firm at around 2 per cent, raising the prospect of some further decline in unemployment. Ongoing inflation (that is, leaving aside the impact on prices of indirect tax changes flowing from the Government's taxation reform package) is estimated to be around 2½ per cent through the year to the June quarter 2001.

Consistent with the continuing strong performance of the Australian economy, the budget is expected to remain in surplus in 1999-2000. That remains the case throughout the forward estimates period, though the transitional costs of *The New Tax System* reduce the surplus in 2000-01. In addition, Australia's contribution to the United Nations peacekeeping operation in East Timor will involve significant additional expenditure over the forward estimates period.

To partially offset the cost of Australia's involvement in East Timor, the Government has announced that it will implement a Defence - East Timor levy (as an addition to the Medicare levy) in 2000-01. The revenue from the levy will ensure that overall fiscal settings in 2000-01 remain appropriate to the needs of the economy.

Tables 1 and 2 show the revised fiscal projections for 1999-2000 and the forward estimates period.¹

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

	1999-00		2000-01	
	Budget	MYEFO	Budget	MYEFO
Revenue (\$b)	162.7	162.3	150.4	153.7
Per cent of GDP	26.2	26.1	22.6	23.1
Expenses (\$b)	155.7	156.2	142.0	148.6
Per cent of GDP	25.0	25.1	21.4	22.4
Net operating balance (\$b)	7.0	6.1	8.4	5.2
Net capital investment (\$b) (b)	1.6	1.2	1.2	0.8
Fiscal balance (\$b)	5.4	4.9	7.2	4.4
Per cent of GDP	0.9	0.8	1.1	0.7
	2001-02		2002-03	
	Budget	MYEFO	Budget	MYEFO
Revenue (\$b)	153.7	157.9	163.0	168.4
Per cent of GDP	21.8	22.4	21.8	22.6
Expenses (\$b)	147.1	154.2	150.4	157.8
Per cent of GDP	20.9	21.9	20.1	21.1
Net operating balance (\$b)	6.6	3.8	12.5	10.5
Net capital investment (\$b) (b)	1.4	0.8	1.2	0.5
Fiscal balance (\$b)	5.2	2.9	11.4	10.1
Per cent of GDP	0.7	0.4	1.5	1.3

(a) All estimates are produced on a Government Finance Statistics (GFS) basis. Consistent with GFS standards, revenues and expenses exclude economic revaluations. Revenues and expenses in Parts IV and V are provided primarily on an accounting standards (AAS31) basis.

(b) Net acquisition of non-financial assets.

¹ The principal reason for the sizeable difference between the fiscal and underlying cash balances in 2000-01 is the bring-forward of company tax liabilities under the new Pay-As-You-Go system. This bring-forward substantially boosts accrual taxation revenue (and therefore the fiscal balance) in 2000-01. However, cash payments of the amount brought forward are received from companies in delayed interest free instalments over the following 2½ to 5 years (providing a delayed boost to the underlying cash balance).

Table 2: Commonwealth General Government Cash Aggregates

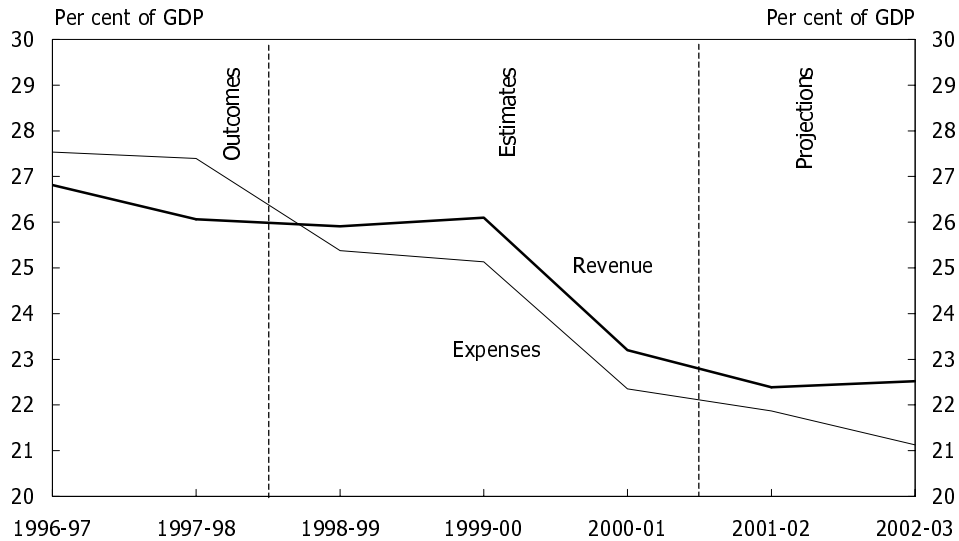
	1999-00		2000-01	
	Budget	MYEFO	Budget	MYEFO
Underlying cash balance (\$b)	5.2	3.4	3.1	0.5
Per cent of GDP	0.8	0.6	0.5	0.1
Memorandum item:				
Headline cash balance (\$b)	23.0	12.9	2.2	6.7
	2001-02		2002-03	
	Budget	MYEFO	Budget	MYEFO
Underlying cash balance (\$b)	7.2	4.6	12.5	10.9
Per cent of GDP	1.0	0.7	1.7	1.5
Memorandum item:				
Headline cash balance (\$b)	24.9	15.8	29.2	27.6

Consistent with continuing budget surpluses, significant further reductions in general government net debt are expected over the next four years. In 1999-2000, Commonwealth general government net debt is anticipated to fall to \$61 billion, or 9.8 per cent of GDP. Net debt is expected to fall further in 2000-01, bettering the Government's target of halving the net debt to GDP ratio over the five years to 2000-01.

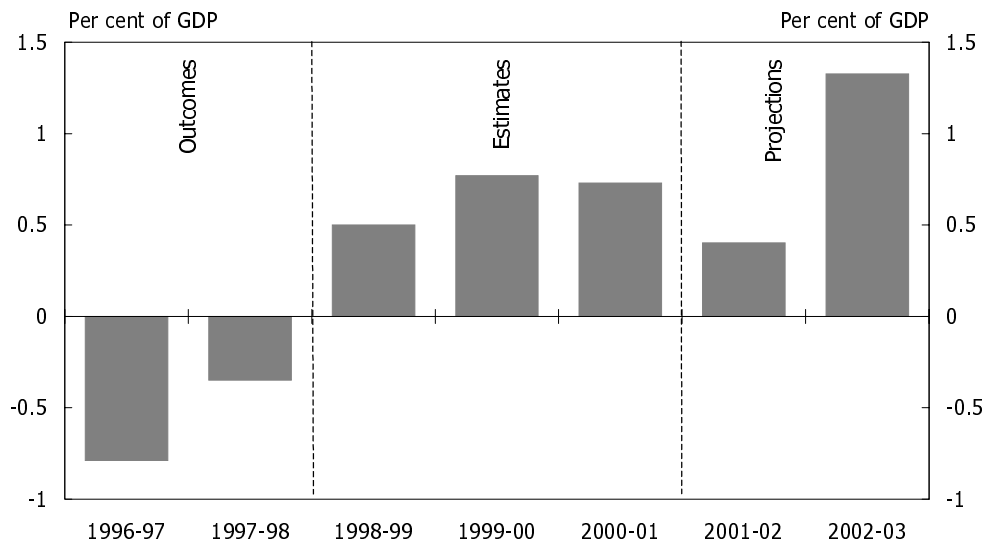
Over the forward estimates period, both revenue and expenses are expected to fall significantly as a proportion of GDP (see Chart 1). These reductions are mainly due to the introduction of *The New Tax System*, in particular the abolition of wholesale sales tax and financial assistance grants to the States and the implementation of personal income tax cuts.

Chart 1: General Government Budget Aggregates^(a)

Panel A: Accrual Revenue and Expenses

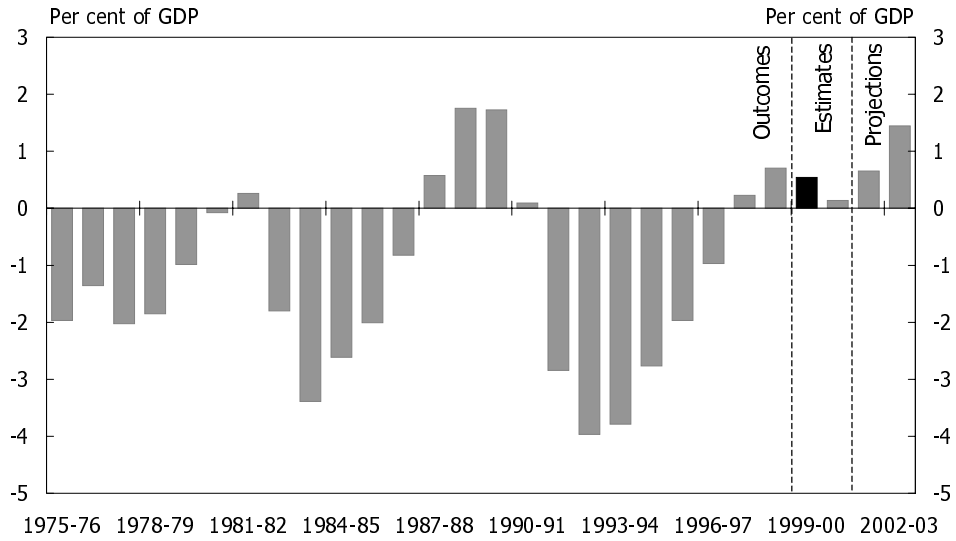


Panel B: Fiscal Balance



(a) Accrual data for 1996-97 and 1997-98 are 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 of 1999-2000 *Budget Paper No. 1 Budget Strategy and Outlook* for further information.

Chart 2: Underlying Cash Balance^(a)



(a) From 1998-99 onwards the underlying cash balance includes payments by the Commonwealth in respect of accumulated public trading enterprise superannuation liabilities. This detracts around \$1¼ billion from the surplus annually.

Table 3 provides a reconciliation of the current general government fiscal balance estimates with those at the 1999-2000 Budget, showing the effect of policy decisions and parameter and other variations.

Table 3: Reconciliation of General Government Fiscal Balance Estimates^(a)

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
1999-2000 Budget fiscal balance	5426	7195	5189	11353
(per cent of GDP)	0.9	1.1	0.7	1.5
Changes between 1999-2000 Budget and MYEFO				
Effect of policy decisions(b)				
Revenue	-28	3051	1222	2388
Expenses	1281	4259	3533	3663
Net capital investment	145	255	110	26
Total policy decisions	-1455	-1463	-2421	-1301
Effect of parameter and other variations				
Revenue	-428	262	3037	3019
Expenses	-852	2291	3555	3738
Net capital investment	-475	-689	-691	-722
Total parameter and other variations	899	-1340	173	3
1999-2000 MYEFO fiscal balance	4871	4392	2941	10056
(per cent of GDP)	0.8	0.7	0.4	1.3

(a) All estimates in this table are produced on a GFS consistent basis.

(b) Excluding the public debt net interest effect of policy measures.

Major new policy decisions since the Budget include:

- additional defence and aid expenditure of \$3.7 billion over the next four years to support Australia's peacekeeping and humanitarian operations in East Timor. Part of this cost will be met by a temporary Defence — East Timor levy in 2000-01 (see Box 1);
- legislative changes to *The New Tax System* package. These changes include making basic food Goods and Services Tax (GST) free, compensation for pensioners and allowees, measures on the environment, and reduced income tax cuts for income earners over \$50,000. The estimated net budget cost of these revisions is \$1.8 billion in 2000-01, \$0.5 billion in 2001-02 and \$0.8 billion in 2002-03 (see Box 2);
- the implementation of *The New Business Tax System* (with the reform producing a net positive effect on revenue of \$707 million in 2000-01 and \$411 million in 2002-03, more than offsetting a net cost to revenue in the other two years) (see Box 2); and
- an expansion of the Social Bonus measures associated with the sale of the second tranche of Telstra. These measures include a range of initiatives to promote access to information technology and telecommunications services for all Australians, including in rural and regional areas (the total cost of these measures is \$281 million over four years from 1999-2000).

Box 1: Budgetary Implications of Australia's Involvement in East Timor

The Government is committed to supporting the United Nations (UN) efforts to bring about peace and security in East Timor. This involves a significant deployment of Australian Defence Force (ADF) personnel, and a net addition to ADF capability to ensure overall readiness can be maintained. The Government is also providing assistance to refugees and aid for humanitarian relief and reconstruction. These commitments will come at a total budgetary cost of \$3.7 billion over four years, the elements of which are outlined in the following table. Considerable uncertainties surround these estimates.

East Timor Costs^(a)

	1999-00	2000-01	2001-02	2002-03	Total
	\$m	\$m	\$m	\$m	\$m
Australian Defence Forces(b)	-845	-1066	-878	-642	-3431
Tax exemption for ADF personnel in East Timor	-62	-23	-23	-23	-131
Aid	-60	-	-	-	-60
Civilian police for UN administration	-26	-	-	-	-26
Provision of safe haven for evacuees	-35	-	-	-	-35
Net effect on fiscal balance	-1028	-1089	-901	-665	-3683

(a) Further details on individual measures are provided in Appendix A.

(b) Defence expenditure contains expense and capital components.

To partially offset the costs of Australia's involvement in East Timor, the Government has announced that it will implement a temporary Defence — East Timor levy on individual taxpayers. The levy will be set at 0.5 per cent for individual taxpayers with total taxable income from \$50,001 to \$100,000 per annum and at 1.0 per cent for individual taxpayers with total taxable income above \$100,000 per annum. As with the Guns Buyback Levy in 1996-97, the revenue from this measure will be used to fund an unanticipated and significant cost to the Budget and will be implemented for only one financial year. The levy will apply from 1 July 2000 and will raise \$900 million in 2000-01.

In addition, the UN will reimburse Australia for some of the costs of deployment once the UN assumes responsibility for peacekeeping operations. This transition is anticipated to occur early in the year 2000. UN reimbursements are expected to amount to \$314 million over the next four years.

Box 2: Tax Reform Amendments and New Initiatives

Since Budget, the Government has amended *A New Tax System* and introduced its *New Business Tax System* reforms. These measures are detailed in Appendix A.

The amendments to *A New Tax System* were announced on 28 May 1999, following negotiations with the Australian Democrats. They include the exemption of basic food from the GST, reducing revenue by approximately \$3 billion in 2000-01. Since GST revenue goes to the States, the Commonwealth was required to make increased payments to the States, and take over other payments that would have been made by the States, to ensure the States were not worse off from GST base changes. The Government also provided additional increases in pensions and allowances and additional expenditure on the environment. To partly offset these costs, there was a reduction in the personal income tax cuts for high income earners and amended reforms to diesel fuel excise. There is a net cost to the Commonwealth Budget of \$1.8 billion in 2000-01.

On 21 September 1999 and 11 November 1999, the Government announced reforms to provide Australia with a modern, internationally competitive and fair business tax system. The key elements include: lowering the company tax rate and changes to the capital gains tax regime; simplifying the tax system to reduce the compliance burden on small businesses and primary producers; implementing a unified entity regime; and a range of measures to improve the integrity of the tax system and amend international taxation arrangements. In aggregate, these measures are broadly budget neutral over the forward estimates.

Fiscal Impact of Tax Reform Amendments and New Initiatives

	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m
<i>Revisions to A New Tax System</i>				
Payments to other governments	0	-2283	-1602	-1750
Increased social security payments	-52	-752	-560	-890
Environmental package	0	-224	-246	-244
Other assistance	-10	-280	-30	-31
Reduced personal income tax cuts	0	1110	1234	1435
Changes to diesel arrangements	0	662	694	714
Net effect on fiscal balance	-62	-1767	-511	-766
<i>The New Business Tax System</i>				
Fiscal impact of stage one measures	-106	167	-1448	-624
Fiscal impact of stage two measures	0	540	923	1035
Net effect on fiscal balance	-106	707	-525	411

The effect of new policy expenditure on the fiscal balance is partly offset in 1999-2000 by positive parameter and other variations of \$0.9 billion. These variations reflect a substantial reduction in estimated expenses and net capital investment, that more than outweighs a moderate reduction in forecast revenue. The reduction in expenses from parameter and other variations includes:

- a \$395 million saving on unemployment benefit payments arising from a reduction in the expected number of unemployed people; and
- an \$850 million reduction in expenses reflecting the inclusion of a provision for expected underspends by departments and agencies in 1999-2000.²

On the revenue side, although the outlook for economic activity in nominal terms in 1999-2000 is unchanged — real GDP is revised up while inflation is lower — a small downward variation has been incorporated, largely reflecting slightly weaker than expected taxation collections to date. The downward variation in aggregate taxation revenues reflects the net effect of revisions to most components. Two variations predominate:

- company tax collections have been reduced, chiefly as a result of higher deductions claimed by companies for Y2K expenditure and indications that taxable income growth is not matching broader measures of corporate performance; and
- partly offsetting this, refunds of individual income tax have been much lower to date than anticipated, and are likely to remain so for the year as a whole, given the large proportion of returns now processed.

In 2000-01, parameter and other variations reduce the expected fiscal balance by around \$1.3 billion. Significant variations contributing to this expected outcome include:

- a \$193 million increase in estimated personal benefit and health care payments by the Department of Veterans' Affairs;
- a \$303 million upward revision in the estimated cost of the Private Health Insurance Rebate, in line with actual data on spending and membership take up; and
- a \$504 million increase in public debt net interest expenses as a result of new policy expenditure, a rise in international and domestic interest rates and the flow-through effects of the delayed payment of Telstra 2 instalment receipts relative to the timing assumed at Budget.

² Each year an allowance for underspends is included in the contingency reserve at MYEFO for the established tendency of departments and agencies to underspend their budgets in the current financial year.

Additional details on variations in estimated revenue since the 1999-2000 Budget are provided in Part IV, while variations in expenses and net capital investment are discussed further in Part V. A full description of all policy decisions taken since the 1999-2000 Budget can be found in Appendix A.

Part II: Economic Outlook

Despite some continuing adverse fallout from the Asian crisis, economic growth in Australia is expected to remain very solid in 1999-2000 at around 3½ per cent, up from the 3 per cent growth forecast at Budget, with strong growth in employment and a declining unemployment rate. Growth of 3½ per cent compares very favourably with expected growth rates in most developed economies and follows the very robust growth of around 4½ per cent in both 1997-98 and 1998-99.

The upward revision to the growth forecast since Budget reflects an improving world outlook, together with continuing strength in domestic demand, particularly household consumption, and a firmer labour market than had been anticipated.

The outlook for world economic growth has improved noticeably in recent months. On the back of an improvement in Japan and recovery in most Asian economies, world output in 1999 is expected to be around ¾ of a percentage point stronger than forecast at Budget. Growth is expected to remain strong in the US and this will continue to underpin world economic activity in 1999. In 2000, world growth is expected to lift further, reflecting stronger recoveries in Japan, Europe and most of the Asian economies. A similar result is expected overall in 2001, although growth in the US is anticipated to moderate.

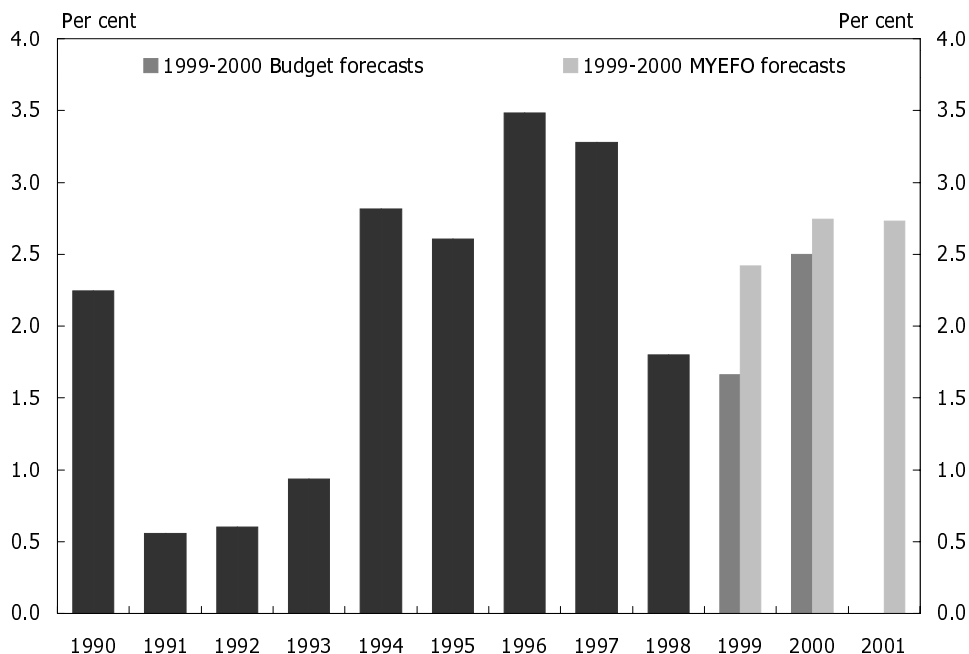
In 2000-01, economic growth in Australia is expected to be a strong 3¾ per cent, with employment growth remaining firm at around 2 per cent, raising the prospect of further declines in unemployment. Net exports are expected to increase significantly as the world economy continues to strengthen, with services exports also receiving a boost from the Olympics. On the other hand, overall domestic demand is forecast to grow at a steadier rate than in recent years. Some components of demand will be supported by a modest fiscal stimulus compared with fiscal settings in 1999-2000, in part associated with the Government's tax package, *The New Tax System*. However, the impact on activity in 2000-01 will be offset to some extent by the unwinding of an expected bring-forward of consumption expenditure and residential construction into the latter part of 1999-2000, ahead of the tax changes. The ¼ percentage point increase in official interest rates in early November, and the modest upward trend in long-term interest rates since their low point in 1998, will also have a steadying influence on some components of domestic demand in 2000-01.

The changes to indirect tax arrangements flowing from the Government's tax package, *The New Tax System*, are estimated to raise consumer prices by around 2¾ per cent through the year to the June quarter 2001. With ongoing inflation estimated to be around 2½ per cent over that period, consumer prices are forecast to increase by around 5¼ per cent through the year to the June quarter 2001.

International Economic Outlook¹

The outlook for the world economy has improved noticeably in recent months, although the higher rates of growth expected in the world economy are still below those of the mid-1990s (see Chart 3) and a little below the longer-term average. In the near term the outlook now seems less uncertain than at Budget, although risks remain.

Chart 3: World GDP Growth at Market Exchange Rates



World output is now expected to grow by 2½ per cent in 1999 (measured on a market exchange rate basis), compared with 1¾ per cent forecast at Budget. The improved outlook largely reflects an upturn in East Asia, with growth in Japan earlier in the year and recovery well under way in Korea. Growth is expected to remain strong in the US and this will continue to underpin world economic activity in 1999.

As a result of strengthening growth in Japan, Europe and most Asian economies, world output is expected to increase by 2¾ per cent in 2000. Growth in the US, however, is expected to moderate, reflecting emerging constraints on the supply side of the economy, particularly in the labour market.

These trends are expected to continue in 2001, with overall growth in world output forecast to remain around 2¾ per cent. Growth in the US and Europe is expected to be

¹ Since the MYEFO forecasts were finalised, the US has released a comprehensive revision to their National Accounts. The methodological changes have moderately increased the long-term average rate of growth, with revisions extending back to 1959.

around trend and Japan's economic growth is expected to continue to gather momentum.

A more detailed breakdown of the outlook by major country and region is shown in Table 4.

Table 4: International GDP Growth Forecasts

	1997	1998	1999	2000	2001
	Actual	Actual	Forecast	Forecast	Projection
United States	3.9	3.9	3 3/4	2 1/2	2 1/2
European Union(a)(b)	2.5	2.6	2	2 3/4	2 3/4
Japan	1.4	-2.8	3/4	1	1 1/4
Non-Japan East Asia(a)(c)	6.2	-0.5	5 3/4	6	5 3/4
World(a)	3.3	1.8	2 1/2	2 3/4	2 3/4
MTP Countries(d)	3.9	-1.2	3 1/4	3 1/2	3 1/2

(a) European Union, Non-Japan East Asia and World GDP growth rates are calculated using GDP weights based on market exchange rates. The weights used in the forecasts are a 3-year moving average up to 1998.

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

(c) Non-Japan East Asia economies are Korea, Singapore, Taiwan, Hong Kong, China, Indonesia, Malaysia, Thailand and the Philippines.

(d) Major Trading Partner (MTP) growth is calculated using weights based on merchandise exports as a percentage of total exports to MTP countries over the three fiscal years to 1998-99.

The US economy has maintained momentum through 1999, as expected at Budget. However, growth is expected to moderate over the forecast horizon on the back of recent increases in interest rates and a tightening in supply conditions.

The economic downturn in Japan is showing signs of bottoming out. After recording an annualised growth rate of 3.2 per cent in the first half of 1999, the Japanese economy is now expected to grow by about ¾ per cent in 1999 (compared with the Budget forecast of a 1 per cent contraction). This upward revision largely reflects strong growth recorded earlier in 1999, supportive macroeconomic policies since 1998 and signs of continued improvements in economic conditions in recent months. Growth is expected to continue to gain strength in Japan through 2000 and 2001, although there is a wide range of risks in light of uncertainties about the impact of corporate and financial sector restructuring on private demand and the likely level of fiscal stimulus.

The recent economic recovery in most of the Non-Japan East Asian economies is expected to gather pace, with some expected to recover very strongly (notably Korea), albeit from relatively low bases. As the bounce-back in activity in the region to date has been stronger than was expected, the Non-Japan East Asian economies are expected to grow by around 5¾ per cent in 1999 (against 3¾ per cent anticipated at Budget), and maintain a similar growth rate over the next two years.

The European economy is also showing signs of improvement after experiencing a slowing over the second half of 1998. Export demand has improved and domestic

demand remains robust, supported by ongoing high levels of consumer confidence and improving industrial activity. In turn, business confidence has improved in recent months and indicates a more positive outlook for business conditions. Europe's growth rate is expected to accelerate over the second half of this year through to the next, giving a forecast growth rate of 2 per cent for 1999 and 2¾ per cent for 2000. Growth in Europe is expected to remain at 2¾ per cent in 2001.

Domestic Forecasts

In framing the forecasts for the domestic economy, the exchange rate is assumed, as is usual practice, to remain unchanged from the average level reached in recent months. The farm sector forecasts are based on an assumption of average seasonal conditions for the remainder of 1999-2000 and in 2000-01.

The forecasts for activity and inflation in both 1999-2000 and 2000-01 take into account the changes to indirect taxes, and the general reductions in income tax rates and increases in social welfare payments, flowing from the Government's tax package, *The New Tax System*. Account is also taken of the temporary Defence - East Timor levy which will apply in 2000-01. On balance, there is estimated to be a modest overall fiscal stimulus in 2000-01 of around ¼ - ½ percentage point of GDP, relative to the fiscal settings in 1999-2000.

While the major elements of *The New Tax System* will take effect at the start of 2000-01, some impact on activity is likely to be felt in the latter part of 1999-2000. In particular, a net bring-forward of household consumption and a bring-forward of residential investment seem likely in the latter part of 1999-2000 in anticipation of price changes flowing from the indirect tax changes, with these bring-forwards being unwound in 2000-01. Working in the opposite direction, some plant and equipment investment that might otherwise have occurred in 1999-2000 could be delayed until 2000-01 as business seeks to take advantage of the price changes for plant and equipment flowing from the revised indirect tax arrangements.

The forecasts incorporate the ¼ percentage point increase in official interest rates in early November, which is expected to have a small moderating influence on growth in domestic demand, particularly in 2000-01. Long-term interest rates are assumed to remain around their average level of recent weeks. This is somewhat above the lows reached by long-term interest rates in 1998 and is likely to also have a moderating influence on domestic demand and asset prices in the period ahead.

The forecasts also include the estimated effects of the Sydney Olympics on economic activity. The main impact of the Olympics on services exports (particularly tourism and international broadcasting rights) and household consumption expenditure (particularly ticket sales) is likely to be recorded in the September quarter 2000. However, this will be partially offset by a decline in public authority stocks in that quarter, unwinding the stock accumulation of the preceding few years associated with the Olympics.

Domestic Economy — 1999-2000

The forecasts for 1999-2000 are summarised in Table 5. Economic growth is expected to be around 3½ per cent, revised up from the Budget forecast of 3 per cent. The upward revision reflects a more optimistic world growth outlook as well as evidence of continuing strength in domestic demand, particularly household consumption, and in the labour market.

Table 5: Domestic Economy Forecasts^(a)

	1998-99 Outcomes (b)	1999-2000 Budget Forecasts	Revised 1999-2000 Forecasts
	Year Average	Year Average	Year Average
Panel A - Demand and Output(c)			
Private consumption	4.5	3 3/4	4 1/4
Private investment			
Dwellings	7.4	3	5
Total business investment	0.4	-1	0
Other buildings and structures	-0.9	-10	-11
Machinery and equipment	-2.7	1	0
Private final demand	3.9	2 3/4	3 1/2
Public final demand	5.0	3 1/4	4 1/2
Total final demand	4.2	3	3 3/4
Change in inventories(d)			
Private non-farm	0.7	0	0
Farm and public authorities	0.0	- 1/4	- 1/4
Gross national expenditure	4.8	2 3/4	3 1/2
Exports of goods and services	1.7	5	5
Imports of goods and services	5.0	4	5
Net exports(d)	-0.7	1/4	0
Gross domestic product	4.5	3	3 1/2
Non-farm product	4.3	3	3 1/2
Farm product(e)	8.2	1	0
Panel B - Expenditure Excluding Transfers and One-off Transactions(c)(f)			
Total business investment	2.6	0	2
Other buildings and structures	7.8	-9	-9
Machinery and equipment	-3.6	3	3
Public final demand	3.5	2 1/2	3 1/4
Change in inventories(d)	0.6	0	- 1/4
Gross national expenditure	4.7	2 3/4	3 1/2
Exports of goods and services	2.3	5	5
Panel C - Other Selected Economic Measures			
Prices and wages			
Consumer Price Index	1.2	2	2 1/4
Gross non-farm product deflator	0.6	1 3/4	1 1/4
Average earnings(g)	3.9	3 3/4	3 1/2
Labour market			
Employment (Labour Force Survey basis)	2.2	1 3/4	2 1/4
Unemployment rate (per cent)	7.6	7 1/2	7
Participation rate (per cent)	63.2	63 1/4	63 1/4
External accounts			
Terms of trade	-5.1	1/2	1
Current account balance			
\$billion	-32.4	-32	-33 1/2
Percentage of GDP	-5.5	-5 1/4	-5 1/2

- (a) Percentage change on preceding year unless otherwise indicated.
(b) Calculated using original data.
(c) Chain volume measure.
(d) Percentage point contribution to growth in GDP.
(e) 1998-99 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 civilian aircraft, ships and satellites, and the export of ANZAC frigates.
(g) Average non-farm compensation of employees (National Accounts basis).

Demand and Output

Growth in **private consumption** is expected to moderate slightly but remain strong in 1999-2000, following the very strong increases of around 5 per cent in 1997-98 and 4½ per cent in 1998-99. The introduction of the GST on 1 July 2000 is expected to result in some transitional effects on normal consumption patterns, as consumers bring forward consumption of some items that will rise in price and defer consumption of others that will fall in price. While the net impact of these timing changes is uncertain, the forecasts incorporate a relatively small net bring-forward of household consumption from 2000-01 into the latter part of 1999-2000. Allowing for this bring-forward, growth in private consumption is forecast to be around 4¼ per cent in 1999-2000.

This outlook for a slight decline in the pace of private consumption growth is consistent with an assumed slowing in growth in real private sector wealth to around its longer-term trend rate, following several years of very strong growth, slower growth in real wages and a fading in the boost to consumption from the AMP demutualisation. However, consumption growth should continue to be supported by ongoing solid employment growth and a supportive interest rate environment by historical standards. The results of recent consumer confidence surveys also suggest consumer optimism remains at very high levels.

Following very strong rises in **dwelling investment** of around 15½ per cent in 1997-98 and around 7½ per cent in 1998-99, more moderate growth of around 5 per cent is expected in 1999-2000. This forecast includes a GST-induced bring-forward of construction activity into 1999-2000, at the expense of activity in 2000-01. Abstracting from the GST bring-forward, dwelling investment is expected to increase modestly in 1999-2000, underpinned by the long-term structural trend towards larger and more expensive housing and ongoing moderate growth in alterations and additions to the existing housing stock. The number of new houses being built appears broadly to match the underlying demand for new houses based on demographic factors, and so is not expected to contribute significantly to growth in dwelling investment.

Business investment (abstracting from asset sales) is forecast to grow by around 2 per cent in 1999-2000, broadly in line with the growth rate recorded in 1998-99, following six years of strong growth. This forecast reflects the expected gradual world recovery, the mature stage of the investment cycle in some sectors and a provision for the deferral of some investment spending in the lead-up to the introduction of Government's tax package, *The New Tax System*.

