

**MID-YEAR ECONOMIC AND
FISCAL OUTLOOK
2004-05**

STATEMENT BY
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FOREWORD

The 2004-05 *Mid-Year Economic and Fiscal Outlook* (MYEFO) has been prepared in accordance with the *Charter of Budget Honesty Act 1998*. The Charter requires that the Government provide a mid-year budget report which provides updated information to allow the assessment of the Government's fiscal performance against its fiscal strategy.

Consistent with these requirements:

- **Part 1: Overview** – contains summary information on the key fiscal and economic indicators.
- **Part 2: Economic outlook** – discusses the domestic and international economic forecasts that underpin the budget estimates.
- **Part 3: Fiscal outlook** – provides a discussion of the budget outlook and a summary of the factors explaining variations in the operating statement, balance sheet and cash flow statement since the 2004-05 Budget. This part also discusses the sensitivity of the forward budget estimates to changes in major economic parameters.
- **Appendix A: Policy decisions taken since the 2004-05 Budget** – lists the policy decisions taken by the Government since the 2004-05 Budget.
- **Appendix B: Government Finance Statistics (GFS) statements** – provides the general government and consolidated whole of government financial statements on a GFS basis, consistent with the *Accrual Uniform Presentation Framework*.
- **Appendix C: Australian Accounting Standards (AAS) financial statements** – provides AAS statements and notes to the financial statements.
- **Appendix D: Statement of Risks** – provides an update of the general and specific risks to the forward budget estimates for material changes in these risks since the 2004-05 Budget.
- **Appendix E: Financial reporting standards and budget concepts** – provides a discussion of key budget concepts relevant to the MYEFO and the external reporting standards upon which the MYEFO is based.
- **Appendix F: Historical Australian Government data** – provides historical data for the Australian Government's key fiscal aggregates.

CONTENTS

FOREWORD	III
PART 1: OVERVIEW	1
Domestic and international economic outlook	2
PART 2: ECONOMIC OUTLOOK	5
Risks to the outlook.....	6
International economic outlook	7
Domestic forecasts.....	10
PART 3: FISCAL OUTLOOK	15
Overview	15
Revenue	17
Expenses.....	19
Net capital investment.....	22
Cash flows.....	23
Net debt and net worth.....	25
Attachment A: Reporting standards	27
Attachment B: Budget financial statements	29
Attachment C: Sensitivity of the fiscal balance to economic developments	34
Attachment D: Tax expenditures.....	37
Attachment E: Supplementary expense and capital tables and the Contingency Reserve.....	38
Attachment F: GST revenue provision to the states and territories	42
APPENDICES	
Appendix A: Policy decisions taken since the 2004-05 Budget	45
Appendix B: Government Finance Statistics statements	61
Appendix C: Australian Accounting Standards financial statements	75
Appendix D: Statement of Risks	87
Appendix E: Financial Reporting Standards and Budget Concepts	93
Appendix F: Historical Australian Government data	103

Notes

- (a) The following definitions are used in the MYEFO:
- ‘real’ means adjusted for the effect of inflation;
 - real growth in expenses is measured using the non-farm Gross Domestic Product (GDP) deflator;
 - the budget year refers to 2004-05, while the forward years refer to 2005-06, 2006-07 and 2007-08; 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:
- | | |
|---------|---|
| * | The nature of this measure is such that a reliable estimate cannot be provided. |
| NEC/nec | not elsewhere classified |
| AEST | Australian Eastern Standard Time |
| - | nil |
| .. | not zero, but rounded to zero |
| na | not applicable (unless otherwise specified) |
| nfp | not for publication |
| (e) | estimates |
| (p) | projections |
| \$m | \$ million |
| \$b | \$ billion |

- (e) The Australian Capital Territory and the Northern Territory are referred to as 'the territories'. References to the 'states' or 'each state' include the territories. The following abbreviations are used for the names of the states, where appropriate:

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

- (f) In this paper the term Commonwealth refers to the Commonwealth of Australia. The term is used when referring to the legal entity of the Commonwealth of Australia.

The term Australian Government is used when referring to the Government and the decisions and activities made by the Government on behalf of the Commonwealth of Australia.

PART 1: OVERVIEW

The fiscal outlook for Australia remains strong – the underlying cash surplus for 2004-05 is expected to be higher than was the case at the time of the *Pre-Election Economic and Fiscal Outlook 2004* (PEFO) – and surpluses are forecast over the forward years. The Australian economy is expected to record solid growth in 2004-05, although the outlook for real economic activity has been revised down modestly since the PEFO. This reflects weaker than anticipated export growth. However, high export prices are supporting company profits and national income.

An underlying cash surplus of \$6.2 billion is anticipated in 2004-05, an increase of \$900 million since PEFO and \$3.8 billion since the 2004-05 Budget. This largely reflects an increase in estimated cash receipts of \$5.5 billion offsetting an increase in payments of \$1.7 billion.

The increase in estimated cash receipts since Budget is largely driven by higher than expected company profits and stronger than expected employment outcomes. The upward revision reflects the flow-on effect of the stronger than expected receipts outcome for 2003-04 and evidence of continued strength in employment and company profits in collections in early 2004-05.

The increase in estimated cash expenditure since Budget is largely due to the implementation of the Government's election commitments and other new policy measures announced since Budget. Major new initiatives include raising the Medicare Rebate, increasing investment in school infrastructure and increasing assistance to senior Australians.

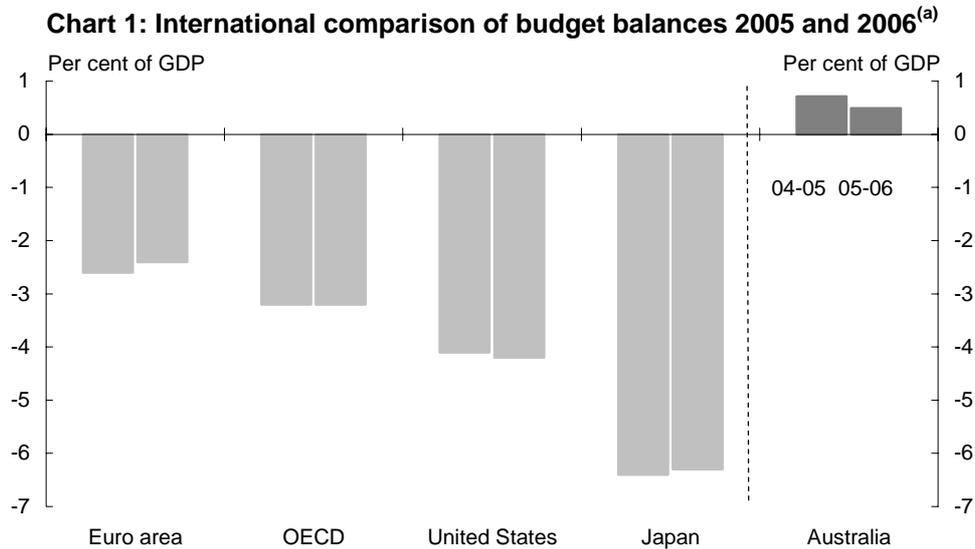
Table 1 presents the fiscal and underlying cash balances for 2004-05 and the forward years.

Table 1: Summary of budget aggregates

	Estimates					
	2004-05			2005-06		
	Budget	PEFO	MYEFO	Budget	PEFO	MYEFO
Underlying cash balance (\$b)	2.4	5.3	6.2	1.6	5.1	4.5
Per cent of GDP	0.3	0.6	0.7	0.2	0.6	0.5
Fiscal balance (\$b)	0.7	3.6	4.9	0.7	4.1	3.5
Per cent of GDP	0.1	0.4	0.6	0.1	0.5	0.4
	Projections					
	2006-07			2007-08		
	Budget	PEFO	MYEFO	Budget	PEFO	MYEFO
Underlying cash balance (\$b)	3.4	6.9	5.7	4.5	7.9	7.6
Per cent of GDP	0.4	0.7	0.6	0.4	0.8	0.7
Fiscal balance (\$b)	2.3	6.4	5.0	2.6	6.8	6.6
Per cent of GDP	0.2	0.7	0.5	0.3	0.7	0.6

Part 1: Overview

The underlying cash surpluses projected for future years emphasise Australia's sound fiscal outlook at a time when many of the major advanced economies are continuing to experience significant deficits.



(a) International data are for the total general government sector and sourced from *OECD Economic Outlook 76*, December 2004. Australian data is for the Australian Government general government sector.

In accrual terms, the fiscal balance is expected to record a \$4.9 billion surplus in 2004-05, which is up \$1.3 billion since PEFO and \$4.2 billion from the Budget forecasts. The fiscal balance is expected to remain in surplus over the forward estimates.

Further details on the accrual and cash budget estimates are provided in Part 3.

DOMESTIC AND INTERNATIONAL ECONOMIC OUTLOOK

Following a period of strong economic growth, the Australian economy is expected to record solid growth of 3 per cent in 2004-05 and 3¼ per cent in 2005-06. Despite continued robust domestic expenditure, weaker than anticipated export growth has resulted in a modest downward revision to the economic outlook from the PEFO and 2004-05 Budget.

World economic growth prospects remain favourable. The outlook for world and major trading partner growth for 2004 is unchanged from Budget. The forecast for world economic growth in 2005 is slightly lower, reflecting the impact of high oil prices and recent softer than expected economic growth in Japan and the euro area.

Domestic expenditure has continued to grow strongly, although in recent quarters there has been some moderation in consumption and investment. Household consumption is expected to grow at around current rates over 2004-05, supported by strong income growth and high levels of household wealth. With household wealth expected to grow much more slowly than in recent years and high debt servicing payments, consumption is likely to ease back to slightly below average growth rates in 2005-06. Strong profit growth, continued global demand for resources and limited spare capacity are expected to support high levels of business investment over the forecast period. The slowdown in dwelling investment currently underway is anticipated to be relatively muted compared with previous cycles.

Although export volume growth has been weaker than expected, it has picked up in response to the strong world economy and an improvement in farm production in 2003-04. The outlook for exports is for a continued improvement over the forecast period. Given the substantial increase in production capacity flowing from strong investment, particularly in the resource sector, exports are forecast to grow solidly in 2004-05 and at slightly above average rates in 2005-06. The strength of export prices has lifted national income growth.

Employment growth is expected to remain robust, supported by high profits and business confidence. The unemployment rate is forecast to stay at low levels, as is the inflation rate.

The key domestic risks to the Australian economy continue to be related to developments in the housing market and their impact on the rest of the economy. Although an orderly and moderate decline in both housing activity and prices appears underway, a sharper and longer-lived downturn would constitute a risk to the economy. Another key risk is that a further appreciation in the Australian dollar may delay the anticipated rebalancing of economic growth away from domestic to external sources. High oil prices, despite having eased recently, also remain a risk to the domestic outlook, primarily through their impact on global growth and prospects for Australian exports.

Table 2 presents the major economic parameters used in preparing the *Mid-Year Economic and Fiscal Outlook 2004-05*. The parameters for 2004-05 and 2005-06 are forecasts while those for 2006-07 and 2007-08 are projections. The projections of economic growth are based on analysis of underlying trends in employment and productivity. The projections of inflation are consistent with the medium-term inflation target band.

Part 1: Overview

Table 2: Major economic parameters (percentage change from previous year)^(a)

	Forecasts		Projections	
	2004-05	2005-06	2006-07	2007-08
Real GDP	3	3 1/4	3 1/2	3 1/2
Employment	2	1 3/4	1 1/2	1 1/2
Wage Price Index	3 1/2	3 3/4	3 3/4	3 3/4
CPI	2 1/4	2 1/4	2 1/2	2 1/2

(a) Year-average percentage change.

PART 2: ECONOMIC OUTLOOK

The Australian economy is expected to record solid growth of 3 per cent in 2004-05, a downward revision from the 3½ per cent growth forecast in the *Pre-Election Economic and Fiscal Outlook 2004* (PEFO) and in the 2004-05 Budget. In 2005-06, growth is forecast to be 3¼ per cent, ¼ of a percentage point lower than at PEFO.

World economic growth prospects remain favourable. As anticipated at Budget, the world economy has continued to grow strongly, and is forecast to grow by 4½ per cent in 2004. In 2005, world economic growth is expected to ease to 4 per cent. World growth next year had been expected to ease as fiscal and monetary policies became less stimulatory. However, the outlook has softened further since PEFO, reflecting the impact of high oil prices and recent weaker than expected economic growth in Japan and the euro area.

At Budget, the drivers of Australian economic growth for 2004-05 were anticipated to gradually shift from domestic to external sources. However, domestic expenditure, while easing from rapid growth in 2003-04, has nevertheless held up more than expected. Moreover, exports have not responded as quickly as forecast to the favourable external environment.

Domestic expenditure has continued to grow strongly, although in recent quarters there has been some moderation in consumption and investment. Household consumption is expected to remain robust through 2004-05 supported by continued strong growth in incomes and the high level of household wealth. However, with high debt servicing payments and household wealth expected to grow much more slowly than in recent years, consumption growth is likely to ease back to slightly below average in 2005-06.

Adding to recent strong domestic conditions has been the dramatic increase in the terms of trade. Rising export prices and falling import prices have seen national income grow more rapidly than output. In 2004-05, national income is expected to grow more strongly than anticipated at Budget given the stronger outlook for Australia's export prices. High export prices – especially resource prices – have fuelled an improvement in corporate profits and provided an incentive for firms to increase investment. Firms have also increased employment, which in turn has increased household incomes. Strong profits, continued global demand for resources and high capacity utilisation are expected to support high levels of business investment in 2004-05 and 2005-06.

The housing market remained stronger than expected through the first half of 2004. However, a slowing in the housing market is now evident. Dwelling investment fell in the September quarter, as did house prices. Approvals data suggest that dwelling investment will decline further in 2005. However, the decline in dwelling investment is still forecast to be relatively muted compared with previous cycles, with generally

Part 2: Economic outlook

favourable economic conditions partly offsetting the effects of expected lower capital gains.

Export growth in 2004-05 is expected to be solid, although lower than forecast at Budget. Generally dry conditions and the late arrival of spring rain in some areas, has resulted in a smaller than expected grain harvest in 2004. Growth in the volume of mineral and energy exports has been weaker than forecast at Budget, reflecting long lead times for investment in the mining sector and some transportation bottlenecks. Nevertheless, a strong world economy is supporting very high prices for non-rural commodities and this is providing an incentive for further investment in production and transportation capacity in the mining sector. As this capacity comes on line, non-rural commodity exports should grow strongly, leading to above average export growth in 2005-06. Future resource export growth will, however, remain vulnerable to the pace of infrastructure investment.

The labour market has improved since Budget, with employment growing more quickly than anticipated and the unemployment rate falling to 27-year lows. Looking forward, employment growth is expected to be robust supported by high profits and business confidence. The unemployment rate is forecast to remain around current levels in 2004-05 and 2005-06.

The inflation forecast has increased slightly since Budget, to around 2¼ per cent in 2004-05, and is expected to remain around this rate in 2005-06. The slight increase in the 2004-05 forecast reflects the higher Australian dollar price of oil.

RISKS TO THE OUTLOOK

With clear evidence of a cooling in dwelling investment and house prices, developments in the housing market are key to domestic demand. The forecast remains for an orderly and relatively mild decline in dwelling investment. However, the high level of investment in housing, the rapid rise and subsequent softening in house prices, and evidence that investors are exiting the housing market, leaves the dwelling sector finely balanced.

If house prices were to fall more sharply than expected this would have implications for consumption. Rising house prices over recent years have encouraged households to increase consumption. People were able to borrow against their accumulating wealth and household saving fell. Although there are few signs of financial stress, Australian households are now spending an historically high proportion of their income on debt servicing. While most households are not at risk – for example, much of the increase in investor activity in the housing market appears to have been by older people and high income earners – some households are more vulnerable to unexpected events. Although the increase in debt has been largely balanced or exceeded by an increase in assets, problems may still emerge as, unlike many financial assets, housing assets cannot be quickly converted into cash.

Despite having weathered significant international economic shocks in recent years, the Australian economy is not immune to external developments. The depreciation of the US dollar over the past six months – around 9 per cent against the Australian dollar, 8 per cent against the euro and 6 per cent against the yen – is continuing a trend decline dating from late 2001. A sustained depreciation of the US dollar will assist the unwinding of the US current account deficit and associated global imbalances. However, unless accompanied by stronger domestic demand growth in Japan and the euro area, this depreciation will reduce overall world economic growth. Such an outcome could harm the anticipated recovery in Australian export growth.

The world economy is currently experiencing an oil price shock of uncertain duration and size. Despite recent falls, strong demand, tight supply capacity and distributional bottlenecks are likely to see oil prices maintained at high levels for some time yet. The futures market has prices persisting around \$US40 per barrel to the end of 2006, which is significantly higher than the five-year average of \$US31 per barrel.

High oil prices have had a negative, albeit relatively modest, impact on the world economy to date. Just as for the world, the initial impact on the Australian economy of higher oil prices has been slightly negative. Since Australia is a net energy exporter, the longer-run impact will depend on the extent to which higher oil prices spill over into the price of other forms of energy and the extent to which world growth prospects are dampened.

INTERNATIONAL ECONOMIC OUTLOOK

World economic growth peaked in the June quarter 2004. Growth in our major trading partners (MTPs) reached 5.7 per cent through the year to the June quarter 2004, the highest rate of growth since the March quarter 2000. While growth is expected to ease, world economic prospects remain favourable.

Forecasts for world and MTP growth for 2004 have been revised down since PEFO, but are unchanged from Budget. For 2005, forecasts for world and MTP growth have been lowered by $\frac{1}{4}$ of a percentage point from Budget, reflecting the impact of high oil prices and recent softer than expected economic growth in Japan and the euro area. In East Asia, the slowing of the Chinese economy and the downturn in the information and communication technology cycle, are dampening East Asian export growth and are reflected in the easing of output growth forecasts across the region.

Ongoing competitive pressures and the anchoring of inflation expectations in developed countries are limiting the pass-through of high oil prices to more generalised inflation, providing scope for policy settings to remain accommodative. Such policy settings are expected to continue to support growth going into 2005. World growth is forecast to ease to around average rates of growth in the second half of 2005 and into 2006 as policy support is progressively unwound.

Table 3: International GDP growth forecasts^{(a)(b)}

	Actual	Forecasts	
	2003	2004	2005
World	3.8	4 1/2	4
Total OECD	2.2	3 1/4	2 3/4
United States	3.0	4 1/2	3 1/2
Japan	1.3	3	1 3/4
Euro area	0.5	1 3/4	1 3/4
Major Trading Partners	3.2	4 3/4	3 3/4
Non-Japan East Asia(c)	4.8	6 3/4	5 1/2

(a) Growth rates for the world and euro area are calculated using GDP weights based on purchasing power parity, while growth rates for Major Trading Partners and non-Japan East Asia are calculated using export trade weights.

(b) Per cent change from previous year.

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

Source: National statistical publications, IMF and Treasury.

The economic outlook for the **United States** is broadly unchanged from PEFO, although the forecasts have been downgraded slightly in 2005 due to the impact of higher oil prices. Despite the oil price shock, growth is still expected to be strong, moderating from the above average rates recorded in the initial stages of the recovery to around 3½ per cent in 2005 and 2006.

Conditions in the US business sector are extremely favourable and are expected to continue to support investment over the next year. Reflecting strong growth in productivity and profitability, confidence is high, the cost of capital is low, and business finances are healthy. These conditions should see employment outcomes continue to improve over the next year.

Over the past few years, US household consumption has continued to grow well ahead of income, driving the household saving ratio to record low levels. This has been supported by expansionary fiscal policy and strong gains in net worth from appreciating asset prices. As the influence of these factors wanes, consumption growth is expected to moderate to levels more consistent with income growth. The risk is that households will move abruptly to consolidate their financial position.

Despite recording weak growth in the September quarter 2004, the **euro area** is on track to record a modest recovery. Easing exports are expected to be offset by moderately stronger domestic conditions. Export demand has underpinned growth over 2004, especially for the large economies of Germany, France and Italy. However, the slowing global economy and higher euro exchange rate mean that an increased contribution from domestic demand is needed for the recovery to be sustained.

While euro area investment activity remains sluggish, business conditions have improved over the course of 2004. Corporate profits are healthier and balance sheet restructuring has advanced, providing some potential for the corporate sector to provide more impetus to growth once uncertainties over demand prospects have

eased. But stronger consumption growth is being constrained by poor labour market conditions, weak income growth and uncertainties over the effect of structural reforms.

The **United Kingdom** continues to outperform the euro area, and solid growth is expected to continue. While UK output growth slowed in the September quarter, private consumption is strong, underpinned by strong income growth and the high level of household wealth.

Japan's economic recovery is forecast to continue, albeit more slowly than expected at Budget. Japanese output growth slowed markedly in the middle of 2004 after having been underpinned by booming exports and a related rebound in business investment since late 2003. Nevertheless, the underlying economic conditions for a continuation of growth are intact. Business sentiment and corporate profits are high, supporting the outlook for business investment, and improving employment conditions should help underpin consumption growth.

China's economy is showing signs of slowing from the very high rates of growth experienced at the beginning of 2004. While recent data suggest that activity has moderated slightly, there is still uncertainty about the extent of the slowing. Rapid investment growth and the risk that capital is not being allocated efficiently may lead to excess capacity in some sectors and place pressure on China's still fragile financial system. Looking forward, growth is expected to continue to ease but remain robust, with strong consumption buoyed by rising per capita incomes, partially offsetting a policy-induced slowdown in investment.

Economic growth in the **rest of East Asia** appears to have peaked, with high oil prices, the downturn in the information and communication technology cycle, and slowing world demand dampening growth. Growth should remain underpinned by strengthening domestic demand and supportive monetary policies in 2005 and 2006. Relative to the region, Korea's economic prospects remain subdued, with domestic demand still weak following the bursting of the consumer credit bubble in 2003.

There are downside risks to the world economic outlook. High oil prices and global imbalances have persisted and still represent a key risk to the outlook. Other risks include the persistence of the economic 'soft-patch' in the euro area and Japan and the capacity of the world economy to adjust smoothly to higher interest rates. These downside risks outweigh the possibility that still-expansive policy settings could generate a more vigorous pick-up in momentum than currently anticipated.

The withdrawal of monetary stimulus in the United States and elsewhere to date has had limited global consequences; however, there is the potential for the transition to tighter monetary policy to cause financial market disruptions. Developing economies are particularly vulnerable to increasing global interest rates. Increasing US interest rates may result in a widening spread between emerging and mature market interest rates as international investors reassess their risk/return preferences. Higher interest

Part 2: Economic outlook

rates could also have a large impact on the balance sheets of highly leveraged consumers in a number of developed economies.

The US fiscal and current account deficits remain the most serious medium-term risks to the economic outlook for the US and the world, particularly in light of longer term demographic pressures. There is a risk that the recent – and necessary – depreciation of the US dollar may become rapid and destabilising in response to foreigners changing their risk appetite for US dollar assets.

DOMESTIC FORECASTS

The forecasts for the domestic economy are underpinned by several key technical assumptions. The exchange rate is assumed to remain around the average level of recent months (a trade weighted index of around 63 and a \$US exchange rate of around 76c). Interest rates are assumed to remain around current levels. Oil prices are assumed to move in line with market expectations as of early December, at that time the price of West Texas Intermediate oil was expected to fall gradually to around \$US43 per barrel by June 2006. The farm sector forecasts are based on an assumption of average seasonal conditions in 2005-06.

The Australian economy is forecast to grow by 3 per cent in 2004-05 and by 3¼ per cent in 2005-06. The key domestic economic forecasts are summarised in Table 4.