Within the forecast for overall business investment there are, however, significant differences between the outlook for plant and equipment investment and for non-residential construction. Plant and equipment investment (abstracting from asset sales) is forecast to grow by around 3 per cent in 1999-2000, supported by rising capacity utilisation and some strengthening in export demand flowing from the expected gradual pick-up in world growth. This is consistent with surveyed business investment intentions which point to modest growth in plant and equipment investment in 1999-2000.

On the other hand, the outlook for investment in non-residential construction (abstracting from asset sales) is less favourable, with a fall of around 9 per cent expected in 1999-2000. After five years of strong growth in non-residential construction, which have taken it to a relatively high level as a share of GDP, there is now more limited scope for further spending in many areas such as offices, hotels, shops, casinos and sporting arenas. The deferral of many mining investment projects in response to the weakness in commodity prices will also weigh on the outlook for non-residential construction. This outlook is broadly consistent with surveyed business investment intentions, which also point to a large fall in non-residential construction, and other forward indicators, such as the value of building approvals and the amount of work still in the pipeline, which are well down on their mid-1998 peaks.

Private non-farm inventories are not expected to contribute to growth in 1999-2000. Over the past few quarters, the non-farm stocks-to-sales ratio has increased sharply. Some of this stock building would appear to be aimed at returning stocks to desired levels, following the steep decline in the non-farm stocks-to-sales ratio experienced from late 1996 through 1997. However, the further sharp increase in the non-farm stocks-to-sales ratio in the June quarter 1999 may reflect some mild unanticipated stock building, in response to the temporary pause in sales, which is likely to be unwound in 1999-2000. The anticipated moderation in sales growth in 1999-2000 will also weigh on the outlook for investment in inventories. However, these effects will be largely offset by the privatisation of Wool International, the Wheat Board and the Barley Board in the September quarter 1999 (which will lead to both an increase in non-farm stocks and a corresponding decrease in public authority stocks).

The Australian Bureau of Statistics (ABS) will build some further Olympic-related expenditure into public authority inventories over the course of 1999-2000, partially offsetting the impact of the privatisation of the three public marketing authorities. (In the September quarter of 2000, this Olympic-related stock building of the last four years will be unwound.)

More generally, the quarterly pattern of activity in 1999-2000 could be affected to some extent by Y2K-related precautionary stock building in the latter part of 1999, consistent with recent business surveys. These stocks are likely to be unwound in the first half of 2000. Such stock building would provide a temporary boost to GDP growth ahead of the New Year, with an offsetting detraction in the first half of 2000.

Following a strong increase of 5.0 per cent in 1998-99, growth in **public final demand** is expected to moderate slightly but remain very solid in 1999-2000, rising by around 4½ per cent. In part this forecast growth reflects an anticipated reduction in second hand asset sales (which detract from investment) from their high 1998-99 level.

After adjusting for second hand asset sales, public final demand is forecast to grow by ¾ per cent, down slightly on the 3½ per cent growth recorded for 1998-99. Relatively subdued growth is forecast at the State/local level, both for consumption and investment, while the forecast for Commonwealth consumption includes an allowance for increased defence expenditure flowing from Australia's commitments in relation to East Timor.

The level of **gross agricultural product** is forecast to remain unchanged in 1999-2000, compared with the Budget forecast of a 1 per cent increase from its level in 1998-99. Forecast production of cereals and grains, dairy and cotton have been revised down marginally since Budget, while beef and veal production is also expected to fall slightly, reflecting a rebuilding phase in the cattle herd.

Net exports are expected to make no contribution to GDP growth in 1999-2000, after detracting from growth in 1998-99. Export volume growth is forecast to be around 5 per cent, compared with around 2 per cent in 1998-99, as world growth strengthens. Import volumes in 1999-2000 are also expected to increase by around 5 per cent, slightly more than was anticipated at Budget, with the upward revision reflecting both the increase in forecast domestic demand since Budget and a downward revision to expected import prices.

Following a significant decline of around 5 per cent in 1998-99, the terms of trade is expected to recover slightly in 1999-2000. This reflects a mixed commodity price response to strengthening world growth. While price negotiations have resulted in substantial price falls for bulk commodity exports such as coal and iron ore for 1999-2000, the combination of a stronger world economy and supply restrictions is expected to result in significant increases in mineral fuels and base metals prices (in both US and Australian dollar terms) in this year. More generally, although growth in world GDP is expected to move closer to its long-run trend, the *level* of world GDP is expected to remain below its trend path in 1999-2000, following the below-trend growth of recent years. As a result, overall prices of export commodities are expected to remain below trend over the forecast period.

The announcement by European central banks that they would limit sales and leasing of their monetary gold over the next five years, along with the decision by the IMF not to sell part of its gold reserves, have removed a significant source of negative sentiment from the gold market, and led to a significant pick-up in the price of gold. Nevertheless, there is a greater than usual degree of uncertainty surrounding the outlook for the gold price, with both upside and downside risks.

Consistent with the expected stability in net export volumes and the slight increase in the terms of trade, Australia's **current account deficit** (CAD) is expected to remain around 5½ per cent of GDP in 1999-2000, with a declining trend through the year. The risks around the CAD appear evenly balanced. On the one hand there is the possibility of stronger than expected flow-through of more robust world growth to commodity prices and export volumes, leading to a faster turnaround in the terms of trade and net export volumes than forecast. Against this is uncertainty surrounding the rate of recovery in the world economy and the possibility that continuing robust domestic demand could lead to stronger than expected import volume growth. More generally, quarterly outcomes are likely to remain quite volatile, and therefore subject to the usual uncertainties.

Downward revisions by the ABS to estimates of the level of the net income deficit have reduced the forecast for this component of the CAD for 1999-2000 compared with Budget. These downward revisions, combined with an assumption of world interest rates at around current levels, are expected to largely offset the anticipated increase in

Australia's net external liabilities and result in only subdued growth in the net income deficit over the forecast period.

Labour Market

Employment is forecast to grow by 2¼ per cent in 1999-2000 in year-average terms, up from 1¾ per cent at Budget and broadly unchanged from 1998-99. The upward revision to forecast growth in employment in 1999-2000 reflects the stronger outlook for overall economic activity than was factored in at Budget, and is consistent with a range of supportive partial indicators such as job vacancy series and business surveys of employment intentions. A modest cyclical slowing in productivity growth is expected compared with 1998-99 in line with the forecast slowing in economic growth.

Having fallen over the course of 1998-99, the participation rate is expected to increase slightly from its level at the start of 1999-2000, as continued solid employment growth encourages some workers to enter or re-enter the labour market. In year-average terms the participation rate is forecast to remain flat in 1999-2000 at around 63¼ per cent, similar to the Budget forecast.

In keeping with these forecasts for employment growth and for the participation rate, the unemployment rate is expected to continue its recent downward trend, averaging around 7 per cent over 1999-2000 as a whole. This forecast is below that at Budget, reflecting the improvement in the outlook for activity and the recent strength of the labour market. Volatility in the participation rate, however, represents a key uncertainty around the outlook for the unemployment rate.

Wages

Wages growth is expected to moderate slightly in 1999-2000 as output growth slows, although firm labour market conditions will limit the extent of the moderation. On a national accounts basis, average earnings growth in 1999-2000 is now forecast to be 3½ per cent, compared with the Budget forecast of 3¾ per cent. However, despite this expected moderation, nominal unit labour costs are expected to increase marginally more quickly in 1999-2000 than in recent years, reflecting the anticipated cyclical slowdown in productivity growth.

A number of uncertainties surround the forecast for wages growth in 1999-2000. In addition to the general possibility that the expected further fall in unemployment over the year may lead to stronger wage pressures than anticipated, some business surveys have indicated emerging skills shortages. However, there is little evidence that these shortages are currently having a widespread impact on wages growth across the economy.

Prices

In year-average terms, the Consumer Price Index (CPI) increased by only 1.2 per cent in 1998-99. This outcome was reduced by around ¼ percentage point by the Government's 30 per cent rebate for private health insurance, which commenced on 1 January 1999. In 1999-2000, inflation is expected to rise a little from this level,

averaging 2¼ per cent. This modest increase in inflation reflects expected slightly faster growth in nominal unit labour costs in Australia as well as some reversal of the international deflationary forces which were evident during the economic downturn in Asia in 1997 and 1998.

World oil prices have increased sharply since early 1999 and the associated increase in petrol prices had a direct impact on the CPI in the June and September quarters, with some further minor impact expected in the December quarter. Higher oil prices and rising world commodity prices are also expected to put some moderate upward pressure on production costs more generally, both in Australia and overseas.

Changes associated with the Government's tax package, *The New Tax System*, are expected to increase the CPI slightly in 1999-2000. The move to per-stick taxation of cigarettes will add to prices in the December and March quarters of 1999-2000, partly offset by the 29 July reduction of Wholesale Sales Tax (WST) rates from 32 per cent to 22 per cent on a range of items.

Domestic Economy — 2000-01

Growth in 2000-01 is expected to be a strong 3¾ per cent in year-average terms, with employment growth remaining firm at around 2 per cent, raising the prospect of further declines in unemployment. Domestic demand growth is expected to ease, with the impact on activity more than offset by stronger growth in net exports.

The gradual strengthening in world economic growth is expected to result in faster growth in Australia's export volumes and some further gradual recovery in world commodity prices and in Australia's terms of trade. Nevertheless, world commodity prices and the terms of trade are likely to remain below their levels of mid-1997, prior to the onset of the downturn in Asia, consistent with the expectation that the level of world GDP will remain below trend. Services exports will also be boosted by the Olympics, with the main impact likely to be felt in the September quarter 2000. Some moderation in import volume growth is expected, reflecting the outlook for domestic demand and some increase in import prices.

Growth in household consumption is expected to ease further in 2000-01, but to remain above its longer-term trend growth rate. Real wages are expected to grow at more moderate rates than in recent years. Asset prices and hence household wealth are also assumed to stabilise to some extent, following several years in which asset prices increased significantly in an environment of falling interest rates. Nevertheless, the future course of asset prices, and the impact of changes in wealth on household consumption, remain a source of uncertainty around the forecasts.

The Government's tax package, *The New Tax System*, will provide substantial income tax cuts and increases in welfare benefits in 2000-01. The impact on real household disposable income and hence household consumption will be partly offset by overall increases in indirect taxes and the temporary Defence – East Timor levy on incomes above \$50,000 which will apply in that year. Further, the expected net bring-forward of

consumption into the latter part of 1999-2000 will result in some weakness in consumption in the early part of 2000-01.

Following a subdued period in 1999-2000, growth in business investment in plant and equipment is expected to respond positively to the improving world economy in 2000-01, reinforced by the beneficial impact of the Government's tax package, *The New Tax System*, on business costs. In contrast, non-residential construction investment is expected to decline further in 2000-01, following an expected sharp decline in 1999-2000. Residential construction is also expected to decline a little in 2000-01 as the bring-forward of activity into 1999-2000, ahead of the changes to indirect tax arrangements, is unwound.

Leaving aside the direct effects of the Government's tax package on consumer prices, inflation is estimated to be around 2½ per cent in year-average and through-the-year terms in 2000-01, up marginally from around 2¼ per cent in year-average terms in 1999-2000. The gradual increase in inflation reflects expected slightly faster growth in nominal unit labour costs compared with recent years and a continuing reversal of the international deflationary forces which accompanied the sharp downturn in Asia in 1997 and 1998.

The changes to indirect tax arrangements are estimated to increase the CPI by around 2¾ per cent through the year to the June quarter 2001. With ongoing inflation of around 2½ per cent, the CPI is expected to increase by around 5¼ per cent through the year to the June quarter 2001. In year-average terms, the CPI is expected to increase by around 5½ per cent.

The effect of the revised indirect tax arrangements on prices will not be felt evenly through 2000-01. The main effects will occur in the September quarter of 2000, with the impact of the GST on retail prices only partially offset by the direct impact of the removal of wholesale sales tax. In subsequent quarters, increases in the CPI will be smaller than would otherwise have been the case, as the removal of wholesale sales tax and lower diesel excise reduce embedded production and transportation costs and hence put downward pressure on retail prices.

The longer-term impact of the Government's tax package on the CPI will be appreciably less than the impact in 2000-01. Additional tax package measures will be introduced in 2001, 2002 and 2005 which will further reduce the overall CPI impact of the package to around 2¼ per cent over the longer run (or around 1¾ per cent excluding tobacco). These measures include the removal of Financial Institutions Duties (FID) and Bank Account Debit (BAD) taxes and the phasing-in of input tax credits for motor vehicles.

Medium-term Projections

Table 6 below sets out the major economic parameters used in preparing the revised Budget estimates. The parameters comprise the forecasts for 1999-2000 and 2000-01, and medium-term projections for the following two financial years. The projections for economic growth in the outyears are based on analysis of underlying trends, while the

projections for inflation are consistent with the mid-point of the medium-term inflation target band.

Table 6: Major Economic Parameters (percentage change from previous year)

	1999-2000	2000-01	2001-02	2002-03
	Forecasts		Projections	
Real GDP	3 1/2	3 3/4	3 1/2	3 1/2
Employment(a)	2 1/4	2	2	2
Wages(b)	3 1/2	3 3/4	3 1/2	3 1/2
CPI	2 1/4	5 1/2	2 1/2	2 1/2

(a) Labour Force Survey basis.

(b) Average earnings (national accounts basis).

Part III: Financial Outlook

The revised financial statement projections show a continuation of operating surpluses accompanied by significant reductions in debt.

OPERATING RESULT

The revised operating result projections show little change for 1999-2000, but in the following two years expenses are expected to increase at a greater rate since budget time than revenues, mainly reflecting government decisions and parameter changes. In particular, the projections are affected by legislative changes to *The New Tax System* package and Australia's involvement in peacekeeping and aid activities in East Timor.

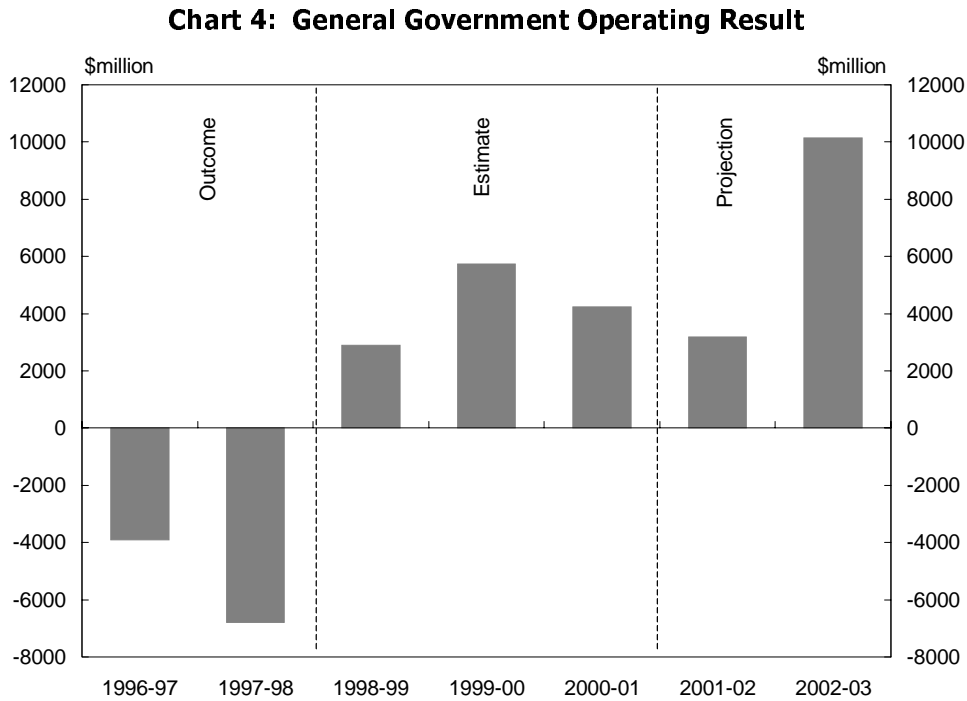
A summary of general government revenues, expenses and operating results for the current and forward years is shown in Table 7.

Table 7: Summary of General Government Revenues and Expenses^(a)

	1999-00 \$m		2000-01 \$m	
	Budget	MYEFO	Budget	MYEFO
Revenue				
Total taxation	146878	146031	138293	141483
Total non-taxation	15950	16428	12201	12416
Total revenue	162828	162459	150494	153899
Expenses	157111	156714	143776	149673
Operating result	5717	5745	6718	4226
Abnormal and extraordinary items	10990	11889	0	0
Operating result after abnormal items	16707	17635	6718	4226
	2001-02 \$m		2002-03 \$m	
	Budget	MYEFO	Budget	MYEFO
Revenue				
Total taxation	141508	145198	149738	154374
Total non-taxation	12251	12917	13327	14206
Total revenue	153759	158115	163065	168580
Expenses	148357	154939	151432	158441
Operating result	5402	3176	11633	10140
Abnormal and extraordinary items	13293	14731	15131	14731
Operating result after abnormal items	18695	17907	26764	24871

(a) All data in this table are produced on a AAS31 basis. There are certain classification differences between revenue and expenses produced on a AAS31 basis and on a GFS basis. These differences, which relate largely to the treatment of economic revaluations, are outlined in Table 10.

The trend in general government operating results is shown in Chart 4.



Part IV contains detailed descriptions of revenues and Part V contains detailed descriptions of expenses.

NET ASSETS

Expected movements in net assets will be influenced mainly by the operating results referred to above and the use of budget surpluses to reduce debt and increase investments.

For 1999-2000 and 2000-01, the excess of liabilities over assets is expected to improve by \$2.6 billion and \$0.1 billion respectively over the budget estimate. However, in 2001-02 and 2002-03 net assets are expected to decline by \$1 billion and \$3.1 billion respectively compared with budget time.

Table 8 summarises the revised movements in assets and liabilities, compared with those shown in the 1999-2000 Budget and Chart 5 highlights the general government balance sheet aggregates.

Table 8: Summary of General Government Balance Sheet^(a)

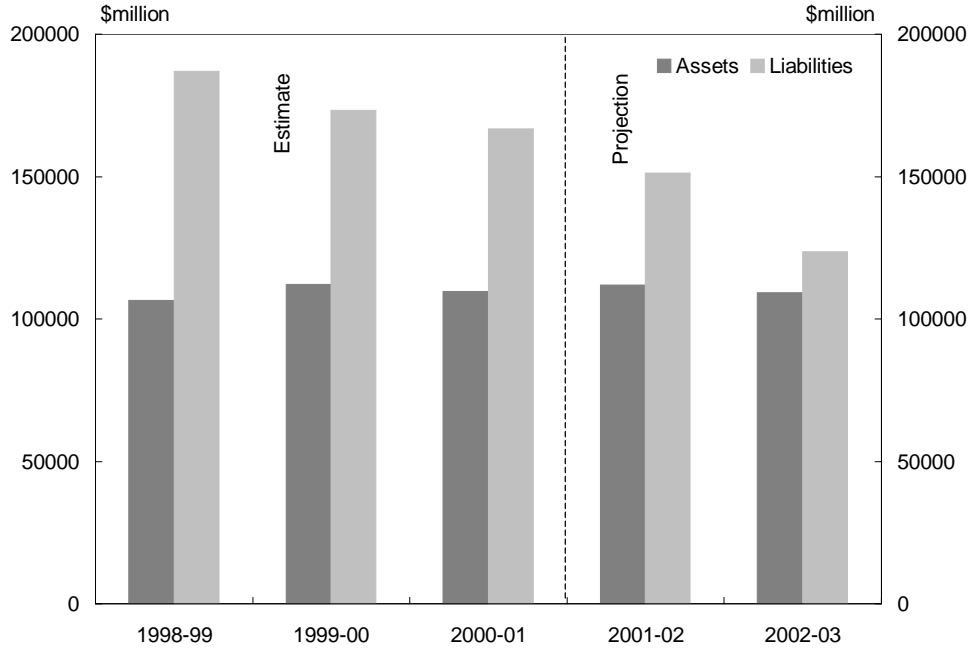
	1999-00 \$m		2000-01 \$m	
	Budget	MYEFO	Budget	MYEFO
Assets				
Financial assets	49248	56846	53794	53934
Non-financial assets	54889	55341	55789	55743
Total assets	104137	112187	109583	109678
Liabilities				
Debt (b)	75651	83209	73960	76390
Provisions and payables	92273	90123	92664	90380
Liabilities	167924	173332	166624	166770
Net assets	-63787	-61145	-57041	-57092
Total equity	-63787	-61145	-57041	-57092
	2001-02 \$m		2002-03 \$m	
	Budget	MYEFO	Budget	MYEFO
Assets				
Financial assets	50180	56024	47537	52805
Non-financial assets	56662	55971	57666	56346
Total assets	106842	111994	105203	109151
Liabilities				
Debt (b)	51403	60524	22009	32905
Provisions and payables	93708	90745	94670	90795
Liabilities	145111	151268	116679	123700
Net assets	-38269	-39274	-11476	-14549
Total equity	-38269	-39274	-11476	-14549

(a) All data in this table are produced on a AAS31 basis.

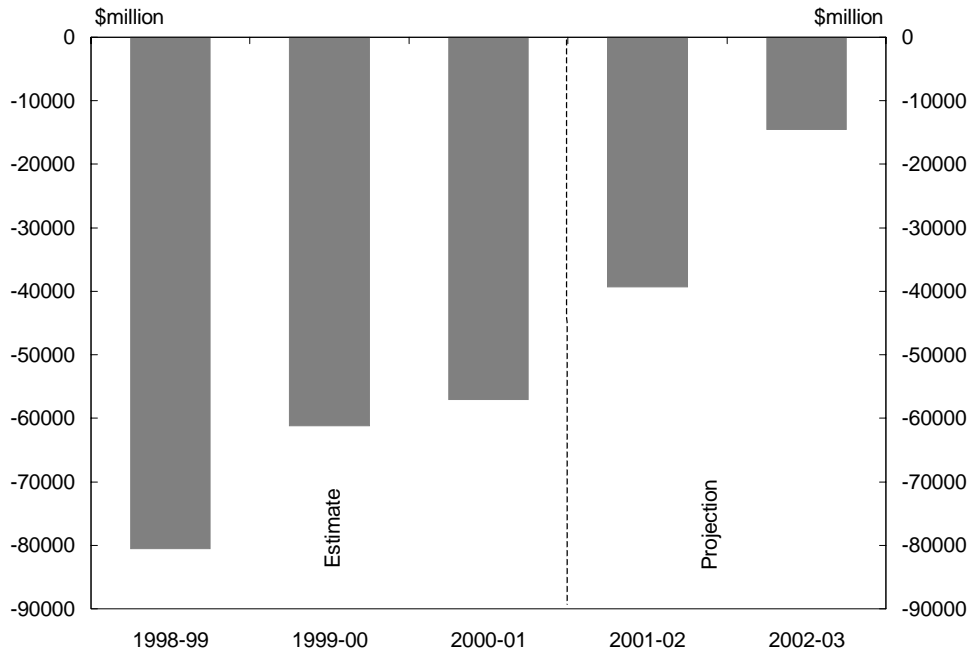
(b) Net debt data on a GFS basis are provided in Table 2.

Chart 5: General Government Balance Sheet Aggregates

Panel A: Assets and Liabilities



Panel B: Net Assets



CASH FLOWS

There are three significant features of cash flows for the budget and forward years:

- a fall in cash from operating activities in 2000-01 (mainly from reduced indirect taxes) and a resumption of growth in the remaining out years (mainly from increased taxation receipts);
- continued high levels of cash from asset sales (receipt of \$6.3 billion of Telstra 2 proceeds has been deferred to 2000-01); and
- continued high levels of cash applied to debt reduction (reflecting the flows of cash from operating activities and asset sales).

The factors affecting operating cash flows are broadly the same as those affecting revenues and expenses.

Table 9 provides a summary of general government cash flows.

Table 9: Summary of General Government Statement of Cash Flows^(a)

	1999-00		2000-01	
	\$m		\$m	
	Budget	MYEFO	Budget	MYEFO
Total operating cash received	160637	160748	145493	149378
Total operating cash used	150871	152961	138854	145361
Net cash from operating activities	9766	7787	6639	4017
Total investing cash received	16641	10195	750	7263
Total investing cash used	5237	4974	5949	4934
Net cash from investing activities	11404	5221	-5199	2329
Total financing cash received	317	489	118	-177
Total financing cash used	21355	15902	1809	6642
Net cash to/from financing activities	-21038	-15413	-1691	-6819
Net increase/decrease in cash held	132	-2405	-251	-473
	2001-02		2002-03	
	\$m		\$m	
	Budget	MYEFO	Budget	MYEFO
Total operating cash received	154078	159068	162891	169123
Total operating cash used	142625	150112	145585	153728
Net cash from operating activities	11453	8956	17306	15395
Total investing cash received	16356	12068	17251	17358
Total investing cash used	5427	5321	5425	5248
Net cash from investing activities	10929	6747	11826	12110
Total financing cash received	73	-495	73	-218
Total financing cash used	22629	15371	29479	27394
Net cash to/from financing activities	-22556	-15866	-29406	-27612
Net increase/decrease in cash held	-174	-163	-274	-106

(a) All data in this table are produced on a AAS31 basis.

RECONCILIATION OF ACCOUNTING OPERATING RESULT AND FISCAL BALANCE

The financial statements presented in this part are consistent with Australian Accounting Standard 31: *Financial Reporting by Governments*. However, as outlined in Appendix D, there are some differences between AAS31 and the Government Finance Statistics (GFS) framework from which the fiscal balance is derived.

Table 10 reconciles the accounting operating result to the GFS net operating balance and fiscal balance (GFS net lending).

The reconciliation can be divided into two parts. The first part shows differences between the AAS31 operating result and the GFS net operating balance. These differences relate mainly to the treatment of revaluations of financial and non-financial assets and liabilities under the two standards. Major revaluations include: writedowns of bad and doubtful debts (excluding those that are mutually agreed); changes in the valuation of superannuation liabilities; and foreign exchange gains and losses.

Under AAS31, valuation changes impact on revenues and expenses, but they are omitted from the calculation of the GFS net operating balance as they are not regarded as economic transactions. Consequently, in the reconciliation table net gains are subtracted from the accounting operating result while net losses are added back in.

The second part of the reconciliation shows the adjustment for net capital investment required to derive the fiscal balance from the GFS net operating balance. Net capital investment is measured by purchases of property, plant and equipment, plus net investment in other non-financial assets less proceeds from the sale of these assets and depreciation.

The derived fiscal balance measures the extent to which the Government is adding to or drawing from the national savings pool and contributing directly to the current account deficit.

Table 10: General Government Reconciliation of AAS31 Operating Result and Fiscal Balance

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
	Forecasts		Projections	
AAS31 Operating result	5745	4226	3176	10140
<i>plus</i> revaluations/writedowns from superannuation	-244	-30	78	-104
<i>plus</i> net writedown of assets/bad and doubtful debts	738	688	723	727
<i>plus</i> net foreign exchange losses	21	-12	-2	-1
<i>plus</i> other economic revaluations	24	287	0	0
<i>less</i> profit (loss) on the sale of assets	-27	-2	-10	6
<i>less</i> costs of asset sales	216	0	218	218
Net operating balance (GFS)	6096	5162	3768	10539
<i>less</i> purchase of property, plant and equipment and intangibles	4427	4753	4934	4786
<i>less</i> assets acquired under finance leases	na	na	na	na
<i>less</i> other non-financial assets	-55	-23	1	-4
<i>less</i> increase in inventories	171	-109	50	-105
<i>plus</i> proceeds from sales of property, plant and equipment and intangibles	744	976	943	696
<i>plus</i> depreciation and amortisation	2575	2875	3216	3497
Fiscal balance (GFS)	4871	4392	2941	10056

Part IV: Revenue

Table 11 provides estimates of tax, non-tax and total revenue from 1999-2000 to 2002-03.¹ Relative to the 1999-2000 Budget, the MYEFO estimate of total revenue is slightly lower in 1999-2000 but higher in the following three years.

Table 11: Estimates of Commonwealth General Government Revenue^(a)

	1999-00		2000-01	
	Budget	MYEFO	Budget	MYEFO
Total tax (\$m)	146878	146031	138293	141483
Per cent of GDP	23.6	23.5	20.8	21.3
Non-tax (\$m)	15950	16428	12201	12416
Per cent of GDP	2.6	2.6	1.8	1.9
Total revenue (\$m)	162828	162459	150494	153899
Per cent of GDP	26.2	26.1	22.7	23.2
	2001-02		2002-03	
	Budget	MYEFO	Budget	MYEFO
Total tax (\$m)	141508	145198	149738	154374
Per cent of GDP	20.1	20.6	20.1	20.7
Non-tax (\$m)	12251	12917	13327	14206
Per cent of GDP	1.7	1.8	1.8	1.9
Total revenue (\$m)	153759	158115	163065	168580
Per cent of GDP	21.8	22.4	21.8	22.6

(a) All revenue data in this table are produced on a AAS31 basis. All estimates expressed as a proportion of GDP use current MYEFO GDP estimates. There has been a reclassification of revenue since Budget of around \$1 billion from tax to non-tax components. Estimates are net of the diesel fuel rebate scheme.

The changes to the 1999-2000 Budget estimates (shown in Table 12) incorporate: policy decisions taken since the Budget; a revised assessment of the economic outlook; and actual revenue outcomes up to mid-November 1999.

1 All references to 'revenue' in this Part refer to accrual revenue unless explicitly noted otherwise.

Table 12: Reconciliation of General Government Revenue Estimates^(a)

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
Revenue at 1999-2000 Budget	162828	150494	153759	163065
Changes from 1999-2000 Budget to MYEFO				
Effect of policy decisions	-28	3051	1222	2388
Effect of economic parameter and other variations	-341	354	3134	3127
Total variations	-369	3405	4356	5515
Revenue at 1999-2000 MYEFO	162459	153899	158115	168580
<i>Memorandum items:</i>				
GFS revenue at 1999-2000 Budget	162728	150401	153666	162972
Total AAS31 revenue variations	-369	3405	4356	5515
less Variations in GFS/AAS31 classification differences	87	93	97	108
<i>equals</i> Total GFS revenue variations	-456	3312	4259	5407
GFS revenue at 1999-2000 MYEFO	162272	153713	157925	168379

(a) All data in this table are produced on a AAS31 basis unless otherwise specified.

Policy decisions subsequent to the 1999-2000 Budget are estimated to reduce revenue marginally in 1999-2000 but increase it significantly in the following years. All revenue policy decisions are listed in Table 13 (and detailed in Appendix A).

The main increase in revenue derives from changes to *A New Tax System*, following agreement with the Australian Democrats to secure legislation in the Senate. In particular, reductions in income tax cuts for income earners over \$50,000 and changes to the Diesel Fuel Rebate Scheme will together add around \$1½ billion to revenue from 2000-01, which partly offsets the expenditure increases from that package. (See Box 2, Part I.)

The other major package of tax reform measures is *The New Business Tax System*. Over the period as a whole, these measures are estimated to be broadly revenue-neutral, with gains to revenue in 2000-01 and 2002-03 slightly more than offsetting losses in the other two years. (See Box 2, Part I.)

The temporary Defence — East Timor levy, to partially offset the costs of Australia's involvement in East Timor, adds \$900 million to revenue in 2000-01. (See Box 1, Part I.)