Table 4: Domestic economy forecasts^(a)

	2003-04	2004-05	
	Outcomes(b) Year average	Forecasts	
		Budget Year average	MYEFO Year average
Panel A - Demand and output(c)			
Household consumption	5.6	4 1/4	4 1/2
Private investment			
Dwellings	7.4	-3	0
Total business investment(d)	8.9	7	7
Non-dwelling construction(d)	12.5	6	2
Machinery and equipment(d)	7.0	8	10
Intangible fixed assets	4.6	7	10
Private final demand(d)	6.1	4	4 1/4
Public final demand(d)	3.9	3 1/2	5
Total final demand	5.6	4	4 1/2
Change in inventories(e)			
Private non-farm	0.5	0	0
Farm and public authorities(f)	0.0	- 1/4	0
Gross national expenditure	6.1	3 3/4	4 1/4
Exports of goods and services	1.6	8	4
Imports of goods and services	12.3	9	10
Net exports(e)	-2.4	- 1/2	-1 1/2
Gross domestic product	4.0	3 1/2	3
Non-farm product	3.4	3 1/2	3
Farm product	28.5	4	-2
Panel B - Other selected economic measures			
External accounts			
Terms of trade	7.0	4 1/2	7 1/4
Current account balance			
\$billion	-47.4	-43 1/2	-51
Percentage of GDP	-5.8	-5	-6
Labour market			
Employment (labour force survey basis)	1.8	1 3/4	2
Unemployment rate (per cent)	5.8	5 3/4	5 1/2
Participation rate (per cent)	63.5	63 1/2	63 1/2
Prices and wages			
Consumer Price Index	2.4	2	2 1/4
Gross non-farm product deflator	3.4	2 1/2	3 1/4
Wage Price Index	3.6	3 3/4	3 1/2

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

(b) Calculated using original data.

(c) Chain volume measure.

(d) Excludes second-hand asset sales from the public sector to the private sector.

(e) Percentage point contribution to growth in GDP.

(f) For presentation purposes, forecast changes in inventories held by privatised marketing authorities are included with the inventories of the farm sector and public marketing authorities.

Part 2: Economic outlook

Household consumption is expected to grow by a robust 4½ per cent in 2004-05, albeit easing from the rapid increases recorded in recent years. Consumption continues to be supported by growth in household incomes flowing from solid employment and wage increases. Initiatives in the 2004-05 Budget and policies announced in the federal election are also expected to support consumption, although in recent quarters the increase in after-tax incomes appears to have been saved rather than spent.

Past gains in wealth from rising house prices and strengthening equity markets continue to support household spending. Strong growth in wealth has seen consumption run ahead of income, particularly as households drew down on the increased equity in their housing assets. However, with relatively high debt servicing payments and household wealth expected to grow much more slowly than in recent years, consumption growth is likely to ease to slightly below average rates during 2005-06.

Dwelling investment is forecast to be flat in 2004-05 and to fall in 2005-06. The expected decline in total dwelling investment reflects a reduction in both medium-density and detached housing construction.

Over the first half of 2004, dwelling investment remained higher than expected, held up by strong market sentiment. However, a slowing in the housing market is now evident. Dwelling investment fell in the September quarter and a broad range of forward-looking housing sector indicators suggest that dwelling investment will continue to decline into 2005.

The forecast decline in dwelling investment is muted compared with previous cycles as there is an absence of the usual triggers for a housing downturn – namely high interest rates or rising unemployment. In addition, investment in alterations and additions – which represents nearly half of total dwelling investment – is anticipated to hold up more strongly than new dwelling investment.

The outlook for **business investment** is one of ongoing strength, with continued global demand for resources and high capacity utilisation rates. Business investment is forecast to grow by 7 per cent in 2004-05, with continued strong growth in machinery and equipment expenditure partially offsetting a moderation in non-dwelling construction.

Investment in machinery and equipment is forecast to grow by 10 per cent in 2004-05, supported by high levels of business confidence, strong corporate profitability and the low cost of capital.

Growth in non-dwelling construction is expected to moderate to 2 per cent in 2004-05, following exceptionally strong growth in recent years. High office vacancy rates and low rental yields point to a slowdown in new building construction. Growth in new engineering construction is expected to ease slightly, but should remain at high levels as large-scale investments continue in the resource sector and in the provision of

public infrastructure. The moderation of growth in non-dwelling construction is expected to continue into 2005-06.

Public final demand is expected to increase by 5 per cent in 2004-05 before easing back to more modest growth rates in 2005-06. The strong growth in 2004-05 largely reflects a range of infrastructure investment projects, particularly at the state and local government level.

Net exports are forecast to subtract around 1½ percentage points from overall growth in 2004-05, less than the 2.4 percentage point subtraction recorded in 2003-04. Over the course of 2005-06, as exports continue to expand and imports moderate, the net export subtraction is expected to be further reduced.

Exports of non-rural commodities are forecast to grow solidly in 2004-05 before accelerating in 2005-06. Strong global demand for non-rural commodities is supporting Australia's mining sector. Due to the time lags involved in expanding capacity, this demand is currently being reflected in export prices rather than export volumes. However, the mining industry is undertaking considerable investment – in both mines and mining infrastructure – to address the current capacity constraints and this will progressively lift production over the forecast period. There is already evidence of increased production in the iron ore and coal sectors.

Rural exports are forecast to grow solidly in 2004-05 and 2005-06 in year-average terms. However, through the year to June 2005, rural exports are expected to fall, as winter crop production was lower than last season's record harvest. Some rural production is still suffering from low subsoil moisture, a legacy of the drought. Assuming average seasonal conditions, rural production and exports should increase in 2005-06.

The translation of stronger global growth into demand for Australia's exports of elaborately transformed manufactures (ETMs) has been relatively muted to date. Manufacturers are facing strong competition in export markets from the increased ability of low-cost competitors to produce more sophisticated goods. The appreciation of the exchange rate – by over 25 per cent in trade-weighted terms since its low in 2002 – is also making it more difficult for Australian exporters of manufactures to compete on world markets. Growth in services exports has also been muted as tourism is still recovering from heightened security concerns following the terrorist attacks of recent years.

Imports are forecast to increase by 10 per cent in 2004-05 before moderating slightly in 2005-06. This profile is consistent with easing, but robust, growth in domestic demand and the relatively high exchange rate.

The **terms of trade** are forecast to increase by 7¼ per cent in 2004-05 and to increase further in 2005-06. The stronger outlook since Budget largely reflects a more

Part 2: Economic outlook

favourable outlook for export prices and ongoing decreases in prices of imported information and communications technology and consumer electronics.

The **current account deficit** (CAD) is forecast to remain around 6 per cent of gross domestic product in 2004-05. The upward revision since Budget reflects weaker exports and a widening in the net income deficit. Nonetheless, the CAD is expected to narrow over 2005-06, with the anticipated improvement in the terms of trade and export growth.

Employment has grown more quickly than anticipated at Budget and the unemployment rate has fallen to 27-year lows in recent months. Forward-looking indicators of labour market conditions continue to support the positive outlook and, consistent with the pace of activity in the non-farm economy, employment is expected to grow by 2 per cent in 2004-05. The participation rate is forecast to increase slightly over the forecast period and the unemployment rate is expected to average around 5½ per cent in both 2004-05 and 2005-06.

Wages, as measured by the Wage Price Index, are forecast to grow by 3½ per cent in 2004-05 and by 3¾ per cent in 2005-06. Business surveys and liaison suggest it is harder to find high quality labour. These shortages are most evident for skilled tradespeople and some professionals. However, there are currently few signs of systemic wage pressures.

The outlook for **inflation** is benign, despite the large increase in oil prices since Budget. With moderate growth in labour costs and continued low import prices, headline CPI is forecast to increase by 2¼ per cent in both 2004-05 and 2005-06. The forecast for inflation in 2004-05 is slightly higher than at Budget, but lower than at PEFO, largely reflecting movements in the Australian dollar price of oil. There is little evidence of sustained inflationary pressure either from oil prices or from labour costs.

PART 3: FISCAL OUTLOOK

OVERVIEW

The Australian Government's underlying cash surplus for 2004-05 is estimated to be \$6.2 billion, an increase of \$900 million since the *Pre-Election Economic and Fiscal Outlook 2004* (PEFO) and \$3.8 billion since the 2004-05 Budget. In accrual terms, a fiscal balance surplus of \$4.9 billion is estimated for 2004-05, an increase of \$1.3 billion since PEFO and \$4.2 billion since the 2004-05 Budget. The fiscal outlook is for continuing underlying cash and fiscal surpluses in the forward years.

Table 5: Australian Government general government sector budget aggregates^(a)

	Estimates ^(b)					
	2004-05			2005-06		
	Budget	PEFO	MYEFO	Budget	PEFO	MYEFO
Revenue (\$b)	193.2	197.9	199.4	201.4	206.4	207.5
Per cent of GDP	22.5	22.9	23.0	22.2	22.6	22.7
Expenses (\$b)	192.3	194.0	193.8	200.6	202.2	203.6
Per cent of GDP	22.4	22.4	22.4	22.1	22.1	22.2
Net operating balance (\$b)	0.8	3.9	5.6	0.8	4.2	3.9
Net capital investment (\$b)	0.1	0.3	0.7	0.0	0.1	0.4
Fiscal balance (\$b)	0.7	3.6	4.9	0.7	4.1	3.5
Per cent of GDP	0.1	0.4	0.6	0.1	0.5	0.4
Underlying cash balance (\$b)	2.4	5.3	6.2	1.6	5.1	4.5
Per cent of GDP	0.3	0.6	0.7	0.2	0.6	0.5
<i>Memorandum item:</i>						
Headline cash balance (\$b)	1.0	3.9	4.9	0.0	3.6	3.0
	Projections					
	2006-07			2007-08		
	Budget	PEFO	MYEFO	Budget	PEFO	MYEFO
Revenue (\$b)	212.2	217.5	217.6	223.1	228.7	229.3
Per cent of GDP	22.2	22.6	22.5	22.1	22.5	22.5
Expenses (\$b)	210.0	211.3	212.4	220.9	222.4	222.9
Per cent of GDP	22.0	21.9	22.0	21.9	21.9	21.9
Net operating balance (\$b)	2.2	6.2	5.2	2.2	6.3	6.5
Net capital investment (\$b)	-0.1	-0.2	0.2	-0.4	-0.5	-0.1
Fiscal balance (\$b)	2.3	6.4	5.0	2.6	6.8	6.6
Per cent of GDP	0.2	0.7	0.5	0.3	0.7	0.6
Underlying cash balance (\$b)	3.4	6.9	5.7	4.5	7.9	7.6
Per cent of GDP	0.4	0.7	0.6	0.4	0.8	0.7
<i>Memorandum item:</i>						
Headline cash balance (\$b)	12.8	16.3	15.2	13.7	17.3	16.9

(a) All estimates are based on Government Finance Statistics (GFS) standards, but with goods and services tax (GST) revenue collected on behalf of the states and territories netted off revenue and expenses.

(b) For the 2004-05 MYEFO, 2005-06 has moved from a projection year to an estimate year.

Part 3: Fiscal outlook

Table 6 provides a reconciliation of the fiscal balance estimates between the 2004-05 Budget and the 2004-05 Mid-Year Economic and Fiscal Outlook (MYEFO).

Table 6: Reconciliation of general government fiscal balance estimates^(a)

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
2004-05 Budget fiscal balance	698	712	2,291	2,619
Per cent of GDP	0.1	0.1	0.2	0.3
<i>Changes between 2004-05 Budget and PEFO</i>				
Effect of policy decisions(b)				
Revenue	-18	-392	-308	-173
Expenses	791	1,122	1,089	1,178
Net capital investment	26	-2	-9	-9
Net effect of policy decisions	-835	-1,512	-1,388	-1,342
Effect of parameter and other variations				
Revenue	4,746	5,398	5,610	5,719
Expenses	879	477	162	243
Net capital investment	141	10	-17	-14
Net effect of parameter and other variations	3,727	4,911	5,466	5,490
2004 PEFO fiscal balance	3,589	4,112	6,369	6,766
Per cent of GDP	0.4	0.5	0.7	0.7
<i>Changes between PEFO and 2004-05 MYEFO</i>				
Effect of policy decisions(b)				
Revenue	7	-8	-807	-852
Expenses	854	1,821	2,160	2,189
Net capital investment	202	118	113	180
Total policy decisions	-1,049	-1,948	-3,081	-3,222
Effect of parameter and other variations				
Revenue	1,557	1,116	876	1,518
Expenses	-1,021	-461	-1,081	-1,660
Net capital investment	189	243	261	146
Total parameter and other variations	2,389	1,334	1,695	3,032
2004-05 MYEFO fiscal balance	4,929	3,497	4,984	6,577
Per cent of GDP	0.6	0.4	0.5	0.6

(a) A positive number for revenue indicates an increase in the fiscal balance, while a positive number for expenses and net capital investment indicates a decrease in the fiscal balance.

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

The estimates for 2004-05 and 2005-06 are constructed using the 2003-04 outcomes, year-to-date results and an updated economic outlook. However, the projection years – 2006-07 and 2007-08 – are based mainly on underlying trends in economic parameters and no account is taken of cyclical influences on economic activity.

A range of factors may change the fiscal outlook. Part 2 discusses risks to the domestic and international economic outlook, which impact on both government revenue and expenses. A discussion of the estimated sensitivity of the fiscal aggregates to changes to the economic parameters is provided in Attachment C to this part. Appendix D

contains a Statement of Risks which details new or revised fiscal risks that may have a material impact on the fiscal outlook.

REVENUE

Total accrual revenue is expected to be \$199.4 billion in 2004-05, \$1.6 billion higher than the PEFO and \$6.3 billion higher than the 2004-05 Budget. Taxation revenue in 2004-05 is expected to be \$1.2 billion higher than at the PEFO and \$5.0 billion higher than the 2004-05 Budget estimate. The upward revision is largely driven by higher than expected revenue from individuals and companies, as a result of continued evidence of strength in employment and company profits in revenue collections in early 2004-05. The strength in taxation revenue reflects the robust domestic demand conditions and the substantial boost to the terms of trade which is contributing to stronger growth in national income compared with estimates at Budget.

Non-taxation revenue in 2004-05 is expected to be \$323 million higher since the PEFO and \$1.2 billion higher than the 2004-05 Budget estimate, reflecting a \$516 million increase in dividends from Telstra, a \$326 million increase in interest received by the Australian Office of Financial Management on term deposits and a \$242 million increase in estimated petroleum royalties.

Policy decisions since Budget have reduced expected revenue by \$11 million in 2004-05 and \$401 million in 2005-06. Major policy measures affecting revenue over the four year period 2004-05 to 2007-08 include:

- \$335 million in 2005-06 (around \$1.0 billion over three years) due to the introduction of a new Mature Age Worker Tax Offset to encourage mature age workers to stay in the workforce;
- \$400 million in 2006-07 (\$790 million over two years) due to the introduction of a 25 per cent Entrepreneur's Tax Discount on the income tax liability of eligible small businesses;
- \$280 million in 2006-07 (\$585 million over two years) due to the introduction of the 30 per cent Child Care Rebate; and
- \$15 million in 2005-06 (\$270 million over three years) due to the extension of the Simplified Tax System (STS) by removing the requirement that taxpayers in STS calculate their income and deductions on a cash basis.

A full list of revenue measures announced since the 2004-05 Budget is provided at Appendix A.

Part 3: Fiscal outlook

Detailed Australian Government general government sector revenue estimates for 2004-05, compared with the estimates published in the 2004-05 Budget, are provided in Table 7. Detailed cash estimates are listed in Table F3 (Appendix F).

Table 7: Australian Government general government revenue (accrual basis)

	2004-05			
	Budget estimate \$m	MYEFO estimate \$m	Change on Budget \$m	Change on Budget %
Taxation revenue				
Income taxation				
Individuals and other withholding tax(a)				
Gross income tax withholding	95,150	96,550	1,400	1.5
Gross other individuals	20,390	22,210	1,820	8.9
less Refunds	12,850	13,700	850	6.6
Total individuals and other withholding tax	102,690	105,060	2,370	2.3
Companies	39,400	40,870	1,470	3.7
Superannuation funds				
Contributions and earnings	5,520	5,390	-130	-2.4
Superannuation surcharge	1,390	1,320	-70	-5.0
Total superannuation funds	6,910	6,710	-200	-2.9
Petroleum resource rent tax	1,100	1,560	460	41.8
Total income taxation	150,100	154,200	4,100	2.7
Indirect taxation				
Excise duty				
Petroleum products and other fuel products	13,320	13,400	80	0.6
Crude oil	320	550	230	71.9
Other excise	7,580	7,700	120	1.6
Total excise duty	21,220	21,650	430	2.0
Customs duty	5,335	5,714	378	7.1
Other indirect taxes	1,080	1,140	60	5.6
Total indirect taxation	27,635	28,504	868	3.1
Fringe benefits tax(b)	3,190	3,020	-170	-5.3
Agricultural levies and other taxes	1,654	1,898	244	14.7
Total taxation revenue	182,580	187,622	5,042	2.8
Non-taxation revenue	10,571	11,821	1,250	11.8
Total revenue	193,151	199,443	6,292	3.3

(a) Includes Medicare levy revenue.

(b) Consistent with GFS reporting standards, excludes fringe benefits tax collected from Australian Government agencies (estimated at \$380 million in 2004-05).

Total tax revenue is expected to be \$187.6 billion in 2004-05, \$1.2 billion higher than at the PEFO and an upward revision of \$5.0 billion since the 2004-05 Budget estimate. The revision is largely driven by higher than expected revenue from individuals and companies, reflecting the continued strength in employment and company profits in revenue collections in early 2004-05. Estimated company tax revenue has increased by \$610 million since PEFO and \$1.5 billion since the 2004-05 Budget estimate.

Revenue from other individuals for 2004-05 is expected to be \$22.2 billion, \$190 million above the PEFO estimate and \$1.8 billion above the 2004-05 Budget estimate, while

revenue from income tax withholding is expected to be \$96.6 billion (\$560 million above the PEFO estimate and \$1.4 billion above the 2004-05 Budget estimate).

Higher estimated tax revenue also reflects:

- an upward revision to revenue from petroleum resource rent tax of \$160 million since the PEFO and \$460 million since the 2004-05 Budget, reflecting the effects of higher than anticipated oil prices as well as additional production; and
- an upward revision to revenue from petroleum products of \$190 million since the PEFO and \$310 million since the 2004-05 Budget, reflecting the effect of higher than anticipated oil prices.

Partially offsetting these increases to revenue is a \$90 million decrease in the superannuation contributions and earnings estimates since the PEFO (\$130 million decrease since the 2004-05 Budget) and a \$90 million decrease in the superannuation surcharge estimate (\$70 million since the 2004-05 Budget), reflecting lower collections in the year to date.

EXPENSES

Estimated accrual expenses in 2004-05 have fallen by \$167 million compared with the PEFO but increased by \$1.5 billion since the 2004-05 Budget. This increase since the 2004-05 Budget reflects the net effect of new policy measures of \$1.6 billion in 2004-05, and a decrease of \$142 million due to economic parameter and other variations.

Table 8: Reconciliation of general government sector expense estimates

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
2004-05 Budget expenses	192,306	200,626	210,033	220,939
Changes between 2004-05 Budget and PEFO				
Effect of policy decisions(a)	791	1,122	1,089	1,178
Effect of economic parameter variations				
Unemployment benefits	-18	-63	-74	-133
Prices and wages	520	25	182	171
Interest and exchange rates	146	153	170	168
<i>Total economic parameter variations</i>	<i>648</i>	<i>115</i>	<i>278</i>	<i>206</i>
Public debt interest	41	-10	-3	-42
Programme specific parameter variations	-368	-485	-462	-319
Other variations	557	856	349	397
Total variations	1,670	1,599	1,251	1,421
2004-05 PEFO expenses	193,976	202,225	211,284	222,361
Changes between PEFO and 2004-05 MYEFO				
Effect of policy decisions(a)	854	1,821	2,160	2,189
Effect of economic parameter variations				
Unemployment benefits	-88	36	65	95
Prices and wages	-426	-497	-331	-429
Interest and exchange rates	-131	-173	-195	-187
<i>Total economic parameter variations</i>	<i>-644</i>	<i>-635</i>	<i>-461</i>	<i>-521</i>
Public debt interest	-55	5	-51	-76
Programme specific parameter variations	-1,132	-558	-634	-749
Other variations(b)(c)	811	727	65	-314
Total variations	-167	1,360	1,079	529
2004-05 MYEFO expenses	193,808	203,585	212,363	222,890

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

(b) The contingency reserve includes an allowance for the established tendency of existing government policy (particularly demand driven programmes) to be higher than estimates in the forward years. This allowance, known as the conservative bias allowance, is progressively reduced so that the budget year conservative bias is zero by the Budget. As is standard practice, the conservative bias has been reduced at this MYEFO in the forward years from 2005-06 onwards.

(c) The contingency reserve includes a provision for the implementation of election commitments not yet reported as separate measures.

Major policy decisions announced between the 2004-05 Budget and the PEFO increase estimated expenses by \$791 million in 2004-05 and include:

- \$252 million in 2004-05 (\$1.8 billion over four years) due to raising the Medicare Rebate to 100 per cent of the Medicare Benefits Schedule fee in relation to all non-referred general practitioner attendances; and
- \$30 million in 2004-05 (\$446 million over four years) due to the increase in the 30 per cent private health insurance rebate for older Australians to 35 per cent for 65 to 69 year olds and to 40 per cent for people over 70 years of age.

Policy decisions since the PEFO increase estimated expenses by \$854 million in 2004-05, and include:

- \$132 million in 2004-05 (\$921 million over four years) to provide funding to schools under the *Investing in Our Schools* package;
- \$82 million in 2004-05 (\$610 million over four years) to provide the Utilities Allowance for senior Australians on income support, as part of the *Recognising Senior Australians – Their Needs and Their Carers* package;
- \$59 million in 2004-05 (\$258 million over four years) to provide the Seniors Concession Allowance for self-funded retirees who hold a Commonwealth Seniors Health Card, as part of the *Recognising Senior Australians – Their Needs and Their Carers* package;
- \$62 million in 2004-05 (\$1.6 billion over four years) for the Australian Water Fund, as part of the *Securing Australia's Water Future* package;
- \$47 million in 2004-05 (\$380 million over four years) for the \$10 loading to Medicare rebates for GP services delivered after-hours and for start-up grants for new after-hours GP services (*Round the Clock Medicare*); and
- \$30 million in 2004-05 (\$120 million over four years) for the expansion of the *Roads to Recovery* programme.

A full list of expense measures announced since the 2004-05 Budget is provided at Appendix A.

Between the 2004-05 Budget and the PEFO, parameter and other variations increased estimated expenses by \$879 million in 2004-05, largely reflecting the impact of higher forecast inflation on superannuation liabilities and increased job network expenses due to the continuation of higher levels of activity and outcomes. For further details see the PEFO.

Since the PEFO, parameter and other variations have reduced forecast expenses by \$1.0 billion in 2004-05. This includes:

- a \$426 million reduction in expenses due to lower inflation forecasts, including a reduction in nominal interest expense relating to Australian Government civilian superannuation liabilities;
- a \$205 million reduction in Newstart Allowance expenses due to a reduction in the expected number of recipients;
- a \$135 million reduction in foreign exchange expenses, largely reflecting the impact on Defence acquisition costs of the appreciation of the Australian dollar;

Part 3: Fiscal outlook

- a \$115 million reduction in expenses relating to interim drought assistance and Exceptional Circumstances Assistance, reflecting a lower than expected take-up of assistance; and
- a reduction to expense estimates following the inclusion of the provision for underspends in 2004-05. A provision is included each year at the MYEFO to provide for the established tendency of departments and agencies to underspend their budgets in the current financial year.

The above reduction in expenses has been partly offset by:

- a \$140 million increase in expenses due to increased petroleum royalty payments to Western Australia reflecting higher than expected royalties from off-shore projects;
- a \$115 million increase in Job Network expenses reflecting the continuation of higher levels of activity and outcomes under the current employment services contract; and
- the inclusion of a provision in the contingency reserve for the implementation of election commitments not yet reported as separate measures.

NET CAPITAL INVESTMENT

Estimated net capital investment in 2004-05 has increased by \$391 million since the PEFO, an increase of \$557 million since the 2004-05 Budget. The majority of the movement between the 2004-05 Budget and the PEFO relates to the introduction of new protective security measures and the receipt of vaccines and anti-viral medication by the Department of Health and Ageing.