Table 13: Revenue Measures since the 1999-2000 Budget^{(a)(b)}

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
ATTORNEY-GENERAL'S				
Removal of nuisance tariffs	-8.0	-12.1	-12.9	-13.8
Reinstatement of some tariffs on non-medical and non-scientific equipment	0.7	0.8	0.9	0.9
Portfolio total	-7.3	-11.3	-12.0	-12.9
DEFENCE				
United Nations reimbursements for East Timor deployment	18.0	114.0	106.0	76.0
Portfolio total	18.0	114.0	106.0	76.0
ENVIRONMENT AND HERITAGE				
Sale of Haion to the United States for essential use	3.5	6.0	-	-
Portfolio total	3.5	6.0	0.0	0.0
IMMIGRATION AND MULTICULTURAL AFFAIRS				
Extension of regulation of the migration advice industry	0.5	1.7	1.8	1.3
Portfolio total	0.5	1.7	1.8	1.3
TREASURY				
Income Tax				
Defence - East Timor levy	-	900.0	-45.0	-
Reduced personal income tax cuts for income earners over \$50,000	-	1110.0	1234.0	1435.0
Deductibility of gifts	*	*	*	*
Immediate tax deductibility for GST-related expenditure	-	-175.0	75.0	75.0
Establishment of the Australian Rural Partnerships Foundation	-	-5.0	-5.0	-3.0
Tax Exemption on business re-establishment grants made from the Cyclones Elaine and Vance Trust Fund	-1.0	-	-	-
Fringe benefits reporting - exclusion of certain benefits provided to Australian Defence Force personnel	-	-10.0	-10.0	-10.0
Dairy industry adjustment package	-	-1.0	-1.0	-1.0
Double taxation agreements	*	*	*	*

Table 13: Revenue Measures since the 1999-2000 Budget^{(a)(b)} continued

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
TREASURY (continued)				
<i>The New Business Tax System</i>				
Reduction in the company tax rate	-60.0	-1260.0	-3480.0	-3135.0
Implementing a unified entity tax system	*	*	*	*
Deferred implementation of unified entity tax system to trusts	-40.0	-140.0	-445.0	5.0
Early refunds of imputation credits	-	-	-190.0	-
Removing the intercorporate dividend rebate on unfranked distributions	-60.0	35.0	-70.0	-120.0
Introduction of a common start date for the commencement of tax reform measures applying to life insurers	-	-180.0	-	40.0
Transitional taxation of fees on life insurance policies	-	-110.0	-110.0	-110.0
Taxation of funeral bonds, scholarship plans and income bonds offered by Friendly Societies	*	*	*	*
Delayed commencement of life policyholder reform	-	-30.0	-30.0	-
Consolidation - losses of acquired companies	-	-	-190.0	-380.0
Consolidation - value shifting and loss duplication in groups	-	-	-	75.0
Rollover relief for entity restructuring	*	*	*	*
Removal of accelerated depreciation	30.0	1050.0	2260.0	2300.0
Removal of balancing charge offset	20.0	400.0	360.0	170.0
Pooling of low-value depreciable assets	-	30.0	410.0	40.0
Allow write-off for indefeasible rights of use	-11.0	-51.0	-37.0	-36.0
Effective life depreciation for the mining, quarrying and resources industries	-	-	-	15.0
Cash accounting for small business	-	-	-220.0	-320.0
Simplified depreciation arrangements for small business	-	-	-60.0	-220.0
Small business exemption from accelerated depreciation, balancing charge offset and low-value pooling measures	-	-219.0	-474.0	257.0
Reform of CGT for individuals	-	210.0	230.0	210.0
Reform of CGT for superannuation and related funds	-	-70.0	-50.0	-70.0
Reform of CGT for other entities	-	10.0	40.0	50.0
CGT rollover relief for scrip-for-scrip acquisitions	-	2.0	-19.0	-5.0
Allowance for CGT arbitrage activities (c)	-	-20.0	-50.0	-100.0
Improving incentives for venture capital investment	*	*	*	*

Table 13: Revenue Measures since the 1999-2000 Budget^{(a)(b)} continued

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
TREASURY (continued)				
Providing a new small business 15-year CGT exemption and streamlining of the existing small business provisions	*	*	*	*
Addressing lease assignments	-	15.0	45.0	55.0
Interim value shifting and loss duplication measures	-	60.0	42.0	-
Repeal of excess deduction rules for mining operations	-	30.0	40.0	35.0
Prevent duplication of unrealised losses	-	65.0	90.0	85.0
Remove defects in the continuity of ownership test	-	35.0	35.0	35.0
Disposal of loss assets within majority-owned groups	-	60.0	50.0	15.0
Prevent inter-entity loss multiplication	-	15.0	20.0	25.0
Value shifting measures outside groups	-	-	-	140.0
Tightening the 13-month rule for advance expenditure	15.0	220.0	325.0	260.0
Tightening the 13-month rule for advance expenditure under tax shelters	-	70.0	100.0	90.0
Treatment of losses from non-commercial activities	-	50.0	310.0	240.0
Alienation of personal services income	-	380.0	480.0	495.0
Amending dividend streaming and franking credit trading rules	*	*	*	*
Imputation credits for foreign dividend withholding tax	-	-	-	-340.0
Thin capitalisation provisions	-	-	50.0	480.0
Gains on the disposal of interposed non-resident entities	-	-	-	40.0
Foreign income account	*	*	*	*
Consistent treatment of resident entities deriving foreign source income	*	*	*	*
Simplifying and strengthening the rules for foreign trusts	*	*	*	*
Foreign expatriates and residents departing Australia	*	*	*	*
Extending the scope of involuntary disposals	*	*	*	*
Recognition of blackhole expenditures	-	-	-30.0	-65.0
High level reform to tax design and other measures	-	-	-57.0	-45.0
Growth dividend (c)	-	50.0	100.0	200.0

Table 13: Revenue Measures since the 1999-2000 Budget^{(a)(b)} continued

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
TREASURY (continued)				
Indirect tax				
Incentive to switch to lower sulphur diesels	-	-	-	18.0
Change of Diesel Fuel Rebate Scheme (DFRS) arrangements for rail excise and off-road diesel	-	333.1	322.0	317.0
Supporting renewable remote power generation	-	66.0	66.0	66.0
Application of excise on alcoholic cooking essences	4.4	5.1	5.3	5.5
Sales tax concession for taxis for the disabled	*	*	*	*
Fringe Benefits Tax (FBT)				
Extension of FBT exemption for remote area housing to all employers	-	-15.0	-15.0	-15.0
Adoption of dual gross-up formula for FBT	-	-35.0	-35.0	-35.0
Non-tax revenue				
Additional payments from the States and Territories for GST administration	60.0	60.0	60.0	60.0
Portfolio total	-42.6	2940.2	1126.3	2323.5
Total impact of revenue measures	-27.9	3050.6	1222.1	2387.9

* The nature of this measure is such that a reliable estimate cannot be provided.

(a) Revenue is on a AAS31 basis.

(b) Minus sign before an estimate indicates a reduction in revenue; no sign before an estimate indicates a gain to revenue.

(c) The *allowance for CGT arbitrage activities* and *growth dividend* are not strictly policy decisions, but have been included in the summary table in order to show the overall fiscal impact of business taxation reform.

As noted, policy decisions since Budget will have little impact on the revenue outlook for 1999-2000. Further, as is evident in Table 12, there is also very little variation in aggregate revenue expected in 1999-2000 from changes in economic parameters and other variations, consistent with the unchanged outlook for nominal GDP growth since Budget. However, this small variation in aggregate revenue relative to Budget comprises some more significant changes to individual revenue categories, as detailed in Table 14.

Table 14: General Government Revenue Estimates^(a)

	1999-00 \$m		1999-00 %	
	Budget Estimate	MYEFO Estimate	Change on Budget	Change on Budget
Taxation revenue				
Income tax				
Individuals -				
Gross PAYE	72970	72657	-313	-0.4
Gross other individuals(b)	12400	12333	-67	-0.5
Gross PPS(c)	2710	2866	156	5.8
Medicare levy	4330	4360	30	0.7
Refunds	11330	10712	-618	-5.5
Total Individuals	81080	81504	424	0.5
Companies(b)	22940	21740	-1200	-5.2
Superannuation funds(b)(d)	3900	3995	95	2.4
Withholding tax	1310	1320	10	0.8
Petroleum resource rent tax	720	800	80	11.1
Total income tax	109950	109359	-591	-0.5
Indirect tax				
Sales tax(e)	15659	15238	-421	-2.7
Excise duty -				
Petroleum products and crude oil(e)(f)	9745	9685	-60	-0.6
Other(e)	2931	3043	112	3.8
Customs duty(e)(g)	3644	3653	9	0.2
Total indirect tax	31979	31618	-361	-1.1
Fringe benefits tax(h)	3286	3330	44	1.3
Other taxes	1663	1724	60	3.6
Total tax revenue(h)	146878	146031	-847	-0.6
Non-tax revenue	15950	16428	478	3.0
Total revenue(h)	162828	162459	-369	-0.2

(a) All data in this table are produced on a AAS31 basis.

(b) Includes tax on realised capital gains.

(c) PPS denotes Prescribed Payments System which includes Reportable Payments System payments by individuals (around \$2 million in 1999-2000).

(d) Includes superannuation contributions surcharge.

(e) Excludes revenues raised on an agency basis for the States and Territories (for example, Revenue Replacement Payments).

(f) Estimates for Petroleum Products Excise are net of the diesel fuel rebate scheme (around \$1.6 billion in 1999-2000).

(g) 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 \$900 million in 1999-2000).

(h) Excludes Fringe benefits tax collected from Commonwealth Government agencies (around \$300 million in 1999-2000).

Table 14 shows that, for 1999-2000, net downward revisions to both income tax and indirect tax are largely offset by upward revisions to fringe benefits tax, other taxes and non-tax revenue.

Downward revisions have been made to the following revenue items:

- Individuals income tax (both PAYE and other), reflecting a reduction in the estimated provision for outstanding revenue considered unlikely to be collected, but with little variation in the outlook for household income growth;
- Companies tax, reflecting: the base effect of a lower than expected outcome for 1998-99; slower than expected growth in taxable income in the 1998-99 income year; downward variations of payments by some large taxpayers (which reflect the individual circumstances of those companies rather than general macroeconomic conditions); and greater than expected deductibility of Y2K expenditure (although this revenue loss is likely to be largely recouped in later years);
- Sales tax, largely as a result of recent court decisions and a reassessment of spending on certain components of the sales tax base (particularly in the latter half of 1999-2000); and
- Petroleum excise, largely due to lower than expected collections to date.

Upward revisions to revenue result from the following movements:

- Gross Prescribed Payments System, largely due to stronger dwelling sector activity and the strength of collections in the early part of the financial year;
- Individuals Refunds, reflecting substantially lower than expected outcomes in the year to date, a period when the greater part of refunds are normally processed;
- Petroleum Resource Rent tax, largely due to recent strength in oil prices;
- Other excise, largely due to higher tobacco excise collections;
- Other taxes, partly due to slightly higher than anticipated revenue from some agricultural production taxes; and
- Non-tax revenue, primarily due to larger dividends from Telstra and the Reserve Bank of Australia (RBA) and increased interest revenue from investments and swaps as a result of an increase in market interest rates and an upward revision to the swaps program.

Preliminary forecasts for 2000-01 indicate that, in addition to a substantial impact from policy decisions, the aggregate effect of economic parameter and other variations is small, but positive. Once allowance is made for higher prices resulting from changes to indirect taxation, the preliminary forecast for nominal GDP growth in 2000-01 is very similar to Budget projections. Of itself, the economic outlook would thus suggest little need for change to the budget-time estimates.

However, there are some other variations which will have important, though largely offsetting, impacts. Tending to boost revenue in 2000-01 (and in subsequent years) is the reclassification since Budget of a portion of the diesel fuel offset to excise as a grant

(increasing expenses by an equivalent amount). However, company taxable income growth is likely to remain lower than broader measures of corporate performance and overall macroeconomic indicators would suggest, and a continuing high level of deductible expenditure on information technology upgrades (associated with Y2K and the GST) is expected.

Forward projections for revenue in 2001-02 and 2002-03 are higher than presented at Budget due to a combination of the waning of these constraining influences, the ongoing substantial impact of the diesel fuel offset and policy decisions since the Budget. Some further detail on the major categories of revenue is shown in Table 15.

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

Table 15: Forward Estimates of General Government Revenue^(a)

	1999-00			2000-01			2001-02			2002-03		
	Budget	MYEFO	Change on 1998-99	Budget	MYEFO	Change on 1999-00	Budget	MYEFO	Change on 2000-01	Budget	MYEFO	Change on 2001-02
	\$b	\$b	%	\$b	\$b	%	\$b	\$b	%	\$b	\$b	%
Individuals tax	81.1	81.5	n/a	71.4	74.2	-8.9	77.9	81.4	9.6	82.4	86.9	6.8
<i>Per cent of GDP</i>	<i>13.0</i>	<i>13.1</i>		<i>10.7</i>	<i>11.2</i>		<i>11.1</i>	<i>11.6</i>		<i>11.0</i>	<i>11.6</i>	
Other income tax	28.9	27.9	n/a	39.7	37.8	35.7	36.4	33.8	-10.5	38.7	36.0	6.5
<i>Per cent of GDP</i>	<i>4.6</i>	<i>4.5</i>		<i>6.0</i>	<i>5.7</i>		<i>5.2</i>	<i>4.8</i>		<i>5.2</i>	<i>4.8</i>	
Total income tax	110.0	109.4	n/a	111.1	112.0	2.4	114.2	115.2	2.9	121.2	122.9	6.7
<i>Per cent of GDP</i>	<i>17.7</i>	<i>17.6</i>		<i>16.7</i>	<i>16.9</i>		<i>16.2</i>	<i>16.4</i>		<i>16.2</i>	<i>16.5</i>	
Total indirect tax	32.0	31.6	n/a	22.1	24.2	-23.5	22.0	24.4	0.8	23.1	25.7	5.3
<i>Per cent of GDP</i>	<i>5.1</i>	<i>5.1</i>		<i>3.3</i>	<i>3.6</i>		<i>3.1</i>	<i>3.5</i>		<i>3.1</i>	<i>3.4</i>	
Total tax(a)	146.9	146.0	n/a	138.3	141.5	-3.1	141.5	145.2	2.6	149.7	154.4	6.3
<i>Per cent of GDP</i>	<i>23.6</i>	<i>23.5</i>		<i>20.8</i>	<i>21.3</i>		<i>20.1</i>	<i>20.6</i>		<i>20.1</i>	<i>20.7</i>	
Non-tax revenue	16.0	16.4	n/a	12.2	12.4	-24.4	12.3	12.9	4.0	13.3	14.2	10.0
<i>Per cent of GDP</i>	<i>2.6</i>	<i>2.6</i>		<i>1.8</i>	<i>1.9</i>		<i>1.7</i>	<i>1.8</i>		<i>1.8</i>	<i>1.9</i>	
Total revenue	162.8	162.5	n/a	150.5	153.9	-5.3	153.8	158.1	2.7	163.1	168.6	6.6
<i>Per cent of GDP</i>	<i>26.2</i>	<i>26.1</i>		<i>22.7</i>	<i>23.2</i>		<i>21.8</i>	<i>22.4</i>		<i>21.8</i>	<i>22.6</i>	

(a) All data in this table are produced on a AAS31 basis. All estimates expressed as a proportion of GDP use current MYEFO GDP estimates. There has been a reclassification of revenue since Budget of around \$1 billion from tax to non-tax components. Total tax also includes Fringe benefits tax and Other taxes. Estimates are net of the diesel fuel rebate scheme.

TAX EXPENDITURES

Table 16 shows estimates for the period 1995-96 to 2002-03 of aggregate tax expenditures that have been identified and costed in the *Tax Expenditures Statement 1997-98* (TES), which was published in July 1999.

The report *A New Tax System* outlined significant reforms to both expenses and revenues — some of which will impact on the costings of tax expenditures. Attachment A of the TES sets out the impacts on the benchmarks that have been incorporated and those that are yet to be incorporated. *The New Business Tax System* has also introduced significant reforms which will impact on benchmarks against which a tax expenditure is costed. A reassessment of the appropriate benchmarks resulting from reform in the two packages will be undertaken prior to the publication of the next TES.

Table 16: 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	9517	17832	3.5
1996-97	9160	10129	19289	3.6
1997-98	9110	10371	19481	3.4
1998-99 (est)	9440	11737	21177	3.6
1999-2000 (est)	9900	12474	22374	3.6
2000-01 (proj)	8745	10925	19670	3.0
2001-02 (proj)	8855	10139	18994	2.7
2002-03 (proj)	9265	10502	19767	2.7

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

In analysing the data presented in Table 16, 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 mean 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.

Part V: Expenses and Capital

Relative to the 1999-2000 Budget, expenses have decreased slightly in 1999-2000, but increased significantly in the forward years (see Table 17).

Since the 1999-2000 Budget, there have also been a number of Capital Measures committed to the Attorney-General's, Defence, Environment and Heritage, and Immigration and Multicultural Affairs Portfolios (see Table 24).

Table 17: Estimates of Commonwealth General Government Expenses^(a)

	1999-00 \$m		2000-01 \$m	
	Budget	MYEFO	Budget	MYEFO
Expenses	157111	156714	143776	149673
<i>Real growth on previous year (%)</i>	na	na	-11.3	-7.4
Per cent of GDP	25.3	25.2	21.6	22.5
	2001-02 \$m		2002-03 \$m	
	Budget	MYEFO	Budget	MYEFO
Expenses	148357	154939	151432	158441
<i>Real growth on previous year (%)</i>	0.8	1.1	-0.3	-0.2
Per cent of GDP	21.1	22.0	20.3	21.2

(a) Expenses data on a AAS31 basis.

EXPENSES

Since the 1999-2000 Budget, the expense estimates have decreased slightly in 1999-2000, but increased significantly in the forward years. Increases in expense estimates since the 1999-2000 Budget have largely been driven by policy decisions, primarily due to:

- legislative changes to *The New Tax System* package; and
- Australia's involvement in peacekeeping and aid activities in East Timor.

Revisions to programme specific parameters increase expenses in all years mainly due to:

- higher than expected expenses on the private health insurance rebate. The scheme came into effect on 1 January 1999 and the estimates have been adjusted in line with actual data on spending and membership take-up;
- higher than expected levels of age pension payments;

- increasing Youth Allowance expenses, which are primarily due to higher estimates of student numbers. Youth Allowance is a new programme that was introduced on 1 July 1998 and historical data is still being developed. The uptake of this new allowance was greater than first estimated; and
- the estimates made at Budget for service and war widow pensions, allowances and healthcare were reassessed and based on actual expenditure for the last financial year and the first three months of this financial year. The major contributors to the increase were the assumptions made regarding veterans' mortality rates.

Other variations since the 1999-2000 Budget include:

- the redirection of some Defence capital expenditure to expenses;
- estimated public debt interest expenses increasing since budget time in each year from 2000-01 to 2002-03. However, the increase in anticipated interest expenses has been accompanied by a significant offsetting rise in interest revenue (this is the result of a greater use of swaps transactions in the management of the Commonwealth's debt portfolio);¹ and
- a reduction in the Contingency Reserve estimate.

CONTINGENCY RESERVE

The Contingency Reserve is the means of ensuring that the aggregate estimates are robust and based on the best information available at the time of publication. 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 some expenses 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.

¹ Swaps are used in the efficient management of the Commonwealth's net debt portfolio. Swap transactions generate interest expenses and interest revenues. Consequently, a larger Commonwealth swaps programme increases both interest expenses and interest revenues.

Table 18: Reconciliation of General Government Expenses Estimates

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
Expenses at 1999-2000 Budget	157111	143776	148357	151432
Changes from 1999-2000 Budget to MYEFO				
Effect of policy decisions (a)	1281	4259	3533	3663
Effect of economic parameter variations				
Unemployment benefits	-395	-362	-294	-304
Prices and wages	161	224	248	335
Interest and exchange rates	-279	-12	0	0
Public debt interest	-429	693	1165	1962
Total economic parameter variations	-943	543	1118	1992
Programme specific parameter variations	719	879	1210	555
Slippage in 1999-2000 Budget decisions	0	0	0	0
Other variations	-1455	216	721	798
Total variations	-397	5897	6582	7008
Expenses at 1999-2000 MYEFO	156714	149673	154939	158441
<i>Memorandum items:</i>				
GFS expenses at 1999-2000 Budget	155748	142001	147069	150439
Total AAS31 expense variations	-397	5897	6582	7008
<i>less</i> Variations in GFS/AAS31 classification differences	-825	-653	-506	-393
<i>equals</i> Total GFS expense variations	428	6550	7088	7401
GFS expenses at 1999-2000 MYEFO	156176	148551	154157	157840

(a) Excludes the public debt interest effect of policy decisions.

Table 19: Expense Measures since the 1999-2000 Budget

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
AGRICULTURE, FISHERIES AND FORESTRY				
<i>Agriculture, Fisheries and Forestry - Australia</i>				
Commonwealth contribution for trade liberalisation research	0.5	-	-	-
Assistance to the Australian lamb industry	7.9	9.5	1.6	-
Exceptional circumstances assistance - Batlow fruit growers, New South Wales	0.7	0.7	-	-
Exceptional circumstances assistance - Mallee region, Victoria	4.4	4.7	0.4	-
Portfolio total	13.5	14.9	2.0	0.0
ATTORNEY-GENERAL'S				
<i>Australian Federal Police</i>				
Revised funding arrangements for the Australian Federal Police (AFP) Reform Programme and AFP Adjustments Scheme (AFPAS)	12.0	18.0	20.0	-
Civilian police for the UN Transitional Administration in East Timor	26.2	-	-	-
<i>Australian Customs Service</i>				
Enhanced border protection	3.1	4.0	3.9	3.9
Portfolio total	41.3	22.0	23.9	3.9
COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS				
<i>Department of Communications, Information Technology and the Arts</i>				
Telstra Social Bonus - Trials in Innovative Government Electronic Regional Services (TIGERS)	3.0	2.0	5.0	-
Telstra Social Bonus - NetAlert	2.0	-	1.0	-
Telstra Social Bonus - <i>Networking the Nation</i> Local Government Fund	5.0	3.0	15.0	12.0
Telstra Social Bonus - Launceston Broadband Project	3.0	3.0	3.0	3.0
Telstra Social Bonus - Building IT Strengths (BITS)	37.0	10.0	56.0	30.0
Telstra Social Bonus - Connecting Tasmanian Schools	15.0	-	-	-
Telstra Social Bonus - expanded mobile phone coverage	3.0	-	-	-
Telstra Social Bonus - Building Additional Rural Networks (BARN)	10.0	10.0	20.0	20.0
Portfolio total	78.0	28.0	100.0	65.0
DEFENCE				
<i>Department of Defence</i>				
East Timor peace enforcement and peacekeeping	710.0	810.0	767.0	615.0
Provision of safe haven to displaced Kosovars*	28.9	-	-	-
Provision of safe haven to internally displaced persons from East Timor	8.0	-	-	-
Portfolio total	746.9	810.0	767.0	615.0

Table 19: Expense Measures since the 1999-2000 Budget (continued)

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
EDUCATION, TRAINING AND YOUTH AFFAIRS				
<i>Department of Education, Training and Youth Affairs</i>				
Youth Pathways Action Plan taskforce	-	-	-	-
Additional funds for higher education staff salaries	42.5	43.3	43.8	44.1
Telstra Social Bonus - Tasmanian Environmental				
Tourism Employment and Training Initiative	3.2	3.1	3.1	-
Grandfathering of benefits for some ABSTUDY students	-	-	-	-
Portfolio total	45.7	46.4	46.9	44.1
ENVIRONMENT AND HERITAGE				
<i>Department of the Environment and Heritage</i>				
Compressed Natural Gas and Liquid Petroleum Gas vehicle conversion	-	15.0	20.0	20.0
Supporting photovoltaics systems	-	4.0	6.0	9.0
Supporting the development and commercialisation of renewable energy	-	4.0	5.0	7.0
Supporting renewable remote power generation	-	66.0	66.0	66.0
Greenhouse Gas Abatement Programme	-	100.0	100.0	100.0
Diesel National Environment Protection Measure (NEPM)	-	10.0	10.0	10.0
Oil recycling	-	15.0	15.0	15.0
Additional funding for heritage initiatives	0.3	-	-	-
Sale of Halon to the United States for essential use	3.5	6.0	-	-
<i>Great Barrier Reef Marine Park Authority</i>				
Funding to offset the reduction in revenue related to the Environment Management Charge (EMC)	0.5	-	-	-
Portfolio total	4.3	220.0	222.0	227.0
FAMILY AND COMMUNITY SERVICES				
<i>Department of Family and Community Services</i>				
<i>A New Tax System</i> - pension supplement	1.2	450.3	441.3	738.3
<i>A New Tax System</i> - extend Family Allowance and Family Tax Benefit (FTB) to families with dependent children aged 16-24 years	50.3	54.7	54.8	54.7
Pilot programme to provide free pre-marriage education for couples	0.9	0.1	-	-
<i>A New Tax System</i> - Aged Persons Savings Bonus and Self Funded Retirees Supplementary Bonus	0.7	181.9	0.1	..
Additional resources for Supported Accommodation Assistance Programme	-	15.0	15.0	15.0
Commonwealth-State Disability Agreement - additional funding to address unmet need in State provided disability services	-	50.0	100.0	-
Exceptional circumstances assistance - Batlow fruit growers, New South Wales	0.1	0.1	..	-
Exceptional circumstances assistance - Mallee region, Victoria	0.3	0.4	0.1	-

Table 19: Expense Measures since the 1999-2000 Budget (continued)

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
FAMILY AND COMMUNITY SERVICES (continued)				
Youth Pathways Action Plan taskforce	-	-	-	-
Flooding in New South Wales and Queensland 1998 - assistance to farmers suffering significant loss	0.1	-	-	-
Introduction of a temporary protection visa subclass	1.2	0.1	0.1	0.1
Portfolio total	54.8	752.6	611.4	808.1
FINANCE AND ADMINISTRATION				
<i>Department of Finance and Administration</i>				
Flooding in New South Wales and Queensland 1998 - assistance to farmers suffering significant loss	0.1	-	-	-
Poultry farmers - assistance to those directly affected by Newcastle disease	0.2	-	-	-
GST - implementation and monitoring in the Commonwealth Government sector	4.5	-	-	-
Portfolio total	4.8	0.0	0.0	0.0
FOREIGN AFFAIRS AND TRADE				
<i>AusAID</i>				
Australia's contribution to the Heavily Indebted Poor Countries (HIPC) initiative	12.0	11.5	11.5	-
Aid for East Timor	60.0	-	-	-
Portfolio total	72.0	11.5	11.5	0.0
HEALTH AND AGED CARE				
<i>Department of Health and Aged Care</i>				
General Practice Memorandum of Understanding**	29.8	62.1	85.2	98.4
Aged Care Residential Care Subsidy Principles 1997 - change to definition of 'homeowner' to ensure protection for people with low value homes	0.6	0.8	0.8	0.8
Exceptional circumstances assistance - Batlow fruit growers, New South Wales	-	-
Exceptional circumstances assistance - Mallee region, Victoria	0.1	0.1	-	-
Provision of safe haven to displaced Kosovars	17.3	-	-	-
Provision of safe haven to internally displaced persons from East Timor	6.5	-	-	-
Childhood Nutrition Programme	-	-	-	-
Private Health Insurance - reduction in Medicare payment lag times for simplified billing	-	-	-	-
<i>Australia New Zealand Food Authority</i>				
Australia New Zealand Food Authority - additional funding	-	-	-	-
Portfolio total	54.3	63.0	86.0	99.2

Table 19: Expense Measures since the 1999-2000 Budget (continued)

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
IMMIGRATION AND MULTICULTURAL AFFAIRS				
<i>Department of Immigration and Multicultural Affairs</i>				
Enhanced border protection	10.4	30.5	31.1	31.7
Extension of regulation of the migration advice industry	0.5	1.7	1.8	1.3
Provision of safe haven to displaced Kosovars	27.5	-	-	-
Provision of safe haven to internally displaced persons from East Timor	20.8	-	-	-
Introduction of a temporary protection visa subclass	-	-	-	-
Portfolio total	59.2	32.2	32.9	33.0
INDUSTRY, SCIENCE AND RESOURCES				
<i>Australian Sports Commission</i>				
Women and the Olympics	0.1	-	-	-
<i>Department of Industry, Science and Resources</i>				
St John's Ambulance - first aid services for the Sydney 2000 Games	0.1	-	-	-
Paralympic torch relay	0.5	-	-	-
Olympic media unit	0.5	0.3	-	-
Schoolchildren attending the Paralympics	1.5	-	-	-
Telstra Social Bonus - Upgrade of the Domain International Athletics Centre, Hobart	0.6	-	-	-
Book industry assistance plan	-	60.0	60.0	60.0
Development of Erythropoietin (EPO) detection test	1.5	-	-	-
Portfolio total	4.8	60.3	60.0	60.0
TRANSPORT AND REGIONAL SERVICES				
<i>Department of Transport and Regional Services</i>				
Local Government Financial Assistance Grants	-	911.7	944.9	979.0
Identified Local Road Grants	-	404.6	419.3	434.4
Telstra Social Bonus - Flinders Island Runway	0.2	-	-	-
Geelong Road	-	-	60.0	60.0
The National Highway and Roads of National Importance Programmes	-	30.0	30.0	30.0
Establishment of the Australian Rural Partnerships Foundation	10.7	1.0	0.7	0.7
Alice Springs to Darwin Rail Link	25.0	10.0	30.0	-
Portfolio total	35.9	1357.3	1484.9	1504.1
TREASURY				
<i>Department of the Treasury</i>				
<i>A New Tax System - grants to balance State and Territory budgets</i>				
Assistance for cellar door and mail order sales of wine	-	966.5	238.1	336.6
	-	14.7	15.4	16.1

Table 19: Expense Measures since the 1999-2000 Budget (continued)

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
TREASURY (continued)				
<i>Australian Competition and Consumer Commission</i>				
Additional funding for retail price monitoring	5.0	-	-	-
<i>Australian Taxation Office</i>				
Funding for the ATO to cover the increased cost of administering the GST	60.0	60.0	60.0	60.0
Conversion of Diesel Fuel Credit Scheme to Diesel and Alternative Fuels Grants Scheme	-	-261.8	-294.0	-314.0
Maintain the current price relativities between diesel and CNG and other alternative transport fuels	-	9.0	12.0	18.0
Portfolio total	65.0	788.4	31.5	116.7
VETERANS' AFFAIRS				
<i>Department of Veterans' Affairs</i>				
<i>A New Tax System</i> - pension supplement	-	50.0	49.0	82.0
General Practice Memorandum of Understanding**	1.1	2.6	3.8	5.1
Portfolio total	1.1	52.6	52.8	87.1
Total Expense Measures**	1281.4	4259.2	3532.8	3663.2

* In addition to this, the Department of Defence spent \$7 million in 1998-99 by reprogramming within the global budget. Total Defence expenditure for the measure is \$35.9 million.

** This total includes the impact on expenses of the General Practice Memorandum of Understanding which was included in 'Other variations' in the Contingency Reserve at Budget.

Table 20: Changes to General Government Expenses by Function since the 1999-2000 Budget^(a)

	1999-00		2000-01		2001-02		2002-03	
	\$m		\$m		\$m		\$m	
	Budget	MYEFO	Budget	MYEFO	Budget	MYEFO	Budget	MYEFO
Legislative and executive affairs	490	514	395	391	490	475	389	374
Financial and fiscal affairs	4129	4517	4308	4548	3810	4579	3439	4494
Foreign economic aid	2052	2089	2292	2316	2367	2393	2152	2169
General research	1498	1500	1532	1546	1525	1519	1505	1478
General services	700	658	699	622	702	621	710	597
Government superannuation benefits	4521	5018	4473	4906	4425	4882	4571	4753
Defence	9867	9765	10175	10273	10574	10696	10857	11059
Public order and safety	1148	1182	1113	1077	1087	1056	1082	1015
Education	10559	10647	10851	10903	11085	11194	11230	11317
Health (b)	26257	23694	27333	24881	28662	26167	30041	27645
Social security and welfare (b)	56149	58426	61769	64715	62650	65118	65155	67590
Housing and community amenities	1625	1676	1771	1866	1859	1957	1502	1600
Recreation and culture	1509	1471	1491	1434	1301	1260	1270	1203
Fuel and energy	86	41	59	31	49	25	46	23
Agriculture, forestry and fishing	1588	1558	1367	1375	1157	1143	1119	1082
Mining and mineral resources, other than fuels, manufacturing and construction	955	925	916	869	1046	1002	870	831
Transport and communication	1873	1947	1943	1964	1952	2102	1668	1865
Total other economic affairs	3473	3203	2924	2968	2980	3010	3035	3065
Tourism and area promotion	147	150	143	145	141	144	126	128
Labour and employment affairs	2939	2692	2399	2435	2453	2469	2526	2555
Other economic affairs, nec	387	362	383	389	386	398	383	382
Total other purposes	27820	27765	7645	11302	8533	12340	7560	11580
Public debt interest	8491	8049	7291	7211	6253	7851	6069	8013
General purpose inter-government transactions	19267	19646	287	4058	2219	4456	1430	3535
Natural disaster relief	62	70	68	33	61	33	61	33
Contingency reserve	780	84	710	1675	2103	3400	3231	4702
Asset sales	33	33	10	10	0	0	0	0
Total general government expenses	157111	156714	143776	149673	148357	154939	151432	158441
<i>less</i> GFS/AAS31 classification differences	1363	538	1775	1122	1288	783	993	601
Total GFS general government expenses	155748	156176	142001	148551	147069	154157	150439	157840

(a) All data in this table are produced on a AAS31 basis unless otherwise specified. Direct comparisons with cash outlays by function in previous budget documents is not possible because of the move to the accrual expense concept.

(b) There has been a reclassification from 1 July 1999 of subsidies paid to aged care facilities (nursing homes), from Health to the Social Security and Welfare function as a result of unifying the nursing homes and hostels systems under reforms of the Residential Aged Care System.

Table 21: Changes to General Government Expenses by Economic Type since the 1999-2000 Budget^(a)

	1999-00 \$m		2000-01 \$m		2001-02 \$m		2002-03 \$m	
	Budget	MYEFO	Budget	MYEFO	Budget	MYEFO	Budget	MYEFO
Expenses								
Goods and services								
Employees	15016	16127	14843	15975	14912	16081	15002	15837
Suppliers	13670	13343	12198	13308	12073	13060	11700	12438
Depreciation and amortisation	2477	2575	2776	2875	2956	3216	3169	3497
Net write down of assets	1431	938	1341	888	1277	923	1294	927
Net foreign exchange losses	2	21	2	-11	2	0	2	0
Net losses from the sale of assets	43	29	15	3	24	11	13	1
Other goods and services expenses	5246	5340	4913	5710	5046	6009	5292	6232
Total goods and services	37885	38371	36089	38747	36289	39300	36472	38933
Subsidies benefits and grants								
Personal benefits	61939	61924	68851	69236	71682	71622	75956	76160
Subsidies	3824	3782	4215	4230	4540	4572	4734	4757
Grants	44602	44247	26607	28847	28724	31283	27760	30272
Total subsidies benefits and grants	110366	109954	99674	102313	104945	107477	108449	111189
Interest and other								
Interest and other financing costs	8860	8389	8012	8612	7122	8161	6511	8318
Total interest and other	8860	8389	8012	8612	7122	8161	6511	8318
Total general government expenses	157111	156714	143776	149673	148357	154939	151432	158441
less GFS/AAS31 classification differences	1363	538	1775	1122	1288	783	993	601
Total GFS general government expenses	155748	156176	142001	148551	147069	154157	150439	157840

(a) All data in this table are produced on a AAS31 basis unless otherwise specified.

Table 22: Changes to General Government Expenses by Agency since the 1999-2000 Budget^(a)

	1999-00		2000-01		2001-02		2002-03	
	\$m		\$m		\$m		\$m	
	Budget	MYEFO	Budget	MYEFO	Budget	MYEFO	Budget	MYEFO
Department of Agriculture, Fisheries and Forestry	1288	1401	957	1164	914	1150	889	1119
Australian Wool Research and Promotion Organisation	123	123	121	121	127	127	129	129
Grains Research and Development Corporation	102	104	93	108	92	99	91	91
Attorney-General's Department	397	441	409	412	398	400	383	386
Australian Federal Police	324	365	309	328	287	308	288	290
Family Court of Australia	115	120	114	116	116	117	118	120
Australian Customs Service	534	552	532	562	535	565	542	573
Department of Communications, Information Technology and the Arts	654	689	651	636	532	591	384	410
Australian Broadcasting Corporation	661	661	685	684	716	715	736	735
Australia Council	77	78	75	76	68	68	70	70
National Gallery of Australia	27	27	28	28	29	29	29	29
National Library of Australia	51	51	50	50	51	51	50	50
Special Broadcasting Service Corporation	122	128	125	127	126	129	126	130
Department of Defence	12078	12303	12332	12958	12672	13448	13101	13770
Defence Housing Authority	243	246	246	243	246	248	246	248
Department of Education, Training and Youth Affairs	11002	11066	11239	11218	11505	11467	11686	11643
Department of Employment, Workplace Relations and Small Business	2158	1764	1660	1658	1690	1689	1740	1739
Comcare Australia	157	150	169	136	178	137	187	133
Department of Environment and Heritage	749	777	799	1024	710	945	352	582
Department of Family and Community Services	50139	49842	55161	55365	55984	55550	58464	57745
Centrelink	1761	1684	1787	1678	1697	1639	1698	1642
Department of Finance and Administration	3328	4169	3307	3859	3316	3774	3312	3686
Australian Electoral Commission	164	177	84	96	185	184	84	95
Office of Asset Sales and IT Outsourcing	33	33	10	10	0	0	0	0
Department of Foreign Affairs and Trade	768	824	752	802	755	805	772	816
AusAID	1153	1169	1426	1437	1499	1510	1267	1279
Australian Trade Commission	331	332	322	324	322	328	168	175
Department of Health and Aged Care	23914	24319	25213	25671	26649	27126	27988	28536

Table 22: Changes to General Government Expenses by Agency since the 1999-2000 Budget^(a) (continued)

	1999-00		2000-01		2001-02		2002-03	
	\$m		\$m		\$m		\$m	
	Budget	MYEFO	Budget	MYEFO	Budget	MYEFO	Budget	MYEFO
Health Insurance Commission	12074	12279	12723	13004	13419	13747	14221	14596
Department of Immigration and Multicultural Affairs	515	662	530	637	528	636	531	652
Department of Industry, Science and Resources	1101	1064	1036	960	1104	1034	1058	997
Australian Nuclear Science and Technology Organisation	114	115	115	115	122	122	116	115
Australian Sports Commission	118	118	97	95	92	90	96	95
Australian Tourist Commission	132	134	134	137	132	136	118	121
Commonwealth Scientific and Industrial Research Organisation	756	765	755	768	766	778	779	792
Joint House Department	7	7	7	7	7	7	7	7
Department of Prime Minister and Cabinet	71	98	66	67	63	63	64	64
Aboriginal and Torres Strait Islander Commission	1064	1071	1095	1099	1127	1141	1157	1181
Department of Transport and Regional Services	2628	2747	1462	2850	1427	2941	1153	2684
National Capital Authority	22	27	20	25	20	24	19	25
Australian Maritime Safety Authority	71	71	73	73	75	75	76	76
Civil Aviation Safety Authority	94	98	83	86	80	83	82	84
Department of the Treasury	27084	18738	8442	1719	8964	3130	7693	2262
Australian Bureau of Statistics	268	261	293	288	377	375	286	285
Australian Taxation Office	2846	2492	2751	3171	2517	3122	2514	3138
Australian Office of Financial Management	0	8503	0	8365	0	7910	0	8056
Australian Securities and Investment Commission	139	139	136	136	142	143	142	142
Department of Veterans' Affairs	7500	7622	8038	8271	8007	8280	8121	8525
Australian War Memorial	23	23	24	24	24	24	25	25
Whole of Government and Inter Agency amounts (b)	-11969	-13914	-12761	-13110	-12036	-12123	-11729	-11701
Total general government expenses	157111	156714	143776	149673	148357	154939	151432	158441
<i>/less GFS/AAS31 classification differences</i>	1363	538	1775	1122	1288	783	993	601
Total GFS general government expenses	155748	156176	142001	148551	147069	154157	150439	157840

(a) All data in this table are produced on a AAS31 basis unless otherwise specified.

(b) The Whole of Government portfolio includes elimination entries for transactions between agencies within the general government sector. These transactions will include grant payments, supply payments, superannuation payments and monies appropriated from the Official Public Account.

CAPITAL

Capital in this section is defined as net capital investment, the capital component used in the calculation of the fiscal balance. This is defined as:

- purchases of capital equipment
- less any proceeds from their sale and any reduction in the value of capital equipment as measured by depreciation
- plus net investment in other non-financial assets, including inventories.

Net capital investment is also equal to the change in non-financial assets held by the government, adjusted for revaluations.

Changes in Net Capital Investment

Table 23 provides a reconciliation of the MYEFO net capital investment estimates with those at the 1999-2000 Budget, showing the effect of policy decisions and parameter and other variations.

New capital decisions since Budget include:

- the establishment of a 24-hour-a-day National Surveillance Centre by the Australian Customs Service to assist the national coastal surveillance effort;
- additional fit-out and accommodation expenditure by the Department of Immigration and Multicultural Affairs to enhance its immigration compliance activities overseas;
- capital improvements to enhance tourism infrastructure and environmental protection in the Kakadu and Uluru Kata-Tjuta National Parks; and
- capital expenditure incurred in support of peacekeeping operations in East Timor.

The redirection of some defence spending from capital to operating expenses accounts for a substantial proportion of parameter and other variations in net capital investment since budget time.

A Broader View of Capital

A broader accounting view of capital is the maintenance of net assets. 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.

Since budget time, additional equity funding has been provided to the Australian Federal Police to enable it to extinguish accumulated liabilities under the present Australian Federal Police Adjustment Scheme (AFPAS) and the Cessation Payment Scheme. However, this has no impact on net capital investment.

Table 23: Reconciliation of General Government Net Capital Investment Estimates^(a)

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
Increase in non-financial assets at Budget	1368	900	873	1004
Changes between 1999-2000 Budget and MYEFO				
Effect of policy decisions	145	255	110	26
Effect of economic parameter and other variations	-467	-752	-755	-655
Total variations	-322	-498	-645	-629
Increase in non-financial assets at MYEFO	1047	403	227	375
<i>Memorandum items:</i>				
GFS net capital investment at Budget	1555	1205	1408	1180
Total variations AAS31	-322	-498	-645	-629
<i>less</i> variations in GFS/AAS31 classification differences	8	-63	-64	68
<i>equals</i> GFS net capital investment variations	-330	-435	-581	-696
GFS net capital investment at MYEFO	1225	770	827	484

- (a) Net capital investment is defined as the purchase of property, plant, equipment and intangibles and net investment in other non-financial assets less proceeds from their sale and depreciation. Capital policy decisions as shown above do not include capital measures that fall outside this definition, for example equity injections to reduce an agency's balance sheet liabilities.

Table 24: Capital Measures since the 1999-2000 Budget

	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m
ATTORNEY-GENERAL'S				
<i>Australian Customs Service</i>				
Enhanced border protection	2.9	-0.8	-0.8	-0.8
Portfolio total	2.9	-0.8	-0.8	-0.8
ENVIRONMENT AND HERITAGE				
<i>National Parks and Wildlife</i>				
Capital improvements - Kakadu and Uluru Kata-Tjuta				
National Parks	6.3	-	-	-
Portfolio total	6.3	0.0	0.0	0.0
IMMIGRATION AND MULTICULTURAL AFFAIRS				
<i>Department of Immigration and Multicultural Affairs</i>				
Enhanced border protection	1.2	-0.3	-0.3	-0.3
Portfolio total	1.2	-0.3	-0.3	-0.3
DEFENCE				
<i>Department of Defence</i>				
East Timor peace enforcement and peacekeeping	135.0	256.0	111.0	27.0
Portfolio total	135.0	256.0	111.0	27.0
Total capital measures	145.4	254.9	109.9	25.9

Table 25: Net Capital Investment by Portfolio^(a)

	1999-00		2000-01		2001-02		2002-03	
	\$m		\$m		\$m		\$m	
	Budget	MYEFO	Budget	MYEFO	Budget	MYEFO	Budget	MYEFO
Agriculture, Fisheries and Forestry	-12	-12	-2	-2	1	1	1	1
Attorney-General's	39	106	-7	-8	-21	-22	-22	-24
Communications, Information Technology and the Arts	122	112	-92	-90	1	1	0	-3
Defence	1287	717	1146	382	855	52	1159	435
Education, Training and Youth Affairs	-5	0	0	0	1	1	0	0
Employment, Workplace Relations and Small Business	7	26	-1	6	-1	-1	3	-1
Environment and Heritage	-4	-3	-13	-13	-5	-5	-4	-4
Family and Community Services	0	33	-35	1	-39	-2	-25	-16
Finance and Administration	-181	-213	-254	-339	-115	-176	5	3
Foreign Affairs and Trade	1	4	1	0	2	2	-6	-6
Health and Aged Care	-26	-39	-9	-3	-10	-10	-11	-11
Immigration and Multicultural Affairs	-6	5	-5	-4	-4	9	-3	4
Industry, Science and Resources	-3	-18	87	112	112	119	84	83
Parliament	-4	-4	-4	-4	-4	-4	-4	-4
Prime Minister and Cabinet	0	0	-1	-1	-1	-1	-1	-1
Transport and Regional Services	-4	14	-16	-10	-22	-17	-21	-15
Treasury	160	144	-28	-28	-46	-33	-116	-91
Veterans' Affairs	22	22	2	3	-2	-2	-2	-1
Whole of Government	-24	154	133	403	173	317	-33	28
Total increase in general government non-financial assets	1368	1047	900	403	873	227	1004	375
<i>/ess GFS/AAS31 classification differences</i>	-187	-178	-305	-367	-535	-600	-176	-109
GFS net capital investment at MYEFO	1555	1225	1205	770	1408	827	1180	484

(a) All data in this table are produced on a AAS31 basis unless otherwise specified.

Appendix A: Policy Decisions Taken Since the 1999-2000 Budget

REVENUE

Attorney-General's

Removal of nuisance tariffs

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Customs Service	-8.0	-12.1	-12.9	-13.8

Explanation

This measure reflects the Government's decision to remove tariffs lower than 5 per cent, which each raised less than \$100,000 in revenue in 1996-97 and offer little or no protective benefit to industry. This decision was announced on 11 October 1999 to come into effect on 15 December 1999.

Reinstatement of some tariffs on non-medical and non-scientific equipment

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Customs Service	0.7	0.8	0.9	0.9

Explanation

This measure reflects the Government's decision to refine its September 1998 decision to remove tariffs on medical and scientific equipment by reinstating tariffs on certain non-medical and non-scientific equipment, in particular, meters and tape measures. The decision to reinstate the tariffs came into effect on 3 September 1999.

Defence

United Nations reimbursements for East Timor deployment

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Defence	18.0	114.0	106.0	76.0

Explanation

The UN will reimburse Australia for some of the costs of the Australian Defence Force (ADF) deployment in East Timor. The amounts included in Budget figuring are estimates of likely UN reimbursements based on current planning scenarios.

Further Information

For further information see the related revenue measure *Defence — East Timor levy*, expense and net capital investment measures under the Defence portfolio entitled *East Timor peace enforcement and peacekeeping*, and expense measures entitled *Civilian police for the UN Transitional Administration in East Timor* in the Attorney-General's portfolio; *Aid for East Timor* in the Foreign Affairs and Trade portfolio and *Provision of safe haven to internally displaced persons from East Timor* in the Immigration and Multicultural Affairs portfolio.

Environment and Heritage

Sale of Halon to the United States for essential use

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of the Environment and Heritage	3.5	6.0	-	-

Explanation

The Government has agreed to the sale of surplus Halon 1301 to the United States Department of Defense. The Australian Halon Management Strategy allows for the sale of surplus Commonwealth Halon 1301 to parties to the *Montreal Protocol on Substances that Deplete the Ozone Layer* for use in essential use applications.

Further Information

The Commonwealth operates the National Halon Bank which maintains sufficient stock of Halon to meet Australia's essential use needs to 2030 and also collects, decants, recycles and destroys surplus halon. Halon is an ozone depleting substance used for fire suppression in fixed systems where other alternatives or human evacuation are not regarded as feasible options.

See also the related expense measure under the Environment and Heritage portfolio entitled *Sale of Halon to the United States for essential use*.

Immigration and Multicultural Affairs

Extension of regulation of the migration advice industry

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Immigration and Multicultural Affairs	0.5	1.7	1.8	1.3

Explanation

The Government has decided to extend, until March 2003, the arrangements for statutory self-regulation of the migration advice industry that came into effect in March 1998. Under these arrangements the migration advice industry was moved from full government regulation to statutory self-regulation under the auspices of the Migration Agents Registration Authority (MARA). These arrangements were subject to a sunset clause and were due to cease operation in March 2000. The extension of statutory self-regulation will encourage further development of industry standards and competency levels while ensuring consumer protection.

Further Information

This measure is budget neutral. Migration agent registration fees collected by MARA on behalf of the Commonwealth are returned to MARA for administration of its statutory function.

See also the related expense measure under the Immigration and Multicultural Affairs portfolio titled *Extension of regulation of the migration advice industry*.

Treasury

Income Tax

Defence — East Timor levy

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	900.0	-45.0	-

Explanation

In order to partially offset the costs of Australia's involvement in East Timor, the Government has decided to implement a temporary levy on individual taxpayers of:

- 0.5 per cent of total taxable incomes from \$50,001 to \$100,000 per annum; and
- 1 per cent of total taxable incomes in excess of \$100,000 per annum.

The levy will apply for 12 months only — commencing from 1 July 2000.

The levy will be collected through tax instalments under the Pay-As-You-Go (PAYG) system which commences from 1 July 2000.

The levy will shade in at a rate of 20 per cent (the same rate applying under the Medicare levy arrangements). This would mean that the 0.5 per cent levy would shade in over the income range \$50,001 to \$51,282. The 1 per cent levy would also shade in at 20 per cent — from \$100,001 to \$102,564.

The revenue cost of the levy in 2001-02 reflects the normal process of refunds on assessment for most taxpayers.

Further Information

For further information see the related revenue measure *United Nations reimbursements for East Timor deployment*, expense and net capital investment measures under the Defence portfolio entitled *East Timor peace enforcement and peacekeeping*, and expense measures entitled *Civilian police for the UN Transitional Administration in East Timor* in the Attorney-General's portfolio; *Aid for East Timor* in the Foreign Affairs and Trade portfolio and *Provision of safe haven to internally displaced persons from East Timor* in the Immigration and Multicultural Affairs portfolio.

Reduced personal income tax cuts for income earners above \$50,000

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	1110.0	1234.0	1435.0

Explanation

On 28 May 1999, the Government announced an amendment to the personal income tax scales proposed in *A New Tax System*, which commence on 1 July 2000.

The proposed 40 per cent tax bracket has been increased to 42 per cent, and the proposed threshold for the top rate of 47 per cent has been reduced from \$75,000 per annum to \$60,000 per annum. These modifications are aimed at individuals earning over \$50,000 per annum, and as such, the announced reductions in personal income tax for those earning less than \$50,000 are unaffected.

These changes to the personal income tax scales are illustrated in the following table.

Current Tax Scales		Proposed in <i>A New Tax System</i>		New Tax Scales	
Income Range (\$)	Tax Rate (%)	Income Range (\$)	Tax Rate (%)	Income Range (\$)	Tax Rate (%)
0 – 5,400	0	0 – 6,000	0	0 – 6,000	0
5,401 – 20,700	20	6,001 – 20,000	17	6,001 – 20,000	17
20,701 – 38,000	34	20,001 – 50,000	30	20,001 – 50,000	30
38,001 – 50,000	43	50,001 – 75,000	40	50,001 – 60,000	42
50,001+	47	75,001+	47	60,001+	47

Further Information

The revenue cost of this measure is reflected in the associated legislation that was introduced into Parliament in June 1999 and differs slightly from the costing announced by the Prime Minister in his press release of 28 May 1999.

Deductibility of gifts

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	*	*	*	*

Explanation

The Government has announced that donations and gifts of \$2 or more to the following organisations have been made tax deductible:

- the Korean War Memorial Trust fund, from 2 September 1996 to 1 September 2000;
- the Linton Trust, after 2 December 1998 and before 3 December 2000;
- the Natural Disaster (Sydney Hail Storm Assistance) Fund, from 27 May 1999;
- gift deductibility status for the Shrine of Remembrance Restoration and Development Trust has been extended for the period from 1 July 1999 to 30 June 2005;
- the Family Planning Australia Overseas Aid Fund from 20 July 1999 (this fund was previously known as the Australian Federation of Family Planning Associations Overseas Aid Fund);
- gift deductibility status for the National Nurses' Memorial Trust Fund has been extended for the period from 4 September 1999 to 3 January 2000;

- Australian Ex-Prisoners of War Memorial Fund, from 20 October 1999 to 19 October 2001; and
- The Global Foundation, from 3 November 1999.

Immediate tax deductibility for GST-related expenditure

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-175.0	75.0	75.0

Explanation

On 19 August 1999, the Government announced that it would allow immediate tax deductibility for small and medium-sized businesses for expenditure required on new plant equipment or software for the purposes of implementing the GST. This concession will apply to businesses with a turnover of not more than \$10 million, for expenditure incurred in the 1999-2000 financial year.

Establishment of the Australian Rural Partnerships Foundation

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-5.0	-5.0	-3.0

Explanation

In partnership with the Sidney Myer Fund, the Government will establish the Australian Rural Partnerships Foundation. This foundation will assist regional, rural and remote communities to respond to social, cultural and economic change. The Foundation will be granted gift deductibility status for private sector and other contributions.

Tax exemption on business re-establishment grants made from the Cyclones Elaine and Vance Trust Fund

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-1.0	-	-	-

Explanation

This measure provides an exemption from income tax for business re-establishment grants made from the Cyclones Elaine and Vance Trust Fund. This trust fund was

established in the wake of the damage to Exmouth, Western Australia and its surrounding districts by Cyclones Elaine and Vance in March 1999.

Fringe benefits reporting — exclusion of certain benefits provided to Australian Defence Force personnel

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-10.0	-10.0	-10.0

Explanation

On 19 August 1999, the Government announced its decision to exclude housing assistance provided to ADF personnel in Australia from the fringe benefits reporting requirement. On 27 September 1999, the Government announced that further exclusions from fringe benefits reporting would be provided in respect of the following benefits provided to ADF personnel:

- reunion travel for ADF personnel serving at locations away from immediate family;
- special needs group assistance to ADF personnel;
- education assistance and reunion travel for children of ADF personnel in critical school years;
- removal expenses for the non-service spouse of an ADF member on breakdown of marriage; and
- the element of Overseas Living Allowance that compensates for cost of living differences.

Dairy industry adjustment package

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-1.0	-1.0	-1.0

Explanation

The Government has agreed to provide adjustment assistance to dairy farmers following full deregulation of the dairy industry from 1 July 2000, contingent upon all States agreeing to deregulation. The adjustment package, of approximately \$1.7 billion over eight years, will be funded by a levy of 11 cents per litre on market milk sales for up to eight years. The levy is unlikely to have any impact on retail prices as farm gate prices are expected to fall by at least this amount after deregulation.

An exit programme will assist those dairy farmers leaving the industry through non-taxable grants of up to \$45,000. As a consequence, Commonwealth revenue may decrease by up to \$1 million per year for each of the eight years of the programme. This aside, the package has no budgetary impact as it is fully funded by levy revenue.

Further Information

The package assists industry restructuring by helping farmers to improve efficiency and competitiveness following deregulation. The package includes:

- structural adjustment payments in equal quarterly amounts over eight years to eligible dairy farmers based on deliveries of market and manufacturing milk in 1998-99;
- an exit programme based on the Farm Family Restart Scheme; and
- monitoring of prices, costs and profits of businesses dealing with liquid milk product sales by the Australian Competition and Consumer Commission (ACCC).

Double taxation agreements

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	*	*	*	*

Explanation

The application of the tax sparing provisions in the comprehensive taxation agreement between Australia and Malaysia has been extended to 30 June 1992. Details are provided in the Assistant Treasurer’s press release of 10 November 1999.

Tax sparing relief provisions apply in relation to certain income derived by Australian residents that Malaysia exempts or taxes at a reduced rate under special incentive measures to promote economic development in Malaysia. The agreement provides tax credits for the tax forgone by Malaysia.

In addition, Australia has also signed comprehensive taxation agreements with the Republic of South Africa, the Slovak Republic and the Argentine Republic for the avoidance of double taxation and the prevention of fiscal evasion. These agreements are expected to be revenue neutral.

The New Business Tax System

In two separate announcements on 21 September 1999 and 11 November 1999, the Government outlined a major business tax reform package, *The New Business Tax System*. The reforms will provide Australia with internationally competitive business

tax arrangements. The revenue measures announced as part of this package are detailed below.

Further information on these measures can be found in the Treasurer's Press Releases No. 58 of 21 September 1999 and No. 74 of 11 November 1999, and the document *A Tax System Redesigned* released by the Ralph Committee.

Reduction in the company tax rate

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-60.0	-1260.0	-3480.0	-3135.0

Explanation

The rate of company tax will be reduced to 34 per cent for the 2000-01 income year and to 30 per cent from the 2001-02 income year. From 1 July 2001, these rates will also apply to other entities taxed like companies, such as trusts. The reduction in the company tax rate will make Australia a more internationally competitive location for business activity.

The New Business Tax System — changes to entity measures announced in A New Tax System

Implementing a unified entity tax system

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	*	*	*	*

Explanation

The unified entity regime, first announced in *A New Tax System*, will commence from 1 July 2001, although some features of the regime will commence from 1 July 2000. Key features of the unified entity regime include:

- taxing trusts, life insurers, co-operatives and limited partnerships like companies;
- simplifying the imputation system (with abolition of the intercorporate dividend rebate);
- refunding excess imputation credits to resident individuals and superannuation funds (including early refunds for members of closely held entities);
- providing for a system of consolidation for groups of companies and trusts, while addressing value shifting;

- treating non-commercial loans from members of closely held entities as equity; and
- achieving a consistent treatment of entity distributions.

The key elements of the unified entity regime, and their associated revenue implications, are described individually. The revenue estimates for those separate components of the regime take into account features such as the treatment of non-commercial loans from members of closely held entities and the consistent treatment of entity distributions.

Deferred implementation of unified entity tax system to trusts

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-40.0	-140.0	-445.0	5.0

Explanation

The taxing of trusts under the unified entity regime, as proposed in *A New Tax System*, will be deferred from 1 July 2000 to 1 July 2001. When implemented, the measure will provide for a flow-through treatment of collective investment vehicles and other excluded trusts. Other related aspects of the unified entity regime, including a consistent treatment of distributions and taxing co-operatives, will also be deferred to 1 July 2001.

The taxation of trusts under the unified entity regime will provide a more consistent taxation of business entities while being fairer, simpler and having greater integrity. The measure has been deferred in recognition of the current demands on business associated with the need to address Y2K compliance issues and the introduction of the GST and PAYG on 1 July 2000.

The revenue impact identified above represents the effect of modifying the business tax measures outlined in *A New Tax System*.

Early refunds of imputation credits

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-	-190.0	-

Explanation

A proposal to refund excess imputation credits was outlined in *A New Tax System*. From the 2000-01 income year, refundable imputation credits will be available on assessment. From 1 July 2001, an early refund mechanism will be introduced so that refunds will be available — via the distributing entity — to members of closely held

trusts and companies, and all co-operatives, on distribution. This will reduce the cash flow impact on members arising from taxing trusts and co-operatives like companies.

Refunding excess imputation credits will ensure that eligible taxpayers are taxed at their appropriate marginal rates of tax on assessment.

The revenue impact identified above represents the effect of modifying the business tax measures outlined in *A New Tax System*.

Removing the intercorporate dividend rebate on unfranked distributions

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-60.0	35.0	-70.0	-120.0

Explanation

This measure replaces the deferred company tax proposed in *A New Tax System*. All unfranked distributions between resident entities will be taxed to the recipient by removing the intercorporate dividend rebate on those distributions, except if the distribution is within a wholly owned group (or a consolidated group from 1 July 2001). The measure will take effect from 1 July 2000.

The revenue impact identified above represents the effect of modifying the business tax measures outlined in *A New Tax System*.

Introduction of a common start date for the commencement of tax reform measures applying to life insurers

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-180.0	-	40.0

Explanation

The measures announced in *A New Tax System* to broaden the tax base of life insurers are to be implemented from a common start date of 1 July 2000, rather than commencing on an income year basis as previously proposed. This will remove any competitive distortions that might otherwise arise between life insurers operating on the basis of different taxation accounting periods.

The revenue impact identified above represents the effect of modifying the business tax measures outlined in *A New Tax System*. It includes the effect of the introduction of a common start for life insurance policyholder measures.

Further Information

The revenue effect of delaying the life insurance policyholder measures until 1 July 2001 is included in the revenue measure *Delayed commencement of life policyholder reform*.

Transitional taxation of fees on life insurance policies

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-110.0	-110.0	-110.0

Explanation

As a transitional measure related to the introduction of the taxation reform of life insurers, one-third of a life insurer's management fees derived from life insurance policies taken out before 1 July 2000 will be exempt from tax during the five years following commencement of the new regime. This measure is to commence from 1 July 2000.

The transitional measure allows the up-front costs incurred by life insurers in obtaining existing life insurance business to continue to be recouped through the collection of management fees over the five-year transitional period.

The revenue impact identified above represents the effect of modifying the business tax measures outlined in *A New Tax System*.

Taxation of funeral bonds, scholarship plans and income bonds offered by Friendly Societies

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	*	*	*	*

Explanation

On 21 October 1999, the Government announced that the investment income earned by Friendly Societies on funeral bonds, scholarship plans and income bonds sold after 30 November 1999 will be subject to tax from 30 June 2001.

The measure will allow the products to be taxed consistently with other life insurance investment products. Funeral policies and scholarship plans taken out after 30 November 1999 will be taxed in a manner consistent with life insurance investment policies taken out after 30 June 2001. Income bonds taken out after 30 November 1999 will be taxed as debt products.

The measure was originally announced to commence from 11.45am AEST; 21 September 1999 (see Treasurer's Press Release No. 58 of 21 September 1999). The delayed commencement of the measure will allow Friendly Societies time to establish benefit funds and appropriate disclosure documents to cater for the new arrangements.

Delayed commencement of life policyholder reform

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-30.0	-30.0	-

Explanation

The reforms to the taxation of new life insurance policyholders outlined in *A New Tax System* are to be delayed until 1 July 2001. The deferral follows concerns raised by life insurers about the need to design new policies and their ability to undertake the necessary administrative system changes to accommodate the reform measures.

The revenue impact identified above represents the effect of modifying the business tax measures outlined in *A New Tax System*.

Consolidation — losses of acquired companies

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-	-190.0	-380.0

Explanation

The consolidated tax treatment for groups of companies and trusts outlined in *A New Tax System* is to commence from 1 July 2001. Consolidated groups will be able to bring realised carry-forward losses of a subsidiary entity into the group — subject to limits on the amount that can be brought in and the period over which the losses can be claimed.

The rules for an entity bringing losses into a consolidated group and pooling the losses within the group replace the entitlement of that entity, outside of consolidation, to offset a loss carried forward against its own future income or capital gains. They also replace the entitlement, under the existing law, of the entity to transfer losses to members of the same wholly owned company group.

Consolidation — value shifting and loss duplication in groups

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-	-	75.0

Explanation

With the consolidated tax treatment for groups of companies and trusts, outlined in *A New Tax System*, to commence from 1 July 2001, existing grouping provisions will be repealed. This will prevent the creation of artificial losses by value shifting between companies in the same group and duplication of losses through multiple layers of ownership (that is, through company chains). The interim measures, *Interim value shifting and loss duplication measures*, will apply from 22 February 1999 until the commencement of consolidation.

Rollover relief for entity restructuring

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	*	*	*	*

Explanation

On 11 November 1999, the Government announced the following measures:

- ongoing rollover relief for the transfer of assets or of an entire business from an individual, partnership or joint venture of individuals to a company or fixed trust, subject to certain conditions;
- transitional rollover relief for the transfer of assets or the direct transfer of an entire business from a fixed trust to a company and for rollovers from a company to a prospective collective investment vehicle, subject to certain conditions; and
- early consultation with State and Territory Governments, with the objective of removing any tax obstacles to entity restructuring.

The rollover relief measures will have effect from date of announcement. The transitional rollover relief measure will apply until 1 July 2001.

The New Business Tax System — depreciation measures

Removal of accelerated depreciation

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	30.0	1050.0	2260.0	2300.0

Explanation

Accelerated depreciation for plant and equipment will be replaced with a system under which depreciation rates will be determined by the effective life of the asset. Taxpayers will also be able to reassess the effective life of plant and equipment acquired after the time of announcement. The measure took effect from 11.45 am AEST; 21 September 1999. Assets commenced to be constructed or acquired before the time of effect will retain access to accelerated depreciation.

This measure does not apply to small business taxpayers with a three-year annual average turnover of less than \$1 million, pending introduction of *The Simplified Tax System* for small business from 1 July 2001. The special rates applying to certain primary producer assets, research and development, computer software and Australian films will remain unchanged.

The revenue estimates for the measure reflect the impact of removing accelerated depreciation for all taxpayers. The effect of excluding small businesses from the measure is reflected in the measure *Small business exemption from accelerated depreciation, balancing charge offset and low-value pooling measures*.

Removal of balancing charge offset

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	20.0	400.0	360.0	170.0

Explanation

The existing balancing charge offset for disposals of plant and equipment was removed from 11.45 am AEST; 21 September 1999. The measure will not apply to small business taxpayers with a three-year annual average turnover of less than \$1 million until 1 July 2001, or to involuntary disposals of plant and equipment.

Plant and equipment disposals occurring from the time of effect of this measure will no longer be subject to capital gains tax (CGT) arrangements. This means that the CGT indexed cost bases of the relevant assets will be frozen at their 30 September 1999 value and the excess of disposal proceeds over the frozen indexed cost base will be taxed as balancing adjustments.

The revenue estimates for the measure reflect the impact of removing the balancing charge offset for all taxpayers. The effect of excluding small businesses from the measure is reflected in the measure *Small business exemption from accelerated depreciation, balancing charge offset and low-value pooling measures*.