The increase since the PEFO represents the combined effect of:

- new policy decisions of \$202 million, including \$162 million in 2004-05 (\$551 million over four years) for improving security at Australian diplomatic missions; and
- parameter and other variations of \$189 million, including \$105 million of higher inventories because of lower than expected use by the Department of Defence.

Table 9: Reconciliation of general government net capital investment estimates^(a)

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
2004-05 Budget net capital investment	148	45	-125	-429
Changes between 2004-05 Budget and PEFO				
Effect of policy decisions	26	-2	-9	-9
Effect of parameter and other variations	141	10	-17	-14
Total variations	167	8	-26	-22
2004 PEFO net capital investment	315	53	-151	-452
Changes between PEFO and 2004-05 MYEFO				
Effect of policy decisions	202	118	113	180
Effect of parameter and other variations	189	243	261	146
Total variations	391	362	374	326
2004-05 MYEFO net capital investment	705	415	223	-125

(a) Net capital investment is defined as net acquisition of non-financial assets.

CASH FLOWS

In 2004-05, the underlying cash balance is expected to be a surplus of \$6.2 billion compared to an estimate of \$5.3 billion at the PEFO and \$2.4 billion at the 2004-05 Budget.

Table 10: Summary of Australian Government general government sector cash flows (\$b)^(a)

	Estimates			
	2004-05		2005-06	
	Budget	MYEFO	Budget	MYEFO
Cash receipts				
Operating cash receipts	193.4	199.0	201.2	207.1
Capital cash receipts(b)	0.8	0.7	0.6	0.7
Total cash receipts	194.2	199.7	201.8	207.8
Cash payments				
Operating cash payments	188.9	190.3	197.3	200.2
Capital cash payments(c)	2.9	3.2	2.9	3.2
Total cash payments	191.8	193.5	200.2	203.3
Finance leases and similar arrangements(d)	0.0	0.0	0.0	0.0
Underlying cash balance	2.4	6.2	1.6	4.5
Per cent of GDP	0.3	0.7	0.2	0.5
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes(e)	-1.4	-1.3	-1.6	-1.5
Headline cash balance	1.0	4.9	0.0	3.0
	Projections			
	2006-07		2007-08	
	Budget	MYEFO	Budget	MYEFO
Cash receipts				
Operating cash receipts	211.3	216.3	222.3	228.1
Capital cash receipts(b)	0.5	0.5	0.5	0.5
Total cash receipts	211.8	216.8	222.7	228.6
Cash payments				
Operating cash payments	205.9	208.4	215.9	218.5
Capital cash payments(c)	2.5	2.7	2.3	2.5
Total cash payments	208.4	211.1	218.2	221.0
Finance leases and similar arrangements(d)	0.0	0.0	0.0	0.0
Underlying cash balance	3.4	5.7	4.5	7.6
Per cent of GDP	0.4	0.6	0.4	0.7
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes(e)	9.4	9.5	9.2	9.3
Headline cash balance	12.8	15.2	13.7	16.9

(a) Cash flows are derived from the accrual GFS framework excluding GST.

(b) Equivalent to cash receipts from the sale of non-financial assets in the GFS cash flow statement.

(c) Equivalent to cash payments for purchases of new and second-hand non-financial assets in the budget cash flow statement.

(d) The acquisition of assets under finance leases decreases the underlying cash balance. The disposal of assets previously held under finance leases increases the underlying cash balance.

(e) Under the cash budgeting framework, these cash flows were referred to as net advances.

Major new policy decisions since the 2004-05 Budget have largely had the same impact on the 2004-05 underlying cash balance as the fiscal balance. While parameter and other variations have generally had similar cash and accrual effects, there are some notable points of difference. Since the 2004-05 Budget there has been:

- an increase in accrual taxation revenue recognised in 2004-05 but not expected to be received from individuals and companies until future years. This has the effect of improving the fiscal balance by \$1.3 billion relative to the underlying cash balance; and
- finalisation of the arrangements for compensating the states for the revenue impact of allowing small businesses that are voluntarily registered for the goods and services tax (GST) to pay GST annually. This improves the fiscal balance by \$219 million relative to the underlying cash balance in 2004-05 as the impact of this expense in accrual terms occurs in 2005-06.

Table 11 provides a reconciliation of the variations in the underlying cash balance estimates.

Table 11: Reconciliation of Australian Government general government sector underlying cash balance estimates

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
2004-05 Budget underlying cash balance	2,391	1,587	3,438	4,501
Changes from 2004-05 Budget to PEFO				
Effect of policy decisions(a)	-725	-1,430	-1,354	-1,338
Effect of parameter and other variations	3,593	4,952	4,773	4,767
Total variations	2,868	3,522	3,418	3,429
2004-05 PEFO underlying cash balance	5,258	5,109	6,857	7,930
Changes from PEFO to 2004-05 MYEFO				
Effect of policy decisions(a)	-1,002	-1,925	-3,069	-3,204
Effect of parameter and other variations	1,950	1,275	1,909	2,858
Total variations	947	-650	-1,160	-346
2004-05 MYEFO underlying cash balance	6,206	4,459	5,697	7,584

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

NET DEBT AND NET WORTH

With the budget remaining in cash surplus, net debt is expected to continue to fall in 2004-05 and the forward years. Since the 2004-05 Budget, the estimated level of net debt has fallen from \$24.7 billion to \$19.7 billion – reflecting a higher than anticipated final budget outcome for 2003-04 and an upward revision to the projected surplus in 2004-05.

As a result of the lower level of net debt, estimated net interest payments have continued to fall in 2004-05 and beyond. Having peaked at \$8.4 billion in 1996-97, net interest payments are expected to decline to \$2.5 billion in 2004-05.

Part 3: Fiscal outlook

Australian Government general government net worth is expected to improve to -\$37.2 billion in 2004-05, compared with -\$42.8 billion at the 2004-05 Budget, largely reflecting an improvement in the fiscal outlook since Budget.

Table 12: Australian Government general government net worth, net debt and net interest payments (\$b)

	Estimates			
	2004-05		2005-06	
	Budget	MYEFO	Budget	MYEFO
Financial assets	96.2	95.7	98.1	96.9
Non-financial assets	37.0	41.1	37.1	41.6
Total assets	133.2	136.8	135.2	138.5
Total liabilities	176.1	173.9	178.1	172.7
Net worth	-42.8	-37.2	-42.9	-34.2
Net debt(a)(b)	24.7	19.7	22.3	14.2
Per cent of GDP	2.9	2.3	2.5	1.5
Net interest payments(c)	2.9	2.5	3.8	3.2
Per cent of GDP	0.3	0.3	0.4	0.4
	Projections			
	2006-07		2007-08	
	Budget	MYEFO	Budget	MYEFO
Financial assets	92.7	91.7	84.5	83.8
Non-financial assets	37.1	41.9	36.8	42.0
Total assets	129.8	133.6	121.3	125.8
Total liabilities	168.3	160.4	158.8	147.4
Net worth	-38.5	-26.8	-37.4	-21.6
Net debt(a)(b)	7.4	-3.1	-8.3	-22.0
Per cent of GDP	0.8	-0.3	-0.8	-2.2
Net interest payments(c)	2.6	1.9	1.4	0.6
Per cent of GDP	0.3	0.2	0.1	0.1

- (a) Net debt equals the sum of deposits held, advances received, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.
- (b) Includes the impact of the further sale of the Australian Government's shareholding in Telstra, but may change as a result of the establishment of the Future Fund.
- (c) Australian Government cash interest payments less cash interest receipts. The 2005-06 estimates include the recognition in cash terms of the capital growth on inflation indexed bonds maturing in that year.

Attachment A

REPORTING STANDARDS

The *Charter of Budget Honesty Act 1998* requires that the MYEFO be based on external reporting standards, and that departures from applicable external reporting standards be identified.

The major external standards used for MYEFO reporting purposes are:

- the Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods* Cat. No. 5514.0, which in turn is based on the International Monetary Fund (IMF) accrual GFS framework; and
- Australian accounting standards (AAS), including AAS 31 *Financial Reporting by Governments*.

The MYEFO tables, with the exception of tables in Appendix B, do not include GST collections and equivalent payments to the states and territories, which is a departure from ABS GFS and AAS. However, under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, all GST receipts are appropriated to the states and territories and thus are not available for expenditure by the Australian Government. Because the Australian Taxation Office collects GST as an agent for the states and territories, GST receipts are not shown as Australian Government revenue. Estimates of GST receipts are separately identified in Table E2 of Appendix E.

The ABS GFS require that provisions for bad and doubtful debts be excluded from the balance sheet. This treatment has not been adopted because excluding such provisions would overstate the value of Australian Government assets in the balance sheet (and would, therefore, be inconsistent with the market valuation principle).

The AAS financial statements currently record IMF Special Drawing Rights (SDRs) as a liability. This is consistent with AAS. The GFS statements also record SDRs as a liability. However, in accordance with the IMF's GFS manual, IMF SDRs are not treated as a liability in ABS GFS although they are treated this way in other IMF documentation. In view of these differences, the current approach will remain in place pending further consultation with the ABS and IMF, and developments in train to harmonise GFS and AAS.

Similarly, the GFS financial statements currently adopt the AAS treatment for circulating coins. Under this treatment, revenue is recognised upon the issue of coins and no liability is recorded, as there is no legal obligation requiring coins on issue to be repurchased by the Australian Government. However, in ABS GFS, coins on issue are treated as a liability and no revenue is recognised. The current accounting treatment

Part 3: Fiscal outlook

will remain in place pending further consultation with the ABS and IMF, and developments in train to harmonise GFS and AAS.

The ABS GFS also require defence weapons be treated as expenses. Defence weapons inventories are recorded as capital investment rather than expenses until such inventories can be reliably identified and measured. This treatment does not affect the underlying cash or fiscal balances.

In order to ensure the reporting of reliable GFS and AAS budget estimates and outcomes, taxation revenue is recognised the earlier of when an assessment of a tax liability is made or cash payment is received by the Australian Taxation Office or the Australian Customs Service. This method is permitted under both GFS and AAS when there is an inability to reliably measure taxation revenues at the time the underlying transactions or events occur. Accordingly, for most categories of taxation revenue, there is a short lag between the time at which the underlying economic activity giving rise to the tax liability occurs and when the revenue is recognised. Longer lags of up to a year occur for some elements of company and superannuation funds taxation.

Additional information on the reporting standards and budget concepts is provided in Appendix E.

Attachment B

BUDGET FINANCIAL STATEMENTS

The budget financial statements consist of an operating statement, balance sheet, cash flow statement and statement of other economic flows (reconciliation of net worth) for the Australian Government general government sector. The budget financial statements are based on GFS standards with the exception of the divergences discussed in Attachment A.

Table 13: Australian Government general government sector operating statement

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Revenue				
Taxation revenue	187,622	195,427	205,192	216,709
Current grants and subsidies	0	0	0	0
Sales of goods and services	4,404	4,491	4,638	4,722
Interest income	1,435	1,602	2,231	3,185
Dividend income	3,050	3,076	2,677	1,919
Other	2,932	2,903	2,832	2,806
Total revenue	199,443	207,497	217,570	229,341
Expenses				
Gross operating expenses				
Depreciation	1,932	2,145	2,224	2,289
Superannuation	2,442	2,219	2,267	2,289
Salaries and wages	12,008	12,344	12,723	12,973
Payment for supply of goods and services	45,670	47,309	49,612	52,143
Other operating expenses	2,557	2,596	2,626	2,742
<i>Total gross operating expenses</i>	<i>64,609</i>	<i>66,613</i>	<i>69,451</i>	<i>72,436</i>
Nominal superannuation interest expense	4,763	5,107	5,429	5,714
Other interest expenses	4,136	3,824	3,729	3,702
Other property expenses	0	0	0	0
Current transfers				
Grant expenses	37,023	39,320	39,376	40,943
Subsidy expenses	6,351	6,506	6,666	6,884
Personal benefit payments in cash	73,312	78,530	84,000	89,485
Other current transfers	0	0	0	0
<i>Total current transfers</i>	<i>116,687</i>	<i>124,357</i>	<i>130,042</i>	<i>137,311</i>
Capital transfers	3,613	3,684	3,712	3,727
Total expenses	193,808	203,585	212,363	222,890
Net operating balance	5,634	3,912	5,207	6,451
Net acquisition of non-financial assets				
Purchases of non-financial assets	3,155	2,994	2,663	2,550
<i>less</i> Sales of non-financial assets	<i>670</i>	<i>653</i>	<i>484</i>	<i>484</i>
<i>less</i> Depreciation	<i>1,932</i>	<i>2,145</i>	<i>2,224</i>	<i>2,289</i>
<i>plus</i> Change in inventories	<i>174</i>	<i>63</i>	<i>214</i>	<i>131</i>
<i>plus</i> Other movements in non-financial assets	<i>-22</i>	<i>155</i>	<i>54</i>	<i>-34</i>
Total net acquisition of non-financial assets	705	415	223	-125
Net lending/fiscal balance(a)	4,929	3,497	4,984	6,577

(a) The term fiscal balance is not used by the ABS.

Table 14: Australian Government general government sector balance sheet

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Assets				
Financial assets				
Cash and deposits	1,376	1,189	1,174	1,199
Advances paid	19,400	20,469	21,804	23,540
Investments, loans and placements(a)	9,375	9,187	9,054	8,935
Other non-equity assets	17,460	17,981	19,626	21,406
Equity(b)	48,068	48,060	40,007	28,728
<i>Total financial assets</i>	<i>95,680</i>	<i>96,886</i>	<i>91,664</i>	<i>83,808</i>
Non-financial assets				
Land	5,052	5,057	5,135	5,190
Buildings	14,175	14,289	14,361	14,514
Plant, equipment and infrastructure	8,482	8,836	8,824	8,706
Inventories	4,908	4,971	5,185	5,315
Heritage buildings and collections	6,455	6,468	6,483	6,494
Other non-financial assets	2,020	1,978	1,959	1,741
<i>Total non-financial assets</i>	<i>41,092</i>	<i>41,599</i>	<i>41,947</i>	<i>41,961</i>
Total assets	136,773	138,486	133,611	125,769
Liabilities				
Deposits held	365	365	365	365
Advances received	0	0	0	0
Government securities(a)	43,313	38,705	22,818	5,697
Loans	5,945	5,779	5,613	5,466
Other borrowing	222	188	174	139
Superannuation liability	90,506	93,333	96,458	99,652
Other employee entitlements and provisions	8,524	8,660	8,795	8,914
Other non-equity liabilities	25,049	25,631	26,192	27,129
Total liabilities	173,924	172,661	160,415	147,362
Net worth(c)	-37,152	-34,175	-26,803	-21,593
Net debt(d)	19,693	14,192	-3,061	-22,007

(a) For 2004-05 and forward years, transactions relating to debt management activities in assets — investments, loans and placements and liabilities — government securities have been netted. This treatment has been applied because of the uncertainty associated with the actual split between government securities and financial assets acquired for debt management purposes.

(b) Equity includes the valuation of the Telstra shareholding, which is valued at the average of the daily share price over a 90-day period, except in the sale years where the valuation is based on the expected sale price.

(c) Net worth is calculated as total assets minus total liabilities.

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

Table 15: Australian Government general government sector cash flow statement^(a)

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Cash receipts from operating activities				
Taxes received	183,410	191,908	201,164	212,600
Receipts from sales of goods and services	4,586	4,692	4,830	4,923
Grants and subsidies received	0	0	0	0
Interest receipts	1,355	1,386	1,972	2,886
Dividends	3,713	3,396	2,677	1,919
GST input credits received by general government	2,936	2,863	2,908	3,020
Other receipts	3,000	2,877	2,798	2,770
Total operating receipts	199,001	207,122	216,349	228,118
Cash payments for operating activities				
Payments for goods and services	-49,010	-50,456	-52,908	-55,462
Grants and subsidies paid	-44,992	-47,768	-48,235	-50,041
Interest paid	-3,864	-4,609	-3,846	-3,502
Personal benefit payments	-73,455	-77,910	-83,519	-88,959
Salaries, wages and other entitlements	-16,327	-16,820	-17,289	-17,779
GST payments by general government to taxation authority	-125	-127	-133	-140
Other payments for operating activities	-2,560	-2,472	-2,488	-2,618
Total operating payments	-190,334	-200,164	-208,418	-218,501
Net cash flows from operating activities	8,667	6,958	7,931	9,617
Cash flows from investments in non-financial assets				
Sales of non-financial assets	737	660	486	486
Purchases of new and secondhand non-financial assets	-3,192	-3,155	-2,696	-2,513
Net cash flows from investments in non-financial assets	-2,454	-2,495	-2,211	-2,027
Net cash flows from investments in financial assets for policy purposes	-1,334	-1,475	9,476	9,326
Cash flows from investments in financial assets for liquidity purposes				
Increase in investments	-14	72	68	35
Net cash flows from investments in financial assets for liquidity purposes	-14	72	68	35
Cash flows from financing activities				
Advances received (net)	0	0	0	0
Borrowing (net)	-3,721	-3,628	-15,732	-17,067
Deposits received (net)	0	0	0	0
Other financing (net)	-1,357	380	453	141
Net cash flows from financing activities	-5,078	-3,248	-15,279	-16,926
Net increase/decrease in cash held	-214	-187	-16	25
Net cash from operating activities and investments in non-financial assets	6,213	4,463	5,720	7,590
Finance leases and similar arrangements ^(b)	-7	-4	-23	-5
Equals underlying cash balance	6,206	4,459	5,697	7,584
<i>plus</i> net cash flows from investments in financial assets for policy purposes	-1,334	-1,475	9,476	9,326
Equals headline cash balance	4,871	2,985	15,173	16,911

(a) A positive number denotes a cash inflow; a negative sign denotes a cash outflow.

(b) The acquisition of assets under finance leases decreases the underlying cash balance. The disposal of assets previously held under finance leases increases the underlying cash balance.

Table 16: Australian Government general government sector statement of other economic flows (reconciliation of net worth)

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Opening net worth	-37,803	-37,152	-34,175	-26,803
Opening net worth adjustments	0	0	0	0
Adjusted opening net worth	-37,803	-37,152	-34,175	-26,803
Change in net worth from operating transactions	5,634	3,912	5,207	6,451
Change in net worth from other economic flows				
Revaluation of equity(a)	-1,468	36	3,274	19
Net writedowns of assets (including bad and doubtful debts)(b)	-1,551	-1,700	-1,804	-1,862
Assets recognised for the first time(b)	24	25	26	23
Defence weapon platform adjustment(b)	0	0	0	0
Liabilities recognised for the first time	0	0	0	0
Actuarial revaluations	-799	0	0	0
Net foreign exchange gains	-329	0	0	0
Net swap interest received	207	227	215	184
Market valuation of debt	-554	430	348	277
Other economic revaluations(b)(c)	-513	46	106	118
Total other economic flows	-4,983	-936	2,165	-1,241
Closing net worth	-37,152	-34,175	-26,803	-21,593

- (a) Revaluations of equity reflects changes in the market valuation of commercial entities, including a change in the value of the Telstra shareholding which is valued at the average daily share price over a 90-day period, except in the sale years where the valuation is based on the expected sale price. This line also reflects any equity revaluations at the point of disposal or sale.
- (b) Defence weapons are treated as expenses rather than assets under the GFS framework; hence, changes in value do not contribute to net worth and are not included in other economic flows. This adjustment to remove defence weapons is allocated to net writedown of assets, assets recognised for the first time and other economic revaluations.
- (c) Largely reflects revaluations of assets and liabilities.

SENSITIVITY OF THE FISCAL BALANCE TO ECONOMIC DEVELOPMENTS

A guide to the sensitivity of the forward estimates of expenses and revenue (in terms of their impact on the fiscal balance) due to variations in economic parameters in 2004-05 is provided in Table 17. It is important to note that the sensitivity analysis gives only a 'rule of thumb' indication of the impact on the budget of changes in prices, wages and other parameters. In each case, the analysis presents the estimated effects of a 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.

Table 17: Sensitivity of the fiscal balance to changes in economic parameters

	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m
Expenses				
Prices	930	540	840	870
Wages	0	310	420	440
Unemployment Benefit recipients	130	270	270	280
Safety net adjustments	0	100	170	270
Revenue				
Prices	10	100	120	120
Wages	720	1,560	1,670	1,790
Employment	480	1,040	1,120	1,200
Private final demand	90	280	290	290
Profit	90	290	310	330

EXPENSES

On the expenses side, the sensitivity analysis of the estimates provides for the following assumptions about changes to four broad groups of parameters. An increase in any of the parameters considered will lead to an increase in expenses and a decrease in any of the parameters will lead to a reduction in expenses.

Prices

All price deflator growth rates are assumed to change by one percentage point in the March quarter 2005 and to remain unchanged subsequently, with all wage and salary growth rates left unchanged through the Budget and forward years.

- The effect of a change in prices is due to the indexation of Australian Government expenses and a large one-off impact on superannuation liabilities in 2004-05 (which in turn impacts on the superannuation interest expense).

Wages

All wage and salary growth rates are assumed to change by one percentage point in the March quarter 2005 and to remain unchanged subsequently, with all price deflator growth rates left unchanged through the Budget and forward years.

- The effect of a change in wage and salary growth rates is largely due to the Government's commitment to maintain selected pensions at a minimum of 25 per cent of Male Total Average Weekly Earnings. The wages effect in Table 17 above does not include changes to wage and salary payments in Australian Government departmental expenses.

Unemployment Benefit Recipients (includes Newstart Allowance and Unemployed Youth Allowance recipients)

The total number of recipients is assumed to change by 2.5 per cent in the Budget year and by 5 per cent in all the forward years.

Safety Net Adjustment

The Safety Net Adjustment determined by the Australian Industrial Relations Commission is assumed to change by \$2 per week in 2005-06 and the following years.

- About \$47 billion of expenses in 2004-05, comprising agency departmental expenses, other Australian Government Own Purpose Expenses and Specific Purpose Payments to the states of a departmental expense nature, are indexed to weighted averages of movements in the Consumer Price Index and the Safety Net Adjustment.

REVENUE

On the revenue side, the sensitivity analysis of the estimates provides for the following assumptions about changes to five broad groups of parameters. An increase in any of the parameters considered will lead to an increase in revenue and a decrease in any of the parameters will lead to a reduction in revenue.

Prices

All price deflators are assumed to change by one percentage point at the start of the March quarter 2005, with wage deflators left unchanged.

- A change in prices affects revenue primarily through changes in other excise.

Wages

All wage and salary growth rates are assumed to change by one percentage point from the beginning of the March quarter 2005, with price deflators left unchanged.

- A change in wage and salary growth rates affects revenue through changes in gross income tax withholding and fringe benefits tax.

Employment

The level of employment is assumed to change by one percentage point from the beginning of the March quarter 2005, with no change in the composition of employment.

- A change in employment affects revenue through increases in gross income tax withholding.

Private final demand

The level of private final demand (consumption plus investment) is assumed to change by one percentage point from the beginning of the March quarter 2005, with no change in the composition of demand.

- A change in private final demand affects revenue primarily through changes in excise and customs duty collections.

Profits

The level of company profits is assumed to change by one percentage point from the beginning of the March quarter 2005.

- A change in the level of company profits affects revenue through changes in company tax collections.

Attachment D

TAX EXPENDITURES

Individuals and businesses derive financial benefits from various tax concessions. These concessions can be delivered in a variety of ways: by a tax exemption, tax deduction, tax rebate, reduced tax rate or by deferring a tax liability. Tax concessions can either reduce or delay the collection of tax revenue.

The benefits of most tax concessions could be delivered equally by direct expenditures. Hence tax concessions are an alternative to direct expenditure as a method of delivering government assistance or meeting government objectives. Accordingly, tax expenditures have an impact on the budget surplus or deficit, as do direct expenditures.

Table 18 provides aggregate tax expenditure estimates for the period from 2000-01 to 2007-08.