Pooling of low-value depreciable assets

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	30.0	410.0	40.0

Explanation

From 1 July 2000, the expensing of plant items costing \$300 or less will be replaced with a system whereby taxpayers other than small business taxpayers will be able to elect to write off all items costing less than \$1,000 through a low-value pool. The low-value pool will be depreciated at a declining balance rate of 37½ per cent per annum. The \$300 limit will continue to apply for small business taxpayers with a three-year annual average turnover of less than \$1 million until 1 July 2001.

The option to include assets with opening tax values of less than \$1,000 in the low-value pool will provide a mechanism for taxpayers to simplify their record keeping in relation to low-value assets for taxation purposes.

The revenue estimates for the measure reflect the impact of allowing pooling for all taxpayers. The effect of excluding small businesses from the measure is reflected in the measure *Small business exemption from accelerated depreciation, balancing charge offset and low-value pooling measures*.

Allow write-off for infeasible rights of use

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-11.0	-51.0	-37.0	-36.0

Explanation

Australian companies will be able to write off expenditure on infeasible rights of use over telecommunications submarine cable systems. The measure applies to contracts entered into after 11.45 am AEST; 21 September 1999.

Effective life depreciation for the mining, quarrying and resources industries

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-	-	15.0

Explanation

From 1 July 2001, the existing special allowable capital expenditure provisions for the mining, quarrying and resources industry will be replaced with a system of tax depreciation based on the shorter of the effective life of the asset and, where the asset will be abandoned at the end of the project, the life of the project.

Assets commenced to be constructed or acquired before 1 July 2001 will retain access to the current allowable capital expenditure provisions.

The New Business Tax System — small business measures

Cash accounting for small business

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-	-220.0	-320.0

Explanation

From 1 July 2001, as part of *The Simplified Tax System*, small businesses with a three-year annual average turnover of less than \$1 million will be able to use a cash accounting regime as an alternative to the accrual system, including exemption from reform of the prepayment rules set out in the revenue measure entitled *Tightening the 13-month rule for advance expenditure*.

The measure also includes access to a simplified trading stock regime, which will provide an alternative to an annual requirement for stocktaking and stock valuation.

Simplified depreciation arrangements for small business

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-	-60.0	-220.0

Explanation

From 1 July 2001, as part of *The Simplified Tax System*, small businesses with a three-year annual average turnover of less than \$1 million will be subject to a

simplified depreciation regime. This will include access to a pooling arrangement for assets with effective lives of less than 25 years and immediate write-off for assets costing less than \$1,000. The pooled assets will be depreciated at a declining balance rate of 30 per cent per annum.

Small business exemption from accelerated depreciation, balancing charge offset and low-value pooling measures

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-219.0	-474.0	257.0

Explanation

As an interim measure, until the introduction of *The Simplified Tax System* from 1 July 2001, measures set out in *Removal of accelerated depreciation*, *Removal of balancing charge offset* and *Pooling of low-value depreciable assets* will not apply to small business taxpayers with three-year annual average turnovers of less than \$1 million. In addition, the immediate deductibility of plant items costing up to \$300 will be extended to 1 July 2001 for small business taxpayers.

To qualify for accelerated depreciation tax benefits, the plant and equipment may not be used predominantly for leasing or for related activities (other than short-term hire). This means that plant and equipment used in rental properties would not be eligible for accelerated depreciation.

The New Business Tax System — capital gains tax measures

Reform of CGT for individuals

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	210.0	230.0	210.0

Explanation

Indexation of the cost base for calculating capital gains for individuals was frozen as at 30 September 1999 and averaging of capital gains is no longer available, with effect from 21 September 1999.

For assets acquired at, or prior to, 11.45 am AEST; 21 September 1999, and held for at least one year, individual taxpayers are to have the choice of including in their assessable income either half the realised nominal gain, or the whole of the difference between the disposal price and the frozen indexed cost base. For assets acquired after 11.45 am AEST; 21 September 1999, and held for at least one year, capital gains are to be taxed at half the difference between the disposal price and the original cost.

Reform of CGT for superannuation and related funds

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-70.0	-50.0	-70.0

Explanation

Indexation of the cost base for calculating the capital gains of superannuation funds was frozen as at 30 September 1999.

For assets acquired at, or prior to, 11.45 am AEST; 21 September 1999, and held for at least one year, complying superannuation and related funds are to have the choice of including in their assessable income either two-thirds of the nominal gain or the whole of the difference between the disposal price and the frozen indexed cost base. For assets acquired after 11.45 am AEST; 21 September 1999, and held for at least one year, capital gains are to be taxed at two-thirds of the difference between the disposal price and the original cost.

Reform of CGT for other entities

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	10.0	40.0	50.0

Explanation

Indexation of the cost base for calculating capital gains for other entities (companies and trusts) is to be frozen as at 30 September 1999.

This is consistent with the freezing of indexation at 30 September 1999 for individuals and for superannuation and related funds. While companies will lose the benefit of indexation, they will receive the ongoing benefit of a lower company tax rate. In addition, shareholders that are either individuals or superannuation funds will benefit directly from CGT reform.

CGT rollover relief for scrip-for-scrip acquisitions

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	2.0	-19.0	-5.0

Explanation

CGT rollover relief will be provided when there is an exchange of interests in companies or fixed trusts because of a takeover. The measure is to apply to companies and trusts regardless of whether or not they are widely held. As a result, CGT liability will be deferred at the time of the takeover until ultimate disposal of the replacement asset. The measure will take effect from the date of Royal Assent of the relevant legislation.

Improving incentives for venture capital investment

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	*	*	*	*

Explanation

Investment in innovative Australian firms will be promoted by providing certain CGT exemptions for Australian superannuation funds and non-resident tax-exempt pension funds. Australian widely held superannuation funds will be provided with an exemption where they receive income from a Pooled Development Fund that represents gains on the disposal of eligible venture capital investment. Non-resident tax-exempt pension funds from certain countries will be tax exempt on gains on the disposal of eligible venture capital investments. The measure commences on the date of Royal Assent of the relevant legislation.

Providing a new small business 15-year CGT exemption and streamlining of the existing small business provisions

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	*	*	*	*

Explanation

CGT relief for small business will be extended by providing an exemption for small business taxpayers where an active asset has been held continuously for at least 15 years. The taxpayer must also retire because they are incapacitated, or have reached

the age of 55 or more. The measure will apply to CGT events on or after 20 September 2000 — 15 years after the commencement of the CGT.

The existing 50 per cent CGT goodwill exemption is to be replaced by a 50 per cent CGT exemption on active business assets (including goodwill) disposed of by small business taxpayers with effect from 21 September 1999. The CGT small business rollover and retirement exemption provisions are to be streamlined with effect from 21 September 1999.

The New Business Tax System — integrity measures

Addressing lease assignments

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	15.0	45.0	55.0

Explanation

The full consideration received on disposing of leases or interests in leased plant will be included in assessable income. The measure will also apply to disposals of majority interests in wholly owned subsidiaries that are used mainly to lease assets. The date of effect for this measure is 22 February 1999.

The measure was required in order to address the tax avoidance opportunities that were highlighted in *A Platform for Consultation*, which was released on 22 February 1999.

Interim value shifting and loss duplication measures

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	60.0	42.0	-

Explanation

Two interim measures are to take effect from 22 February 1999 and remain in place until the start of the consolidation regime on 1 July 2001 (see *Consolidation — Value shifting and loss duplication in groups* and *Value shifting measures outside groups*).

The first measure prevents loss duplication through a chain of companies upon transfer of revenue losses. The second measure denies tax recognition of artificial losses that are the result of a valuable debt between two commonly owned companies being forgiven by the creditor company.

Repeal of excess deduction rules for mining operations

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	30.0	40.0	35.0

Explanation

This measure consists of two parts:

- excess deductions carried forward from the previous income year that were available to a taxpayer at 11.45 am AEST; 21 September 1999 are to be treated as allowable deductions at that time, rather than at the end of the income year as was previously the case; and
- deductions for exploration and prospecting expenditure and allowable capital expenditure, including deductions allowable under the measure component above, will be deductible without limit. If these deductions exceed the available income, the excess will contribute to a tax loss for the year. This applies to assessments for the 1999-2000 income year and later income years.

Prevent duplication of unrealised losses

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	65.0	90.0	85.0

Explanation

With effect from 1.00 pm AEDST; 11 November 1999, where there is a change in the majority underlying ownership of a company, losses realised in respect of assets held at the time of the ownership change are to be made subject to the same business test. The losses made subject to the same business test will not exceed the company's net unrealised loss at the time of the change.

The measure was originally announced to commence from 11.45 am AEST; 21 September 1999 (see Treasurer's Press Release No. 58 of 21 September 1999). The delayed commencement will synchronise the commencement of this measure with the measure *Prevent inter-entity loss multiplication* and, thus, significantly reduce compliance costs.

Remove defects in the continuity of ownership test

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	35.0	35.0	35.0

Explanation

With effect from 11.45 am AEST; 21 September 1999, the continuity of majority ownership test for a company to deduct a loss was modified so that, broadly, it will be satisfied only if:

- there is no substantial change in the proportionate shareholding among a group of continuing owners; and
- majority ownership is maintained throughout the period from when the loss was incurred.

Disposal of loss assets within majority-owned groups

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	60.0	50.0	15.0

Explanation

With effect from 21 October 1999, where an asset that has declined in value is sold by one company to another within the same majority-owned group, tax system recognition of the revenue or capital loss will be deferred until the group disposes of the asset. The measure will be of less significance, but still required, when consolidated tax treatment replaces the existing grouping provisions for wholly owned company groups, as under consolidation the tax system disregards transactions between entities within a consolidated group.

Prevent inter-entity loss multiplication

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	15.0	20.0	25.0

Explanation

From 11 November 1999, losses on equity or debt in the interposed entities will be denied to the extent of the carry-forward (realised or unrealised) losses where:

- there are entities interposed between a company and its underlying beneficial owners;
- the majority underlying ownership in the company changes; and
- the company has one or more realised carry-forward losses or an unrealised net loss, subject to the same business test.

This measure will prevent carry-forward losses of a company in which ownership has changed from being replicated through the disposal of equity or debt in entities interposed between the loss company and its original underlying owners.

Value shifting measures outside groups

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-	-	140.0

Explanation

The measures apply general value shifting rules to assets of entities and interests in entities, including shares in companies and units in trusts, and are to take effect from 1 July 2001. The measures relating to interests in entities will generally apply to interests of controllers and their associates. Entities within consolidated groups will not be subject to these rules. These measures will prevent inappropriate tax outcomes (including artificially increased capital losses and artificially reduced capital gains) resulting where value is shifted between entities or between assets. These measures are related to the *Interim value shifting and loss duplication measures*, which are to take effect from 22 February 1999.

Tightening the 13-month rule for advance expenditure

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	15.0	220.0	325.0	260.0

Explanation

Expenditure in respect of things to be done within 13 months of the expenditure being incurred is to be deductible over the period during which the services are provided, rather than being immediately deductible as at present. This measure applies to all expenditure incurred after 11.45 am AEST; 21 September 1999, but excludes those prepayments to which the taxpayer is irrevocably committed under a contractual obligation entered into prior to that time. A transitional arrangement will phase-in the initial impact of this measure over a period of five years.

Individuals not carrying on a business, and small businesses with a three-year average annual turnover of less than \$1 million are exempt from the measure. From 1 July 2001 small business taxpayers operating under *The Simplified Tax System* will remain exempt from this reform, as outlined in *Cash accounting for small business*.

Tightening the 13-month rule for advance expenditure under tax shelters

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	70.0	100.0	90.0

Explanation

Expenditure incurred in respect of things to be done within 13 months is to be deductible over the period during which the services are provided where such expenditure is in respect of a tax shelter arrangement. The measure applies to all expenditure incurred after 1.00 pm AEDST; 11 November 1999 but excludes those prepayments to which the taxpayer is irrevocably committed under a contractual obligation entered into prior to that time. No transitional arrangements apply to prepayments affected by this measure.

In broad terms, this proposal is directed at arrangements managed by a person other than the taxpayer, where deductions exceed income from the arrangement in the same year. It does not apply to prepayments by a small business or outside of a business (for example, by an individual) that are made in respect of a standard negatively geared investment, such as a rental property or shares.

This measure will mean that all revenue prepayments relating to participation in a tax shelter will be deducted over the period to which they relate. If, in substance, the payment contributes to the creation of, or is directed towards acquiring, an asset — that is, it is of a capital nature — it will not be immediately deductible, consistent with the current law. The created or acquired asset will then be treated under the relevant provisions of the tax law.

Treatment of losses from non-commercial activities

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	50.0	310.0	240.0

Explanation

This measure is designed to ensure that only losses arising from commercial business activities can be deducted from other income. A deduction is allowable provided the activity from which the loss arises satisfies at least one of the criteria listed below. The

criteria have been designed so that they do not disadvantage genuine business activities, and have been modelled on comparable provisions in other countries.

- The loss arises in relation to the rental of a real property or share investments (or similar) by individuals.
- The loss relates to an activity with assessable income greater than \$20,000.
- Total assets of the particular activity exceed \$500,000 in real property, or \$100,000 of other assets excluding passenger motor vehicles. Under this test, the value to be used for the real property test is the greater of cost or market value. The value test for other assets is to be the tax value. These tests will enable taxpayers to use existing information to determine eligibility.
- The particular activity has produced taxable income in three of the last five years.
- The loss arises in circumstances outside the control of the taxpayer, including natural disasters, or from an activity with a significant commercial purpose or character.

For those activities meeting at least one of the listed criteria, losses are deductible against other income in the same income year, or a future year. If a loss cannot be offset against other income in the year that it arises, the loss can be offset in a future year when there is a profit from this, or a like, activity, or against other income when one of the criteria is satisfied. This measure takes effect from 1 July 2000.

Alienation of personal services income

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	380.0	480.0	495.0

Explanation

Alienation of personal services income occurs where an entity is interposed between the individual providing personal services and the entity or person who requires the services, so that the entity derives the income rather than the individual. The income can then be split between other members of the interposed entity or retained within the interposed entity, allowing less tax to be paid or tax to be deferred. A greater amount of deductions may also be claimed against assessable income than if the individual were employed directly by the service requirer.

With effect from 1 July 2000, income earned by an interposed entity for the personal services of an individual will be treated for tax purposes as the income of the individual where:

- the interposed entity receives 80 per cent or more of the payments it receives for the personal services of the service provider from one service requirer during the income year and is unable to obtain from the Commissioner of Taxation a decision that the personal services were provided in the manner of a personal services business, as determined by a range of criteria; or
- the interposed entity does not provide the services in the manner of a personal services business.

Deductions for work related expenses will be limited to those that would be allowable if the individual were employed directly by the service requirer.

Amending dividend streaming and franking credit trading rules

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	*	*	*	*

Explanation

Dividend streaming and franking credit trading rules are to be amended to reduce the 45 day holding period with effect from 1 July 2000 (and with the length of the reduced holding period to be decided after further analysis and consultation). The exemption for small transactions is to be raised from \$2,000 to \$5,000 to apply for the 1999-2000 and subsequent income years. The rules applying to trusts will also be simplified and clarified prior to the commencement of the unified entity regime.

The New Business Tax System — international taxation measures

Imputation credits for foreign dividend withholding tax

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-	-	-340.0

Explanation

The measure will commence from 1 July 2001 and will provide imputation credits of up to 15 per cent of repatriated dividends for foreign dividend withholding tax (DWT) paid, including for DWT paid on repatriated exempt dividends.

Under existing arrangements shareholders of Australian companies that are expanding offshore can face high effective tax rates on their foreign investment. This can arise where foreign company tax, foreign DWT and personal tax are imposed on foreign source income distributed to shareholders. This measure will allow companies to

partially frank their dividends where they have paid foreign DWT on foreign source income, thereby reducing the effective rate of tax on offshore investments.

Thin capitalisation provisions

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-	50.0	480.0

Explanation

A new thin capitalisation regime will be introduced for the 2001-02 income year to prevent foreign and domestically based multinationals allocating a disproportionate share of debt to their Australian operations and therefore not paying an appropriate share of their tax in Australia.

The new thin capitalisation measures will apply to the total debt of the Australian operations of multinational groups (including branches of those groups). They will cover inward investment of foreign multinationals and outward investment of Australian based multinationals. The measures include a safe harbour debt to equity ratio of 3:1 — with interest deductions being fully deductible where the safe harbour gearing ratio is met. Where gearing exceeds the safe harbour ratio, interest deductions will be denied to the extent that gearing of the Australian operation does not satisfy the arm's length test (that the gearing could have been borne by an independent entity). Separate rules will apply to financial institutions.

This measure will replace the existing thin capitalisation provisions and allow the removal of quarantining of interest expenses on foreign source income and the repeal of the debt creation rules.

Gains on the disposal of interposed non-resident entities

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-	-	40.0

Explanation

The tax legislation will be amended to counter the avoidance by non-residents of Australian CGT by disposing of an interposed entity holding Australian assets rather than the assets themselves. The measure will be targeted at tax avoidance rather than commercial transactions. The regime will not apply where the gain on the sale of an interposed entity is subject to tax in a broad exemption listed country or would have been subject to tax in such a country except for recognised rollover relief. The measure will apply from 1 July 2001.

Foreign income account

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	*	*	*	*

Explanation

The foreign dividend account will be replaced by a foreign income account that will extend the relief from Australian dividend withholding tax when Australian companies receive non-portfolio foreign source dividends and subsequently pay unfranked dividends to non-resident investors to all types of foreign income, including portfolio dividends, foreign branch profits and capital gains. The foreign income account will include a refund mechanism for company tax on inter-entity distributions paid by holding companies that are 100 per cent owned by a non-resident. This measure will apply from 1 July 2001.

The revenue impact of this measure is included in the estimates relating to the deferred company tax measure in *A New Tax System* and *Removing the intercorporate dividend rebate on unfranked dividends*.

Consistent treatment of resident entities deriving foreign source income

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	*	*	*	*

Explanation

The tax treatment of the foreign source income of resident trusts subject to entity taxation will be made consistent with that applying to companies. This will allow resident trusts to claim 'underlying' foreign tax credits for investments in foreign entities and provide them with exemptions for non-portfolio dividends and branch profits allowed to companies. This measure will apply from 1 July 2001.

The revenue impact of this measure is included in the estimates relating to taxing trusts as companies.

Simplifying and strengthening the rules for foreign trusts

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	*	*	*	*

Explanation

The taxation treatment of foreign trusts will be simplified and strengthened to counter tax avoidance. The measures will apply from 1 July 2001.

Foreign fixed trusts will only be accruals taxed under the Foreign Investment Fund rules unless there are foreign beneficiaries; transfers to foreign discretionary trusts will be subject to the transferor trust rules. Certain exemptions from the transferor trust measures will be removed. An amnesty will be provided to allow foreign trusts affected by the removal of the exemptions to be wound up with distributions from those trusts to be taxed at 10 per cent.

The revenue impact of this measure is included in the estimates for taxing trusts like companies.

Foreign expatriates and residents departing Australia

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	*	*	*	*

Explanation

Measures will be introduced to apply from 1 July 2001 to reform the taxation treatment of foreign expatriates and residents departing Australia. Temporary residents will be exempt from tax on foreign source income relating to assets (and associated liabilities) acquired before taking up residence. Share discounts given to employees under qualifying schemes will be taxed when the employee ceases to be a resident. Residents departing Australia will be required to provide security where capital gains tax liabilities are deferred.

These measures are to counter the disincentive to employing foreign expatriates caused by Australia's residency rules and the high top personal tax rate. The tightening of other rules ensures that Australian tax is collected on income earned in Australia by foreign expatriates.

The New Business Tax System — other business tax measures

Extending the scope of involuntary disposals

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	*	*	*	*

Explanation

This measure amends the existing law to provide capital gains tax and depreciable plant balancing charge rollover relief where a private acquirer has recourse to a statutory power to compulsorily acquire an asset.

This measure will address an inequity in the tax system. It will apply, for example, where land may be subject to a mining lease or a private utility has recourse to a statutory power to acquire and the vendor has little choice but to sell. The measure applies to involuntary disposals after 1.00 pm AEDST; 11 November 1999.

Recognition of blackhole expenditures

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-	-30.0	-65.0

Explanation

From 1 July 2001, a range of business expenditure that is either not deductible or not deductible in accordance with their economic characteristics (ie blackhole expenditures) will be fully recognised in the tax system either as being expensed, amortised or capitalised.

The revenue estimates for the measure reflect the impact of allowing this consistent taxation treatment across all types of blackhole expenditures except for those relating to the taxation of leases and rights.

High level reform to tax design and other measures

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-	-57.0	-45.0

Explanation

The Government has announced in principle support for a range of measures on the basis that they are subject to further consultation, including:

- implementing a cashflow/tax value approach to determining taxable income;
- rules for assigning tax value to different types of assets and liabilities;
- the treatment of leases and rights and financial assets and liabilities;
- including buildings and structures as part of a simplified depreciation regime;
- the treatment of partnerships and other joint activities;
- a treatment of interest and private items;
- a high level arm's length rule; and
- foreign source income rules and other aspects of international taxation.

Indirect Tax

Incentive to switch to lower sulphur diesels

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-	-	18.0

Explanation

The rate of excise on diesel fuel that contains sulphur levels above 50 parts per million (ppm) will be increased. This will encourage the production and consumption of more environmentally-friendly fuel types by private users and urban transport.

Further Information

The relevant excise payable on high sulphur fuel above 50 ppm will increase by 1 cent per litre from 1 January 2003 and 2 cents per litre from 1 January 2004.

Change of Diesel Fuel Rebate Scheme (DFRS) arrangements for rail excise and off-road diesel

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	333.1	322.0	317.0

Explanation

A rebate of diesel fuel excise will be provided for the off-road use of diesel and like fuels under the DFRS. The full rebate will be provided to existing eligible activities under the DFRS — for agriculture, fishing, mining operations and 'other' (hospitals, nursing and aged persons homes and other medical institutions, and electricity generation at residential premises). In addition, the full rebate will be extended to business use of rail transport and marine use.

Further Information

These rebates will no longer be able to be obtained for excise paid on diesel that is used in construction, power generation or manufacturing as proposed in *A New Tax System*. This represents a saving of revenue to the Government.

Supporting renewable remote power generation

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	66.0	66.0	66.0

Explanation

As part of the amendments to *A New Tax System* announced by the Prime Minister on 31 May 1999, the Government will not rebate the excise on diesel used for power generation and will use the funds to finance Special Purpose Payments for the States and Territories.

Further Information

This measure reflects the revenue implications of not providing a diesel fuel credit that would have been provided by the Commonwealth under *A New Tax System*. Information on the corresponding payment to the States and Territories can be found in the related expense measure *Supporting renewable remote power generation*.

Application of excise on alcoholic cooking essences

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	4.4	5.1	5.3	5.5

Explanation

This measure removes concessional tax treatment of alcohol based food essences that are retailed in bottle sizes greater than 50 ml (or 100 ml in the case of vanilla essence). These essences are highly alcoholic and sold in bottle sizes much larger than those traditionally associated with retail food essences. This measure applies the same tax treatment as that applicable to spirit based beverages.

Sales tax concession for taxis for the disabled

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	*	*	*	*

Explanation

On 5 November 1999, the Government announced that it would amend the sales tax law to encourage the increased construction of purpose built vehicles that are used to provide transport for disabled persons. The sales tax law will be amended to exclude from sales tax, that part of the taxable value of a vehicle designed to be driven by a person suffering from a physical impairment, or designed to be used to transport such a person, that represents the additional costs attributable to making it suitable for that purpose.

The amendments will apply to dealings in such vehicles on or after 26 June 1998, the date the NSW Government announced the release of 400 additional wheelchair accessible taxi licenses.

Fringe Benefits Tax (FBT)

Extension of FBT exemption for remote area housing to all employers

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-15.0	-15.0	-15.0

Explanation

The Government will extend to all employers the FBT exemption that currently applies to remote area housing provided by primary producers. This measure will take effect from 1 April 2000.

Adoption of dual gross-up formula for FBT

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-35.0	-35.0	-35.0

Explanation

A *New Tax System* announced that the FBT gross-up rate would be changed from July 2000 to ensure neutrality of treatment between cash salary and fringe benefits following the introduction of the GST. In order to avoid disadvantaging employers in situations where GST input credits are not available, employers will be allowed to apply the existing FBT gross-up formula to fringe benefits on which no GST is payable, or where input credits may not be claimed. The GST-inclusive gross-up will apply in all other situations.

Non-Tax Revenue

Additional payments from the States and Territories for GST administration

Revenue (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	60.0	60.0	60.0	60.0

Explanation

Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, the States and Territories will compensate the Commonwealth for the agreed costs incurred by the Australian Taxation Office (ATO) in administering the GST.

This measure reflects the estimated increase in compensation from the States and Territories which will result from the ATO incurring higher administrative costs associated with the exclusion of items such as basic food from the GST revenue base.

Further Information

For further information, see the related expense measure *Funding for the ATO to cover the increased cost of administering the GST*.

EXPENSES

Agriculture, Fisheries and Forestry

Commonwealth contribution for trade liberalisation research

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Agriculture, Fisheries and Forestry – Australia	0.5	-	-	-

Explanation

The Government has agreed to provide an additional \$500,000 to the Australian Bureau of Agricultural and Resource Economics (ABARE) to undertake research on trade liberalisation and to disseminate the results, particularly amongst developing countries.

Further Information

ABARE has committed these funds for World Trade Organisation agricultural trade research. Industry has agreed to match the Government's contribution.

Assistance to the Australian lamb industry

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Agriculture, Fisheries and Forestry – Australia	7.9	9.5	1.6	-

Explanation

In response to the tariff and quota restrictions imposed on Australian lamb imports by the United States of America, the Government has decided to provide assistance to the Australian lamb industry. The assistance will take two forms.

The first is a reduction in the *ad valorem* transaction levy from two per cent to one per cent. The Government has agreed to pay, for up to two years from

1 September 1999, the equivalent of half the transaction levy applying to all lamb sales in Australia, at an estimated cost of \$13 million over two years.

The second element provides for around \$6 million over two years to establish a Lamb Industry Development Programme. This programme will provide assistance to industry to enhance performance, improve lamb quality, develop new markets, develop infrastructure and encourage improved on-farm productivity and innovation.

Exceptional circumstances assistance – Batlow fruit growers, New South Wales

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Agriculture, Fisheries and Forestry – Australia	0.7	0.7	-	-
Department of Family and Community Services	0.1	0.1	..	-
Department of Health and Aged Care	-	-
Total	0.8	0.8	..	-

Explanation

The Government has agreed to provide exceptional circumstances assistance to fruit growers in the Batlow area of New South Wales who have suffered frost damage and who relied on fruit production for at least 65 per cent of their 1997-98 farm income.

Eligible farmers will gain access to income support payments, interest rate subsidies and concessional access to a Health Care Card, Family Payments and the Youth Allowance for a twelve month period. Under the assistance arrangements, relief payments may be continued for a further period of up to twelve months.

This is a cross portfolio measure between Agriculture, Fisheries and Forestry – Australia, the Department of Family and Community Services and the Department of Health and Aged Care.

Exceptional circumstances assistance — Mallee region, Victoria

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Agriculture, Fisheries and Forestry – Australia	4.4	4.7	0.4	-
Department of Family and Community Services	0.3	0.4	0.1	-
Department of Health and Aged Care	0.1	0.1	-	-
Total	4.8	5.2	0.5	-

Explanation

The Government has agreed to provide exceptional circumstances assistance to farmers in the Millewa and eastern and southern Mallee regions in Victoria, for whom ineffective rainfall during important stages of crop development led to crop failure.

Eligible farmers will gain access to income support payments, interest rate subsidies and concessional access to a Health Care Card, Family Payments and the Youth Allowance for a twelve month period. Under the assistance arrangements, relief payments may be continued for a further period of up to twelve months.

This is a cross portfolio measure between Agriculture, Fisheries and Forestry — Australia, the Department of Family and Community Services and the Department of Health and Aged Care.

Attorney-General's

Revised funding arrangements for the Australian Federal Police (AFP) Reform Programme and AFP Adjustments Scheme (AFPAS)

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Federal Police	12.0	18.0	20.0	-

Explanation

This measure will take forward the Government's commitment towards the Australian Federal Police Reform Programme. The purpose of Reform Programme is to improve the skills and operational capability of the AFP through increased staffing, training and development, and upgrading equipment and forensic facilities. This additional funding is subject to the adoption of a new Certified Agreement.

In addition, the Government has decided to provide the AFP with an equity injection of \$105 million from 1999-2000 to 2001-02 to enable it to extinguish accumulated liabilities under the present Australian Federal Police Adjustments Scheme (AFPAS) and the Cessation Payment Scheme. These schemes are planned to cease on

5 January 2000, subject to the adoption of a new Certified Agreement. The funding will allow members of the AFP to access any outstanding entitlements accrued under the AFPAS scheme, which commenced in 1990. It is anticipated that payments made to employees as a result of the extinguishment will be spread over three years.

Civilian police for the UN Transitional Administration in East Timor

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Federal Police	26.2	-	-	-

Explanation

The Government will provide funding for the AFP to contribute to the UN Transitional Administration in East Timor (UNTAET) civilian police force. The additional funding is for 80 personnel, including the use of police from other jurisdictions. The AFP's role will also extend to providing assistance in designing and establishing a new law and order infrastructure in East Timor. Funding for 2000-01 and beyond will be considered in the 2000-01 Budget process.

Further Information

For further information see the related expense and net capital investment measure under the Defence portfolio entitled *East Timor peace enforcement and peacekeeping*, and expense measures entitled *Aid for East Timor* in the Foreign Affairs and Trade portfolio; *Provision of safe haven to internally displaced persons from East Timor* in the Immigration and Multicultural Affairs portfolio. In addition, there are two related revenue measures entitled *UN reimbursements for East Timor deployment* and *Defence — East Timor levy*.

Communications, Information Technology and the Arts

Telstra Social Bonus — Trials in Innovative Government Electronic Regional Services (TIGERS)

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Communications, Information Technology and the Arts	3.0	2.0	5.0	-

Explanation

As part of the Telstra Social Bonus Programme associated with the sale of a further 16.6 per cent of Telstra, the Government will provide \$10 million over the period 1999-2000 to 2001-02 to trial a range of innovative means to improve access to government services in regional and remote areas through delivery over the Internet,

through call centres and over-the-counter facilities (supported electronically). In part this will build on work already being carried out in Launceston to trial a Government Information Centre.

A key objective of these trials will be the integration of services across the three tiers of government, building on the success of Service Tasmania. The TIGERS programme will complement the Building IT Strengths, *Intelligent Island* and local government programmes to maximise local Tasmanian involvement in the development of innovative government service delivery solutions.

Telstra Social Bonus – NetAlert

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Communications, Information Technology and the Arts	2.0	-	1.0	-

Explanation

As part of the Telstra Social Bonus Programme associated with the sale of a further 16.6 per cent of Telstra, the Government will provide an additional \$3 million for a national community education programme to promote safe Internet content. This funding will also provide for research and development grants to develop online content software, including means for providing adult verification of overseas sourced content at the Internet Service Provider level. The NetAlert Secretariat will be located in Tasmania with oversight and policy direction from a board with national representation.

Telstra Social Bonus – Networking the Nation Local Government Fund

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Communications, Information Technology and the Arts	5.0	3.0	15.0	12.0

Explanation

As part of the Telstra Social Bonus Programme associated with the sale of a further 16.6 per cent of Telstra, the Government will provide \$45 million over the period 1999-2000 to 2003-04 for a Local Government Fund to be administered under the auspices of the *Networking the Nation* programme.

The Fund will be used to assist local government authorities in regional Australia to provide online access to their own information and services and public points of access to advanced telecommunications services such as the Internet. Each State will be

allocated funding of \$6 million; \$6 million will be divided among the Territories; and the remaining \$3 million will be maintained in a national pool.

Telstra Social Bonus — Launceston Broadband Project

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Communications, Information Technology and the Arts	3.0	3.0	3.0	3.0

Explanation

As part of the Telstra Social Bonus Programme associated with the sale of a further 16.6 per cent of Telstra, the Government will provide \$15 million over the period 1999-2000 to 2003-04 to establish a multimedia development centre in Tasmania. This programme also provides for a development fund for small businesses and advanced Internet access in Launceston linking up to 5,000 customers. The Government's contribution of \$15 million will be matched by an equal contribution from Telstra. These initiatives are intended to develop information technology and telecommunication skills in Tasmania.

Telstra Social Bonus — Building IT Strengths (BITS)

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Communications, Information Technology and the Arts	37.0	10.0	56.0	30.0

Explanation

As part of the Telstra Social Bonus Programme associated with the sale of a further 16.6 per cent of Telstra, the Government will provide \$158 million over the period 1999-2000 to 2003-04 for a range of initiatives to strengthen the competitiveness of the Australian information industries sector. The programme will help address market failures that currently inhibit the development and commercialisation of innovative ideas in the information technology and telecommunication (IT&T) industries and facilitate the availability and use of leading-edge network technologies.