Table 18: Aggregate tax expenditures 2000-01 to 2007-08^(a)

Year	Superannuation \$m	Other tax expenditures \$m	Total \$m	Tax expenditures as a proportion or GDP (%)
2000-01 (e)	9,920	19,299	29,219	4.4
2001-02 (e)	9,860	19,866	29,726	4.2
2002-03 (e)	10,990	19,534	30,524	4.0
2003-04 (e)	12,030	19,178	31,208	3.8
2004-05 (p)	13,290	19,374	32,664	3.8
2005-06 (p)	14,580	19,936	34,516	3.8
2006-07 (p)	15,580	21,507	37,087	3.8
2007-08 (p)	16,530	22,146	38,676	3.8

(a) Preliminary estimates only — final estimates will be published in the *2004 Tax Expenditures Statement*.

Measured tax expenditures as a proportion of GDP are estimated to decline from around 4.4 per cent of GDP in 2000-01 to 3.8 per cent by 2007-08.

Further detail on tax expenditures will be provided in the *2004 Tax Expenditures Statement*.

**SUPPLEMENTARY EXPENSE AND CAPITAL TABLES AND THE
CONTINGENCY RESERVE**

Expenses

Table 19 shows estimates of Australian Government general government sector expenses by function for 2004-05 and the forward years.

Table 19: Estimates of Australian Government general government expenses by function

	Estimates						Projections					
	2004-05			2005-06			2006-07			2007-08		
	Budget $m	MYEFO $m	Change on Budget %	Budget $m	MYEFO $m	Change on Budget %	Budget $m	MYEFO $m	Change on Budget %	Budget \$m	MYEFO \$m	Change on Budget %
General public services												
Legislative and executive affairs	865	863	0	746	744	0	771	776	1	891	897	1
Financial and fiscal affairs	3,445	3,695	7	3,493	3,824	9	3,583	3,912	9	3,519	3,823	9
Foreign affairs and economic aid	2,465	2,524	2	2,322	2,339	1	2,249	2,261	1	2,375	2,423	2
General research	2,202	2,200	0	2,394	2,311	-3	2,478	2,443	-1	2,621	2,506	-4
General services	674	680	1	618	629	2	727	729	0	741	743	0
Government superannuation benefits	2,213	2,442	10	2,162	2,219	3	2,101	2,267	8	2,160	2,289	6
Defence	14,425	14,349	-1	14,569	14,518	0	15,384	15,157	-1	16,423	16,258	-1
Public order and safety	2,727	2,928	7	2,560	2,788	9	2,528	2,782	10	2,485	2,762	11
Education	14,221	14,628	3	15,024	15,508	3	15,800	16,390	4	16,400	17,029	4
Health	34,986	35,720	2	36,194	37,520	4	37,763	39,211	4	39,657	41,168	4
Social security and welfare	82,678	82,200	-1	86,995	86,592	0	90,824	90,529	0	94,706	94,354	0
Housing and community amenities	1,671	1,689	1	1,647	1,717	4	1,624	1,673	3	1,621	1,640	1
Recreation and culture	2,342	2,444	4	2,417	2,535	5	2,341	2,479	6	2,352	2,473	5
Fuel and energy	3,922	3,953	1	4,001	4,069	2	3,914	4,048	3	4,036	4,201	4
Agriculture, fisheries and forestry	2,400	2,402	0	1,811	1,963	8	1,665	1,774	7	1,549	1,645	6
Mining, manufacturing and construction	1,830	1,846	1	1,791	1,823	2	1,705	1,770	4	1,705	1,725	1
Transport and communication	2,550	2,873	13	2,273	2,637	16	2,437	2,798	15	2,414	2,853	18
Other economic affairs												
Tourism and area promotion	175	202	15	174	201	16	163	190	17	165	190	15
Labour and employment affairs	3,521	3,923	11	3,578	4,021	12	3,649	3,876	6	3,760	4,010	7
Other economic affairs nec	816	830	2	803	842	5	795	809	2	804	811	1

CONTINGENCY RESERVE

The Contingency Reserve (Other Purposes Function) is an allowance, included in aggregate expenses figuring, to reflect anticipated events that cannot be assigned to individual programmes in the preparation of the Australian Government budget estimates. The reserve is an estimating device used to ensure that the budget estimates are based on the best information available at the time of the MYEFO. It is not a general policy reserve.

While the reserve ensures that aggregate estimates are as close as possible to expected outcomes, it is not appropriated. Allowances that are included in the reserve can only be drawn upon once they have been appropriated by Parliament. These allowances are removed from the reserve and allocated to specific agencies for appropriations and for outcome reporting closer to the time when they eventuate.

The Contingency Reserve makes allowance in 2004-05 and the forward years for anticipated events, including the following:

- an allowance for the tendency for estimates of expenses for existing government policy to be revised upwards in the forward years;
- an allowance for the tendency for the estimates of administered expenses for some specific agencies or functions to be overstated in the budget year;
- commercial-in-confidence and national security-in-confidence items that cannot be disclosed separately;
- decisions made too late for inclusion against individual agency estimates;
- the effect on the budget and forward estimates of economic parameter revisions received late in the process and hence not able to be allocated to individual agencies or functions; and
- provision for events and pressures that are reasonably expected to affect the budget estimates.

The contingency reserve also includes expenses associated with the Government's major asset sales and associated administration costs.

GST REVENUE PROVISION TO THE STATES AND TERRITORIES

All GST revenue is paid to the states and territories (the states) under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the IGA). In 2004-05, the states will receive GST revenue totalling an estimated \$35.2 billion (Table 20).

From 2004-05 onwards, every state and territory will receive more revenue from the GST than they would have under the previous system of financial assistance grants and the state taxes that were abolished by The New Tax System.

In 2004-05, all states will receive a windfall over the Guaranteed Minimum Amount (GMA). Including the compensation for the annual payment of GST, the states will receive a total gain from tax reform of over \$1.9 billion more than the GMA (Table 20). The GMA is an estimate of funding each state would have had available to it had tax reform not been implemented.

As the GST is a secure, growing and broad based revenue source, the states' gain from tax reform is estimated to continue growing to around \$3.2 billion by 2007-08 (Table 20). This means that the Australian Government's tax reform will deliver to the states an extra \$1.9 billion in 2004-05, growing to around \$3.2 billion in 2007-08, to spend according to their own priorities. States can use this additional funding for essential community services such as hospitals, schools, public transport, roads and police, and to lower their tax burdens.

Under the IGA, all the states committed to abolish the bank account debits tax, subject to review by the Ministerial Council for Commonwealth-State Financial Relations. At the March 2004 Ministerial Council meeting, state governments agreed to abolish bank account debits tax by 1 July 2005.

The IGA also provides that the Ministerial Council will, by 2005, review the need to retain stamp duty on the following:

- non-residential conveyances;
- non-quotable marketable securities;
- leases;
- mortgages, bonds, debentures and other loan securities;
- credit arrangements, instalment purchase arrangements and rental arrangements;
- and

- cheques, bills of exchange and promissory notes.

The Ministerial Council committed to this review at its March 2004 meeting and will consider the review at its March 2005 meeting.

As the Australian Government's tax reforms have delivered significantly more revenue to the states than would have been the case if the reforms had not been implemented, the states should be able to abolish these inefficient stamp duties in the near future.

Table 20: Forward estimates of states' gains from tax reform^(a)

2004-05 (\$m)	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
(1) Guaranteed Minimum Amount	9,738.2	7,082.6	6,599.0	3,387.2	3,140.6	1,340.6	627.7	1,587.1	33,503.0
(2) GST Revenue	9,870.3	7,321.3	7,314.7	3,613.4	3,282.0	1,434.6	676.6	1,712.1	35,225.0
(3) Compensation for GST deferral	63.7	47.0	44.9	22.3	20.1	8.2	4.0	9.2	219.4
(4) State and territory gains from tax reform (2) + (3) - (1)	195.9	285.6	760.6	248.5	161.5	102.1	52.9	134.3	1,941.4
2005-06 (\$m)	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
(1) Guaranteed Minimum Amount(b)	10,335.4	7,619.6	7,191.8	3,541.2	3,290.8	1,419.6	660.3	1,661.4	35,720.2
(2) GST Revenue	10,474.3	7,815.5	7,729.6	3,722.5	3,421.7	1,506.3	705.7	1,784.5	37,160.0
(3) Compensation for GST deferral(c)	35.8	26.7	26.4	12.7	11.7	5.1	2.4	6.1	127.0
(4) State and territory gains from tax reform (2) + (3) - (1)	174.6	222.6	564.3	194.0	142.5	91.8	47.8	129.2	1,566.8
2006-07 (\$m)(d)	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
(1) Guaranteed Minimum Amount	10,659.3	7,998.9	7,443.8	3,577.8	3,407.2	1,466.2	677.3	1,733.3	36,963.7
(2) GST Revenue	11,064.5	8,387.4	8,158.2	3,841.5	3,602.5	1,578.3	735.3	1,862.5	39,230.0
(3) Compensation for GST deferral(e)	4.9	3.7	3.6	1.7	1.6	0.7	0.3	0.8	17.2
(4) State and territory gains from tax reform (2) + (3) - (1)	410.0	392.1	718.0	265.4	196.9	112.8	58.3	130.0	2,283.5
2007-08 (\$m)	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
(1) Guaranteed Minimum Amount	10,896.1	8,348.9	7,724.7	3,672.5	3,519.1	1,508.9	695.6	1,809.5	38,175.3
(2) GST Revenue	11,572.3	8,953.6	8,627.6	4,044.5	3,777.3	1,640.4	771.3	1,943.1	41,330.0
(3) Compensation for GST deferral(e)	5.1	3.9	3.8	1.8	1.7	0.7	0.3	0.9	18.2
(4) State and territory gains from tax reform (2) + (3) - (1)	681.3	608.6	906.7	373.8	259.8	132.2	76.0	134.5	3,172.9

(a) Projections from 2004-05 will be affected by variations in Guaranteed Minimum Amount (GMA) components, GST revenue growth and recommendations by the Commonwealth Grants Commission on the distribution of GST to each of the states and territories in future years. See Budget Paper No 3, *Federal Financial Relations 2004-05* for details of the GMA and the distribution of GST revenue among the states and territories.

(b) As agreed at the 26 March 2004 meeting of the Ministerial Council for Commonwealth-State Financial Relations, bank account debits tax is to be abolished by 1 July 2005. The revenue forgone by the states and territories is included in their GMAs from 2005-06 to ensure the states and territories are no worse off. Accordingly, state and territory gains from tax reform decrease in 2005-06 compared to 2004-05. However, the estimates of GMAs do not contain reductions in the following state taxes: non-residential conveyances; non-quotable marketable securities; leases; mortgages, bonds, debentures and other loan securities; credit arrangements, instalment purchase arrangements and rental arrangements; cheques, bills of exchange and promissory notes, which are the subject of review by the Ministerial Council in 2005.

(c) Under arrangements to compensate the states for the annual payment of GST measure in 2004-05, \$219.4 million of 2005-06 GST revenue is to be advanced to the states in 2004-05. This advance will be recovered from the states, in accordance with the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999*, by lowering payments to the states under the Act in 2005-06. The states will then receive an additional payment of \$219.4 million to ensure that the total amount equating to 2005-06 GST revenue is paid to the states in 2005-06.

(d) The transition period in which the Australian Government guarantees that no state or territory will be worse off due to tax reform expires on 30 June 2006.

(e) Compensation payments to the states in future years will be reviewed at a later stage, with the possibility of this future compensation being paid as an upfront lump-sum.

APPENDIX A: POLICY DECISIONS TAKEN SINCE THE 2004-05 BUDGET

SUMMARY OF POLICY DECISIONS TAKEN SINCE THE 2004-05 BUDGET

Table A1: Revenue measures since the 2004-05 Budget^(a)

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
ATTORNEY-GENERAL'S				
Customs duty				
Excise on imported grape-wine products with an alcohol content exceeding 22 per cent	..	..	..	..
Extension of the SPARTECA-TCF scheme	-0.8	-1.1	-1.4	-1.6
Portfolio total	-0.8	-1.1	-1.4	-1.6
EDUCATION, SCIENCE AND TRAINING				
Aged care - additional university places for aged care nursing	-	..	..	..
Strengthening Cancer Care - radiation therapy internships and undergraduate places	-	..	..	..
University of Notre Dame - additional places for medicine, nursing and teaching	-	-	..	..
Portfolio total	0.0	0.0	0.0	0.0
IMMIGRATION AND MULTICULTURAL AND INDIGENOUS AFFAIRS				
Temporary Protection Visa - caseload resolution	4.3	1.4	0.1	-
Portfolio total	4.3	1.4	0.1	0.0
TRANSPORT AND REGIONAL SERVICES				
Christmas Island Phosphates	-0.7	-0.2	-	-
Norfolk Island memorial for Minister Buffet - proceeds for the transfer of crown land	..	..	..	..
Portfolio total	-0.7	-0.2	0.0	0.0
TREASURY				
30 per cent child care tax rebate	-	-	-280.0	-305.0
Amend the tax treatment of copyright collecting societies	..	..	..	..
Consolidation				
Ensure deferred tax liabilities do not result in capital gains or losses in the transition to consolidation	*	*	*	*
Treatment of irrevocable elections	-	-	-	-
Closure of Operation DAMASK X and Operation PALATE for taxation purposes	*	*	*	*
Deductible gift recipients				
Admissions to registers of organisations and prescribed private funds	*	*	*	*
Deductibility of certain gifts	*	*	*	*
Defence Force Income Support Allowance - linked tax exemption	1.0	1.0	1.0	1.0

Appendix A: Policy decisions taken since the 2004-05 Budget

Table A1: Revenue measures since the 2004-05 Budget^(a) (continued)

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
TREASURY (continued)				
Entrepreneur's tax discount	-	-	-400.0	-390.0
Fuel tax reform - removal of excise on burner fuels(b)	-	-	-	-
Mature age worker tax offset	-	-335.0	-354.0	-350.0
Response to recommendations arising from the Review of Self-Assessment for income tax returns	-	-11.5	-21.5	-47.5
Simplified imputation system - consequential and other amendments	..	..	..	..
Simplified Tax System (STS) - optional cash accounting	-	-15.0	-125.0	-130.0
Superannuation				
Bring forward the simplification of superannuation guarantee earnings bases to 1 July 2008	-1.0	-3.0	-3.0	-6.0
Changes to the reduction in the surcharge rate	-	-	-	200.0
Expansion of the definition of 'dependant'	-5.0	-5.0	-5.0	-5.0
Grandfathering of superannuation payment rules for people aged 75 or more at 30 June 2004	0.9	-2.7	-1.9	-1.6
Modifications to pension and annuity integrity regulations	-	-	-	-
Removal of \$3,000 limit on child superannuation contributions	-	..	..	..
Removal of Superannuation Guarantee reporting requirement	*	*	*	*
Remove tax deductions for personal contributions by new co-contribution recipients	-	0.5	0.5	0.5
Transitional relief for small funds	*	*	*	*
Taxation of financial arrangements				
Debt and equity interests	*	*	*	*
Defer the commencement of reforms to accruals/realisations framework	-15.0	-45.0	60.0	-5.0
Foreign currency regulations - technical and compliance cost savings amendments	*	*	*	*
Foreign currency regulations - use of weighted average cost and average rates of exchange	*	*	*	*
Tax treatment of financial instruments issued by credit unions and mutual building societies	-1.0	-2.0	-3.0	-4.0
Taxation of franked dividends received by Australian branches of non-residents on net assessment basis	-	*	*	*
Tax exemption for seniors' concession allowance and utilities allowance	-	-	-	-
Uniform capital allowances - statutory effective life caps for trucks, buses, light commercial vehicles and truck trailers	-	-	-	-

Appendix A: Policy decisions taken since the 2004-05 Budget

Table A1: Revenue measures since the 2004-05 Budget^(a) (continued)

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
TREASURY (continued)				
Wine equalisation tax				
Amendments to mead regulations	-	-	-	-
Extension of wine producer rebate to producers of cider, perry and sake	-1.0	-1.0	-1.0	-1.0
Wine equalisation tax compliance improvements	*	*	*	*
Portfolio total	-21.2	-418.8	-1133.0	-1043.7
Decisions taken but not yet announced	7.0	18.0	19.1	20.3
Total impact of revenue measures(c)	-11.4	-400.6	-1115.1	-1025.0

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

.. not zero, but rounded to zero.

- Nil.

nfp Not for publication.

(a) A minus sign before an estimate indicates a reduction in revenue, no sign before an estimate indicates a gain to revenue.

(b) Measure reported as taken but not announced in the 2004-05 Budget. The impact of this measure (-\$60 million per year in 2006-07 and 2007-08) is already included in the forward estimates.

(c) Measures may not add due to rounding.

Appendix A: Policy decisions taken since the 2004-05 Budget

Table A2: Expense measures since the 2004-05 Budget^(a)

	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m
CROSS PORTFOLIO				
Flood inquiry into Australian intelligence agencies(e)				
Defence Intelligence Organisation - additional funding	0.2	-	-	-
Defence Signals Directorate - additional funding	0.2	-	-	-
Increased personnel for defence intelligence agencies	0.3	0.5	0.5	0.5
Language training	0.6	1.1	1.1	1.2
Australian Intelligence Community oversight activities - additional funding	0.3	0.6	0.6	0.6
Additional funding for monitoring of Australian Intelligence Community	0.1	0.1	0.1	0.1
Open Source Collection Branch - additional funding	-	-	-	1.7
Office of National Assessments - additional accommodation	0.3	0.5	0.5	0.5
Office of National Assessments - additional funding	3.0	11.9	11.9	11.9
Australian Security Intelligence Organisation - temporary accommodation	0.6	0.9	1.0	1.0
Maritime Security(f)				
Extension of closed circuit television network	0.4	2.4	2.5	2.5
Standardised information around the movement of cargo	1.4	0.5	-	-
Container examination facilities	13.9	14.0	14.3	14.6
Maintaining first port boarding levels	-	3.0	3.0	3.3
Increased presence of immigration officers at seaports	3.3	2.9	3.0	3.0
Maritime Security Identification Card	1.3	1.0	0.9	0.9
Transport Security Operations Centre	1.1	1.1	1.1	1.1
Maritime intelligence capacity	1.0	1.0	1.0	1.1
Aviation Security(g)				
Hardening of cockpit doors - additional funding	1.5	-	-	-
Counter-terrorism first response regional rapid deployment teams	1.7	4.3	4.4	4.5
Police and aviation security joint training exercises	1.7	1.7	1.7	1.7
Public awareness campaign	0.5	0.5	-	-
Regional airport 24-hour closed circuit television pilot study	2.0	1.4	-	-
Regional passenger screening	4.5	1.4	1.4	1.1
Training for regional airline and airport staff	1.6	1.4	1.4	1.4
Air Security Officer Programme	4.1	4.1	4.2	4.2
Strengthening Tasmania(h)	2.8	9.6	4.5	0.8
Cross Portfolio total	48.4	66.1	59.2	57.9
AGRICULTURE, FISHERIES AND FORESTRY				
Australian Animal Welfare Strategy	0.3	1.7	1.4	1.3
Biosecurity risk analysis and research - centre of excellence	0.5	1.8	1.8	1.9
Defeating the weed menace	2.0	10.0	12.0	8.0
Drought assistance - Exceptional Circumstances assistance(d)	72.4	48.7	1.6	-
Drought assistance - interim income support	3.5	-	-	-
Food processing in regional Australia	0.3	4.5	4.5	2.7
Eradicating citrus canker in Queensland	3.5	1.3	0.7	-
RecFish Australia - additional funding	0.1	0.1	0.1	0.1
National Livestock Identification System	5.0	5.0	5.0	5.0
Illegal foreign fishers - additional funding for deterrence(d)	2.8	5.1	2.1	1.4
Portfolio total	90.5	78.2	29.2	20.4

Table A2: Expense measures since the 2004-05 Budget (continued)^(a)

	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m
ATTORNEY-GENERAL'S				
Centenary House Leasing Inquiry funding	3.8	-	-	-
Counter-terrorism - expanded exercise programme	0.9	1.0	1.0	1.0
National Community Crime Prevention Programme -				
Australia-wide	5.0	5.0	5.0	5.0
Western Sydney	2.0	2.0	2.0	2.0
National Community Crime Prevention Programme -				
additional funding	5.0	5.0	-	-
Family law system - consultation on proposed reforms(d)	0.6	-	-	-
Local Government - developing a national strategic plan	1.0	-	-	-
Local Grants Scheme - establishment	0.9	9.4	9.7	9.8
National Emergency Volunteers Support Fund - establishment	1.0	4.9	5.0	5.1
National Security Hotline - ongoing public awareness campaign	6.1	-	-	-
Office of Local Government Emergency Management	0.2	0.6	0.6	0.6
Australia's Outward Control Points - enhancing security	0.1	..	..	..
Australian Customs Service - biological and chemical agent				
screening capability	0.4	0.8	0.9	0.7
Australian Customs Service - additional funding	24.8	19.5	17.2	13.6
Australian Customs Service - Customs post in Beijing	1.2	1.2	1.2	1.2
Australian Customs Service - Customs post in Jakarta	0.9	0.9	0.9	0.9
Australian Customs Service - additional detector dogs	2.9	1.3	1.2	1.2
Australian Customs Service - new mail screening technology	0.3	0.4	0.7	0.8
Australian Customs Service - unmanned aerial vehicle trial	0.2	0.4	-	-
Australian Federal Police - enhanced counter-terrorism capacity				
Counter-terrorism teams	3.6	5.6	5.7	5.7
Intelligence officers and other specialists	2.6	4.7	4.7	4.8
Counter-terrorism surveillance	2.2	3.4	3.5	3.5
Capacity building	-	3.0	3.0	3.1
Language training	1.5	3.2	3.2	3.3
Australian Federal Police - Jakarta bombing investigation	5.0	-	-	-
Australian Federal Police - national child sex offenders strike team	4.0	7.4	7.5	7.6
Offshore Maritime Security - oil and gas facilities and				
ship interdiction	1.0	3.2	2.8	2.7
Protective Security				
Australian Federal Police National Operations Centre	1.4	2.2	2.2	2.2
Australian Federal Police surge capacity	1.8	2.5	2.5	2.6
Electronic surveillance devices	-	1.0	1.0	1.0
Portfolio total	80.3	88.4	81.5	78.6
COMMUNICATIONS, INFORMATION TECHNOLOGY				
AND THE ARTS				
Australia Council - additional funding in 2003-04	-	-	-	-
'Noise' youth arts festival - additional funding	1.3	1.3	1.3	1.3
NewsRadio - extension of transmission areas	nfp	nfp	nfp	nfp
Australian Film Commission - developing Australian film	2.5	5.0	5.0	5.0
Elite athlete support - additional funding	3.8	3.0	-	-
Paralympic Sport - additional funding	2.0	2.0	2.0	2.0
Australia Council - maintenance of major performing				
arts funding	1.0	1.0	1.0	1.1

Appendix A: Policy decisions taken since the 2004-05 Budget

Table A2: Expense measures since the 2004-05 Budget (continued)^(a)

	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m
COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS (continued)				
Community broadcasters - increased assistance with meeting transmission costs	1.5	1.5	1.5	1.5
Community broadcasting - training fund	0.5	0.5	0.6	0.6
Deaflympic Games Melbourne 2005	0.4	-	-	-
Film Finance Corporation Australia - additional funding	5.0	10.0	10.0	10.0
Indigenous art - training and facilities	1.0	1.0	1.0	1.0
Kardinia Park redevelopment - contribution	2.0	-	-	-
NetAlert National Cybersafe Programme - additional funding	0.7	1.3	-	-
Olympic and Paralympic teams 2004 - welcome home parades	0.4	-	-	-
Penrith Stadium upgrade - contribution	10.0	-	-	-
Regional Arts Fund - additional funding	1.3	1.3	1.4	1.4
Surf Life Saving Australia - additional funding for centenary celebrations	0.5	-	-	-
Tough on Drugs in Sport - additional funding(d)	1.9	3.8	3.8	3.8
Water and alpine safety	2.5	2.5	2.5	2.5
Whitten Oval redevelopment - contribution	4.0	4.0	-	-
National Museum of Australia - additional funding	-	-	-	-
Building a Healthy, Active Australia				
Active after-school communities	18.9	27.8	28.3	15.0
Active kids in schools	-	-	-	-
Good nutrition information campaign	5.0	-	-	-
Healthy and active communities	13.3	1.7	-	-
Physical activity for children information campaign	6.0	-	-	-
Portfolio total	85.4	67.7	58.4	45.2
DEFENCE				
Australian Army - new troop lift helicopters	-	-	-	-
Portfolio total	0.0	0.0	0.0	0.0
EDUCATION, SCIENCE AND TRAINING				
School infrastructure - investing in our schools	132.0	247.4	271.0	270.7
Australian National Training Authority - abolition	2.8	-	-	-
Aged Care - additional university places for aged care nursing	0.4	0.7	1.0	1.2
Assistance for Isolated Children - increasing the Basic Boarding Allowance and the Distance Education Allowance	8.3	17.5	18.1	18.8
Australian Technical Colleges(i)	1.6	65.4	86.3	102.5
Commonwealth Trade Learning Scholarships	0.2	15.3	29.4	30.3
Youth Allowance, Austudy and Abstudy - extending payments to New Apprentices(d)	8.1	117.3	126.8	136.2
New Apprenticeship Access Programme - additional places	0.1	12.6	12.8	13.0
Charles Darwin University - improved information technology infrastructure	1.0	0.5	0.5	-
Indigenous Youth Leadership	1.0	3.0	3.0	3.2
Indigenous Youth Mobility	7.0	4.0	4.0	4.1
James Cook University - veterinary science school	6.0	6.0	-	-
School flagpoles	0.6	-	-	-
School term hostels	2.4	2.6	2.6	2.9

Table A2: Expense measures since the 2004-05 Budget (continued)^(a)

	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m
EDUCATION, SCIENCE AND TRAINING (continued)				
Success for Boys - boys' education initiative	0.7	4.8	9.0	4.9
Tool kits for new apprentices in skill shortage trades	0.4	28.7	29.5	30.4
Tutorial credit initiative - extension	14.5	..	..	..
University of Notre Dame - additional places for medicine, nursing and teaching	-	3.5	3.9	8.0
University of Wollongong - establishment of a medical school	-	5.0	5.0	-
Portfolio total	187.2	534.3	602.9	626.1
EMPLOYMENT AND WORKPLACE RELATIONS				
Workplace Dispute Settlement Pilot Programme	0.5	1.5	-	-
Australian Workplace Agreements - encouraging uptake by small business	3.0	3.0	3.0	3.0
Carer payment - increasing opportunities to undertake work, study or training	-	..	..	..
Indigenous entrepreneurs - financial literacy strategy	0.5	2.0	1.0	1.0
Portfolio total	4.0	6.5	4.0	4.0
ENVIRONMENT AND HERITAGE				
Securing Australia's Energy Future				
Advanced electricity storage technologies	0.8	3.7	5.8	5.8
Low Emissions Technology Demonstration Fund	1.5	1.8	51.8	51.6
Solar Cities	2.1	5.9	21.2	24.6
Wind forecasting capability	1.1	4.4	4.0	3.2
Mandatory energy efficiency opportunity assessments	2.2	3.7	3.9	3.7
National Tidal Centre - additional funding(d)	-	-	-	-
Director of National Parks - additional funding	4.1	3.8	4.1	4.4
Great Barrier Reef Structural Adjustment Package - enhancement	16.0	4.0	-	-
Prime Ministers' Memorial - reconstruction of commemorative wall	-	-	-	-
Protecting Australia's Biodiversity Hotspots	11.5	10.0	10.0	-
Portfolio total	39.3	37.2	100.8	93.4
FAMILY AND COMMUNITY SERVICES				
Australian research alliance for children and youth	-	-	-	-
Bali bombing - second anniversary commemorations(d)	0.1	-	-	-
Carer Allowance - revised implementation date for expanded eligibility criteria	16.0	-	-	-
30 per cent child care tax rebate	3.2	17.0	18.3	22.5
Family law system reforms - additional funding for Family Relationships Services programme(d)	15.0	-	-	-
Family law system reforms - establishment of a Child Support Task Force	1.1	-	-	-
Carer payment - increasing opportunities to undertake work, study or training	0.8	2.4	6.0	10.3
Non-profit Council of Australia - seed funding	0.5	0.4	-	-
Seniors Concession Allowance for self-funded retirees who hold a Commonwealth Seniors Health Card(d)	58.7	62.2	66.4	70.9
Stronger Families and Communities Strategy - increased funding for Communities for Children	0.3	4.9	9.7	9.7

Appendix A: Policy decisions taken since the 2004-05 Budget

Table A2: Expense measures since the 2004-05 Budget (continued)^(a)

	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m
FAMILY AND COMMUNITY SERVICES (continued)				
Stronger Families and Communities Strategy - increased funding for Local Answers	0.5	8.4	20.8	28.3
Stronger Families and Communities Strategy - increased funding for Volunteer Small Equipment Grants	3.6	3.6	3.6	3.7
Grandparents who care for children - increasing child care assistance	8.8	18.6	23.6	28.8
Utilities Allowance for senior Australians on income support(d)	81.8	169.2	175.6	183.1
Portfolio total	190.2	286.7	324.0	357.4
FOREIGN AFFAIRS AND TRADE				
Australian overseas missions - blast proofing of windows	4.0	1.8	-	-
Export Hubs(d)	1.3	1.2	1.2	1.2
Export Market Development Grants scheme	10.0	10.0	10.0	-
G8 Global Partnership on weapons of mass destruction - contribution	-	-	-	-
Iraq - forgiveness of debt	*	*	*	*
Australian overseas missions - improved security(d)	10.1	14.5	15.7	24.1
Portfolio total	25.3	27.5	26.9	25.3
FINANCE AND ADMINISTRATION				
National Portrait Gallery - additional funding(d)	0.3	0.6	0.6	0.3
Portfolio total	0.3	0.6	0.6	0.3
HEALTH AND AGEING				
Cancer Council Australia - Biggest Morning Tea Appeal	-	-	-	-
Dementia - a national health priority	5.2	15.4	16.3	16.6
Diabetes - support for research	0.3	5.0	10.4	10.8
GP services - improving after-hours access	2.1	2.7	2.8	2.9
Haemophilia patients - increasing access to recombinant clotting factors	17.5	21.1	20.8	21.3
Investing in Stronger Regions - practice nurses in rural areas(d)	0.9	2.4	3.6	5.0
Medical Bionics Centre	0.7	-	-	-
Medicare - additional incentive for GPs who bulk-bill in areas of workforce shortage and lower than average bulk-billing rates	19.7	23.7	5.3	-
Medicare - eight new Medicare offices	3.7	5.2	5.2	5.3
Medicare - extension of the After-Hours Primary Medical Care Programme	-	-	-	-
Medicare - higher rebate for services provided by other medical practitioners working after-hours in a Medical Deputising Service(d)	1.1	1.9	2.4	2.4
Medicare - increase the Medicare rebate to 100 per cent of the schedule fee for GP attendances	251.9	505.7	503.5	504.7
Medicare - eligible Magnetic Resonance Imaging units for Dubbo and Gippsland(d)	3.1	2.0	2.4	2.9
Medicare - extended opening hours for Medicare offices	6.8	6.6	6.6	6.7
Round the Clock Medicare - investing in after-hours GP services(d)	46.9	97.8	110.2	124.7
Mental Health - funding for beyondblue	6.0	8.2	8.3	8.5

Table A2: Expense measures since the 2004-05 Budget (continued)^(a)

	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m
HEALTH AND AGEING (continued)				
Mental Health - expansion of Better Outcomes in Mental Health Care initiative	2.2	8.4	10.5	10.7
Mental Health - youth mental health	5.1	15.5	15.8	16.1
Multiple Sclerosis Research Australia initiative	-	-	-	-
Pharmaceutical Benefits Scheme - listing of Ezetrol(d)	24.5	47.6	64.8	78.2
Pharmaceutical Benefits Scheme - listing of Risperdal Consta	6.9	21.2	30.7	36.5
Pharmaceutical Benefits Scheme - extension to the listing of Zyprexa	2.7	8.6	16.0	25.7
Pneumococcal Vaccination - programme for adults aged 65 years and over(d)	29.7	-18.9	-19.7	-22.0
Pneumococcal vaccination - universal childhood programme	69.5	77.1	30.7	-
Public Health Outcome Funding Agreements - supplementary funds	0.2	4.5	5.0	5.5
Private Health Insurance rebate - increase for older Australians(d)	29.5	125.1	138.5	153.3
Strengthening Cancer Care - radiation therapy internships and undergraduate places(d)	1.4	2.8	3.4	3.6
Royal Darwin Hospital - equipped, prepared and ready(d)	5.4	19.7	13.3	13.7
Royal Flying Doctors Service - increased funding	2.5	-	-	-
Strengthening Cancer Care - Camp Quality and Make A Wish Foundation	2.0	-	-	-
Strengthening Cancer Care - Cancer Australia	1.3	4.3	2.7	2.7
Strengthening Cancer Care - Cancer Support Networks	0.6	0.6	0.6	0.6
Strengthening Cancer Care - National Breast Cancer Centre	0.8	0.8	0.8	0.8
Strengthening Cancer Care - Royal Children's Hospital in Melbourne	10.0	-	-	-
Westmead Hospital - new positron emission tomography scanner	4.1	1.0	1.1	1.2
Portfolio total	564.1	1015.9	1011.8	1038.3
IMMIGRATION AND MULTICULTURAL AND INDIGENOUS AFFAIRS				
Child Migrants' Travel Fund	1.8	-	-	-
Indigenous Australians - improving school attendance in remote areas	5.0	-	-	-
Reconciliation Place in Canberra - continued development	1.0	1.0	-	-
Temporary Protection Visa - caseload resolution(d)	-9.0	-14.4	-14.3	-8.3
Indigenous Communities - developing a twenty to thirty year vision	1.0	1.0	-	-
Regional Movement Alert List Pilot Programme	0.2	0.7	-	-
Portfolio total	0.0	-11.8	-14.3	-8.3
INDUSTRY, TOURISM AND RESOURCES				
Australian Institute for Commercialisation - Techfast Pilot Programme	2.5	-	-	-
Australian Made Campaign	0.9	0.8	0.4	-
Cairns Esplanade - additional funding	3.0	3.0	2.0	2.0
Fuel excise reforms - business credits - cessation of the Petroleum Products Freight Subsidy Scheme	-	-	-3.5	-3.5
Home-Based Business Seminars	0.7	0.4	0.4	0.4
Industry Cooperative Innovation Programme	0.1	3.1	5.2	6.3
Kimberley Cultural Tourism Promotion	0.1	0.1	-	-

Appendix A: Policy decisions taken since the 2004-05 Budget

Table A2: Expense measures since the 2004-05 Budget (continued)^(a)

	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m
INDUSTRY, TOURISM AND RESOURCES (continued)				
Labour market and structural adjustment assistance				
South Australia assistance package(d)	22.1	22.8	5.0	0.1
Liquified petroleum gas - APA Manufacturing Pty Ltd	-	-	-	-
Regulation Reduction Incentive Fund	6.5	36.3	7.2	-
Commercial Ready Programme - reprioritisation	-0.1	-3.1	-5.2	-6.3
Securing Australia's Energy Future - renewable energy development initiative	-	-	-	-
Small Business Collective Bargaining Campaign	0.5	0.8	0.8	-
The Great Green Way - tourism initiative	2.0	2.0	2.0	-
Woodend Bike Trail	-	-	-	-
Lancefield Visitor Centre	-	-	-	-
Caravan Safari Trail Project	-	-	-	-
Fairbridge Village - redevelopment	-	-	-	-
Venture Capital Industry - review	-	-	-	-
Portfolio total	38.3	66.1	14.3	-1.0
PRIME MINISTER AND CABINET				
Asia Pacific Economic Cooperation 2007 - additional funding for the establishment of a taskforce(d)	3.8	-	-	-
National Australia Day Council - additional funding	0.1	0.1	0.1	0.1
Office of the Inspector-General of Intelligence and Security - additional funding	0.1	0.1	0.1	0.1
Australian Water Fund(d)(j)	62.2	337.9	625.2	615.4
Portfolio total	66.2	338.1	625.4	615.6
TRANSPORT AND REGIONAL SERVICES				
AusLink - National Land Transport Network	-	-	50.0	210.0
AusLink - Roads to Recovery	30.0	30.0	30.0	30.0
Pakenham bypass - additional funding	-	21.0	-	-
Scoresby Freeway - additional funding	40.0	40.0	40.0	-
South Australian roads - additional funding	15.0	30.0	-	-
AusLink National Network				
Tully flood mitigation	5.0	20.0	45.0	10.0
Townsville ring road	-	5.0	20.0	15.0
Callemondah Bypass	3.0	-	-	-
Miriam Vale safety works	0.5	1.5	-	-
Toowoomba Range Crossing	4.0	-	-	-
Sturt Highway extension	-	-	25.0	50.0
Port River Expressway	5.0	10.0	-	-15.0
Hampstead Road	-	3.0	-	-
Coolac Bypass	-	35.0	-	-10.0
Brisbane TransApex study	0.5	1.5	-	-
Peel Deviation	-	-	-	20.0
Department of Transport and Regional Services - additional funding	0.2	0.2	0.2	0.2
Bushfire Mitigation - new initiatives(d)	8.0	8.0	8.0	-
Sustainable Regions - Western NSW, Western QLD and Northern Rivers and North Coast of NSW	1.6	9.4	12.5	9.5

Table A2: Expense measures since the 2004-05 Budget (continued)^(a)

	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m
TRANSPORT AND REGIONAL SERVICES (continued)				
Norfolk Island memorial for Minister Buffet - grant to establish the environmental trust fund	..	0.4	..	..
Regional Partnerships				
Bank @ Post	2.2	6.1	1.2	1.2
Icon Projects	7.9	16.0	3.9	-
Thuringowa Riverway - development	2.0	2.0	2.0	-
Tasmanian Freight Equalisation Scheme - savings	-1.7	-1.7	-1.7	-1.7
Tasmanian Wheat Freight Scheme - continuing assistance for bulk wheat shipments	1.1	1.1	1.1	1.1
Servicing of land administered by the National Capital Authority	0.7	-	-	-
Portfolio total	125.0	238.6	237.3	320.3
TREASURY				
Fuel excise reforms - business credits(k)				
Conversion of partial excise for fuel used in heavy vehicles to a road user charge	-	-	-	-
Extension of full credit for fuels used in electricity generation	-	-	-	-
Extension of full excise credit for all business use of fuel off-road	-	-	-	-
Removal of grant on burner fuels	-	-	-	-
Removal of metropolitan boundaries and extension of on-road credits to all fuels	-	-	-	-
Single business credit system	-	-	-9.3	-11.0
Review of Aspects of Income Self-Assessment	17.2	18.8	15.6	18.4
National Consumer and Financial Literacy Foundation	4.2	-	-	-
National Consumer and Financial Literacy Information Programme	8.0	8.0	-	-
Simplified Tax System - extension	0.2	0.6	0.5	0.9
Introducing a 25 per cent entrepreneurs' tax discount	0.6	1.9	2.6	2.2
Portfolio total	30.2	29.3	9.5	10.6
VETERANS' AFFAIRS				
Commemoration programme - additional funding for significant anniversaries in 2005	6.4	1.4	-	-
National Peacekeepers' Memorial	-	0.2	-	-
Australian Ex-prisoners of War Memorial in Ballarat	0.3	-	-	-
Bereavement Payment for above general rate disability pensioners - additional funding	1.9	4.1	4.3	4.5
Veterans' Home Care Programme - additional funding	13.1	13.1	13.1	13.1
Ex-Service Organisations - providing additional funding to explain the new Military Rehabilitation and Compensation Scheme	2.3	2.3	2.3	2.3
Local Medical Officer Scheme - increasing the Veterans' Access Payment	2.3	4.0	4.2	4.4

Appendix A: Policy decisions taken since the 2004-05 Budget

Table A2: Expense measures since the 2004-05 Budget (continued)^(a)

	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m
VETERANS' AFFAIRS (continued)				
Local Medical Officer Scheme - increasing the Medicare rebate to 115 per cent of the scheduled fee for GP attendances	10.5	22.5	24.1	25.9
Aircraft maintenance personnel - cancer and health screening and disease prevention	0.4	0.4	0.4	0.4
Portfolio total	37.3	48.1	48.6	50.7
Depreciation Expense(b)	12.0	25.3	28.7	30.8
Decisions taken but not yet announced	20.0	-	-	-
Total Expense Measures	1645.4	2943.1	3249.4	3367.2

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

.. not zero, but rounded to zero.

- Nil.

nfp Not for publication.

(a) A minus sign before an estimate indicates a reduction in expenses, no sign before an estimate indicates increased expenses.

(b) Aggregate depreciation expenses in relation to capital measures.

(c) Measures may not add due to rounding.

(d) This is a cross portfolio measure which is presented under the lead portfolio.

(e) The Flood inquiry into Australian intelligence agencies package of measures includes funding for the following portfolios: Defence; Foreign Affairs and Trade; Attorney-General's; and Prime Minister and Cabinet.

(f) The Maritime Security package of measures includes funding for the following portfolios: Immigration and Multicultural and Indigenous Affairs; Attorney-General's; and Transport and Regional Services.

(g) The Aviation Security package of measures includes funding for the Transport and Regional Services portfolio and the Attorney-General's portfolio.

(h) The Strengthening Tasmania package of measures includes funding for the following portfolios: Transport and Regional Services, Employment and Workplace Relations, Environment and Heritage, Family and Community Services, Industry, Tourism and Resources, Veterans' Affairs, Health and Ageing and Education, Science and Training.

(i) The Australian Technical Colleges measure includes funding of \$95 million in 2008-09; \$69.9 million in 2009-10; and \$49.1 million in 2010-11.

(j) Funds currently allocated for National Competition Policy Payments in 2006-07 and 2007-08 will be used to offset the costs of the Australian Water Fund.

(k) The Fuel excise reforms - business credits package of measures in the Treasury portfolio were included as decisions taken but not yet announced in the 2004-05 Budget.

Appendix A: Policy decisions taken since the 2004-05 Budget

Table A3: Capital measures since the 2004-05 Budget^(a)

	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m
CROSS PORTFOLIO				
Flood inquiry into Australian intelligence agencies(d)				
Australian Security Intelligence Organisation - temporary accommodation	4.5	-	-	-
Office of National Assessments - additional accommodation	1.4	-	-	-
Maritime Security(e)				
Container examination facilities	0.9	-	-	-
Extension of closed circuit television network	3.5	5.9	-	-
Standardised information around the movement of cargo	0.1	-	-	-
Maritime Security Identification Card	1.5	-	-	-
Increased presence of immigration officers at seaports	0.1	-	-	-
Aviation Security(f)				
Counter-terrorism first response regional rapid deployment teams	0.6	-	-	-
Training for regional airline and airport staff	0.3	-	-	-
Cross portfolio total	12.8	5.9	0.0	0.0
ATTORNEY-GENERAL'S				
Counter-terrorism - expanded exercise program	0.1	-	-	-
National Community Crime Prevention Programme				
Australia-wide	..	-	-	-
Western Sydney	..	-	-	-
Family law system - consultation on proposed reforms	0.1	-	-	-
Local Government - developing a national strategic plan	..	-	-	-
Local Grants Scheme - establishment	0.1	-	-	-
National Emergency Volunteers Support Fund - establishment	0.1	-	-	-
Office of Local Government Emergency Management	0.1	-	-	-
Australia's Outward Control Points - enhancing security	0.5	-	-	-
Australian Customs Service - biological and chemical agent screening capability	4.0	4.2	1.9	1.1
Australian Customs Service - additional funding	18.5	0.3	-	-
Australian Customs Service - Customs post in Beijing	..	-	-	-
Australian Customs Service - Customs post in Jakarta	..	-	-	-
Australian Customs Service - additional detector dogs	0.4	-	-	-
Australian Customs Service - new mail screening technology	7.0	-	-	-
Australian Federal Police - enhanced counter-terrorism capacity				
Counter-terrorism teams	5.1	-	-	-
Intelligence officers and other specialists	0.2	-	-	-
Counter-terrorism surveillance	1.0	-	-	-
Capacity building	-	-	-	-
Language training	-	-	-	-
Australian Federal Police - national child sex offenders strike team	1.1	-	-	-
Australian Institute of Police Management - improved facilities	1.4	6.1	3.4	0.4

Appendix A: Policy decisions taken since the 2004-05 Budget

Table A3: Capital measures since the 2004-05 Budget (continued)^(a)

	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m
ATTORNEY GENERAL'S (continued)				
Protective Security				
Electronic surveillance devices	3.4	-	-	-
Australian Federal Police National Operations Centre	7.4	-	-	-
Australian Federal Police surge capacity	2.2	-	-	-
Offshore Maritime Security - Oil and Gas Facilities and Ship Interdiction	-	-	-	-
Portfolio total	52.6	10.6	5.3	1.5
DEFENCE				
Illegal foreign fishers - additional funding for deterrence(c)	0.1	0.7	-	-
Portfolio total	0.1	0.7	0.0	0.0
COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS				
National Museum of Australia - additional funding	1.0	1.1	3.5	5.2
Portfolio total	1.0	1.1	3.5	5.2
EDUCATION, SCIENCE AND TRAINING				
Youth Allowance, Austudy and Abstudy - extending payments to New Apprentices(c)	2.6	2.7	1.2	-
Portfolio total	2.6	2.7	1.2	0.0
FAMILY AND COMMUNITY SERVICES				
Seniors Concession Allowance for self-funded retirees who hold a Commonwealth Seniors Health Card(c)	0.1	-	-	-
Utilities Allowance for senior Australians on income support(c)	0.3	-	-	-
Portfolio total	0.3	0.0	0.0	0.0
FINANCE AND ADMINISTRATION				
National Portrait Gallery building(c)	0.5	20.0	30.0	-
Portfolio total	0.5	20.0	30.0	0.0
FOREIGN AFFAIRS AND TRADE				
Export Hubs(c)	0.3	-	-	-
Australian overseas missions - blast proofing of windows	39.9	19.9	-	-
Australian overseas missions - improved security(c)	121.9	80.1	93.1	195.7
Portfolio total	162.1	100.1	93.1	195.7
HEALTH AND AGEING				
Investing in Stronger Regions - practice nurses in rural areas(c)	0.1	-	-	-
Medicare - eight new Medicare Offices	2.3	-	-	-
Medicare - increase the Medicare rebate to 100 per cent of the schedule fee for GP attendances	0.1	-	-	-
Private Health Insurance Rebate - increase for older Australians	0.3	-	-	-
Medicare - investing in after-hours GP services(c)	0.1	-	-	-
Medicare - extended opening hours for Medicare offices	0.8	-	-	-
Pneumococcal vaccination - universal childhood programme	0.5	-	-	-
Portfolio total	4.2	0.0	0.0	0.0

Table A3: Capital measures since the 2004-05 Budget (continued)^(a)

	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m
IMMIGRATION AND MULTICULTURAL AND INDIGENOUS AFFAIRS				
Temporary Protection Visa - caseload resolution	0.1	-	-	-
Regional Movement Alert List Pilot Programme	2.2	0.4	-	-
Portfolio total	2.4	0.4	0.0	0.0
PRIME MINISTER AND CABINET				
Asia Pacific Economic Cooperation 2007 - additional funding to initiate security planning(c)	0.3	-	-	-
Portfolio total	0.3	0.0	0.0	0.0
TRANSPORT AND REGIONAL SERVICES				
Norfolk Island memorial for Minister Buffet - proceeds for the transfer of crown land	-0.3	-0.1	..	..
Norfolk Island airport runway resurfacing	-	-	-	-
Portfolio total	-0.3	-0.1	0.0	0.0
TREASURY				
National Consumer and Financial Literacy Foundation	0.8	-	-	-
Portfolio total	0.8	0.0	0.0	0.0
Depreciation Expense	-12.0	-25.3	-28.7	-30.8
Total Capital Measures(b)	227.3	116.2	104.4	171.6

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

.. not zero, but rounded to zero.