The \$158 million funding will be provided to develop three key initiatives:

- \$78 million to establish at least one business incubator centre in each mainland State and Territory to foster the commercialisation of IT&T ideas and research and development through providing start-up capital and business development services to build industries so that they are able to attract capital investment from the venture capital industry;

- \$40 million for the Australian Advanced Communications Infrastructure Development initiative to support projects to establish and develop advanced network test-beds and other applications of IT&T; and
- \$40 million for developing Tasmania as an *Intelligent Island* building on existing Tasmanian Government initiatives to develop further an internationally competitive IT&T sector. The programme will be overseen by a Board comprising representatives of the Commonwealth and Tasmanian governments, industry and the Tasmanian tertiary education sector.

Telstra Social Bonus – Connecting Tasmanian Schools

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Communications, Information Technology and the Arts	15.0	-	-	-

Explanation

As part of the Telstra Social Bonus Programme associated with the sale of a further 16.6 per cent of Telstra, the Government will provide \$15 million in 1999-2000 towards establishing local area and wide area networks, linking Tasmanian schools to enhance the use of information technology and the Internet in Tasmanian classrooms. The programme will also provide additional computers and support equipment for government and non-government schools.

In addition to the Commonwealth's contribution of \$15 million, Telstra will provide \$5 million and an additional \$12 million will be allocated from Tasmania's existing *Networking the Nation* allocation. The Tasmanian Government is expected to provide a further \$16 million, bringing the total programme budget to \$48 million. The computers and networks provided will be equipped with appropriate filtering technology to protect children from exposure to unsuitable material.

Telstra Social Bonus – expanded mobile phone coverage

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Communications, Information Technology and the Arts	3.0	-	-	-

Explanation

As part of the Telstra Social Bonus Programme associated with the sale of a further 16.6 per cent of Telstra, the Government has decided to provide an additional \$3 million in 1999-2000 to expand mobile phone coverage in major regional centres in South Australia, Western Australia and Tasmania. \$1 million is to be allocated to each

State. This initiative builds on funding of \$25 million announced in 1998, which provided for continuous mobile phone coverage along the nation's busiest highways.

Telstra Social Bonus — Building Additional Rural Networks (BARN)

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Communications, Information Technology and the Arts	10.0	10.0	20.0	20.0

Explanation

As part of the Telstra Social Bonus Programme associated with the sale of a further 16.6 per cent of Telstra, the Government will provide funding of \$70 million over the period 1999-2000 to 2003-04 to expand the *Networking the Nation* programme to promote ongoing, self-sustaining improvement in the service, quality and price of regional telecommunications services.

The programme will work with State and Territory Governments and regional communities to agglomerate demand for telecommunications services in regional areas and in doing so improve the commercial case for enhanced services. The programme will promote innovative solutions for service delivery (eg wireless and satellite) and provide scope for new commercial entrants to offer services to regional Australia and enhancing competition in these areas.

Defence

East Timor peace enforcement and peacekeeping

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Defence	710.0	810.0	767.0	615.0

Explanation

The Department of Defence will be provided with supplementary funding for its participation in the UN sponsored peace enforcement and peacekeeping operations in East Timor. The supplementation for 1999-2000 covers the deployment of up to 6,500 personnel in East Timor in support of Australia's leading-nation role in INTERFET, which is operating under a peace enforcement mandate from the UN. Australian forces are to be scaled back to 1,500 personnel early in 2000 with the transition to a peacekeeping operation under the auspices of the UNTAET.

In addition to the costs of deployment for these operations, supplementation covers the net additional cost of raising overall ADF capacity to sustain Australia's involvement in the peacekeeping operation and maintain acceptable levels of overall

readiness. This involves an increase in the number of fully operational Army battalions from four to six, and an increase in Air Force personnel.

Funding across the forward estimate period is based on a planning scenario which assumes an ongoing deployment as part of the UN peacekeeping operation. The actual deployment will depend on the length of the UN peacekeeping operation, while the ongoing need for the additional battalions will be examined in the context of the Government's Defence White Paper next year.

Australia bears the full responsibility for funding its own involvement in INTERFET, and has also incurred some costs on behalf of other INTERFET contributing nations. With the transition to a UN peacekeeping operation, the UN becomes responsible for some of the costs of deployment. UN reimbursements are based on UN cost schedules and do not cover the full costs to Australia of its deployment for the UN peacekeeping operation. Details are outlined in the revenue measure titled *United Nations reimbursements for East Timor deployment* under the Defence portfolio.

The deployment of ADF personnel in East Timor also involves a cost to the budget through the income tax exemption for pay and allowances of ADF personnel on eligible duty in a specified area outside Australia (Section 23AD of the *Income Tax Assessment Act 1936*). It is estimated that this exemption will reduce revenue by around \$131 million over the next four years relative to budget-time estimates. This cost is included in budget figuring as a variation rather than a measure because the exemption is allowed under existing legislation.

Further Information

For further information see the related net capital investment measure under the Defence portfolio entitled *East Timor peace enforcement and peacekeeping*, and expense measures entitled *Civilian police for the UN Transitional Administration in East Timor* in the Attorney-General's portfolio; *Aid for East Timor* in the Foreign Affairs and Trade portfolio; *Provision of safe haven to internally displaced persons from East Timor* in the Immigration and Multicultural Affairs portfolio. In addition, there are two related revenue measures entitled *UN reimbursements for East Timor deployment* and *Defence — East Timor levy*.

Education, Training and Youth Affairs

Youth Pathways Action Plan taskforce

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Education, Training and Youth Affairs	-	-	-	-
Department of Family and Community Services	-	-	-	-
Total	-	-	-	-

Explanation

The Commonwealth has established a Youth Pathways Action Plan taskforce to advise on the scope and direction of a proposed Youth Pathways Action Plan. The cost of the taskforce and secretariat is \$1.0 million in 1999-2000, and will be absorbed on a shared basis by the Departments of Education, Training and Youth Affairs and Family and Community Services within their existing resources.

The objectives of the Youth Pathways Action Plan will be to:

- improve support for young people and their families during young peoples' transition to independence; and
- strengthen pathways for those young people who do not, or are not likely to, go straight from school to further education and training or full-time employment and those who are not fully engaged with their community.

The taskforce will report by March 2000.

This is a cross portfolio measure between the Department of Education, Training and Youth Affairs and the Department of Family and Community Services.

Additional funds for higher education staff salaries

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Education, Training and Youth Affairs	42.5	43.3	43.8	44.1

Explanation

The Government has decided to provide funding to enable an additional two per cent salary increase for university staff, contingent upon substantial and fundamental workplace reform in individual higher education institutions. This is in addition to funding for salary movements provided through current indexation arrangements. Funding will be available from the 2000 academic year.

The additional two per cent salary increase will require \$84.9 million in 1999-2000 and \$262.2 million over the period 2000-01 to 2002-03. The Government has decided that savings will be identified in the Budget process equivalent to half of this funding requirement.

To be eligible for additional funding, universities must demonstrate improvements to work practices and that their enterprise agreements with staff include flexibilities which will improve the capacity of universities to meet the needs of students and the academic community.

Telstra Social Bonus — Tasmanian Environmental Tourism Employment and Training Initiative

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Education, Training and Youth Affairs	3.2	3.1	3.1	-

Explanation

As part of the Telstra Social Bonus Programme associated with the sale of a further 16.6 per cent of Telstra, the Government has decided to provide funding for an environmental tourism employment and training initiative in Tasmania. The funding will provide for the training and skilling of over 300 people over the next three years in the tourism and hospitality sector, with an emphasis on eco-tourism and the wilderness experience.

Overall objectives of the initiative are growth and sustainability in the eco-tourism sector and the development of a training culture for the sector. This will include:

- development and delivery of training for employment in tourism;
- improving business performance; and
- new apprenticeships for the eco-tourism sector.

Grandfathering of benefits for some ABSTUDY students

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Education, Training and Youth Affairs	-	-	-	-

Explanation

The Government has decided to grandfather the benefits of some ABSTUDY recipients who would have been financially disadvantaged under new arrangements, which align ABSTUDY benefits with benefits payable to non-indigenous students from

1 January 2000. The cost of grandfathering benefits in 1999-2000 is \$3.4 million. These costs will be met within existing resources. Funding for the period 2000-03 will be determined in the 2000-01 Budget context.

The measure will apply only to continuing students aged 21 years and over who are not eligible for mainstream-related entitlements and clients in receipt of the Pensioner Education Supplement. Benefits will be grandfathered at 1999 rates for the duration of continuing students' existing courses.

Environment and Heritage

Compressed Natural Gas and Liquid Petroleum Gas vehicle conversion

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of the Environment and Heritage	-	15.0	20.0	20.0

Explanation

The Government will provide \$75 million in grants over four years from 2000-01 to 2003-04 under *The New Tax System — Measures for a Better Environment* to implement an Alternative Fuels Conversion Programme. This programme supports the conversion of conventionally fuelled vehicles with a gross vehicle mass weight of at least 3.5 tonnes to either Compressed Natural Gas (CNG) or Liquid Petroleum Gas (LPG).

Supporting photovoltaics systems

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of the Environment and Heritage	-	4.0	6.0	9.0

Explanation

The Government will provide \$31 million over four years from 2000-01 to 2003-04 under *The New Tax System — Measures for a Better Environment* to support the utilisation of photovoltaics on residential and community use buildings. A cash rebate will be available where residences and community use buildings such as schools and community halls are installed with a photovoltaic system for the conversion of sunlight into electricity. This measure will not cover solar thermal generation, such as solar hot water systems because these systems will benefit from the Government's proposed +2 per cent renewables target programme.

Supporting the development and commercialisation of renewable energy

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of the Environment and Heritage	-	4.0	5.0	7.0

Explanation

The Government will provide \$26 million over four years from 2000-01 to 2003-04 under *The New Tax System — Measures for a Better Environment* to boost the commercialisation of renewable energy. The additional funding will be integrated with the Renewable Energy Commercialisation Programme announced in the Prime Minister's November 1997 *Safeguarding the Future* statement.

Supporting renewable remote power generation

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of the Environment and Heritage	-	66.0	66.0	66.0

Explanation

The Government will provide up to \$264 million over four years from 2000-01 to 2003-04 under *The New Tax System — Measures for a Better Environment* as rebates to support the replacement of diesel powered remote power generation with renewable energy. Funding will be made available via the Australian Greenhouse Office to States and Territories to subsidise cash rebates up to 50 per cent of the capital value of renewable remote area power supply systems.

Further Information

This decision is based on the premise that some \$66 million a year is collected from excise on diesel for power generation. For further information, see the related revenue measure *Supporting renewable remote power generation*.

Greenhouse Gas Abatement Programme

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of the Environment and Heritage	-	100.0	100.0	100.0

Explanation

The Government will provide a further \$400 million over four years from 2000-01 to 2003-04 under *The New Tax System — Measures for a Better Environment* through the

Greenhouse Gas Abatement Programme to support measures, particularly in rural and regional areas, that assist Australia in meeting its obligations on climate change. The measure will support activities that are likely to lead to substantial reductions in greenhouse emissions or substantial enhancement of carbon sinks; and are consistent with ecologically sustainable development. In making programme choices the Government will also take into account the potential for job creation, new technologies, innovative processes, export potential and the capacity of the programme to act as a catalyst for further non-government investment.

Diesel National Environment Protection Measure (NEPM)

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of the Environment and Heritage	-	10.0	10.0	10.0

Explanation

The Government will provide \$40 million over four years from 2000-01 to 2003-04 under *The New Tax System — Measures for a Better Environment* to develop a diesel NEPM. The NEPM will address the issue of emissions from all diesel vehicles currently in use in Australia (the ‘in-service fleet’) through the establishment of in-service emission standards and testing capabilities in each major city. Furthermore, the NEPM will explore the option of extending the use of these testing facilities to an inspection and maintenance testing programme for petrol vehicles.

Oil recycling

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of the Environment and Heritage	-	15.0	15.0	15.0

Explanation

The Government will provide \$60 million over four years from 2000-01 to 2003-04 under *The New Tax System — Measures for a Better Environment* to support the development of a comprehensive system of product stewardship and assist the development of environmentally and ecologically sustainable refining and reuse of waste oil.

Additional funding for heritage initiatives

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of the Environment and Heritage	0.3	-	-	-

Explanation

The Government will provide funds of \$286,000 for heritage grants projects in 1999-2000 to be offset from unexpended National Estate Grants Programme money to be returned to the Commonwealth from several States. Grants will be provided for the Irish Famine Memorial, the search for the *HMB Endeavour*, a feasibility study for the development of an aquatic park/nature reserve at Serpentine Creek, Queensland and additional grants under the Cultural Heritage Projects Programme.

Sale of Halon to the United States for essential use

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of the Environment and Heritage	3.5	6.0	-	-

Explanation

The Government has agreed that proceeds from the sale of surplus Halon 1301 to the United States Department of Defense should be retained by the Department of the Environment and Heritage to fund ozone protection activity including the ongoing management of the National Halon Bank.

Further Information

The Commonwealth operates the National Halon Bank which maintains sufficient stock of Halon to meet Australia's essential use needs to 2030 and also collects, decants, recycles and destroys surplus Halon. Halon is an ozone depleting substance used for fire suppression in fixed systems where other alternatives or human evacuation is not regarded as a feasible option.

See also the related revenue measure under the Environment and Heritage portfolio titled *Sale of Halon to the United States for essential use*.

Funding to offset the reduction in revenue related to the Environment Management Charge (EMC)

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Great Barrier Reef Marine Park Authority	0.5	-	-	-

Explanation

The Government will provide \$470,000 in 1999-2000 to meet a shortfall in estimated receipts from the EMC.

Further Information

The Great Barrier Reef Marine Park Authority receives a Special Appropriation equivalent to the EMC. Funding for the Authority was reduced in the 1996-97 Budget proportionate to a rise in the revenue expected to be received through an increase in the EMC. The level of the EMC was ultimately set at \$4 per visitor per day with a range of concessions available. The availability of concessions had a higher than estimated impact on EMC revenue and has led to a shortfall in funding for the Authority.

Family and Community Services

A New Tax System — pension supplement

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Family and Community Services	1.2	450.3	441.3	738.3
Department of Veterans' Affairs	-	50.0	49.0	82.0
Total	1.2	500.3	490.3	820.3

Explanation

As part of the amendments to *A New Tax System* announced on 28 May 1999, the Government will provide an up-front increase in the maximum rates of all allowances and pensions of 4 per cent from 1 July 2000.

The 4 per cent increase to pensions and allowances comprises an advance of 2 per cent for future indexation adjustments, and a real increase of 2 per cent. This compares to an increase in pensions and allowances in *A New Tax System* of 1½ per cent, compared to what they would have otherwise been.

For pensioners, the 4 per cent increase will be paid as a pension supplement on top of the base pension. The base pension will continue to be underpinned by the

Government's legislative commitment to maintain the single rate of pension of at least 25 per cent of Male Total Average Weekly Earnings.

The increase in expenses in 2002-03 reflects the additional cost of incorporating the supplement to the base running cost of the portfolio.

This is a cross portfolio measure between the Department of Family and Community Services and the Department of Veterans' Affairs.

A New Tax System — extend Family Allowance and Family Tax Benefit (FTB) to families with dependent children aged 16-24 years

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Family and Community Services	50.3	54.7	54.8	54.7

Explanation

As part of the 1999-2000 Budget package for families, the Government announced that, from 1 July 2000, it was extending FTB (Part A) to families of dependent young persons up to the age of 21 who would not otherwise qualify for Youth Allowance because of the parental income test.

In June 1999, as part of the amendments to *A New Tax System*, the Government announced plans to:

- Bring forward from 1 July 2000 to 1 October 1999 the date from which these families can qualify for Family Allowance (FTB from 1 July 2000);
- Extend Family Allowance to dependent full time students aged 21 to 24 years; and
- Provide payment of a new flat rate (\$50 per fortnight) for dependants aged 18 years and over.

The legislative amendments for this initiative are contained in the *Social Security (Family Allowance & Related Matters) Legislation Amendment Act 1999* that received Royal Assent on 22 September 1999. A technical amendment to the *Health Insurance Act 1973* further ensures that young people covered by this initiative will retain their Health Care Card. This benefit may be claimed as a direct payment, or through the taxation system as a rebate.

Pilot programme to provide free pre-marriage education for couples

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Family and Community Services	0.9	0.1	-	-

Explanation

The Government has decided to introduce a trial voucher scheme, providing free access to pre-marriage education for couples planning to marry.

Participating couples will have access to pre-marriage education from a range of accredited providers. Relationship education kits will also be made available to couples in rural and remote areas and to those who prefer an alternative approach.

Further Information

This initiative responds to a key recommendation of the Report of the House of Representatives Standing Committee on Legal and Constitutional Affairs (*To Have and to Hold*). This report highlights the importance of pre-marriage education in developing lasting relationship skills.

A New Tax System — Aged Persons Savings Bonus and Self Funded Retirees Supplementary Bonus

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Family and Community Services	0.7	181.9	0.1	..

Explanation

As part of the amendments to *A New Tax System*, the Government has decided to reduce the minimum eligibility age for the Self Funded Retirees Supplementary Bonus (SFRSB). Previously people had to be of age pension age (61.5 years for women and 65 years for men) or over on 1 July 2000. The new minimum age limit for the SFRSB is age 55 or over on 1 July 2000.

This change will mean a significant increase in the number of eligible people accessing the SFRSB. Self-funded status is to be assessed according to eligibility criteria:

- the person did not receive a Commonwealth income support payment for the period 1 July 1999 to 30 June 2000; and
- the person did not receive in excess of \$1,000 of income from business or wages.

Further Information

The qualification criteria for the original SFRSB group (ie, people of age pension age or over on 1 July 2000) remain unchanged (ie, they have to be an Australian resident on 1 July 2000; they are not allowed to have received a Commonwealth Income Support Payment from 1 April 2000 until 30 June 2000; and they must have over \$1,000 of annual savings and investment income).

Additional resources for Supported Accommodation Assistance Programme

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Family and Community Services	-	15.0	15.0	15.0

Explanation

As part of the amendments to *A New Tax System*, the Government will provide additional funding for the Supported Accommodation Assistance Programme (SAAP) augmenting that announced in the 1999-2000 Budget.

The additional \$15 million per annum, commencing in 2000-01 for the period of the new SAAP agreement (to 2003-04), will be directed to provide new and enhanced services in areas of highest need, and to promote best practice and innovation.

The measure provides assistance to people who are homeless or at risk of homelessness due to social disadvantage or housing and income crisis. The measure relates to all three key aspects of the portfolio's strategic framework: preventing dependency, providing assistance in times of need and promoting engagement in work and other aspects of life.

Further Information

SAAP services are currently delivered through a network of approximately 1,200 community organisations. SAAP is Australia's primary service delivery response to homelessness including, for example, homeless youth and domestic violence victims and aims to provide transitional support and accommodation in order to help homeless people or those at risk to achieve self-reliance and independence.

Commonwealth-State Disability Agreement — additional funding to address unmet need in State provided disability services

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Family and Community Services	-	50.0	100.0	-

Explanation

The Government will provide additional funding of \$50 million in 2000-01 and \$100 million in 2001-02 to address unmet need for State provided disability services. The Commonwealth will address this need by purchasing from the States and Territories in-home support and respite care services for families with aging carers.

This funding is conditional upon the States and Territories also committing significant additional funds to address the remaining priority areas of unmet need as identified by the Australian Institute of Health and Welfare.

This measure demonstrates the Government's commitment to people with disabilities.

Finance and Administration

Flooding in New South Wales and Queensland 1998 — assistance to farmers suffering significant loss

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Finance and Administration	0.1	-	-	-
Department of Family and Community Services	0.1	-	-	-
Total	0.2	-	-	-

Explanation

This measure provides *ex gratia* income support payments for up to three months to farmers still suffering significant loss of income from the 1998 flooding in northern New South Wales and southern Queensland.

This is a cross portfolio measure between the Department of Finance and Administration and the Department of Family and Community Services.

Poultry farmers — assistance to those directly affected by Newcastle disease

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Finance and Administration	0.2	-	-	-

Explanation

This measure provides *ex gratia* income support payments to farmers whose businesses were affected by Newcastle disease. Total assistance is estimated at \$0.375 million. \$0.173 million was provided in 1998-99 and the remainder of \$0.202 million in 1999-2000.

This is a cross portfolio measure between the Department of Finance and Administration and the Department of Family and Community Services.

GST — implementation and monitoring in the Commonwealth Government sector

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Finance and Administration	4.5	-	-	-

Explanation

The Government has decided that the Department of Finance and Administration is to provide assistance to Commonwealth agencies with the implementation of the GST. A unit is to be established within the Department to ensure that agencies receive the coordinated advice necessary for successful implementation of the GST, and to monitor the progress of implementation by agencies. The cost of \$4.5 million for establishing and maintaining the unit is to be funded using the Department's existing cash reserves.

Foreign Affairs and Trade

Australia's contribution to the Heavily Indebted Poor Countries (HIPC) initiative

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
AusAID	12.0	11.5	11.5	-

Explanation

The Government has decided to contribute an additional \$35 million to the HIPC Initiative over three years from 1999-2000 to 2001-02.

The HIPC Initiative is a multilateral plan to provide debt relief to the world's poorest countries who are pursuing sound adjustment and reform programmes supported by the International Monetary Fund (IMF) and World Bank. The Government recognises that international debt is a serious problem and supports the HIPC initiative as part of a lasting solution to this.

Aid for East Timor

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
AusAID	60.0	-	-	-

Explanation

AusAID will be supplemented in 1999-2000 to fund Australia's contribution to the humanitarian and reconstruction needs of East Timor and to support the establishment and operations of UNTAET. Aid funding for East Timor in future years will be considered in the 2000-01 Budget process.

Further Information

For further information see the related expense and net capital investment measures under the Defence portfolio entitled *East Timor peace enforcement and peacekeeping*, and expense measures entitled *Civilian police for the UN Transitional Administration in East Timor* in the Attorney-General's portfolio and *Provision of safe haven to internally displaced persons from East Timor* in the Immigration and Multicultural Affairs portfolio. In addition, there are two related revenue measures entitled *UN reimbursements for East Timor deployment* and *Defence — East Timor levy*.

Health and Aged Care

General Practice Memorandum of Understanding

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Health and Aged Care	29.8	62.1	85.2	98.4
Department of Veterans' Affairs	1.1	2.6	3.8	5.1
Total	30.9	64.7	89.0	103.5

Explanation

On 6 August 1999, the Government entered into a three-year Memorandum of Understanding (MoU) with the Royal Australian College of General Practitioners, the Rural Doctors Association of Australia and the Australian Divisions of General Practice. The General Practice MoU will be in effect from 1 July 1999 to 30 June 2002.

The MoU will improve financial certainty for Government and general practice, thereby ensuring both the viability of general practice, and sustainability of Medicare over the longer term. It will also create a framework within which to modernise the Medicare Benefits Schedule in order to deliver better quality care to patients.

Through the MoU, the Government has guaranteed funding of \$7.7 billion over three years on Medicare rebates for patients for general practitioner (GP) consultations. As part of this arrangement, Medicare rebates for GP consultations will increase by approximately 2.3 per cent on 1 November 1999.

Other initiatives of the MoU include:

- an additional \$26.5 million over three years in new and existing initiatives to encourage GPs to practise in rural and remote areas;
- implementation of facilities to enable patient paid Medicare claims to be lodged electronically from the GP's surgery;
- continued Government funding for a range of general practice funding programmes, which currently include the Practice Incentives Programme, the General Practice Immunisation Incentives scheme, and the GP Links programme;
- commitments to increase the intake of indigenous students to medical courses; and
- a shared commitment by the Government and the general practice profession to develop new initiatives to promote quality general practice over the life of the MoU, including investigating means of:
 - enabling GPs to undertake population health activities to improve patient care and health outcomes, particularly in National Health Priority areas;

- improving access for patients to a range of vaccines in the GPs surgery; and
- promoting the quality use of pathology, diagnostic imaging and pharmaceuticals.

This is a cross-portfolio measure between the Department of Health and Aged Care and the Department of Veterans' Affairs.

Aged Care Residential Care Subsidy Principles 1997 — change to definition of 'homeowner' to ensure protection for people with low value homes

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Health and Aged Care	0.6	0.8	0.8	0.8

Explanation

The Government has agreed to an amendment to the residential aged care subordinate legislation that will amend the definition of 'homeowner' so that residents of aged care facilities who have low value homes are not considered 'homeowners'.

The amendment will ensure better protection for residents of aged care facilities, and will enable providers of residential aged care (particularly in rural areas where many residents are owners of low value housing) to claim an appropriate level of remuneration through concessional and assisted resident supplements.

Further Information

The Residential Care Subsidy Principles 1997 which underlie the *Aged Care Act 1997*, enable providers of residential aged care to charge a resident an accommodation bond or charge on a sliding scale in circumstances where the resident's total assets (including the home) are valued at \$23,500 or more. For residents whose total assets are valued at less than \$23,500 and who are not homeowners, providers can receive a concessional resident supplement, or an assisted resident supplement for those residents whose total assets are valued between \$23,500 and \$37,500.

The amendment to the Principles corrects an anomaly, in that there are some residents who are homeowners of low value homes and whose total assets are less than \$23,500, but the provider is precluded from claiming concessional resident supplement due to the residents' 'homeowner' status.

Childhood Nutrition Programme

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Health and Aged Care	-	-	-	-

Explanation

On 28 May 1999, the Government announced funding for child nutrition of \$15 million over the years 1999-2000 to 2001-02. This funding is to be absorbed by the Department of Health and Aged Care.

Further Information

There is evidence that the diet of a child has an impact on health throughout life. Diseases such as late onset diabetes and cardiovascular disease can have their origins in poor nutrition in childhood. Optimum nutrition from conception is also necessary for healthy cognitive, physical and dental development.

Social coalitions, involving food suppliers and business, government, non-government and community organisations, will be formed to establish projects to improve the diet of young children. The programme targets young children and their parents in selected high need communities, such as rural and remote areas, indigenous and lower socio-economic communities.

The initiative will be developed and implemented within the framework of the National Public Health Nutrition Strategy, and will complement the National Breast Feeding Strategy.

Private Health Insurance — reduction in Medicare payment lag times for simplified billing

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Health and Aged Care	-	-	-	-

Explanation

The Government has agreed to reduce the minimum Medicare payment lag times for all simplified billing claims from 16 to 10 days. The process of simplified billing incorporates three aspects:

- The number of bills a patient receives for in-hospital care is greatly reduced, ideally to a single bill;

- The health fund or approved billing agency makes claims on behalf of the patient from Medicare and, in the case of a private billing agency, from the patient's health fund; and
- Informed financial consent whereby patients, prior to being admitted, are made aware of any possible out-of-pocket costs.

Simplified billing is an important element of the Government's initiatives to increase the viability of private health insurance.

In 1999-2000 only, there will be a cash impact of \$0.9 million, however this change will not affect expenses or the fiscal balance. Reducing the Medicare payment lag times for all simplified billing claims will have two effects. Firstly, increasing the attractiveness of using simplified billing, and secondly, increasing the attractiveness of providing a service involving no or known medical gaps during an in-hospital episode of care.

Australia New Zealand Food Authority – additional funding

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Australia New Zealand Food Authority	-	-	-	-

Explanation

Additional funds are being provided to the Australia New Zealand Food Authority (ANZFA) for it to meet statutory responsibilities and stakeholder needs in an environment of new technologies and increased levels of consumer concerns about food.

Further Information

An additional \$3 million will be provided to ANZFA in 1999-2000 by reallocation within the Health and Aged Care portfolio. This will ensure that ANZFA can undertake its scientific assessment caseload and other work associated with consulting with the community, industry and its government partners; and communicating with stakeholders on the outcome of its work.

With the additional funding ANZFA will be able to manage current and emerging food regulatory issues more effectively, including:

- rapid growth in the range and scientific complexity of new genetically modified foods which require safety assessment and individual approvals;
- 'novel foods' which have not traditionally been found in the diet require individual pre-market scientific assessment and approval;
- a major overhaul of the Australian Food Standards Code is being undertaken;

- continuing work on the development of uniform national food safety standards using a risk based approach; and
- the development of new technologies for use in food manufacture, as well as new products and storage techniques. Food regulation and safety assessments must keep up with these innovations to facilitate increased consumer choice and a competitive food industry.

Immigration and Multicultural Affairs

Enhanced border protection

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Immigration and Multicultural Affairs	10.4	30.5	31.1	31.7
Australian Customs Service	3.1	4.0	3.9	3.9
Total	13.5	34.5	35.0	35.6

Explanation

In response to the recommendations of the Task Force on Coastal Surveillance, the Government has decided to implement a number of initiatives to detect, deter, and prevent the entry of illegal immigrants into Australia. These initiatives include an enhanced immigration presence overseas, and material and technical assistance to law enforcement and other authorities in Papua New Guinea and Indonesia. In addition, there will be a significant increase in the resources available to the Department of Immigration and Multicultural Affairs over the four years for it to engage, on a user pays basis, additional surveillance activity from Coastwatch.

The Government will also provide additional resources to the Australian Customs Service for the establishment and operation of a 24-hour-a-day National Surveillance Centre, including additional planning and analytical staff and enhanced electronic communications links to assist in better management of the national coastal surveillance effort.

See also the related capital measure under the Attorney-General's portfolio entitled *Enhanced border protection*.

This is a cross portfolio measure between the Department of Immigration and Multicultural Affairs and the Australian Customs Service.

Extension of regulation of the migration advice industry

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Immigration and Multicultural Affairs	0.5	1.7	1.8	1.3

Explanation

The Government has decided to extend, until March 2003, the arrangements for statutory self-regulation of the migration advice industry that came into effect in March 1998. Under these arrangements the migration advice industry was moved from full government regulation to statutory self-regulation under the auspices of the Migration Agents Registration Authority (MARA). These arrangements were subject to a sunset clause and were due to cease operation in March 2000. The extension of statutory self-regulation will encourage further development of industry standards and competency levels while ensuring consumer protection.

Further Information

The measure is budget neutral. Migration agent registration fees collected by MARA on behalf of the Commonwealth are returned to MARA for administration of its statutory function.

See also the related revenue measure under the Immigration and Multicultural Affairs portfolio titled *Extension of regulation of the migration advice industry*.

Provision of safe haven to displaced Kosovars

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Defence	28.9*	-	-	-
Department of Health and Aged Care	17.3	-	-	-
Department of Immigration and Multicultural Affairs	27.5	-	-	-
Total	73.7	-	-	-

* In addition to this, the Department of Defence spent \$7 million in 1998-99 by reprogramming within the global budget. Total Defence expenditure for the measure is \$35.9 million.

Explanation

In response to a request from the United Nations High Commissioner for Refugees, the Government provided temporary safe haven in Australia for nearly 4,000 displaced persons from Kosovo. The Government has provided for a range of services to be made available to the Kosovars, including:

- transport to and from Australia;

- accommodation in safe haven centres established at a number of military establishments around Australia;
- necessary health care for the duration of their stay in Australia;
- social support services, such as interpreting and counselling services; and
- a small living allowance.

Kosovars who returned home between 31 August 1999 and 31 October 1999 were also provided with a Winter Reconstruction Allowance of \$3,000 per adult and \$500 per child to assist them to rebuild their lives in Kosovo.

This is a cross portfolio measure between the Department of Immigration and Multicultural Affairs, the Department of Defence and the Department of Health and Aged Care.

Provision of safe haven to internally displaced persons from East Timor

Expenses

	1999-00	2000-01	2001-02	2002-03
Department of Defence	8.0	-	-	-
Department of Health and Aged Care	6.5	-	-	-
Department of Immigration and Multicultural Affairs	20.8	-	-	-
Total	35.3	-	-	-

Explanation

The Government has provided temporary safe haven and support services for around 1500 East Timorese evacuees. Services are being provided to the East Timorese on the same basis as the services provided to the Kosovars, including accommodation in safe haven centres established at a number of military establishments around Australia and necessary health care for the duration of their stay in Australia. The Department of Immigration and Multicultural Affairs is being provided with \$20.8 million for social support services such as interpreting and counselling, and a small living allowance.

This is a cross portfolio measure between the Department of Immigration and Multicultural Affairs, the Department of Defence and the Department of Health and Aged Care.

Further Information

For further information see the related expense and net capital investment measures under the Defence portfolio entitled *East Timor peace enforcement and peacekeeping*, and expense measures entitled *Civilian police for the UN Transitional Administration in East Timor* in the Attorney-General's portfolio and *Aid for East Timor* in the Foreign Affairs

and Trade portfolio. In addition, there are two related revenue measures entitled *UN reimbursements for East Timor deployment* and *Defence — East Timor levy*.