- Nil.

nfp Not for publication.

(a) A minus sign before an estimate indicates a reduction in capital, no sign before an estimate indicates increased capital.

(b) Measures may not add due to rounding.

(c) This is a cross portfolio measure which is presented under the lead portfolio.

(d) The Flood inquiry into Australian intelligence agencies package of measures includes funding for the Attorney-General's portfolio and Prime Minister and Cabinet portfolio.

(e) The Maritime Security package of measures includes funding for the Immigration and Multicultural and Indigenous Affairs portfolio and the Attorney-General's portfolio.

(f) The Aviation Security package of measures includes funding for the Transport and Regional Services portfolio and the Attorney-General's portfolio.

APPENDIX B: GOVERNMENT FINANCE STATISTICS STATEMENTS

Financial tables presented in this Appendix are prepared in accordance with the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) framework.

The tables include an operating statement, balance sheet and cash flow statement for the Australian Government general government, public non-financial corporations and total non-financial public sectors. A statement of other economic flows is also included for the Australian Government general government sector.

The Australian, State and Territory Governments have an agreed framework – the *Accrual Uniform Presentation Framework* – for the presentation of government financial information on a basis consistent with ABS GFS. This Appendix presents Australian Government data on an ABS GFS basis, as required by the *Accrual Uniform Presentation Framework*, except for the departures (other than in relation to the treatment of goods and services tax (GST)) detailed in Attachment A to Part 3.

The only difference between the Australian Government general government sector statements in Part 3 and this Appendix is the treatment of the GST. The clear policy intent of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* is that GST is collected by the Australian Taxation Office, as an agent for the states and territories (the States), and appropriated to the States. Consequently, it is not shown as Australian Government revenue in other parts of this document. However, the tables in this Appendix show GST as taxation revenue and payments to the States as grant expenses.

As a result of the different treatments of GST related transactions, fiscal balance, net operating balance and net worth estimates in this Appendix differ from those reported elsewhere in this document. This difference represents the effect of GST revenue accrued but not yet received and, therefore, not yet paid or payable to the States (as GST obligations to the States are on a cash basis). The underlying cash balance is not affected and provides identical results under both treatments of GST receipts.

Transactions between the Australian Government general government and public non-financial corporations sectors are included in the relevant tables, but are removed from the total non-financial public sector tables as they are transactions internal to that sector.

Public access communication assets, computer software and other intangibles are recorded at historic cost, as market value information, or suitable proxies for market value, are not readily observable. This affects the public non-financial corporations sector balance sheet, but does not affect the general government sector balance sheet.

Appendix B: Government Finance Statistics statements

Appendix E provides reconciliations between key GFS aggregates and their Australian Accounting Standards counterparts.

In accordance with *Accrual Uniform Presentation Framework* requirements, this Part also contains an update of the Australian Government's Loan Council Allocation.

GOVERNMENT FINANCE STATISTICS STATEMENTS

Table B1: Australian Government general government sector operating statement

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
GFS revenue				
Taxation revenue	223,662	233,347	245,282	258,999
Current grants and subsidies	0	0	0	0
Sales of goods and services	4,404	4,491	4,638	4,722
Interest income	1,435	1,602	2,231	3,185
Dividend income	3,050	3,076	2,677	1,919
Other	2,932	2,903	2,832	2,806
Total GFS revenue	235,483	245,417	257,660	271,631
GFS expenses				
Gross operating expenses				
Depreciation	1,932	2,145	2,224	2,289
Superannuation	2,442	2,219	2,267	2,289
Salaries and wages	12,008	12,344	12,723	12,973
Payment for supply of goods and services	45,670	47,309	49,612	52,143
Other operating expenses	2,557	2,596	2,626	2,742
<i>Total gross operating expenses</i>	<i>64,609</i>	<i>66,613</i>	<i>69,451</i>	<i>72,436</i>
Nominal superannuation interest expense	4,763	5,107	5,429	5,714
Other interest expenses	4,136	3,824	3,729	3,702
Other property expenses	0	0	0	0
Current transfers				
Grant expenses	72,293	76,480	78,606	82,273
Subsidy expenses	6,351	6,506	6,666	6,884
Personal benefit payments in cash	73,312	78,530	84,000	89,485
Other current transfers	0	0	0	0
<i>Total current transfers</i>	<i>151,957</i>	<i>161,517</i>	<i>169,272</i>	<i>178,641</i>
Capital transfers	3,653	3,725	3,754	3,770
Total GFS expenses	229,118	240,786	251,635	264,263
Net operating balance(a)	6,364	4,631	6,025	7,368
Net acquisition of non-financial assets				
Purchases of non-financial assets	3,155	2,994	2,663	2,550
<i>less</i> Sales of non-financial assets	<i>670</i>	<i>653</i>	<i>484</i>	<i>484</i>
<i>less</i> Depreciation	<i>1,932</i>	<i>2,145</i>	<i>2,224</i>	<i>2,289</i>
<i>plus</i> Change in inventories	<i>174</i>	<i>63</i>	<i>214</i>	<i>131</i>
<i>plus</i> Other movements in non-financial assets	<i>-22</i>	<i>155</i>	<i>54</i>	<i>-34</i>
Total net acquisition of non-financial assets	705	415	223	-125
Net lending/fiscal balance(a)(b)	5,659	4,216	5,802	7,494

(a) The fiscal balance and net operating balance estimates in this table differ from those presented elsewhere in the MYEFO reflecting the treatment of the GST as an Australian Government tax.

(b) The term fiscal balance is not used by the ABS.

Table B2: Australian Government general government sector balance sheet

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
GFS assets				
Financial assets				
Cash and deposits	1,376	1,189	1,174	1,199
Advances paid	19,400	20,469	21,804	23,540
Investments, loans and placements(a)	9,375	9,187	9,054	8,935
Other non-equity assets	19,847	20,852	23,075	25,512
Equity(b)	48,068	48,060	40,007	28,728
<i>Total financial assets</i>	<i>98,067</i>	<i>99,757</i>	<i>95,113</i>	<i>87,913</i>
Non-financial assets				
Land	5,052	5,057	5,135	5,190
Buildings	14,175	14,289	14,361	14,514
Plant, equipment and infrastructure	8,482	8,836	8,824	8,706
Inventories	4,908	4,971	5,185	5,315
Heritage and cultural assets	6,455	6,468	6,483	6,494
Other non-financial assets	2,020	1,978	1,959	1,741
<i>Total non-financial assets</i>	<i>41,092</i>	<i>41,599</i>	<i>41,947</i>	<i>41,961</i>
Total GFS assets	139,159	141,356	137,060	129,874
GFS liabilities				
Deposits held	365	365	365	365
Advances received	0	0	0	0
Government securities(a)	43,313	38,705	22,818	5,697
Loans	5,945	5,779	5,613	5,466
Other borrowing	222	188	174	139
Superannuation liability	90,506	93,333	96,458	99,652
Other employee entitlements and provisions	8,524	8,660	8,795	8,914
Other non-equity liabilities	25,287	25,869	26,430	27,368
Total GFS liabilities	174,163	172,899	160,653	147,600
Net worth(c)(d)	-35,003	-31,543	-23,593	-17,726
Net financial worth(e)	-76,095	-73,143	-65,540	-59,687
Net debt(f)	19,693	14,192	-3,061	-22,007

(a) For 2004-05 and the forward years, transactions relating to debt management activities in assets — investments, loans and placements and liabilities — Government Securities have been netted. This treatment has been applied because of the uncertainty associated with the actual split between government securities and financial assets acquired for debt management purposes.

(b) Equity includes the valuation of the Telstra shareholding, which is valued at the average of the daily share price over a 90-day period, except in the sale years where the valuation is based on the expected sale price.

(c) The net worth estimates in this table differ from those presented elsewhere in the MYEFO reflecting the treatment of the GST as an Australian Government tax.

(d) Net worth is calculated as total assets minus total liabilities.

(e) Net financial worth equals total financial assets minus total liabilities. That is, it excludes non-financial assets.

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

Table B3: Australian Government general government sector cash flow statement^(a)

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Cash receipts from operating activities				
Taxes received(b)	218,719	229,069	240,393	253,930
Receipts from sales of goods and services(c)	4,390	4,495	4,629	4,715
Grants and subsidies received	0	0	0	0
Interest receipts	1,355	1,386	1,972	2,886
Dividends	3,713	3,396	2,677	1,919
GST input credits received by general government(c)	0	0	0	0
Other receipts	3,000	2,877	2,798	2,770
Total operating receipts	231,178	241,223	252,468	266,221
Cash payments for operating activities				
Payments for goods and services(c)	-46,042	-47,524	-49,931	-52,375
Grants and subsidies paid(d)	-80,262	-84,928	-87,465	-91,371
Interest paid	-3,864	-4,609	-3,846	-3,502
Personal benefit payments	-73,455	-77,910	-83,519	-88,959
Salaries, wages and other entitlements	-16,327	-16,820	-17,289	-17,779
GST payments by general government to taxation authority(c)	0	0	0	0
Other payments for operating activities	-2,560	-2,472	-2,488	-2,618
Total operating payments	-222,511	-234,265	-244,538	-256,604
Net cash flows from operating activities	8,667	6,958	7,931	9,617
Cash flows from investments in non-financial assets				
Sales of non-financial assets	737	660	486	486
Purchases of new and secondhand non-financial assets	-3,192	-3,155	-2,696	-2,513
Net cash flows from investments in non-financial assets	-2,454	-2,495	-2,211	-2,027
Net cash flows from investments in financial assets for policy purposes	-1,334	-1,475	9,476	9,326
Cash flows from investments in financial assets for liquidity purposes				
Increase in investments	-14	72	68	35
Net cash flows from investments in financial assets for liquidity purposes	-14	72	68	35
Cash flows from financing activities				
Advances received (net)	0	0	0	0
Borrowing (net)	-3,721	-3,628	-15,732	-17,067
Deposits received (net)	0	0	0	0
Other financing (net)	-1,357	380	453	141
Net cash flows from financing activities	-5,078	-3,248	-15,279	-16,926
Net increase/decrease in cash held	-214	-187	-16	25
Net cash from operating activities and investments in non-financial assets	6,213	4,463	5,720	7,590
Finance leases and similar arrangements(e)	-7	-4	-23	-5
Equals surplus(+)/deficit(-)	6,206	4,459	5,697	7,584

(a) A positive number denotes a cash inflow; a negative sign denotes a cash outflow.

(b) Includes GST cash receipts on an Australian Government tax basis, which is \$39 million greater than GST cash receipts measured on a State tax basis (as shown in appendix C, Note 16).

(c) GST flows are excluded from these categories.

(d) Includes GST cash payments on an Australian Government tax basis.

(e) The acquisition of assets under finance leases decreases the surplus or increases the deficit. The disposal of assets previously held under finance leases increases the surplus or decreases the deficit.

Table B4: Australian Government general government sector statement of other economic flows (reconciliation of net worth)

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Opening net worth	-36,165	-35,003	-31,543	-23,593
Opening net worth adjustments	0	0	0	0
Adjusted opening net worth	-36,165	-35,003	-31,543	-23,593
Change in net worth from operating transactions	6,364	4,631	6,025	7,368
Change in net worth from other economic flows				
Revaluation of equity(a)	-1,468	36	3,274	19
Net writedowns of assets (including bad and doubtful debts)(b)	-1,771	-1,935	-2,044	-2,122
Assets recognised for the first time(b)	24	25	26	23
Defence weapon platform adjustment(b)	0	0	0	0
Liabilities recognised for the first time	0	0	0	0
Actuarial revaluations	-799	0	0	0
Net foreign exchange gains	-329	0	0	0
Net swap interest received	207	227	215	184
Market valuation of debt	-554	430	348	277
Other economic revaluations(b)(c)	-513	46	106	118
Total other economic flows	-5,203	-1,171	1,925	-1,501
Closing net worth	-35,003	-31,543	-23,593	-17,726

(a) Revaluations of equity reflects changes in the market valuation of commercial entities, including a change in the value of the Telstra shareholding which is valued at the average of the daily share price over a 90-day period, except in the sale years where the valuation is based on the Australian Government's expected sale price. This line also reflects any equity revaluations at the point of disposal or sale.

(b) Defence weapons are treated as expenses rather than assets under the GFS framework; hence changes in value do not contribute to net worth and are not included in other economic flows. The adjustment to remove defence weapons is now allocated to net write-down of assets, assets recognised for the first time and other economic revaluations.

(c) Largely reflects revaluations of assets and liabilities.

Table B5: Australian Government public non-financial corporations operating statement

	Estimates
	2004-05
	\$m
GFS revenue	
Current grants and subsidies	351
Sales of goods and services	25,756
Interest income	111
Other	16
Total GFS revenue	26,235
GFS expenses	
Gross operating expenses	
Depreciation	3,590
Salaries, wages and other entitlements	5,822
Other operating expenses	11,009
<i>Total gross operating expenses</i>	<i>20,420</i>
Interest expenses	465
Other property expenses	1,572
Current transfers	
Tax expenses	1,919
Other current transfers	0
<i>Total current transfers</i>	<i>1,919</i>
Capital transfers	0
Total GFS expenses	24,376
Net operating balance	1,859
Net acquisition of non-financial assets	
Purchases of non-financial assets	4,648
<i>less</i> Sales of non-financial assets	<i>78</i>
<i>less</i> Depreciation	<i>3,590</i>
<i>plus</i> Change in inventories	<i>2</i>
<i>plus</i> Other movements in non-financial assets	<i>-398</i>
Total net acquisition of non-financial assets	584
Net lending/fiscal balance(a)	1,274

(a) The term fiscal balance is not used by the ABS.

Table B6: Australian Government public non-financial corporations balance sheet

	Estimates
	2004-05 \$m
GFS assets	
Financial assets	
Cash and deposits	1,880
Advances paid	0
Investments, loans and placements	989
Other non-equity assets	5,349
Equity	307
<i>Total financial assets</i>	<i>8,525</i>
Non-financial assets	
Land and fixed assets	25,670
Other non-financial assets(a)	2,224
<i>Total non-financial assets</i>	<i>27,894</i>
Total GFS assets	36,419
GFS liabilities	
Deposits held	0
Advances received	0
Borrowing	13,332
Unfunded superannuation liability and other employee entitlements	1,950
Provisions (other than depreciation and bad and doubtful debts)(a)	3,076
Other non-equity liabilities	1,397
Total GFS liabilities	19,755
Shares and other contributed capital	62,123
Net worth(b)	-45,459
Net financial worth(c)	-73,353
Net debt(d)	10,463

(a) Includes the elimination of commercial taxation adjustments for future income tax benefits and deferred income tax.

(b) Net worth is calculated as total assets minus total liabilities minus shares and other contributed capital. The negative net worth recorded for this sector reflects a higher valuation of listed Australian Government corporations by the sharemarket than the value of net assets recorded by these corporations.

(c) Net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital. That is, it excludes non-financial assets.

(d) 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 B7: Australian Government public non-financial corporations cash flow statement^(a)

	Estimates
	2004-05 \$m
Cash receipts from operating activities	
Receipts from sales of goods and services	27,621
Grants and subsidies received	187
GST input credit receipts	15
Other receipts	287
Total receipts	28,109
Cash payments for operating activities	
Payment for goods and services	-9,154
Interest paid	-299
Salaries, wages and other entitlements	-5,704
GST payments to taxation authority	-1,253
Other payments for operating activities(b)	-4,142
Total payments	-20,553
Net cash flows from operating activities	7,556
Cash flows from investments in non-financial assets	
Sales of non-financial assets	113
Purchases of new and secondhand non-financial assets	-4,651
Net cash flows from investments in non-financial assets	-4,539
Net cash flows from investments in financial assets for policy purposes	129
Cash flows from investments in financial assets for liquidity purposes	
Increase in investments	223
Net cash flows from investments in financial assets for liquidity purposes	223
Cash flows from financing activities	
Advances received (net)	0
Borrowing (net)	-121
Deposits received (net)	0
Distributions paid (net)(c)	-1,585
Other financing (net)	-1,287
Net cash flows from financing activities	-2,994
Net increase/decrease in cash held	376
Net cash from operating activities and investments in non-financial assets	3,018
Finance leases and similar arrangements(d)	0
Distributions paid(c)	-1,585
Equals surplus(+)/deficit(-)	1,432

(a) A positive number denotes a cash inflow; a negative sign denotes a cash outflow.

(b) Other payments for operating activities includes the cash flow to the general government sector from public non-financial corporation distributions paid.

(c) Distributions paid comprise public non-financial corporation dividends to non-general government shareholders.

(d) The acquisition of assets under finance leases decreases the surplus or increases the deficit. The disposal of assets previously held under finance leases increases the surplus or decreases the deficit.

Table B8: Australian Government total non-financial public sector operating statement

	Estimates	
	2004-05	\$m
GFS revenue		
Taxation revenue	221,677	
Current grants and subsidies	0	
Sales of goods and services	29,651	
Interest income	1,547	
Dividend income	1,114	
Other	2,948	
Total GFS revenue	256,937	
GFS expenses		
Gross operating expenses		
Depreciation	5,522	
Superannuation	2,511	
Salaries and wages	17,761	
Payment for supply of goods and services	53,973	
Other operating expenses	2,818	
<i>Total gross operating expenses</i>	<i>82,585</i>	
Nominal superannuation interest expense	4,763	
Other interest expenses	4,601	
Other property expenses	1,572	
Current transfers		
Grant expenses	72,293	
Subsidy expenses	5,935	
Personal benefit payments in cash	73,312	
Other current transfers	0	
<i>Total current transfers</i>	<i>151,541</i>	
Capital transfers	3,653	
Total GFS expenses	248,714	
Net operating balance(a)	8,223	
Net acquisition of non-financial assets		
Purchases of non-financial assets	7,804	
<i>less</i> Sales of non-financial assets	<i>748</i>	
<i>less</i> Depreciation	<i>5,522</i>	
<i>plus</i> Change in inventories	<i>176</i>	
<i>plus</i> Other movements in non-financial assets	<i>-420</i>	
Total net acquisition of non-financial assets	1,290	
Net lending/fiscal balance(a)(b)	6,934	

(a) The fiscal balance and net operating balance estimates in this table differ from those presented elsewhere in the MYEFO reflecting the treatment of the GST as an Australian Government tax.

(b) The term fiscal balance is not used by the ABS.

Table B9: Australian Government total non-financial public sector balance sheet

	Estimates
	2004-05 \$m
GFS assets	
Financial assets	
Cash and deposits	3,256
Advances paid	19,400
Investments, loans and placements	10,236
Other non-equity assets	25,180
Equity	14,700
<i>Total financial assets</i>	<i>72,772</i>
Non-financial assets	
Land and fixed assets	64,741
Other non-financial assets	4,245
<i>Total non-financial assets</i>	<i>68,986</i>
Total GFS assets	141,758
GFS liabilities	
Deposits held	365
Advances received	0
Government securities	43,313
Loans	5,816
Other borrowing	13,554
Unfunded superannuation liability and other employee entitlements	100,980
Other provisions	6,826
Other non-equity liabilities	22,919
Total GFS liabilities	193,773
Shares and other contributed capital	28,448
Net worth(a)	-80,462
Net financial worth(b)	-149,449
Net debt(c)	30,156

- (a) Net worth is calculated as total assets minus total liabilities minus shares and other contributed capital. The negative net worth recorded for this sector reflects a higher valuation of listed Australian Government corporations by the sharemarket than the value of net assets recorded by these corporations.
- (b) Net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital. That is, it excludes non-financial assets.
- (c) Net debt equals the sum of deposits held, advances received, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table B10: Australian Government total non-financial public sector cash flow statement^(a)

	Estimates
	2004-05 \$m
Cash receipts from operating activities	
Taxes received	216,515
Receipts from sales of goods and services(b)	30,030
Grants and subsidies received	0
Interest receipts	1,468
Dividends	1,793
GST input credit receipts(b)	0
Other receipts	3,159
Total receipts	252,965
Cash payments for operating activities	
Payments for goods and services(b)	-54,236
Grants and subsidies paid	-80,010
Interest paid	-4,163
Personal benefit payments	-73,455
Salaries, wages and other entitlements	-22,030
GST payments to taxation authority(b)	0
Other payments for operating activities	-2,846
Total payments	-236,741
Net cash flows from operating activities	16,223
Cash flows from investments in non-financial assets	
Sales of non-financial assets	850
Purchases of new and secondhand non-financial assets	-7,843
Net cash flows from investments in non-financial assets	-6,993
Net cash flows from investments in financial assets for policy purposes	-1,205
Cash flows from investments in financial assets for liquidity purposes	
Increase in investments	224
Net cash flows from investments in financial assets for liquidity purposes	224
Cash flows from financing activities	
Advances received (net)	0
Borrowing (net)	-3,843
Deposits received (net)	0
Distributions paid (net)(c)	-1,585
Other financing (net)	-2,659
Net cash flows from financing activities	-8,087
Net increase/decrease in cash held	162
Net cash from operating activities and investments in non-financial assets	9,230
Finance leases and similar arrangements(d)	-7
Distributions paid(c)	-1,585
Equals surplus(+)/deficit(-)	7,638

(a) A positive number denotes a cash inflow; a negative sign denotes a cash outflow.

(b) GST flows are excluded from these categories.

(c) Distributions paid comprise public non-financial corporation dividends to non-general government shareholders.

(d) The acquisition of assets under finance leases decreases the surplus or increases the deficit. The disposal of assets previously held under finance leases increases the surplus or decreases the deficit.

LOAN COUNCIL ALLOCATION

Under Loan Council arrangements, every year the Australian Government and each state and territory nominate Loan Council Allocations. A jurisdiction's Loan Council Allocation incorporates:

- the estimated non-financial public sector cash deficit/surplus (underlying cash balance), made up from the general government and public non-financial corporations sector balances;
- net cash flows from investments in financial assets for policy purposes; and
- memorandum items, which involve transactions that are not formally borrowings but nevertheless have many of the characteristics of borrowings.

Loan Council Allocation nominations are considered by the Loan Council, having regard to each jurisdiction's fiscal position and reasonable infrastructure requirements, as well as the macroeconomic implications of the aggregate figure.

In March 2004, the Australian Government nominated, and the Loan Council endorsed a Loan Council Allocation surplus of \$3.7 billion. In the 2004-05 Budget, the Australian Government estimated a Loan Council Allocation surplus of \$2.3 billion.

Table B11 presents a revised estimate for the Australian Government's 2004-05 Loan Council Allocation surplus of \$6.4 billion.

Table B11: Australian Government Loan Council Allocation for 2004-05

	2004-05 Budget Estimate	2004-05 MYEFO Estimate
	\$m	\$m
General government sector cash deficit(+)/surplus(-)	-2,391	-6,206
PNFC sector cash deficit(+)/surplus(-)	-2,212	-1,432
Non-financial public sector cash deficit(+)/surplus(-)	-4,603	-7,638
<i>less</i> Net cash flows from investments		
in financial assets for policy purposes(a)	-1,374	-1,205
<i>plus</i> Memorandum items(b)	951	61
Loan Council Allocation	-2,277	-6,372

(a) Such transactions involve the transfer or exchange of a financial asset and are not included within the cash deficit/surplus. However, the cash inflow from investments in financial assets for policy purposes has implications for a government's call on financial markets.

(b) For the Australian Government, memorandum items comprise the change in net present value (NPV) of operating leases (with NPV greater than \$5 million), overfunding of superannuation and an adjustment to exclude the net financing requirement.

APPENDIX C: AUSTRALIAN ACCOUNTING STANDARDS FINANCIAL STATEMENTS

This Appendix presents financial statements prepared in accordance with applicable Australian Accounting Standards (AAS), including AAS 31 *Financial Reporting by Governments*, except where departures from the standard are identified in Note 1.

A reconciliation between the Australian government's general government AAS and Government Finance Statistics (GFS) revenue, expenses and operating results is provided in Appendix E.

Table C1: Statement of financial performance for the Australian Government general government sector

	Note	Estimates		Projections	
		2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Revenues					
Taxation					
Income taxation	3	154,200	161,620	170,900	181,535
Indirect taxation	4	28,504	28,550	29,012	29,842
Fringe benefits tax		3,020	3,260	3,350	3,450
Other taxes		1,638	1,751	1,698	1,662
Total taxation revenue		187,362	195,181	204,960	216,489
Non-taxation					
Sales of goods and services		4,500	4,586	4,734	4,818
Interest and dividends	5	6,646	6,959	7,046	6,919
Net foreign exchange gains		0	0	0	0
Proceeds from the sale of assets		849	759	11,854	11,854
Other sources of non-tax revenue	6	3,749	3,178	3,059	2,988
Total non-tax revenue		15,744	15,482	26,693	26,578
Total revenue		203,106	210,663	231,653	243,067
Expenses					
Goods and services					
Employees	7	22,569	22,267	23,045	23,717
Suppliers	8	16,697	16,256	16,593	16,960
Depreciation and amortisation	9	4,449	4,277	4,390	4,523
Net write down of assets		2,829	2,343	2,437	2,465
Net foreign exchange losses		329	0	0	0
Value of assets sold		762	726	2,399	2,381
Other goods and services expenses		7,804	8,169	8,461	8,812
Total goods and services		55,438	54,036	57,324	58,859
Subsidies benefits and grants					
Personal benefits		88,588	94,998	101,367	107,983
Subsidies		10,550	11,080	11,560	12,148
Grants	10	39,426	41,249	41,314	43,133
Total subsidies benefits and grants		138,564	147,327	154,241	163,264
Borrowing costs					
Interest		6,150	5,881	5,643	5,321
Other borrowing costs		25	24	25	17
Total interest and other borrowing costs		6,175	5,905	5,668	5,338
Total expenses		200,177	207,269	217,233	227,461
Operating result		2,928	3,395	14,420	15,606
Extraordinary items		0	0	0	0
Operating result after extraordinary items		2,928	3,395	14,420	15,606

Table C2: Statement of financial position for the Australian Government general government sector

	Note	Estimates		Projections	
		2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Assets					
Financial assets					
Cash		1,376	1,189	1,174	1,199
Receivables		30,189	32,056	35,060	38,290
Investments	11	25,325	25,242	23,526	21,854
Equity accounted investments		402	402	402	402
Accrued revenue		426	430	462	489
Other financial assets		17	19	19	20
Total financial assets		57,735	59,338	60,642	62,253
Non-financial assets					
Land and buildings	12	19,227	19,346	19,497	19,704
Infrastructure		39,320	40,569	41,693	43,003
Heritage and cultural assets		6,455	6,468	6,483	6,494
Intangibles		1,681	1,679	1,610	1,566
Inventories		4,908	4,971	5,185	5,315
Other non-financial assets		1,799	1,479	1,494	1,330
Total non-financial assets		73,389	74,512	75,962	77,412
Total assets		131,124	133,850	136,604	139,665
Liabilities					
Debt					
Government securities	11	36,981	33,511	17,937	999
Loans		4,783	4,625	4,466	4,338
Leases		199	165	151	117
Deposits		365	365	365	365
Overdrafts		0	0	0	0
Other debt		1,136	1,142	1,145	1,149
Total debt		43,464	39,808	24,064	6,967
Provisions and payables					
Employees	13	99,030	101,993	105,253	108,566
Suppliers		2,214	2,202	2,208	2,219
Personal benefits payable		5,494	6,038	6,511	7,063
Subsidies payable		390	295	273	255
Grants payable	14	9,899	9,979	10,022	10,358
Other provisions and payables		10,465	9,925	10,138	10,377
Total provisions and payables		127,492	130,433	134,406	138,840
Total liabilities		170,956	170,241	158,470	145,807
Net assets	15	-39,832	-36,391	-21,865	-6,142
Equity					
Accumulated results		-74,865	-71,468	-55,402	-38,154
Reserves		35,032	35,077	33,537	32,012
Capital		0	0	0	0
Total equity		-39,832	-36,391	-21,865	-6,142

Table C3: Statement of cash flows for the Australian Government general government sector — AAS31

	Note	Estimates		Projections	
		2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Operating activities					
Cash received					
Taxes	16	183,315	191,813	201,068	212,504
Sales of goods and services		4,682	4,787	4,925	5,018
Interest		3,428	3,659	4,137	4,783
Dividends		3,713	3,396	2,677	1,919
GST input credit receipts		2,936	2,863	2,908	3,020
Other		3,029	2,877	2,798	2,770
Total operating cash received		201,102	209,395	218,514	230,015
Cash used					
Payments to employees		18,881	19,291	19,777	20,396
Payments to suppliers		19,858	19,293	19,780	20,183
Subsidies paid		9,987	10,565	10,980	11,563
Personal benefits		88,731	94,378	100,887	107,457
Grant payments		38,285	40,838	41,208	42,772
Interest and other financing costs		6,016	6,708	5,789	5,467
GST payments to taxation authority		125	127	133	140
Other		7,830	8,134	8,434	8,784
Total operating cash used		189,713	199,333	206,988	216,762
Net cash from operating activities		11,389	10,061	11,526	13,253
Investing activities					
Cash received					
Proceeds from asset sales program		0	0	11,280	11,280
Proceeds from sales of property, plant and equipment and intangibles		743	660	486	486
Other net investing cash received		106	99	88	88
Total investing cash received		849	759	11,854	11,854
Cash used					
Purchase of property, plant and equipment and intangibles		6,112	6,213	6,033	6,204
Net loans, advances and HECS		1,152	1,321	1,639	1,785
Other net investing cash paid	11	119	26	205	229
Total investing cash used		7,383	7,560	7,878	8,217
Net cash from investing activities		-6,535	-6,801	3,976	3,636
Financing activities					
Cash received					
Net cash received from currency issues		0	0	0	0
Other		0	218	252	242
Total financing cash received		0	218	252	242
Cash used					
Net repayments of borrowings	11	3,721	3,628	15,732	17,067
Other		1,347	38	37	40
Total financing cash used		5,069	3,666	15,769	17,106
Net cash from financing activities		-5,069	-3,448	-15,517	-16,864
Net increase/decrease in cash held		-214	-187	-16	25

NOTES TO THE AAS FINANCIAL STATEMENTS

Note 1: External reporting standards and accounting policies

The *Charter of Budget Honesty Act 1998* requires that the Mid-Year Economic and Fiscal Outlook be based on external reporting standards and that departures from applicable external reporting standards be identified.

The financial statements included in this Appendix have been prepared on an accrual basis in accordance with applicable Australian Accounting Standards (AAS), including AAS 31 *Financial Reporting by Governments* except as noted below. AAS will change from 2005-06, with the introduction of Australian Equivalents to the International Financial Reporting Standards released in July 2004. Given the timing of the release, the financial statements in this Appendix are prepared on the same basis as the 2004-05 Budget and not in accordance with the Australian Equivalents to the International Finance Reporting Standards.

AAS requires governments to prepare accrual based general purpose financial reports. This means that assets, liabilities, revenues and expenses are recorded in financial statements when transactions have an economic impact on the government, rather than when the cash flow associated with these transactions occurs. Consistent with AAS, a statement of financial performance, a statement of financial position and a statement of cash flows have been prepared for the budget year and the three forward years.

The accounting policies in this Appendix are generally consistent with the requirements of AAS. While the scope for financial reporting recommended in AAS 31 is the whole of government (that is, the Australian Government public sector), in accordance with the *Charter of Budget Honesty Act 1998*, the presentation covers the general government sector only. This Appendix includes notes showing disaggregated information.

AAS would suggest the gross amount of goods and services tax (GST) be included in the Australian Government's financial statements. However, under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, GST is collected by the Australian Taxation Office as an agent for the states and territories, and appropriated to the states and territories. Therefore, accrued GST revenues and associated payments to the states and territories are not recorded in the financial statements.

Note 2: Reconciliation of cash

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Operating result (revenues less expenses)	2,928	3,395	14,420	15,606
less Revenues not providing cash				
Foreign exchange gains	0	0	0	0
Gains from asset sales programme	0	0	9,436	9,454
Gains from sale of assets	93	36	18	18
Other	946	504	503	523
Total revenues not providing cash	1,039	539	9,958	9,995
plus Expenses not requiring cash				
Increase/(decrease) in employee entitlements	3,682	2,963	3,260	3,313
Depreciation/amortisation expense	4,449	4,277	4,390	4,523
Provision for bad and doubtful debts	401	491	556	608
Provision for diminution in value of assets	828	148	119	85
Losses from asset sales programme	0	0	0	0
Losses from sale of assets	0	0	0	0
Foreign exchange losses	329	0	0	0
Other	-4	-5	1	-6
Total expenses not requiring cash	9,685	7,874	8,325	8,523
plus Cash provided by working capital items				
Decrease in inventories	0	0	0	0
Decrease in receivables	0	0	0	0
Decrease in other financial assets	37	0	0	46
Decrease in other non-financial assets	311	279	34	0
Increase in benefits subsidies and grants payable	928	664	550	914
Increase in suppliers' liabilities	0	0	6	11
Increase in other provisions and payables	125	0	0	0
Total cash provided by working capital items	1,400	943	590	970
less Cash used by working capital items				
Increase in inventories	174	63	214	130
Increase in receivables	991	653	1,521	1,600
Increase in other financial assets	0	20	8	0
Increase in other non-financial assets	0	0	0	9
Decrease in benefits subsidies and grants payable	325	95	23	17
Decrease in other provisions and payables	0	771	87	93
Decrease in suppliers' liabilities	96	9	0	0
Total cash used by working capital items	1,585	1,611	1,852	1,851
equals <i>Net cash from/(to) operating activities</i>	11,389	10,061	11,526	13,253
<i>Net cash from/(to) investing activities</i>	-6,535	-6,801	3,976	3,636
Net cash from operating activities and investment	4,855	3,261	15,502	16,890
<i>Net cash from/(to) financing activities</i>	-5,069	-3,448	-15,517	-16,864
equals Net (increase)/decrease in cash	-214	-187	-16	25

Note 2(a): Consolidated Revenue Fund

The estimated and projected cash balances reflected in the statement of financial position for the Australian Government general government sector (Table C2) include the reported cash balances controlled and administered by Australian Government agencies subject to the *Financial Management and Accountability Act 1997* and the reported cash balances controlled and administered by entities, subject to the *Commonwealth Authorities and Companies Act 1997* (CAC Act), that implement public policy through the provision of primarily non-market services.

Revenues or monies raised by the Executive Government automatically form part of the Consolidated Revenue Fund by force of section 81 of the Australian Constitution. For practical purposes, total Australian Government general government sector cash, less cash controlled and administered CAC Act entities, plus special public monies, represents the Consolidated Revenue Fund referred to in section 81 of the Australian Constitution. On this basis, the balance of the Consolidated Revenue Fund is shown below.

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Total General Government sector cash (Appendix C)	1,376	1,189	1,174	1,199
<i>less</i> CAC Agency cash balances	600	648	664	690
<i>plus</i> Special public monies	81	85	90	97
Balance of Consolidated Revenue Fund at 30 June	857	626	600	607

Note 3: Income taxation revenue — accrual

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Individuals and other withholding tax				
Gross income tax withholding	96,550	102,210	109,550	117,410
Gross other individuals	22,210	23,030	23,172	24,060
<i>less</i> Refunds	13,700	15,020	16,612	17,965
Total individuals and other withholding tax	105,060	110,220	116,110	123,505
Companies	40,870	43,360	46,380	49,380
Superannuation funds				
Contributions and earnings	5,390	5,380	5,710	6,140
Superannuation surcharge	1,320	1,200	1,000	930
Total superannuation funds	6,710	6,580	6,710	7,070
Petroleum resource rent tax	1,560	1,460	1,700	1,580
Total income taxation revenue	154,200	161,620	170,900	181,535

Appendix C: Australian Accounting Standards financial statements

Note 4: Indirect taxation revenue — accrual

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Excise duty				
Petroleum and other fuel products	13,400	13,650	13,910	14,220
Crude oil	550	510	490	490
Other excise	7,700	7,830	7,970	8,130
Total excise duty revenue	21,650	21,990	22,370	22,840
Customs duty revenue	5,714	5,350	5,342	5,622
Other indirect tax revenue	1,140	1,210	1,300	1,380
GST	36,040	37,920	40,090	42,290
less transfers to states and territories in relation to GST revenue	36,040	37,920	40,090	42,290
GST revenue	0	0	0	0
Mirror taxes	333	349	367	386
less transfers to States and Territories in relation to mirror tax revenue	333	349	367	386
Mirror tax revenue	0	0	0	0
Indirect taxation revenue	28,504	28,550	29,012	29,842

Note 5: Interest and dividend revenue

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Interest				
Interest from other governments				
State and territory debt	28	17	15	14
Housing agreements	174	170	166	162
Total interest from other governments	202	187	181	176
Interest from other sources				
Swap interest	2,161	2,282	2,138	1,814
Advances	20	20	20	20
Deposits	0	0	0	0
Bills receivable	6	6	6	6
Bank deposits	188	191	196	195
Indexation of HECS receivable and other student loans	310	352	382	433
Other	709	846	1,446	2,355
Total interest from other sources	3,394	3,696	4,188	4,823
Total interest	3,596	3,883	4,369	4,999
Dividends				
Dividends from associated entities	3,010	3,040	2,624	1,888
Other dividends	41	36	53	31
Total dividends	3,050	3,076	2,677	1,919
Total interest and dividend revenue	6,646	6,959	7,046	6,919

Note 6: Other sources of non-taxation revenue

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Industry contributions	290	267	248	230
International Monetary Fund related revenue	37	38	38	38
Other	3,422	2,873	2,773	2,719
Total other sources of non-taxation revenue	3,749	3,178	3,059	2,988

Note 7: Employee expenses

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Salaries and wages(a)	12,008	12,344	12,723	12,973
Leave and other entitlements	1,401	1,412	1,437	1,473
Separations and redundancies	63	63	64	66
Workers compensation premiums	0	0	0	0
Other (including superannuation)	9,097	8,448	8,821	9,205
Total employee expenses	22,569	22,267	23,045	23,717

(a) Salaries and wages do not include superannuation.

Note 8: Suppliers expenses

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Supply of goods and services	14,793	14,363	14,680	15,013
Operating lease rental expenses	1,696	1,700	1,717	1,746
Other	208	193	195	200
Total suppliers expenses	16,697	16,256	16,593	16,960

Note 9: Depreciation and amortisation expenses

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Depreciation				
Specialist military equipment	2,517	2,132	2,166	2,234
Buildings	520	589	607	622
Other infrastructure, plant and equipment	55	55	56	56
Heritage and cultural assets	1,007	1,128	1,161	1,188
Total depreciation	4,099	3,905	3,990	4,100
Total amortisation	350	372	400	423
Total depreciation and amortisation expenses	4,449	4,277	4,390	4,523

Note 10: Grants expenses

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
State and territory governments	25,845	27,185	27,156	28,353
Non-profit organisations	1,671	1,759	1,831	1,888
Overseas	995	359	291	690
Private sector	1,675	1,574	1,238	1,112
Local governments	343	425	396	388
Other	8,896	9,946	10,402	10,703
Total grants expenses	39,426	41,249	41,314	43,133

Note 11: Government securities

For 2004-05 and the forward years, transactions relating to debt management activities 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. In the statement of cash flows, the *investing activities – cash used/received – other* categories exclude cash used to acquire/redeem financial assets for debt management purposes, while the *financing activities – cash used – net repayments of borrowings* category is shown net of these amounts.

This netting treatment has been applied because of the uncertainty associated with the actual split between government securities and financial assets acquired for debt management purposes.

Note 12: Non-financial assets

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Land and buildings				
Land	5,052	5,057	5,135	5,190
Buildings	14,175	14,289	14,361	14,514
Total land and buildings	19,227	19,346	19,497	19,704
Infrastructure				
Specialist military equipment	30,838	31,733	32,870	34,297
Other	8,482	8,836	8,824	8,706
Total infrastructure	39,320	40,569	41,693	43,003
Intangibles				
Computer software	1,590	1,609	1,562	1,538
Other	91	70	48	28
Total intangibles	1,681	1,679	1,610	1,566
Heritage and cultural assets	6,455	6,468	6,483	6,494
Total heritage and cultural assets	6,455	6,468	6,483	6,494
Inventories	4,908	4,971	5,185	5,315
Total inventories	4,908	4,971	5,185	5,315
Other non-financial assets				
Prepayments	1,459	1,180	1,146	1,155
Other	339	299	349	175
Total other non-financial assets	1,799	1,479	1,494	1,330
Total non-financial assets	73,389	74,512	75,962	77,412

Note 13: Employee and superannuation liabilities

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Superannuation	90,506	93,333	96,458	99,652
Leave and other entitlements	4,266	4,270	4,281	4,274
Accrued salaries and wages	282	303	309	314
Workers compensation claims	1,394	1,387	1,384	1,384
Separations and redundancies	56	58	58	57
Workers compensation premiums	1,702	1,805	1,917	2,034
Other	825	838	847	852
Total employee and superannuation liabilities	99,030	101,993	105,253	108,566

Appendix C: Australian Accounting Standards financial statements

Note 14: Grants payable

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
State and territory governments	4,009	4,263	4,532	4,807
Non-profit organisations	72	67	67	67
Private sector	672	478	283	74
Overseas	1,296	1,158	932	1,093
Local governments	5	5	5	5
Other	3,844	4,008	4,204	4,311
Total grants payable	9,899	9,979	10,022	10,358

Note 15: Net asset movements

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Opening net assets	-42,695	-39,832	-36,391	-21,865
Operating result after extraordinary items	2,928	3,395	14,420	15,606
Asset revaluation reserve	-53	51	111	126
Other movements	-13	-5	-5	-8
Closing net assets	-39,832	-36,391	-21,865	-6,142

Note 16: Taxation receipts — cash

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Total taxation receipts	218,917	229,322	240,665	254,220
less payments to states and territories in relation to GST revenue	35,270	37,160	39,230	41,330
less payments to states and territories in relation to mirror tax revenue	333	349	367	386
Taxation receipts	183,315	191,813	201,068	212,504

APPENDIX D: STATEMENT OF RISKS

OVERVIEW

Full details and explanations of fiscal risks and contingent liabilities are provided in Statement 11 of Budget Paper No. 1, *Budget Strategy and Outlook 2004-05*. The following statement updates, where necessary, those fiscal risks and contingent liabilities that have arisen or changed since the 2004-05 Budget.

The forward estimates of revenue and expenses in the *Mid-Year Economic and Fiscal Outlook 2004-05* (MYEFO) incorporate assumptions and judgments based on information available at the time of publication.

DETAILS OF FISCAL RISKS AND CONTINGENT LIABILITIES

New or revised fiscal risks and contingent liabilities with a possible impact on the forward estimates greater than \$20 million in any one year, or \$40 million over the forward estimates period, that have arisen or changed since the 2004-05 Budget are listed below.

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

FISCAL RISKS — REVENUE

There have been no significant changes to the revenue risks disclosed at page 11-4 of Budget Paper No. 1.

FISCAL RISKS — EXPENSES

Finance and Administration

Asset sales — Telstra

The forward estimates include the effect of the sale of the Australian Government's shareholding in Telstra, noting that the level of proceeds will depend, inter alia, on the prevailing levels of world equity markets at the time of sale and that the timing of the sale could be adjusted if market levels are considered unlikely to provide an appropriate return to taxpayers. The sale is conditional on the Government being satisfied that arrangements are in place to deliver adequate telecommunications services, particularly in rural and regional Australia. The sale is also dependent on the passage of legislation through the Parliament.

Transport and Regional Services

Airservices Australia

On 31 August 2004, the Minister for Transport and Regional Services, pursuant to section 16 of the *Airservices Act 1995* (the Act), gave a direction to Airservices Australia (AA), which requires AA to provide an operating control tower and approach radar control services in certain volumes of airspace. Section 16(4) of the Act provides that AA may seek reimbursement from the Australian Government for any financial detriment it suffers as a result of complying with a direction. At this time, the quantum or nature of any financial detriment is uncertain, as is the nature of any consequent fiscal risk to the Budget.

CONTINGENT LIABILITIES — QUANTIFIABLE

Defence

Other guarantees

Defence carries an extensive range of guarantees and undertakings, normally of a short-term nature, relating to business, training activities and other arrangements involving contracts, agreements and other Defence activities. Indemnities issued cover potential losses or damages for which the Australian Government would be liable.

As at 30 September 2004 there are 79 instances of contingencies that are unquantifiable, and 80 instances of quantifiable contingencies to the value of \$2,312 million. While these contingencies are considered remote, they have been reported in aggregate for completeness.

Finance and Administration

Australian Industry Development Corporation

Under the *Australian Industry Development Corporation Act 1970* certain obligations of the Australian Industry Development Corporation (AIDC) are guaranteed by the Australian Government. As at 30 June 2004, AIDC's contingent liabilities, subject to Australian Government guarantee, were approximately \$126 million in respect of guarantees and credit risk facilities.

In addition, AIDC had outstanding Australian Government guaranteed borrowings which totalled approximately \$994 million as at the most current valuation of 30 June 2004. These borrowing obligations have been matched by AIDC's holdings of Australian Government guaranteed securities of similar value, largely eliminating the Australian Government's guarantee exposure. These securities were purchased on-market by UBS Warburg and paid to AIDC as consideration for UBS Warburg's purchase of AIDC Limited's (a subsidiary of AIDC) financial assets. UBS AG, the international parent company that has taken over from UBS Warburg, manages this

borrowing portfolio on behalf of AIDC. The UBS AG arrangement also provides a guarantee to cover any cash flow differences between the interest rate and maturity profiles of the matched borrowings and securities, together with any exchange rate movements in the borrowings. The Australian Government's contingent exposure to these borrowings is therefore negligible and is consequently recorded as zero.

Foreign Affairs and Trade

Export Finance and Insurance Corporation

The Australian Government guarantees the due payments by the Export Finance and Insurance Corporation (EFIC) of money that is, or may at any time become, payable by EFIC to any body other than the Australian Government. The Australian Government also has in place a \$200 million callable capital facility available to EFIC on request to cover liabilities, losses and claims. As at 31 October 2004, the Australian Government's total contingent liability was \$3.5 billion, comprising EFIC's liabilities to third parties (\$3 billion) and EFIC's contracts of insurance and guarantees (\$561 million). The National Interest Account accounted for \$1.9 billion of these liabilities.

Treasury

Guarantees under the *Commonwealth Bank Sale Act 1995*

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

The guarantee for the CBA relates to both on- and off-balance sheet liabilities. Of the existing contingent liability, 32 per cent involves off-balance sheet liabilities. As at 30 September 2004, the balance of the guarantee was \$9.3 billion, an increase of \$221 million from 31 December 2003. This increase reflects exchange rate movements, as a proportion of the liability is denominated in foreign currency.

The guarantee for CBOSC covers the due payments of any amount that is payable to or from the CBA Officers' Superannuation Fund (the Fund), by CBOSC or by the CBA, 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 2004 have been valued at \$3.5 billion. The outstanding value subject to the guarantee is estimated to be \$3.5 billion.

As of 1 July 1996, the Commonwealth Development Bank ceased to write new business and no additional liabilities are being incurred. The contingent liability has now been extinguished with the retirement of all loans and exposures. As at 31 December 2003 the balance of the guarantee had been \$18.3 million.

Reserve Bank of Australia guarantee

This contingent liability relates to the Australian Government's guarantee of the liabilities of the Reserve Bank of Australia. It is measured as the Bank's total liabilities excluding capital, reserves and Australian Government deposits. The major component of the Bank's liabilities are notes (that is, currency) on issue. As at 24 November 2004, notes on issue totalled \$35.3 billion. In total, the guarantee was \$43.8 billion as at 24 November 2004.