Introduction of a temporary protection visa subclass

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Immigration and Multicultural Affairs	-	-	-	-
Department of Family and Community Services	1.2	0.1	0.1	0.1
Total	1.2	0.1	0.1	0.1

Explanation

The Government will implement a range of measures to maintain the integrity of Australia's refugee protection arrangements by decreasing the attractiveness of Australia to unauthorised arrivals. As a part of this package of measures the Government has introduced new temporary protection visa arrangements to reduce the attractiveness of Australia to unauthorised arrivals, while still ensuring that Australia provides protection to refugees in accordance with its international obligations. These arrangements will prevent unauthorised arrivals found to be in need of refugee protection from obtaining permanent visas in the first instance. The temporary visa will cease to be valid if the holder leaves Australia and they will have no automatic right of return. Temporary visas will be counted within the 12,000 place annual humanitarian program.

The expenses associated with this measure relate primarily to changes to departmental systems and processes to allow holders of the new temporary protection visas to access special benefit and family allowance, if eligible.

Further Information

The remaining measures in the package are primarily legislative.

This is a cross portfolio measure between the Department of Immigration and Multicultural Affairs and the Department of Family and Community Services.

Industry, Science and Resources

Women and the Olympics

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Sports Commission	0.1	-	-	-

Explanation

The Government will provide assistance for projects celebrating the centenary of women's participation in the Olympic Games. These projects are to be developed jointly by the Australian Sports Commission (ASC) and the Office of the Status of Women (OSW).

Further Information

The Sydney Organising Committee for the Olympic Games has endorsed this initiative and, together with the ASC and OSW, will be seeking other funding through corporate support for these projects.

St John's Ambulance — first aid services for the Sydney 2000 Games

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Industry, Science and Resources	0.1	-	-	-

Explanation

The Government will provide assistance to support provision of ambulance services for the Sydney 2000 Olympic and Paralympic Games. This funding forms part of an agreement between the Commonwealth and New South Wales Governments to assist St John's Ambulance Australia to meet some of the costs of providing first aid services to the Sydney 2000 Games. The Commonwealth and New South Wales Governments will each contribute an amount of \$125,000.

Paralympic torch relay

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Industry, Science and Resources	0.5	-	-	-

Explanation

The Government will provide assistance to enable the Paralympic Torch Relay to extend to all Australian states and mainland territories. This will involve the progressive transfer of a single flame by aircraft to each capital city and a relay and ceremony in each city.

This will give Australians the opportunity to support the Paralympians and the Paralympic Games in general.

Olympic media unit

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Industry, Science and Resources	0.5	0.3	-	-

Explanation

The Government will provide assistance to establish an Olympic Media Unit to implement a Whole-of-Government Media Strategy for the Sydney 2000 Games, particularly given the extent of intra-Commonwealth and inter-jurisdiction work involved.

Schoolchildren attending the Paralympics

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Industry, Science and Resources	1.5	-	-	-

Explanation

The Government will provide a sliding-scale subsidy scheme to support the attendance of schoolchildren residing outside the Sydney basin at the Sydney 2000 Paralympic Games. This will give young Australians the opportunity to experience the Games.

Further Information

Under this scheme subsidies will be available for students of eligible primary and secondary schools located 200 kilometres or more by road from Sydney Olympic Park. The further the children are required to travel to attend the Games, the greater the subsidy available.

Telstra Social Bonus — upgrade of the Domain International Athletics Centre, Hobart

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Industry, Science and Resources	0.6	-	-	-

Explanation

As part of the Telstra Social Bonus Programme associated with the sale of a further 16.6 per cent of Telstra, the Government will provide funding to upgrade facilities at the Domain International Athletics Centre, Hobart. This will help ensure that the Centre maintains its status as a national and international athletics venue.

Further Information

These funds will be used for clubrooms, extended grandstands and canopy cover for seating, an indoor training centre and improved office space, change rooms and kiosk. The Tasmanian State Government and the Hobart City Council have already contributed to the upgrade of the athletics track to international standards.

Book industry assistance plan

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Various Portfolios	-	60.0	60.0	60.0

Explanation

The Government will provide \$240 million over four years from 2000-01 to 2003-04 to fund a range of initiatives related to the book industry. The main objectives of the book industry assistance plan are to reduce the retail price paid for textbooks by students studying at Australian educational institutions, to provide financial assistance for initiatives by book printers and publishers to revitalise the industry and to provide assistance to Australian creators of books.

Further Information

- The Department of Education, Training and Youth Affairs will administer an eight per cent Textbook Subsidy to be paid to retailers offering refunds to students and a programme of grants to primary schools for the purpose of upgrading their holdings of Australian books.
- The Department of Industry, Science and Resources will enhance the recently introduced Printing Industry Competitiveness Scheme with the establishment of an Innovation, Infrastructure and Development Fund and a Skills Development Programme.
- The Department of Communications, Information Technology and the Arts will introduce an Education Lending Right Scheme to make payments to Australian creators and writers whose works are held in educational libraries, will fund a campaign to promote the intrinsic value of books, reading and literacy, and will fund the Australian Bureau of Statistics to collect, on an annual basis, data on book publishing and retail sales.
- The precise allocation of funding to the relevant portfolios was still to be finalised at time of publication.

Development of Erythropoietin (EPO) detection test

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Industry, Science and Resources	1.5	-	-	-

Explanation

In 1999-2000 the Government will contribute \$1.5 million to the second phase of Australia's research project on the detection of EPO. Government commitment and support will reinforce Australia's leading role in the fight against drugs in sport. Commonwealth assistance for the second phase of research is based on securing a similar contribution from the International Olympic Committee and the international collaboration required to develop an effective EPO detection test prior to the Olympics.

Further Information

In 1997-98 the Government provided \$3 million for research, sampling and analysis programmes to assist preparations for the potential drug testing requirements of the Sydney Olympics. A \$1.8 million programme of research undertaken over the last two years by the Australian Institute of Sport and the Australian Sports Drug Testing Laboratory has demonstrated a scientific basis for detecting EPO, but a second phase of research and validation trials is required to develop a reliable and robust detection protocol.

Transport and Regional Services

Local Government Financial Assistance Grants

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Transport and Regional Services	-	911.7	944.9	979.0

Explanation

General purpose grants to local government are provided under the *Local Government (Financial Assistance) Act 1995*. Under the agreement reached between the Commonwealth and the States and Territories on the reform of Commonwealth-State financial relations in April 1999, payment of financial assistance grants to local government was to become the responsibility of the States from 1 July 2000. As funding beyond 1999-2000 was not required under the agreement, associated funding in the forward estimates was removed during the development of the 1999-2000 Budget.

On 28 May 1999, the Prime Minister announced changes to *A New Tax System*. As a result of the changes the agreement with the States and Territories was revised in June 1999. Under the new arrangements, the Commonwealth retained responsibility for the payment of financial assistance grants to local government and funding for future years is required.

Identified Local Road Grants

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Transport and Regional Services	-	404.6	419.3	434.4

Explanation

Identified local roads grants to local government are provided under the *Local Government (Financial Assistance) Act 1995*. Under the agreement reached between the Commonwealth and the States and Territories on the reform of Commonwealth-State financial relations in April 1999, payment of identified local road grants to local government were to become the responsibility of the States from 1 July 2000. As funding beyond 1999-2000 was not required under the agreement, associated funding in the forward estimates was removed during the development of the 1999-2000 Budget.

On 28 May 1999, the Prime Minister announced changes to the Commonwealth's *A New Tax System* package. As a result of the changes the agreement with the States and Territories was revised in June 1999. Under the new arrangements, the

Commonwealth retained responsibility for the payment of identified local road grants to local government and funding for future years is required.

Telstra Social Bonus – Flinders Island Runway

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Transport and Regional Services	0.2	-	-	-

Explanation

As part of the Telstra Social Bonus Programme associated with the sale of a further 16.6 per cent of Telstra, the Government will provide funding of \$0.2 million in 1999-2000 for improvements to the runway at the Whitemark Airport on Flinders Island.

Funding will be provided to assist in sealing the Whitemark Airport runway. Improved runway conditions will support the local economy by facilitating tourism and transportation of produce. It will also enable the continued landing of Royal Flying Doctor aircraft. The local council will meet the remaining cost of upgrade and maintenance.

Geelong Road

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Transport and Regional Services	-	-	60.0	60.0

Explanation

As part of the National Highway and Roads of National Importance Programmes, the Government will provide funding of up to \$120 million to be paid over 2001-02 and 2002-03, for improvements to Geelong Road. The improvements will provide economic benefits together with improved safety benefits. The Commonwealth's funding will be matched by contributions from the Victorian Government.

The National Highway and Roads of National Importance Programmes

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Transport and Regional Services	-	30.0	30.0	30.0

Explanation

As part of the National Highway and Roads of National Importance Programmes, the Government will provide additional funding of \$30 million per annum from 2000-01 for specific road projects. In particular, these projects will include initiatives to improve the standard of key national freight routes, including the upgrade of bridges.

Establishment of the Australian Rural Partnerships Foundation

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Transport and Regional Services	10.7	1.0	0.7	0.7

Explanation

The Government, in partnership with the Sidney Myer Fund, will establish a philanthropic foundation, the Australian Rural Partnerships Foundation to further assist regional, rural and remote communities to identify and reach their full potential in responding to social, cultural and economic change. As a partnership between government, business, philanthropy and community, the Foundation will provide a mechanism to encourage the private sector and others in the community to take the initiative. It will provide grants for community capacity building, project facilitation and seeding grants for community and economic development initiatives. In addition to the direct funding, the Foundation will be granted tax deductibility status for private sector and other contributions to the Foundation.

For further information see the related revenue measure entitled *Establishment of the Australian Rural Partnerships Foundation*.

Alice Springs to Darwin Rail Link

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Transport and Regional Services	25.0	10.0	30.0	-

Explanation

The Commonwealth, South Australian and Northern Territory governments have agreed to provide additional funds for construction of the Alice Springs to Darwin Rail

Link. The Commonwealth will provide an additional \$65 million over three years. The South Australian and Northern Territory governments will provide an additional \$115 million. This additional funding will increase the governments' contribution to \$480 million. The remaining \$750 million required to fund the project will be raised by the preferred project developer.

Treasury

A New Tax System — grants to balance State and Territory budgets

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of the Treasury:				
Revision to Intergovernmental Agreement	-	966.5	195.4	332.0
Special input tax credit for leased motor vehicles	-	-	94.7	28.1
Application of GST to financial services	-	-	-52.0	-23.5
Total	-	966.5	238.1	336.6

Explanation

Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, the States and Territories will receive all of the revenue from the GST in return for the abolition of financial assistance grants and the removal of a range of inefficient State and Territory taxes. A Commonwealth guarantee that the budgetary position of each State and Territory will be no worse off in the initial years following the introduction of the GST is met by providing budget balancing advances and grants to the States and Territories.

Since the 1999-2000 Budget, three measures have affected estimated grants to balance State and Territory budgets.

- The amendments to the tax reform programme which were announced by the Prime Minister on 28 May 1999. These amendments included the exemption of basic food and some health and education items from the GST revenue base.
- The provision of a special input tax credit in respect of motor vehicles acquired subject to wholesale sales tax before 2 December 1998 for the purpose of an operating lease, where those vehicles are sold from 1 July 2000. The effect of the credit is to offset the GST payable on the sale of such vehicles in circumstances where that GST liability would have imposed an unanticipated cost on lessors that could not be recovered under the terms of the leases concerned.
- The finalisation of arrangements for the application of the GST to financial services.

Further Information

The food, health, education and other exemptions from the GST which were announced by the Government on 28 May 1999 were estimated at the time to reduce total GST revenue by around \$3,300 million in 2000-01, \$3,900 million in 2001-02 and \$4,100 million in 2002-03.

- Under the revised *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* which was signed by the Commonwealth, States and Territories in June 1999, the impact of reduced GST revenue on State budgets is partly offset by:
 - A deferral of the removal of selected State and Territory taxes, which increased estimated State and Territory budget revenues by around \$1,100 million in 2000-01, \$2,300 million in 2001-02 and \$2,400 million in 2002-03.
 - The Commonwealth retaining responsibility for general purpose payments to local government then estimated to be around \$1,300 million in 2000-01, \$1,400 million in 2001-02 and \$1450 million in 2002-03.

The special input tax credit in respect of leased motor vehicles is estimated to reduce GST revenue by \$50 million in 2000-01, \$45 million in 2001-02 and \$35 million in 2002-03.

The final arrangements for the application of the GST to financial services are estimated to increase GST revenues by \$25 million in 2000-01, \$27 million in 2001-02 and \$29 million in 2002-03.

Assistance for cellar door and mail order sales of wine

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of the Treasury	-	14.7	15.4	16.1

Explanation

As part of *The New Tax System*, the current wholesale sales tax regime for wine will be replaced by the GST and the wine equalisation tax (WET). The Government has undertaken to ensure that the States continue arrangements to provide tax relief for cellar door and mail order sales. Under existing arrangements, the States provide a 15 per cent rebate of the wholesale price of wine, and beverages consisting primarily of wine, at the cellar door and through mail order sales to unlicensed persons.

The new regime will begin on 1 July 2000. Under the new regime, the Government will provide funding so that where the total rebate provided by the States does not cover a winemaker's liability for WET on the value of the wholesale sales up to \$300,000 per year, additional assistance is available up to this amount.

Additional funding for retail price monitoring

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Competition and Consumer Commission	5.0	-	-	-

Explanation

The Government has decided to provide the ACCC with additional funding in 1999-2000 to expand the monitoring of retail prices during the transition to *The New Tax System*. The funding will be used to monitor retail prices before the GST is implemented on 1 July 2000.

The additional funding provided in 1999-2000 will enable the ACCC to undertake four additional data collections in 1999-2000.

In the 1999-2000 Budget the Government provided the ACCC with funding of \$28 million over three years to monitor retail prices and to report to the Treasurer on instances where consumers have not benefited from reductions in the tax rate, or have been exposed to greater than necessary price rises. Funding was also provided to provide information to the community at large through a national advertising campaign and to enable the ACCC to take enforcement action where there are breaches of the new prohibition on price exploitation in the *Trade Practices Act 1974*.

Funding for the ATO to cover the increased cost of administering the GST

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	60.0	60.0	60.0	60.0

Explanation

The Government has decided to provide the ATO with additional funding to cover the increased cost of administering the GST, which arise from the partial exclusion of food from the GST base.

The additional expense incurred by the ATO will be offset by additional compensation payments from the State and Territory Governments. The first of these payments will be made in 2000-01.

Further Information

For further information, see the related revenue measure *Additional payments from the States and Territories for GST administration*.

Conversion of Diesel Fuel Credit Scheme to Diesel and Alternative Fuels Grants Scheme

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	-261.8	-294.0	-314.0

Explanation

The Government has converted the Diesel Fuel Credit Scheme, announced in *A New Tax System*, into the Diesel and Alternative Fuels Grants Scheme. Grants will be paid for the business-related on-road use of diesel and like fuels, (as well as alternative fuels) to all vehicles over 20 tonnes gross vehicle mass (GVM); and to regional transport vehicles weighing between 4.5 and 20 tonnes GVM that undertake their operations in service of regional areas.

Vehicles under 20 tonnes will no longer be able to access the grants on the use of these fuels in the metropolitan areas of Newcastle-Sydney-Wollongong, Melbourne-Geelong, Sunshine Coast-Brisbane-Gold Coast, Perth, Adelaide and Canberra, which represents a saving in Government expenses.

Maintain the current price relativities between diesel and CNG and other alternative transport fuels

Expenses (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Taxation Office	-	9.0	12.0	18.0

Explanation

The Government will ensure that the price differential between diesel and CNG and other alternative fuels, which existed before *A New Tax System* reduced the effective diesel excise rate for operators of large vehicles, will be maintained.

The differential between diesel and CNG and other alternative fuels will be maintained by providing users of those alternative fuels, certified as renewable by the Australian Greenhouse Office, with clean fuel credits administered through a grants scheme. The grants scheme will be administered by the Australian Taxation Office. Vehicles using these fuels will be required to meet relevant emission standards.

Further Information

Restoring the existing price differential between diesel and alternative fuels, in conjunction with a conversion assistance programme for gaseous fuels, will encourage wider use of alternative fuels and improve air quality by reducing greenhouse gas emissions.

CAPITAL

Attorney-General's

Enhanced border protection

Net Capital Investment (\$m)

	1999-00	2000-01	2001-02	2002-03
Australian Customs Service	2.9	-0.8	-0.8	-0.8
Department of Immigration and Multicultural Affairs	1.2	-0.3	-0.3	-0.3
Total	4.1	-1.1	-1.1	-1.1

Explanation

In response to the Report of the Task Force on Coastal Surveillance, the Government has decided to provide an equity injection to the Australian Customs Service to establish a 24-hour-a-day National Surveillance Centre. This funding will provide enhanced electronic communications links to assist in better management of the national coastal surveillance effort.

The increase during 1999-2000 in the non-financial assets of the Department of Immigration and Multicultural Affairs provides for the additional fit-out and accommodation requirements associated with enhanced immigration compliance activity overseas. These assets are depreciated over the following years.

See the related expense measure under the Immigration and Multicultural Affairs Portfolio entitled *Enhanced border protection*.

This is a cross portfolio measure between the Department of Immigration and Multicultural Affairs and the Australian Customs Service.

Defence

East Timor peace enforcement and peacekeeping

Net Capital Investment (\$m)

	1999-00	2000-01	2001-02	2002-03
Department of Defence	135.0	256.0	111.0	27.0

Explanation

The Department of Defence will be provided with supplementary capital funding for a range of additional equipment for the ADF to support the ADF's participation in the United Nations sponsored peace enforcement and peacekeeping operations in East Timor. The capital supplementation for 1999-2000 will enable upgrading or replacement of existing equipment to sustain East Timor operations. The additional equipment requirements include vehicles, communications and command and control devices.

Further Information

For further information see the related expense measure under the Defence portfolio entitled *East Timor peace enforcement and peacekeeping*, and expense measures entitled *Civilian police for the UN Transitional Administration in East Timor* in the Attorney-General's portfolio; *Aid for East Timor* in the Foreign Affairs and Trade portfolio; *Provision of safe haven to internally displaced persons from East Timor* in the Immigration and Multicultural Affairs portfolio. In addition, there are two related revenue measures entitled *UN reimbursements for East Timor deployment* and *Defence — East Timor levy*.

Environment and Heritage

Capital improvements — Kakadu and Uluru Kata-Tjuta National Parks

Net Capital Investment (\$m)

	1999-00	2000-01	2001-02	2002-03
National Parks and Wildlife	6.3	-	-	-

Explanation

The Government will provide an equity injection of \$6.3 million in 1999-2000 to make capital improvements in the Kakadu and Uluru Kata-Tjuta National Parks. The capital improvements will enhance tourism infrastructure, visitor experience, protection of the environment and will minimise the ecological impact of tourism.

Appendix B: Sensitivity of Fiscal Aggregates to Economic Developments

Table B1 provides a guide to the sensitivity of the forward estimates of expenses and revenues to variations in economic parameters in 1999-2000. It is important to recognise that such guides 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 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
Expenses				
Prices	90	280	470	420
Wages	40	250	330	370
Unemployment benefit recipients	130	270	270	270
Safety net adjustments	0	90	190	310
Revenue				
Prices	10	190	220	240
Wages	550	1020	1090	1170
Employment	350	660	710	760
Private final demand	170	270	280	300

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 March quarter 2000, with wage deflators left unchanged;
- wages — all wage and salary rates are assumed to increase by one percentage point from the beginning of the March quarter 2000, 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 March quarter 2000; 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 at the start of the March quarter 2000.

Projected expenses respond to changes in economic parameters through a variety of mechanisms. For example, the Government's decision to maintain pensions at 25 per cent of Male Total Average Weekly Earnings (MTAWE) means that projected

spending on pensions will depend not just on changes to the CPI, by which pensions have been indexed for some time, but also on expected changes in the level of MTAWA.

In addition, about \$30 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 a weighted average of movements in inflation and the SNA.

The number of unemployment benefit recipients, and therefore the total spending on benefits, are affected by economic growth and employment growth. However, the relationship between GDP growth and unemployment benefit recipients is highly variable and difficult to quantify. For this reason, Table B1 only includes the impact of changes in the number of unemployment benefit recipients (that is, 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 March quarter 2000, 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 March quarter 2000, with no change in the composition of demand.

Changes in prices affect revenue through changes in excise revenue.

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: Australian Accounting Standard *Financial Reporting by Government* Statements

Table C1: Statement of Revenue and Expenses for the Commonwealth General Government Sector

		1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
	Note	Estimates		Projections	
Revenues					
Taxation					
Income tax	3	109359	112016	115220	122932
Indirect tax	4	31618	24187	24376	25679
Other taxes fees and fines		5054	5280	5602	5763
Total taxation revenue		146031	141483	145198	154374
Non-taxation					
Sales of goods and services		3251	3262	3274	3242
Interest and dividends	5	9482	6148	6706	8069
Net foreign exchange gains		0	0	2	1
Net gains from sales of assets		2	1	1	7
Other sources of non-tax revenue	6	3693	3004	2935	2887
Total non-tax revenue		16428	12416	12917	14206
Total revenue		162459	153899	158115	168580
Expenses					
Goods and services					
Employees	7	16127	15975	16081	15837
Suppliers	8	13343	13308	13060	12438
Depreciation and amortisation	9	2575	2875	3216	3497
Net write down of assets		938	888	923	927
Net foreign exchange losses		21	-11	0	0
Net losses from the sale of assets		29	3	11	1
Other goods and services expenses		5340	5710	6009	6232
Total goods and services		38371	38747	39300	38933
Subsidies benefits and grants					
Personal benefits		61924	69236	71622	76160
Subsidies		3782	4230	4572	4757
Grants	10	44247	28847	31283	30272
Total subsidies benefits and grants		109954	102313	107477	111189
Interest and other					
Interest and other financing costs		8389	8612	8161	8318
Total interest and other		8389	8612	8161	8318
Total expenses		156714	149673	154939	158441
Operating result		5745	4226	3176	10140
Abnormal and extraordinary items					
		11889	0	14731	14731
Operating result after abnormal items		17635	4226	17907	24871

Table C2: Balance Sheet for the Commonwealth General Government Sector

		1999-00	2000-01	2001-02	2002-03
		\$m	\$m	\$m	\$m
	Note	Estimates		Projections	
Assets					
Financial assets					
Cash		985	512	349	244
Receivables		27647	25041	28749	26960
Investments	14	27610	27781	26260	24836
Accrued revenue		480	483	548	649
Other financial assets		124	117	117	116
Total financial assets		56846	53934	56024	52805
Non-financial assets					
Land and buildings		15283	14811	14218	14095
Infrastructure		35004	36035	36800	37511
Intangibles		827	804	807	703
Inventories		2812	2702	2753	2648
Other non-financial assets	11	1414	1392	1393	1389
Total non-financial assets		55341	55743	55971	56346
Total assets		112187	109678	111994	109151
Liabilities					
Debt					
Government securities	14	73450	66805	51431	24036
Loans		5929	5859	5789	5717
Leases		320	268	183	156
Deposits		637	710	783	856
Overdrafts		2	2	2	2
Other debt		2871	2746	2336	2138
Total debt		83209	76390	60524	32905
Provisions and payables					
Employees	12	75711	75959	76016	75785
Suppliers		1509	1557	1563	1574
Personal benefits payable		2410	2625	2806	3100
Subsidies payable		74	72	71	70
Grants payable	13	6697	6851	7055	7005
Other provisions and payables		3721	3316	3233	3261
Total provisions and payables		90123	90380	90745	90795
Total liabilities		173332	166770	151268	123700
Net assets		-61145	-57092	-39274	-14549
Equity					
Accumulated results		-79659	-75528	-56076	-29684
Reserves		18514	18436	16802	15135
Capital		0	0	0	0
Total equity		-61145	-57092	-39274	-14549

Table C3: Statement of Cash Flows for the Commonwealth General Government Sector

		1999-00	2000-01	2001-02	2002-03
		\$m	\$m	\$m	\$m
	Note	Estimates		Projections	
Operating activities					
Cash received					
Taxes fees and fines	15	144642	136325	146347	155338
Sales of goods and services		3535	3331	3315	3247
Interest		2753	3222	3819	5300
Dividends		6028	3553	2787	2635
Other		3790	2947	2799	2602
Total operating cash received		160748	149378	159068	169123
Cash used					
Payments to employees		16102	15726	16024	16068
Payments to suppliers		13352	12871	12625	12066
Subsidies paid		3798	4232	4573	4758
Personal benefits		61226	69022	71442	75866
Grant payments		43906	28801	31195	30448
Interest and other financing costs		8693	8955	8190	8315
Other		5884	5754	6063	6207
Total operating cash used		152961	145361	150112	153728
Net cash from operating activities		7787	4017	8956	15395
Investing activities					
Cash received					
Proceeds from asset sales program		10041	6292	9800	16600
Proceeds from sales of property, plant and equipment and intangibles		744	976	943	696
Net loans, advances and HECS		-589	-4	1325	62
Total investing cash received		10195	7263	12068	17358
Cash used					
Purchase of property, plant and equipment and intangibles		4427	4753	4934	4786
Other	14	547	181	387	462
Total investing cash used		4974	4934	5321	5248
Net cash from investing activities		5221	2329	6747	12110
Financing activities					
Cash received					
Other		489	-177	-495	-218
Net cash received from currency issues		0	0	0	0
Total financing cash received		489	-177	-495	-218
Cash used					
Net repayments of borrowings	14	15902	6642	15371	27394
Other		0	0	0	0
Total financing cash used		15902	6642	15371	27394
Net cash from financing activities		-15413	-6819	-15866	-27612
Net increase/decrease in cash held		-2405	-473	-163	-106

Statistics, Concepts and Notes to the Financial Statements

Note 1: 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 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 the 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 flow 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 and the three forward years.

The accounting policies in this budget document are consistent with Australian accounting standards except for the following:

- While the scope for financial reporting required in AAS31 is the whole-of-government (that is, the Commonwealth public sector), the 1999-2000 MYEFO 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 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.

Note 2: Reconciliation of Cash

	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m
	Estimates		Projections	
Operating result (revenues less expenses)	5745	4226	3176	10140
less Revenues not providing cash				
Foreign exchange gains	0	0	2	1
Gains from asset sales programme	0	0	0	0
Gains from sale of assets	2	1	1	7
Other	207	141	175	164
Total revenues not providing cash	209	142	178	171
plus Expenses not requiring cash				
Increase/(Decrease) in employee entitlements	232	249	57	-231
Depreciation/amortisation expense	2575	2875	3216	3497
Provision for bad and doubtful debts	302	312	320	307
Provision for diminution in value of assets	0	0	0	0
Losses from asset sales programme	0	0	0	0
Losses from sale of assets	29	3	11	1
Foreign exchange losses	21	-11	0	0
Other	2	2	2	2
Total expenses not requiring cash	3161	3429	3606	3576
plus Cash provided by working capital items				
Decrease in inventories	-171	109	0	0
Decrease in receivables	0	0	1794	1434
Decrease in other financial assets	28	21	0	3
Decrease in other non-financial assets	0	3	0	0
Increase in benefits subsidies and grants payable	861	367	384	243
Increase in suppliers' liabilities	0	47	7	10
Increase in other provisions and payables	0	0	284	158
Total cash provided by working capital items	718	548	2469	1847
less Cash used by working capital items				
Increase in inventories	0	0	50	-105
Increase in receivables	952	3810	2	0
Increase in other financial assets	-20	0	65	100
Decrease in other provisions and payables	713	233	0	0
Decrease in suppliers' liabilities	-17	0	0	0
Total cash used by working capital items	1628	4043	117	-4
equals <i>Net cash from/(to) operating activities</i>	7787	4017	8956	15396
<i>Net cash from/(to) investing activities</i>	5221	2329	6747	12110
net cash from operating activities and investment	13008	6346	15703	27507
<i>Net cash from/(to) financing activities</i>	-15413	-6819	-15866	-27612
equals Net (decrease)/increase in cash	-2405	-473	-163	-106

Note 3: Income Tax

	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m
	Estimates		Projections	
Income tax				
Individuals -				
PAYE	76727	72744	77289	83400
Other individuals	13033	11060	12692	12518
Prescribed payments system	3026	2803	3131	3329
Refunds	11282	12395	11741	12358
Total individuals	81504	74212	81371	86888
Companies	21740	30802	26687	28451
Superannuation funds	3995	4872	4862	5243
Withholding tax	1320	1320	1370	1400
Petroleum resource rent tax	800	810	930	950
Total income tax	109359	112016	115220	122932

Note 4: Indirect Tax

	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m
	Estimates		Projections	
Sales tax	16308	2107	841	877
<i>Of which revenue replacement</i>	1073	92	0	0
<i>Less transfers to States and Territories in relation to revenue replacement</i>	1070	92	0	0
Sales tax revenue	15238	2015	841	877
Excise duty	18422	18563	19301	20133
<i>Of which revenue replacement</i>	5699	234	0	0
<i>Less transfer to States and Territories in relation to revenue replacement</i>	5694	233	0	0
Excise duty revenue	12728	18330	19301	20133
Customs duty	3840	3846	4234	4668
<i>Of which revenue replacement</i>	188	4	0	0
<i>Less transfer to States and Territories in relation to revenue replacement</i>	187	4	0	0
Customs duty revenue	3653	3842	4234	4668
GST Revenue	0	24144	28494	29191
<i>Less transfers to States and Territories in relation to GST revenue</i>	0	24144	28494	29191
GST revenue	0	0	0	0
Mirror taxes	127	134	137	144
<i>Less transfers to States and Territories in relation to mirror revenue</i>	127	134	137	144
Mirror tax revenue	0	0	0	0
Indirect tax revenue	31618	24187	24376	25679

Note 5: Interest and Dividends

	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m
	Estimates		Projections	
Interest				
Interest from other governments	-	-	-	-
State and Territory debt	193	113	75	68
housing agreements	175	172	169	166
Total interest from other governments	368	286	244	234
Interest from other sources				
Swap interest	1971	2392	2659	2891
Advances	39	44	49	53
Deposits	20	23	26	28
Bills receivable	6	6	6	6
Bank deposits	78	82	92	101
Other	295	437	842	2120
Total interest from other sources	2409	2985	3674	5200
Total interest	2777	3271	3918	5434
Dividends				
Dividends from associated entities	6675	2858	2743	2572
Other dividends	29	19	44	64
Total dividends	6704	2877	2787	2635
Total interest and dividends	9482	6148	6706	8069

Note 6: Other Sources of Non-taxation Revenues

	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m
	Estimates		Projections	
Industry contributions	138	124	122	118
Indexation of HECS receivable and AUSTUDY loans	144	143	175	166
International Monetary Fund related revenue	72	72	72	72
Other	3339	2665	2565	2531
Total other sources of non-taxation revenue	3693	3004	2935	2887

Note 7: Employee Expenses^(a)

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
	Estimates		Projections	
Salaries and wages	10135	10222	10367	10357
Leave and other entitlements	171	167	171	171
Separations and redundancies	54	18	13	15
Workers compensation premiums	28	28	29	29
Other	5738	5540	5501	5265
Total employees	16127	15975	16081	15837

(a) Refer to Table D2 for components of general government superannuation expenses.

Note 8: Suppliers Expenses

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
	Estimates		Projections	
Supply of goods and services	10446	10438	10240	9741
Operating lease rental expenses	835	807	820	827
Other	2061	2063	2000	1871
Total suppliers	13343	13308	13060	12438

Note 9: Depreciation and Amortisation

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
	Estimates		Projections	
Depreciation				
Specialist military equipment	1184	1419	1706	1943
Buildings	476	467	460	461
Other infrastructure, plant and equipment	788	823	859	881
Total depreciation	2448	2708	3026	3285
Total amortisation	127	166	189	212
Total depreciation and amortisation	2575	2875	3216	3497

Note 10: Grants

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
	Estimates		Projections	
State and Territory governments	35148	19652	21911	21458
Non-profit organisations	1134	1134	1148	1174
Overseas	243	451	497	224
Private sector	-70	271	253	99
Local governments	240	245	252	260
Other	7553	7094	7221	7056
Total grants	44247	28847	31283	30272

Note 11: Other Non-financial Assets

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
	Estimates		Projections	
Prepayments	1337	1337	1341	1339
Other	77	54	52	50
Total other non-financial assets	1414	1392	1393	1389

Note 12: Employee Liabilities

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
	Estimates		Projections	
Superannuation	69640	69868	69875	69578
Leave and other entitlements	4182	4214	4282	4369
Accrued salaries and wages	549	563	576	596
Workers compensation claims	1085	1033	987	942
Separations and redundancies	23	22	21	21
Workers compensation premiums	0	0	0	0
Other	231	259	276	280
Total employee entitlements	75711	75959	76016	75785

Note 13: Grants Payable

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
	Estimates		Projections	
State and Territory governments	2241	2306	2407	2480
Non-profit organisations	8	6	5	5
Private sector	4	3	3	0
Overseas	1113	1093	1114	868
Local governments	6	6	7	7
Other	3325	3436	3520	3644
Total grants payable	6697	6851	7055	7005

Note 14: 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 — net 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 can not be accurately estimated in advance.

Note 15: Taxes

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
	Estimates		Projections	
Total taxes	151721	160932	174978	184673
<i>Less</i> payments to States and Territories in relation to revenue replacement	6952	329	0	0
<i>Less</i> payments to States and Territories in relation to GST revenue	0	24144	28494	29191
<i>Less</i> payments to States and Territories in relation to mirror tax revenue	127	134	137	144
Taxes	144642	136325	146347	155338

Statement of Risks

OVERVIEW

Full details of fiscal risks and contingent liabilities are provided in Statement 4 of *Budget Paper No. 1 Budget Strategy and Outlook 1999-2000*. The Statement of Risks presented in the MYEFO provides an update of that material, presenting changes to fiscal risks and quantifiable and unquantifiable contingent liabilities.

The forward estimates of revenues and expenses at the 1999-2000 MYEFO incorporate assumptions and judgements based on information 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 that these be disclosed in each Economic and Fiscal Outlook Report. This disclosure brings greater transparency to the fiscal projections.

Events that 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
- realisation of contingent liabilities.

Economic and Other Parameters

Some degree of uncertainty is attached to estimates of both revenues and expenses. While MYEFO estimates are prepared with the benefit of some revenue outcomes for the early months of the Budget year — which in general tend to reduce forecast errors — substantial uncertainties nevertheless remain. Moreover, the difficulties associated with such estimation will generally increase in accordance with extension of the forecast horizon over the forward estimates period. The sensitivity of the estimates to major economic parameters (but not other parameters) is discussed in Appendix B.

Fiscal Risks

Fiscal risks are general developments or specific events that 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.

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.

DETAILS OF FISCAL RISKS AND CONTINGENT LIABILITIES

Fiscal Risks — Revenue

Tax Reform

Indirect Tax Changes

Legislation has been passed to introduce a GST from 1 July 2000 and thereby to abolish WST and a series of State and Territory taxes. Some fiscal risk may remain with regard to possible amendments to the tax reform legislation.

Review of Business Taxation

The *Review of Business Taxation* reported to the Government on 30 July 1999. On 21 September 1999, the Government announced that it would respond to the Review in two stages. The Government announced a package of measures on 21 September 1999 that will take effect from a range of dates. Rejection of, or significant amendments to, the legislation implementing these announced measures could significantly influence the fiscal impact of the announced package of reforms.

On 11 November 1999 the Government made a further response to the recommendations. In conjunction with its 21 September statement, measures announced by the Government will achieve overall revenue neutrality for business tax reform. See Appendix A, relating to revenue measures, for further details of measures announced in *The New Business Tax System*.

If the Government's response is not adopted as set out in the two press releases, there could be a significant risk to revenue.

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.

Sale of Telstra

Revenue from further sales of Telstra could be placed at risk if the necessary amendments to the *Telstra Corporation Act 1991* are not enacted by Parliament.

Fiscal Risks — Expenses

The following items appeared in *Budget Paper No. 1 1999-2000 Budget Strategy and Outlook*. At MYEFO these items no longer represent risks to forward estimates of revenues and expenses.

- New South Wales University superannuation (Education, Training and Youth Affairs).
- Temporary safe haven for displaced Kosovars (Immigration and Multicultural Affairs).

The fiscal risks presented below are either reported for the first time at the 1999-2000 MYEFO, or have changed since their presentation at the Budget.

Communications, Information Technology and the Arts

Digitisation strategy of the Australian Broadcasting Corporation

The Government has agreed to cover, at the end of the five-year conversion period (ie until 2002-03), outstanding debt in relation to Phase 1 of the Australian Broadcasting Corporation's plans for the conversion to digital broadcasting. That debt is currently estimated to be \$32 million, increasing by \$1 million since the 1999-2000 Budget.

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 now some 545 claims with a value of \$104 million, increasing from 513 claims with a value of \$92 million reported at the 1999-2000 Budget.

Peace operations in East Timor

The financial implications of this package will depend on a number of factors including: the unfolding security situation in East Timor; the timing of the transition from INTERFET to the UNTAET peacekeeping operation; the length of the UN peacekeeping operation and Government decisions in the context of the Defence White Paper regarding longer term force requirements.

Collins Class Submarines

Consequent to the Government's acceptance of the McIntosh/Prescott Report, further remedial work to the Collins Class submarines is to be undertaken. The Government is considering options to achieve an agreed level of capability for the submarines.

Health and Aged Care

Australian Health Care Agreements

The Commonwealth and all the States and Territories have signed five-year Australian Health Care Agreements (AHCA) commencing 1 July 1998. The signed 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 that those leaving private health insurance have the same age/sex profile as those remaining).

In response to concerns relating to the impact of increased participation rates on the grants to the States and Territories, the Commonwealth has recently agreed to vary this risk sharing arrangement to guarantee that the States and Territories can not be worse off as a result of any increase in private health insurance participation rates. The details of this variation to the AHCA's are yet to be agreed.

The AHCA indexation arrangements also include provision for a default index of 0.5 per cent in the absence of agreement between the Commonwealth and the States and Territories on a suitable index for measuring changes in hospital output costs.

In accordance with the Agreements, this matter was referred to an independent arbiter. The final report from the arbiter was received on 28 October 1999 and recommended additional grant payments to the States and Territories. The Commonwealth is currently considering its response. For every one percentage point change (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.

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. Major new developments in medicines or medical procedures could result in increases in expenses that exceed the provision in the forward estimates.

Similarly, significant shifts in usage patterns, which may occur for particular drugs or groups of drugs from time to time, could result in increases in expenses that 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

Increased unauthorised arrivals

The recent surge in unauthorised arrivals by boat and the high risk of further arrivals in the short-term, presents a substantial resource risk arising from increased detention, processing and repatriation costs. The recent and prospective arrivals imply a detention requirement in excess of the current capacity of immigration detention infrastructure. This has necessitated the implementation of a range of temporary measures pending the development of plans for more permanent facilities to deal with ongoing requirements.

The Government has initiated a range of measures to limit its exposure to this risk, including a range of initiatives to combat people smuggling through greater cooperation with overseas Governments, increased penalties, deployment of additional compliance staff overseas, and increased coastal surveillance to detect unauthorised arrivals. More recently, the introduction of a Temporary Protection Visa for unauthorised arrivals found to have genuine protection needs, and legislative amendments to stop people who have effective protection overseas from gaining onshore protection in Australia, including through the development of proposals to enhance fingerprinting and other biometric identification tests, will also deter unauthorised entry to Australia. Given some of these initiatives are likely to take time to implement and be fully effective, the impact on unauthorised arrival numbers in the short-term is uncertain.

Transport and Regional Services

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 \$220 million (up from \$155 million reported at the Budget). The *Stevedoring Levy (Collection) Act 1998* has been amended to increase the expenditure cap in the legislation from \$250 million to \$300 million (reported as \$350 million in the 1999-2000 Budget).

Treasury

Australia's involvement in the 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 up to \$US1 billion available for draw 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 also 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 loans on a non-concessional basis. With the subsequent improvement in economic conditions in Korea, activation of its loan is not expected to be required. No money has been disbursed to Indonesia.

Financial Assistance to the Government of Papua New Guinea

The Commonwealth Government has offered financial assistance to Papua New Guinea (PNG) in support of its efforts to re-engage with the International Monetary Fund (IMF) and the World Bank. In the first instance, this assistance would take the form of a 90-day currency swap between the Reserve Bank of Australia (RBA) and the Bank of Papua New Guinea for the \$A equivalent of \$US80 million. This swap will provide short-term bridging finance until agreement can be reached between the PNG Government and the IMF on a Stand—by Programme (expected in early 2000). In the event of default, the ability of the RBA to maintain the dividend stream projected in the forward estimates may be affected.

The Government has indicated to PNG that it will consider providing a longer-term government-to-government loan (under the *International Monetary Agreements Amendment Act* — IMAA) once an IMF Stand-by Program is in place (expected in early 2000). This loan would help meet PNG's external financing needs in 2000 and would be provided on a non-concessional basis, with a first call on the proceeds used to repay the short-term bridging facility.

Contingent Liabilities — Quantifiable

At the 1999-2000 MYEFO the following quantifiable contingent liabilities (reported at the 1999-2000 Budget) do not represent risks to the forward estimates:

- Commonwealth Loan Guarantees for the Abstudy financial supplement loan scheme (Education, Training and Youth Affairs); and
- Loans by the Australian Broadcasting Corporation and the Special Broadcasting Service, and indemnities relating to Art Indemnity Australia (Communications, Information Technology and the Arts).

The quantifiable contingent liabilities presented below are either reported for the first time at the 1999-2000 MYEFO, or have changed since their presentation at the Budget.

Agriculture, Fisheries and Forestry

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 29 July 1999, the amount outstanding on the loan was \$1.6 million, which is to be finalised in January 2000. 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.

Communications, Information Technology and the Arts

Telstra Corporation Ltd — Superannuation Guarantee

Telstra Corporation Ltd has agreed to make additional employer contributions to the Telstra Superannuation Scheme. The Commonwealth has guaranteed that it will cover any outstanding additional employer contributions in the event that Telstra becomes insolvent. 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 1999 was \$1.0 billion.

Finance and Administration

ComLand Limited

Bank borrowings by ComLand Limited are explicitly guaranteed by the Commonwealth up to a limit of \$60 million, comprising \$50 million for principal and \$10 million for accrued interest and other costs.

Foreign Affairs and Trade

Export Finance and Insurance Corporation (EFIC)

The Commonwealth guarantees the due payments by EFIC of money that is, or may at any time become, payable by EFIC to any person other than the Commonwealth. As at 30 September 1999, the Commonwealth's total contingent liability was \$7,612 million, comprising EFIC's balance sheet liabilities (\$1,183 million), contingent liabilities (\$3,361 million) and national interest account liabilities (\$3,068 million).

Industry, Science and Resources

Australian Industry Development Corporation (AIDC)

As at 30 June 1999, the Corporation's contingent liabilities were \$173.3 million in respect of guarantees and credit risk facilities. The Corporation's other guaranteed borrowings totalled \$1.6 billion as at 30 June 1999. These have been offset by holdings in Commonwealth Government securities and certain hedging instruments, all of which are fully guaranteed by Warburg Dillon Read (formerly known as UBS Australia Ltd.)

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

The Commonwealth through the Australian Industry Development Corporation (AIDC) holds a 48.45 per cent interest in the Australia Submarine Corporation Pty Ltd (ASC). ASC is building 6 Collins Class Submarines for the Department of Defence (Defence). On 16 December 1998, at the request of the Corporation, the Commonwealth issued a guarantee for \$26.6 million to back AIDC's pro-rata shareholder obligations regarding the timely delivery of the Collins Class Submarines by ASC to Defence. A similar pro-rata guarantee was arranged by the other major shareholder, issued by its bank. The AIDC guarantee reduced to \$13.3 million on 30 April 1999 and will terminate in full on 31 December 2001, subject to delivery of the final submarine.

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. As at 24 September 1999, the face value of guaranteed borrowings was \$181.5 million with the net amount guaranteed (excluding the unamortised discount on the issue of inscribed stock) being \$102.7 million.

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 1999, the balance of the guarantee was \$94,124.9 million, a reduction of \$5,621 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 1999 have been valued at \$3,752.9 million following an actuarial review. The outstanding value subject to the guarantee is estimated to be \$3,721.6 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 \$272.6 million as at June 1999.

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 5 November 1999, Notes on Issue totalled \$24,266 million.

In total, the guarantee for the Reserve Bank was \$41,416 million as at 5 November 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 \$A4,198.7 million at 30 June 1999), the Asian Development Bank (\$US2,413.5 million — estimated value \$A3,656.82 million as at 30 June 1999), and the European Bank for Reconstruction and Development (\$US81.7 million — estimated value \$A123.8 million as at 30 June 1999).

Contingent Liabilities — Unquantifiable

Since the 1999-2000 Budget the Australian Federal Police (AFP) Adjustment Scheme (Attorney-General's) has ceased to represent an unquantifiable contingent liability. The Government has decided to provide an equity injection to extinguish this liability. For further information refer to paragraph two of the expense measure in Appendix A (*Revised Funding arrangements for the AFP Reform Programme and AFP Adjustments Scheme*) in the Attorney-General's portfolio.

Defence

HMAS Melbourne compensation

The decision in the *Mewett v Commonwealth* case may be used as a precedent by up to 954 crewmen of HMAS Melbourne, in relation to the Voyager incident, to lodge claims against the Commonwealth. Some 121 claims have been lodged to date, of which 107 are current claims. There are 6 identified dependant claims currently active and there is a possibility of further potential dependant claims, however there is no basis for quantifying further claims.

Finance and Administration

ComLand Limited — board members' indemnity

Indemnities for directors of the ComLand group have been provided to protect against civil claims relating to employment and conduct as directors of ComLand Limited and its subsidiaries, St Marys Land Limited and Footscray Limited.

Transport and Regional Services

Tripartite Deed relating to the sale of 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 Deeds also provide protection to secured financiers where a lease termination event occurs. The potential liability of the Commonwealth would vary considerably with the specific factors leading to a lease termination. 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, the Airport lessee company and potentially, from the financiers themselves.

Where the Commonwealth took action to terminate the Airport Lease, secured financiers can recover their loans from funds obtained by the Commonwealth from reselling the airport lease. If not resold, the Commonwealth and the financiers are to obtain a valuation of the airport lease that will set the basis for a repayment of financier's loans by the Commonwealth.

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

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

Australian National Railways Commission (AN) — transfer of legal actions and contingent liabilities to the Commonwealth

As a result of the wind-up of the Australian National Railways Commission later this year, all associated contracts, assets and liabilities will become the responsibility of the Commonwealth. At this point, it is not possible to quantify liabilities as they involve uncertain legal processes and ex-employee claims.

Australian Maritime Safety Authority (AMSA) — insurance claims

AMSA is subject to a professional negligence claim seeking unspecified damages arising from a search and rescue incident involving the loss of one life. The flotation device manufacturer is a second defendant. The claim is being defended, however, it is not possible to estimate the amounts of any eventual payments that may result.

The insurer has indemnified AMSA although AMSA will be liable for any policy excess.

Australian Maritime Safety Authority (AMSA) — incident costs

In the normal course of operations, AMSA is responsible for the provision of funds necessary to meet the clean-up costs arising from ship-sourced marine pollution. The Commonwealth has agreed that AMSA's responsibility should be limited to a maximum outlay of \$10 million. AMSA has arranged a standby loan facility for this purpose.

In the event costs exceed that limit, funds will be provided by the Commonwealth. In all circumstances, the Authority is responsible for making appropriate efforts to recover the costs of any such incidents.

National Capital Authority (NCA)

The NCA is currently exposed to several claims, the financial risks of which are unquantifiable pending their resolution. There are three personal injury claims relating to its Land Management Function, two relating to contract disputes and a defamation action.

Treasury

Housing Loans Insurance Corporation (HLIC)

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

HLIC Limited

An adviser to the sale of HLIC Limited was appointed as an agent of the Commonwealth on 4 December 1996 and, as a result, was extended ongoing protection against all losses and liabilities sustained in lawfully carrying out the Commonwealth's instructions.

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

Appendix D: Government Finance Statistics Statements

The tables presented in this appendix are prepared in a manner consistent with the Government Finance Statistics (GFS) classification framework determined by the Australian Bureau of Statistics (ABS). The new GFS framework reflects the principles contained in the international standards set out in the United Nations' *A System of National Accounts, 1993* and the *Manual on Government Finance Statistics*, which is currently being reviewed by the International Monetary Fund. The first presentation by the ABS of public finance statistics on an accrual accounting basis is expected to be in the next issue of *Government Financial Estimates, Australia* (Cat. No. 5501.0) for 1999-2000, which is planned for release in February 2000.

While the GFS and AAS31 standards are generally consistent, there are some significant variations between them in the treatment of some items. In particular, revaluations of financial and non-financial assets and liabilities are classified differently under AAS31 and GFS standards. Such transactions include, for example, gains or losses from foreign exchange rate variations.

Under AAS31 reporting, valuation changes will affect revenues or expenses. However, under GFS reporting revaluations are treated neither as revenues nor expenses, and are not taken into account in the calculation of the net operating balance. This treatment of revaluations in GFS is consistent with that required by international statistical standards.

The Government's primary measure of fiscal policy under accrual accounting is the fiscal balance (GFS net lending). The fiscal balance is the GFS net operating balance (revenue less expenses) adjusted for net capital investment (the net acquisition of non-financial assets). As a result, the fiscal balance measures the investment-saving balance (that is, the government's direct contribution to the current account deficit).

Some key differences between the GFS and AAS31 standards are summarised in the table below. In addition, a reconciliation between the AAS31 operating result and the fiscal balance is presented in Part III.

SECTORAL CLASSIFICATIONS

The three sectors constituting the Commonwealth public sector under GFS and national accounting standards are:

- the general government sector;
- the Public Trading Enterprise (PTE) sector; and

- the Public Financial Enterprise (PFE) sector.¹

Agencies belonging to the Commonwealth general government sector are the key focus of the budget financial statements. In the MYEFO, as in the Budget, financial data are also presented on a GFS consistent basis for the Commonwealth PTE and consolidated non-financial public sectors.

The primary function of the general government sector is to provide public services for the collective consumption of the community that are mainly:

- non-market in nature;
- involve the transfer or redistribution of income; and
- are financed chiefly through taxes and other compulsory levies.

Examples of agencies that belong to the Commonwealth general government sector are Commonwealth departments and Commonwealth authorities such as the Australian Broadcasting Corporation (ABC) and the Commonwealth Scientific and Industrial Research Organisation (CSIRO).

PTEs are government controlled enterprises that provide goods and services that are mainly market, non-regulatory and non-financial in nature and are financed predominantly through sales to consumers. Examples of PTEs are Telstra and Australia Post.

PFEs are government controlled enterprises that perform central banking 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.

When preparing the Commonwealth general government consolidated financial statements material transactions between general government agencies are eliminated, for example payments of fringe benefits tax.

Transactions between the general government and PTE sectors are included in their respective financial statements, however they are eliminated from the consolidated non-financial public sector tables (as they are transactions internal to that consolidated sector).

Transactions between the Commonwealth non-financial and PFE sectors are included in all tables. These transactions might include income transfers, net advances paid to PFEs and taxes paid by PFEs to the general government sector.

¹ From the release of the next issue of *Government Financial Estimates, Australia*, the ABS intends that Public Trading Enterprises will be referred to as Public Non-Financial Corporations (PNCs), and Public Financial Enterprises as Public Financial Corporations (PFCs).

The classification of agencies in this document is consistent with that used by the ABS. Where an agency's operations change materially (for example, as a result of corporatisation), its sectoral classification is reviewed and if necessary reclassified.

The GFS tables in this appendix have been produced by the Department of Finance and Administration in consultation with the ABS.

Table D1: Selected Differences between AAS31 and GFS Reporting Standards

Issue	AAS31 treatment	GFS treatment
Writedowns/provisions for bad and doubtful debts	Classified as operating expenses.	Classified as revaluations and not treated as operating expenses. Bad debts written off are treated as capital transfers (if mutually agreed between debtor and creditor) or as other changes in volume of assets (if unilaterally written off by the creditor).
Abnormal and extraordinary items	In accounting terms, abnormal items are transactions that occur within the normal operations of an enterprise but are abnormal due to their size. Extraordinary items are transactions that occur outside the ordinary operations of government and are not of a recurring nature. These items are included in the operating statement but are disclosed separately.	Each abnormal item is 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 then it will have an effect on the GFS net operating balance.
Benefits to households in goods and services (social transfers in kind) component of personal benefit payments	All personal benefit payments are classified as transfers in the operating statement.	This component of personal benefit payments is treated as part of 'other expenses' in the operating statement.
Finance leases	<p>Finance leases are treated as if the asset were purchased from borrowings. That is, the lease payment is split into an interest component (which is shown as an operating expense) and a principal component (a liability).</p> <p>The asset and the liability are both recorded in 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.</p>	The GFS treatment of finance leases is consistent with the accounting standard treatment. However, the acquisition of the asset is taken into account in deriving the cash underlying balance.
Public debt net interest	Under accounting standards, premia and discounts on the repurchase of debt are included in public debt net interest at the time of repurchase, regardless of whether the stock is cancelled at that time. Issue premia and discounts are amortised over the life of the stock.	Repurchase premia and discounts are treated as economic revaluations at the time the debt is repurchased (provided it is valued at historical cost).

Table D2: General Government Operating Statement

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
General Government				
GFS revenue				
Taxation revenue	145387	140901	144624	153802
Current grants and subsidies	34	24	24	24
Sales of goods and services	3571	3588	3602	3571
Interest income	2777	3271	3918	5434
Other	10502	5930	5756	5547
Total GFS revenue	162272	153713	157925	168379
GFS expenses				
Gross operating expenses				
Depreciation	2575	2875	3216	3497
Superannuation	1392	1173	1117	1065
Other operating expenses	43138	44609	45412	45937
Total gross operating expenses	47105	48657	49745	50499
Nominal superannuation interest expense	3391	3411	3423	3423
Other interest expenses	8365	8325	8161	8318
Other property expenses	0	0	0	0
Current transfers				
Grant expenses	44247	28847	31283	30272
Subsidy expenses	3782	4230	4572	4757
Other current transfers	49086	54882	56773	60370
Total current transfers	97115	87959	92628	95399
Capital transfers	200	200	200	200
Total GFS expenses	156176	148551	154157	157840
Net operating balance	6096	5162	3768	10539
Net acquisition of non-financial assets				
Gross fixed capital formation	3683	3777	3991	4090
<i>less</i> Depreciation	2575	2875	3216	3497
<i>plus</i> Change in inventories	171	-109	50	-105
<i>plus</i> Other movements in non-financial assets	-55	-23	1	-4
Total net acquisition of non-financial assets	1225	770	827	484
Net lending/fiscal balance	4871	4392	2941	10056

Table D3: Public Trading Enterprise Sector Operating Statement

	1999-00
	\$m
	Public Trading Enterprises
GFS revenue	
Current grants and subsidies	169
Sales of goods and services	24795
Interest income	68
Other	29
Total GFS revenue	25062
GFS expenses	
Gross operating expenses	
Depreciation	3169
Other operating expenses	15803
Total gross operating expenses	18972
Interest expenses	818
Other property expenses	3030
Current transfers	
Tax expenses	2250
Other current transfers	0
Total current transfers	2250
Capital transfers	0
Total GFS expenses	25071
Net operating balance	-9
Net acquisition of non-financial assets	
Gross fixed capital formation	4594
<i>less</i> Depreciation	3169
<i>plus</i> Change in inventories	-8
<i>equals</i> Total net capital formation	1417
<i>plus</i> Other movements in non-financial assets	0
Total net acquisition of non-financial assets	1417
Net lending/fiscal balance	-1426

Table D4: Total Non-financial Public Sector Operating Statement

	1999-00
	\$m
	Total Non-Financial Public Sector
GFS revenue	
Taxation revenue	142389
Current grants and subsidies	34
Sales of goods and services	28366
Interest income	2823
Other	7771
Total GFS revenue	181382
GFS expenses	
Gross operating expenses	
Depreciation	5744
Other operating expenses	59033
Total gross operating expenses	64777
Nominal superannuation interest expense	3391
Other interest expenses	9160
Other property expenses	1569
Current transfers	
Grant expenses	44247
Subsidy expenses	3613
Other current transfers	48338
Total current transfers	96198
Capital transfers	200
Total GFS expenses	175296
Net operating balance	6087
Net acquisition of non-financial assets	
Gross fixed capital formation	8277
<i>less</i> Depreciation	5744
<i>plus</i> Change in inventories	163
<i>plus</i> Other movements in non-financial assets	-55
Total net acquisition of non-financial assets	2642
Net lending/fiscal balance	3444

Table D5: General Government Sector Balance Sheet

	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m
General Government				
GFS assets				
Financial Assets				
Cash and deposits	985	512	349	244
Advances paid	15070	15100	13849	13862
Investments, loans and placements	8658	8796	8898	9085
Other non-equity assets	12668	10024	14984	13188
Equity	18985	19018	17395	15776
Total financial assets	56366	53451	55475	52156
Non-financial assets				
Land and fixed assets	53926	54352	54578	54957
Other non-financial assets	1894	1875	1941	2038
Total non-financial assets	55821	56227	56519	56995
Total GFS assets	112187	109678	111994	109151
GFS liabilities				
Deposits held	637	710	783	856
Advances received	0	0	0	0
Borrowing	85066	77831	61863	34175
Unfunded superannuation liability	69640	69868	69875	69578
Other employee entitlements and provisions	6070	6092	6142	6207
Other non-equity liabilities	11918	12269	12606	12884
Total GFS liabilities	173332	166770	151268	123700
Net assets	-61145	-57092	-39274	-14549
Net debt(a)	60990	54133	39550	11838

(a) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table D6: Public Trading Enterprise Sector Balance Sheet

	1999-00
	\$m
	Public Trading Enterprises
GFS assets	
Financial assets	
Cash and deposits	1312
Advances paid	0
Investments, loans and placements	718
Other non-equity assets	2601
Equity	0
Total financial assets	4630
Non-financial assets	
Land and fixed assets	31522
Other non-financial assets	1591
Total non-financial assets	33113
Total GFS assets	37743
GFS liabilities	
Deposits held	0
Advances received	10
Borrowing	11051
Provisions (other than depreciation and bad debts)	5810
Other non-equity liabilities	3722
Total GFS liabilities	20593
Net assets	17150
Net debt(a)	9032

(a) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits advances paid, and investments, loans and placements.

Table D7: Total Non-financial Public Sector Balance Sheet

	1999-00
	\$m
	Total Non-Financial Public Sector
GFS assets	
Financial assets	
Cash and deposits	2297
Advances paid	15060
Investments, loans and placements	869
Other non-equity assets	14811
Equity	18985
Total financial assets	52022
Non-financial assets	
Land and fixed assets	85448
Other non-financial assets	3485
Total non-financial assets	88934
Total GFS Assets	140956
GFS liabilities	
Deposits held	637
Advances received	0
Borrowing	96118
Unfunded superannuation liability	69640
Other employee entitlements and provisions	11880
Other non-equity liabilities	16793
Total GFS liabilities	195068
Net assets	-54112
Net debt(a)	78528

(a) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table D8: General Government Sector Cash Flow Statement

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
General Government				
Cash receipts from operating activities				
Taxes received	143997	135743	145773	154766
Receipts from sales of goods and services	3854	3656	3644	3576
Grants/subsidies received	0	0	0	0
Other receipts	12447	9979	9651	10781
Total receipts	160298	149378	159068	169123
Cash payments for operating activities				
Payments for goods and services	26407	27225	27692	28074
Grants and subsidies paid	47704	33033	35768	35206
Interest paid	8700	8741	8309	8471
Other payments for operating activities	70373	76148	78680	82350
Total payments	153184	145147	150449	154101
Cash flows from operating activities	7114	4231	8619	15022
Cash Flows from investments in non-financial assets				
Sales of non-financial assets	744	976	943	696
Less purchases of new & secondhand non-financial assets	4427	4753	4934	4786
Net cash flows from investments in non-financial assets	-3683	-3777	-3991	-4090
Cash flows from investments in financial assets for policy purposes				
Net advances paid	9452	6288	11125	16662
Net equity acquisitions, disposals & privatisations	0	0	0	0
Net cash flows from investments in financial assets for policy purposes	9452	6288	11125	16662
Cash Flows from investments in financial assets for liquidity purposes				
Increase in investments	-547	-181	-387	-462
Net cash flows from investments in financial assets for liquidity purposes	-547	-181	-387	-462
Cash flows from financing activities				
Advances received (net)	0	0	0	0
Borrowing (net)	-15902	-6642	-15371	-27394
Deposits received (net)	0	0	0	0
Distributions paid (net)	0	0	0	0
Other financing (net)	1162	-391	-158	156
Net cash flows from financing activities	-14740	-7033	-15529	-27238
Net increase/decrease in cash held	-2405	-473	-163	-106
Net cash from operating activities and investments in non-financial assets	3430	454	4627	10933
<i>plus</i> Finance leases and similar arrangements	0	0	0	0
Equals Surplus(+)/Deficit(-)	3430	454	4627	10933

Table D9: Public Trading Enterprise Sector Cash Flow Statement

	1999-00
	\$m
	Public Trading Enterprises
Cash receipts from operating activities	
Receipts from sales of goods and services	24486
Grants and subsidies received	170
Other receipts	99
Total receipts	24755
Cash payments for operating activities	
Payment for goods and services	15017
Interest paid	766
Other payments for operating activities	5628
Total payments	21411
Net cash flows from operating activities	3344
Cash flows from investments in non-financial assets	
Sales of non-financial assets	243
Less purchases of new and secondhand non-financial assets	4837
Net cash flows from investments in non-financial assets	-4594
Cash flows from investments in financial assets for policy purposes	
Net advances paid	0
Net equity acquisitions, disposals and privatisations	0
Net cash flows from investments in financial assets for policy purposes	0
Cash Flows from investments in financial assets for liquidity purposes	
Increase in investments	-11
Net cash flows from investments in financial assets for liquidity purposes	-11
Cash flows from financing activities	
Advances received (net)	-32
Borrowing (net)	1339
Deposits received (net)	0
Distributions paid (net)	0
Other financing (net)	14
Net cash flows from financing activities	1321
Net increase/decrease in cash held	59
	Surplus
Net cash from operating activities and investments in non-financial assets	-1250
<i>plus</i> Finance leases and similar arrangements	0
Equals Surplus(+)/Deficit(-)	-1250

Table D10: Total Non-financial Public Sector Cash Flow Statement

	1999-00 \$m
	Total non-financial public sector
Cash receipts from operating activities	
Taxes received	140999
Receipts from sales of goods and services	28340
Grants and subsidies received	0
Other receipts	9762
Total receipts	179102
Cash payments for operating activities	
Payments for goods and services	41423
Grants and subsidies paid	47535
Interest paid	9444
Other payments for operating activities	70242
Total payments	168644
Net cash flows from operating activities	10457
Cash flows from investments in non-financial assets	
Sales of non-financial assets	987
Less purchases of new and secondhand non-financial assets	9264
Net cash flows from investments in non-financial assets	-8277
Cash flows from investments in financial assets for policy	
Net advances paid	9420
Net equity acquisitions, disposals and privatisations	0
Net cash flows from investments in financial assets for policy purposes	9420
Cash flows from investments in financial assets for liquidity purposes	
Increase in investments	-559
Net cash flows from investments in financial assets for liquidity purposes	-559
Cash flows from financing activities	
Advances received (net)	0
Borrowing (net)	-14563
Deposits received (net)	0
Distributions paid (net)	0
Other financing (net)	1176
Net cash flows from financing activities	-13387
Net increase/decrease in cash held	-2346
	Surplus
Net cash from operating activities and investments in non-financial assets	2180
<i>plus</i> Finance leases and similar arrangements	0
Equals Surplus(+)/Deficit(-)	2180

LOAN COUNCIL ALLOCATION

Table D11 presents a revised estimate of the Commonwealth's 1999-2000 Loan Council Allocation (LCA), updating the budget estimate provided in *1999-2000 Budget Paper No. 3, Federal Financial Relations*. LCA estimates are on a headline cash basis as they seek to measure a government's call on financial markets.

The fall in the Commonwealth's estimated LCA surplus since budget mainly reflects a change in the timing of receipts from the sale of the second tranche of Telstra, with the final instalment of payments for Telstra 2 shares due in 2000-01, rather than 1999-2000 as anticipated at budget. Consequently, the Commonwealth expects to exceed the 2 per cent of revenue tolerance limit that applies on either side of its budget LCA estimate.

Table D11: Commonwealth's Loan Council Allocation for 1999–2000

	Budget Estimate \$m	MYEFO Estimate \$m
General government sector headline deficit	-23036	-12882
PTE sector net financing requirement	748	1282
Non-financial public sector headline deficit	-22287	-11600
Memorandum items(a)(b)	34	481
Loan Council Allocation	-22254	-11119

- (a) For the Commonwealth, memorandum items comprise the change in the net present value of operating leases (with NPV greater than \$5 million), university borrowings, overfunding of superannuation and an adjustment to exclude the net financing requirements of statutory marketing authorities and Telstra from the LCA.
- (b) The Commonwealth does not expect to enter into any infrastructure projects with private sector involvement in 1999–2000.