Uncalled capital subscriptions — international financial institutions

This contingent liability relates to the value of the uncalled portion of the Australian Government's shares as at 30 September 2004 in the International Bank for Reconstruction and Development (US\$2.8 billion – estimated value A\$3.9 billion), the Asian Development Bank (US\$2.4 billion – estimated value A\$3.4 billion), the European Bank for Reconstruction and Development (US\$82 million plus EUR78 million – estimated value A\$248.1 million), and the Multilateral Investment Guarantee Agency (US\$26.5 million – estimated value A\$37 million).

CONTINGENT LIABILITIES — UNQUANTIFIABLE

Attorney-General's

Native Title Agreements — Access to geospatial data

The Australian Government has entered into agreements with state and territory government bodies or their agents to access their geospatial data. The data is essential to support the National Native Title Tribunal in achieving its outcome. Under these agreements, the Australian Government provides indemnities against third party claims arising from errors in the data. The Australian Government's liability cannot be quantified due to uncertainty about the likelihood, number or value of claims.

Southern Ocean surveillance

The Australian Government has entered into new contractual arrangements with P&O Maritime Services for the provision of maritime charter services until June 2006 to facilitate the Australian Customs Service and the Department of Agriculture, Fisheries and Forestry armed patrols of Australia's exclusive economic zone in the Southern Ocean.

In relation to these patrols the Australian Government will indemnify P&O Maritime Services against certain claims arising from the discharge of firearms or munitions, or where a steaming party is deployed to crew a seized vessel back to an Australian port.

Education Science and Training

Australian Nuclear Science and Technology Organisation — delays in the commissioning of Replacement Research Reactor

Commissioning of the Replacement Research Reactor is scheduled to commence in late 2005, moving to full power and then production around mid 2006. The present reactor is scheduled to cease operations in 2006. Any delays in commissioning the replacement reactor could reduce Australian Nuclear Science and Technology Organisation's (ANSTO) capacity to maintain nuclear medicine, other commercial products and research facilities. ANSTO maintains a comprehensive register of risks associated with this project as a means of mitigating risks as they arise.

The Australian Government has indemnified ANSTO and its officers from liability that might be incurred from the conduct of activities authorised under the *Australian Nuclear Science and Technology Organisation Act 1987*. This indemnity is additional to the commercial insurance covers obtained from the Comcover Insurance Pool and other insurers.

Finance and Administration

ComLand Limited — site contamination

Footscray Land Limited is indemnified until 31 December 2019 in respect of certain contamination claims exceeding \$7.5 million in aggregate at its Edgewater (Maribyrnong) site. St Marys Land Limited is indemnified until 31 December 2024 in respect of certain contamination claims and costs exceeding \$25.0 million in aggregate at its St Marys (western Sydney) site.

Indemnities relating to other asset sales

Indemnities have been given in respect of a range of other asset sales and related shareholder issues. The probability of these risks is considered to be low. Details of these indemnities have been provided in previous Budget and Mid-Year Economic and Fiscal Outlook papers and Department of Finance and Administration annual reports. For example, see pages 11-5 to 11-14 in the 2004-05 Budget Paper No. 1, and pages 220-222 of the 2003-04 Department of Finance and Administration Annual Report.

Members of Parliament Staff Employee Entitlements

Following a decision in July 2004 by the NSW Chief Magistrate, the Department of Finance and Administration has an unquantifiable contingent liability relating to Members of Parliament Staff employed under *The Members of Parliament Staff Act 1984* in relation to payment in lieu of notice and payment in lieu of long service leave, where such an entitlement exists. The Department is reviewing the impact of legal advice on individual circumstances.

Health and Ageing

Blood and blood products liability cover

A National Managed Fund (NMF) has been established which pools the liability risks associated with the supply of blood and blood products by the Australian Red Cross Blood Service (ARCBS) between the Australian Government, the ARCBS and the states and territories. The NMF is covered by a Memorandum of Understanding (MoU) between the Australian Government, states and territories and the ARCBS. This will be amended to incorporate the operations of the Jurisdictional Blood Committee (JBC) and the National Blood Authority. The MoU provides for the parties to contribute to the NMF taking into account potential claims payments; the level of funds in the NMF and investment earnings; and a prudential allowance for liabilities incurred but not yet the subject of claims. If there are insufficient funds to cover claim costs, the JBC considers a report provided by the National Funds Manager to determine the level of funds required. Each party must contribute funds, as determined by JBC, in accordance with allocation provisions prevailing at the time. Under the MoU, the blood and blood products liability cover for the ARCBS remains in force until all parties agree to terminate the arrangements from an agreed date.

Medical Indemnity Exceptional Claims Scheme

In May 2003 the Prime Minister announced the Medical Indemnity Exceptional Claims Scheme to assume liability for 100 per cent of any damages payable against a doctor that exceeds a specified level of cover provided by that doctor's medical indemnity insurer (MII), currently \$20 million. These arrangements will apply to payouts related to either a single large claim or to multiple claims that in aggregate exceed the cover provided by the doctor's MII, and will apply to claims notified under contracts-based cover since 1 January 2003.

Immigration and Multicultural and Indigenous Affairs

Claim of unlawful detention on Nauru

On 16 December 2003, 325 plaintiffs claiming to be detained on Nauru commenced an action in the Supreme Court of Victoria. The claim alleges that the plaintiffs have been detained at the request of, or by agents of, the Australian Government, and that the detention amounts to false imprisonment. The plaintiffs seek a declaration that they have been falsely imprisoned by the Australian Government, an injunction to restrain the Australian Government or its agents from continuing to detain the plaintiffs, and damages. The case has not yet been listed for hearing.

APPENDIX E: FINANCIAL REPORTING STANDARDS AND BUDGET CONCEPTS

REPORTING STANDARDS

The *Charter of Budget Honesty Act 1998* requires that the Mid-Year Economic and Fiscal Outlook (MYEFO) be based on external reporting standards. Accordingly, the major external standards used in the MYEFO are the Australian Bureau of Statistics (ABS) accrual Government Finance Statistics (GFS) framework and Australian Accounting Standards, including Australian Accounting Standard (AAS) 31 *Financial Reporting by Governments*. The major fiscal aggregates (including the fiscal and underlying cash balances) are based on the accrual GFS framework.

The Charter also requires that departures from applicable external reporting standards be identified. These are disclosed in Attachment A to Part 3, the opening text of Appendix B and Note 1 in Appendix C.

The next section provides a brief overview of the GFS framework and the AAS reporting framework. Further information can be found in *Budget Strategy and Outlook 2003-04, Statement 8: Financial Reporting Standards and Budget Concepts*.

ACCRUAL GFS FRAMEWORK

The GFS reporting framework is a specialised statistical system designed to support economic analysis of the public sector. It allows comprehensive assessments to be made of the economic impact of government and is consistent with international statistical standards (the *System of National Accounts 1993* (SNA93) and the International Monetary Fund's (IMF) *Government Finance Statistics Manual 2001*).¹

The GFS framework is divided into a number of separate statements, each of which draws out analytical aggregates or balances of particular economic significance. Together, these aggregates provide for a thorough understanding of the financial position of the public sector. The GFS statements reported in the MYEFO are the operating statement, balance sheet, cash flow statement and statement of other economic flows.

1 Additional information on the Australian accrual GFS framework is available in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2003* (Cat. No. 5514.0.55.001).

All GFS data are recorded as either stocks (assets and liabilities) or flows (classified either as transactions or other economic flows).

A transaction results from a mutually agreed interaction between two economic entities. Despite their compulsory nature, taxes are transactions deemed to occur by mutual agreement between the government and the taxpayer. Transactions that increase or decrease net worth (assets minus liabilities) are reported as revenues and expenses respectively in the operating statement.²

A change to the value or volume of an asset or liability that does not result from a transaction is an other economic flow. This can include changes in values from market prices, most actuarial valuations and exchange rates and volume changes for discoveries, depletion and destruction. Other economic flows are reported in the statement of other economic flows.

Under the accrual GFS framework, flows are recorded in the period in which they occurred. As a result, prior period outcomes may be revised where information arises that could reasonably be expected to have been known in the past, is material in at least one of the effected periods and can be reliably assigned to the relevant period(s).

Operating statement

The operating statement presents details of transactions in GFS revenues, GFS expenses and the net acquisition of non-financial assets (net capital investment) for an accounting period.

GFS revenues arise from transactions that increase net worth and GFS expenses arise from transactions that decrease net worth. GFS revenues less GFS expenses gives the GFS net operating balance. The net operating balance is comparable to the National Accounts concept of government saving plus capital transfers.

The net acquisition of non-financial assets (net capital investment) measures the change in the Australian Government's stock of non-financial assets due to transactions. As such, it measures the net effect of purchases, sales and consumption (for example, depreciation of fixed assets and use of inventory) of non-financial assets during an accounting period.

Net acquisition of non-financial assets equals gross fixed capital formation, less depreciation, plus changes (investment) in inventories, plus other transactions in non-financial assets.

² Not all transactions impact on net worth. For example, transactions in financial assets and liabilities do not impact on net worth as they represent the swapping of assets and liabilities on the balance sheet.

Fiscal balance

The fiscal balance (or GFS net lending/borrowing) is the net operating balance less net capital investment. Thus fiscal balance includes the impact of net expenditure (effectively purchases less sales) on non-financial assets rather than consumption (depreciation) of non-financial assets.³

The fiscal balance measures the Australian Government's investment-saving balance. It measures in accrual terms the gap between government savings plus net capital transfers, and investment in non-financial assets. As such, it approximates the contribution of the Australian Government general government sector to the balance on the current account in the balance of payments.

Balance sheet

The balance sheet shows stocks of assets, liabilities and GFS net worth. Net debt is also reported in the balance sheet.

Net debt

Net debt is the sum of selected financial liabilities (deposits held, advances received, government securities, loans, and other borrowing) minus the sum of selected financial assets (cash and deposits; advances paid; and investments, loans and placements). Net debt does not include superannuation or superannuation related liabilities. Net debt is a common measure of the strength of a government's financial position. High levels of net debt impose a call on future revenue flows to service that debt.

Net worth

The net worth of the general government sector is defined as assets less liabilities. For the public financial corporations and public non-financial corporations sectors, net worth is defined as assets less liabilities less shares and other contributed capital. Net worth is an economic measure of wealth, reflecting the contribution of the Australian Government to the wealth of Australia.

Cash flow statement

The cash flow statement identifies how cash is generated and applied in a single accounting period. The cash flow statement reflects a cash basis of recording (rather than an accrual basis) where information is derived indirectly from underlying accrual transactions and movements in balances. This, in effect, means that transactions are captured when cash is received or when cash payments are made. Cash transactions

3 The net operating balance includes consumption of non-financial assets, as depreciation is a GFS expense. Depreciation also forms part of net capital investment, which (in the calculation of fiscal balance) offsets the inclusion of depreciation in the net operating balance.

are specifically identified because cash management is considered an integral function of accrual budgeting.

Underlying cash balance

The underlying cash balance (GFS surplus/deficit) is the cash counterpart of the fiscal balance, reflecting the Australian Government's cash investment-saving balance. The underlying cash balance measure is conceptually equivalent under the current accrual framework and the previous cash framework. For the general government sector, the underlying cash balance is calculated as shown below.

Net cash flows from operating activities

plus

Net cash flows from investments in non-financial assets

less

Net acquisitions of assets acquired under finance leases and similar arrangements⁴

equals

Underlying cash balance

Headline cash balance

The headline cash balance is calculated by adding cash flows from investments in financial assets for policy purposes to the underlying cash balance.

Cash flows from investments in financial assets for policy purposes include equity transactions and net advances.⁵ Equity transactions include equity injections into controlled businesses and privatisations of government businesses. Net advances include net loans to the States, net loans to students under the Higher Education Contribution Scheme (HECS), and contributions to international organisations that increase the Australian Government's financial assets.

4 The underlying cash balance treats the acquisition and disposal of non-financial assets in the same manner regardless of whether they occur by purchase/sale or finance lease – acquisitions reduce the underlying cash balance and disposals increase the underlying cash balance. However, finance leases do not generate cash flows at the time of acquisition or disposal equivalent to the value of the asset. As such, net acquisitions of assets under finance leases are not shown in the body of the cash flow statement but are reported as a supplementary item for the calculation of the underlying cash balance.

5 Cash flows from investments in financial assets for policy purposes were called net advances under the cash budgeting framework.

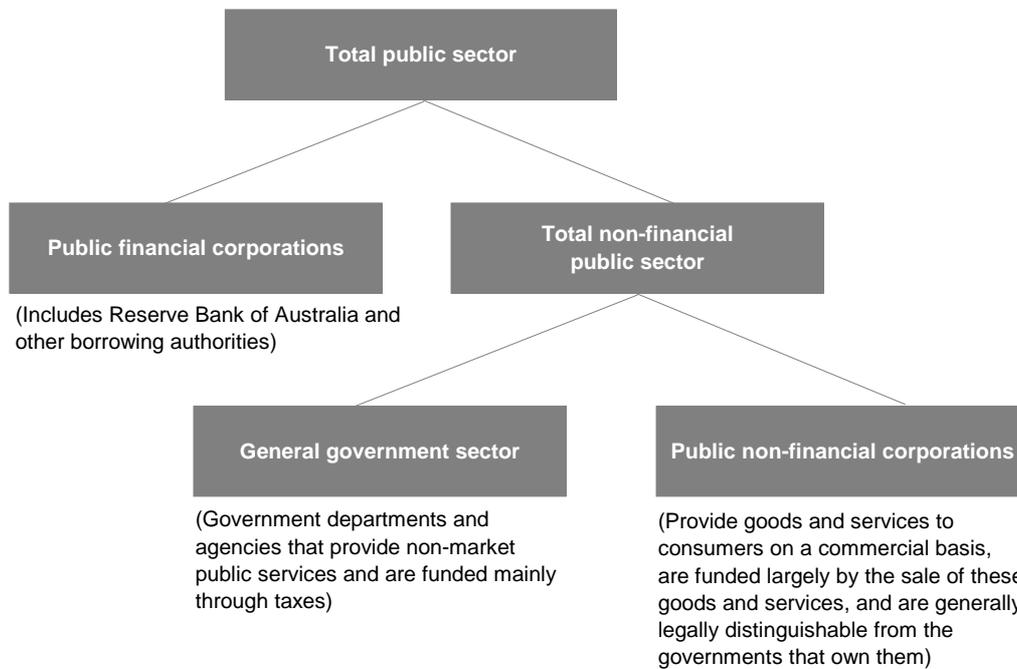
Statement of other economic flows (reconciliation of net worth)

The statement of other economic flows outlines changes in net worth driven by economic flows other than GFS revenues and GFS expenses. GFS revenues, GFS expenses and other economic flows sum to the total change in net worth during a period. The majority of other economic flows for the Australian Government general government sector arise from price movements in its assets and liabilities.

Sectoral classifications

To assist in analysing the public sector, GFS data are presented by institutional sector. GFS distinguishes between the general government sector, the public non-financial corporations sector and the public financial corporations sector, as shown in Figure E1.

Figure E1: Institutional structure of the public sector



Budget reporting focuses on the general government sector. The general government sector provides public services that are mainly non-market in nature, and for the collective consumption of the community, or involve the transfer or redistribution of income. These services are largely financed through taxes and other compulsory levies, although user charging and external funding have increased in recent years. This sector comprises all government departments, offices and some other bodies.

In preparing financial statements for the sectors all material transactions and balances between entities within the sectors are eliminated.

AUSTRALIAN ACCOUNTING STANDARD REPORTING FRAMEWORK, INCLUDING AAS 31

AAS 31 *Financial Reporting by Governments* requires accrual-based general purpose financial reports, showing the assets, liabilities, revenues, expenses and cash flows, for each Government and the entities it controls. Reporting under this framework is intended to provide a consolidated overview of the financial performance and financial position of the Government.

AAS 31 provides a general framework for reporting by Government. It also requires, with some stated exceptions, compliance with all other applicable Australian Accounting Standards.

There are three main financial statements required by AAS 31. These are:

- a statement of financial performance, which includes an operating result;
- a statement of financial position, which shows net assets; and
- a statement of cash flows, which includes the net increase/decrease in cash held.

In addition to these financial statements, notes to the financial statements are required. These notes include a summary of accounting policies, disaggregated information and other disclosures required by Australian Accounting Standards.

A full set of financial statements for the general government sector, with notes showing disaggregated information, can be found in Appendix C.

RECONCILIATION OF GFS AND AAS31 AGGREGATES

There is a general consistency of treatment of the elements of financial statements between GFS and AAS. Both frameworks are based on the concept of economic events that give rise to stocks and flows. As a result, the definitions of stocks are broadly similar under the two frameworks and relate to the control of economic benefits, while flows are defined with reference to changes in stocks.

The GFS and AAS definitions of the scope of the public sector agree in almost all cases, with AAS31 recommending the same segmentation of the public sector into general government, public non-financial corporations and public financial corporations sectors.

Appendix E: Financial Reporting Standards and Budget Concepts

Transactions are generally treated in a similar manner by GFS and accounting standards; however, where GFS is a framework designed to facilitate macro-economic analysis, AAS is designed for general purpose financial reporting. The different objectives of the two systems lead to some variation in the treatment of certain items. This differing treatment relates predominantly to the definitions of revenues and expenses under the two frameworks.

In particular, revaluations of assets and liabilities are classified differently under the AAS and GFS standards. Major revaluations include writedowns of bad and doubtful debts (excluding those that are mutually agreed), changes in the valuation of superannuation liabilities, and gains and losses due to changes in foreign exchange rates and interest rates.

Under AAS reporting, valuation changes may affect revenues or expenses and therefore the operating result. However, under GFS reporting, revaluations are not considered to be transactions (that is, they are considered to be other economic flows) and accordingly do not form part of revenues or expenses. Therefore, most revaluations are not taken into account in the calculation of the GFS net operating balance or fiscal balance. However, revaluations still impact on GFS assets and liabilities, as can be seen in the statement of other economic flows.

Some of the major differences between the GFS and AAS treatments of transactions are outlined in Table E1. Further information on the differences between the two systems is provided in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2003* (Cat. No. 5514.0.55.001).

Appendix E: Financial Reporting Standards and Budget Concepts

Table E1: Selected differences between AAS and GFS reporting standards

Issue	AAS treatment	GFS treatment
Asset writedowns	Treated as part of operating expenses.	Treated as revaluations (other economic flows), except for mutually agreed writedowns, and therefore removed from expenses.
Gains and losses on assets	Treated as part of operating revenues/expenses.	Treated as revaluations (other economic flows) and therefore removed from revenues/expenses.
Provisions for bad and doubtful debts	Treated as part of operating expenses and included in the balance sheet as an offset to assets.	Act of creating provisions is not considered an economic event and is therefore not considered an expense or included in the balance sheet. The Australian Government departs from this latter requirement (see Attachment A to Part 3).
Interest flows related to swaps and other financial derivatives	Treated as operating revenues and expenses.	Treated as other economic flows and so not included in revenues and expenses.
Acquisition of defence weapons platforms	Treated as capital expenditure. Defence weapons platforms appear as an asset on the balance sheet. Depreciation expense on assets is recorded in the operating statement.	Treated as an expense. Defence weapons platforms do not appear as an asset on the balance sheet and no depreciation is recorded in the operating statement.
Valuation of assets and liabilities	Classes of assets and liabilities are measured using a range of methods. The predominant methods for valuing different asset classes include historic cost and market value.	Individual assets and liabilities are measured at current market value based on current market prices or a suitable proxy where market prices are not available.
Finance leases	Treats finance leases as if an 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. The asset and the liability are recorded on the balance sheet. This convention does not apply to the cash flow statement, which does not record the acquisition of the asset or the liability.	As per the accounting standard, except that the GFS cash flow statement includes the acquisition of the asset as a supplementary item for the calculation of the surplus/deficit (underlying cash balance).

Following the broad strategic direction of the Financial Reporting Council, the Australian Accounting Standards Board is currently pursuing harmonisation of GFS and AAS. A converged financial reporting framework will reduce confusion associated with the publication of two sets of financial statements and improve the readability of government budget and outcome reports.

Table E2 reconciles GFS revenue and expenses with their AAS counterparts.

Table E2: Reconciliation of GFS and AAS revenue and expenses

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
GFS revenue (Appendix B)	235,483	245,417	257,660	271,631
<i>less</i> GST revenue for states and territories	36,040	37,920	40,090	42,290
GFS revenue (Parts 1 and 3)	199,443	207,497	217,570	229,341
<i>plus</i> asset revenue recognised for the first time	624	125	91	58
<i>plus</i> foreign exchange gains	0	0	0	0
<i>plus</i> other economic revaluations	29	0	0	0
<i>plus</i> proceeds from the sale of assets	849	759	11,854	11,854
<i>plus</i> swap interest revenue	2,161	2,282	2,138	1,814
AAS31 revenue (Appendix C)	203,106	210,663	231,653	243,067
GFS expenses (Appendix B)	229,118	240,786	251,635	264,263
<i>less</i> GST grants to states and territories	35,270	37,160	39,230	41,330
<i>less</i> GST interest on overpayments	0	0	0	0
<i>less</i> GST mutually agreed writedowns	40	41	42	43
GFS expenses (Parts 1 and 3)	193,808	203,585	212,363	222,890
<i>plus</i> actuarial revaluations	799	0	0	0
<i>plus</i> net writedown of assets/bad and doubtful debts	2,351	1,830	1,904	1,927
<i>plus</i> foreign exchange losses	329	0	0	0
<i>plus</i> other economic adjustments	44	0	0	0
<i>plus</i> value of assets sold	756	723	2,214	2,206
<i>plus</i> swap interest expense	1,954	2,055	1,923	1,630
<i>plus</i> defence weapons platforms depreciation	2,517	2,132	2,166	2,234
<i>less</i> defence weapons platforms investment	2,914	3,057	3,338	3,691
<i>plus</i> AusAid IDA/ADF expenses	534	0	0	265
AAS expenses (Appendix C)	200,177	207,269	217,233	227,461

Table E3 reconciles the accounting operating result to the GFS net operating balance and the fiscal balance (GFS net lending).

The AAS net operating result is equal to AAS revenues less expenses. Similarly, GFS revenues less expenses calculate the GFS net operating balance. Consequently, the reconciliation between the AAS operating result before extraordinary items and the GFS net operating balance relates directly to differences in the definitions of revenues and expenses which are shown in Table E2.

The second part of the Table E3 reconciliation shows the adjustment for net capital investment required to derive the fiscal balance from the GFS net operating balance.

As discussed previously, the fiscal balance is calculated as the net operating balance less net capital investment. This is a useful economic indicator as it represents the gap between government saving (less capital transfers) and investment, and so is included at the end of the GFS operating statement. In AAS there is no equivalent measure to

Appendix E: Financial Reporting Standards and Budget Concepts

the fiscal balance. That is, the AAS statement of financial performance stops at the operating result and includes no information on net capital investment.

Table E3: Reconciliation of AAS net operating result and fiscal balance

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
AAS operating result before extraordinary items (Appendix C)	2,928	3,395	14,420	15,606
Net differences from revenue and expense definitions	3,436	1,236	-8,395	-8,238
GFS net operating balance (Appendix B)	6,364	4,631	6,025	7,368
less purchase of property, plant and equipment and intangibles	6,068	6,047	5,978	6,236
less assets acquired under finance leases	7	4	23	5
less other non-financial assets	45	162	56	-32
less increase in inventories	174	63	214	131
plus defence weapons platforms investment	2,914	3,057	3,338	3,691
plus proceeds from sales of property, plant and equipment and intangibles	743	660	486	486
plus depreciation and amortisation	4,449	4,277	4,390	4,523
less weapons depreciation	2,517	2,132	2,166	2,234
Fiscal balance (GFS net lending) (Appendix B)(a)	5,659	4,216	5,802	7,494
Impact of GST	-730	-719	-818	-917
Fiscal balance (GFS net lending) (Part 3)(a)	4,929	3,497	4,984	6,577

(a) The fiscal balance and net operating balance estimates in Appendix B are higher than those presented in Part 3, as explained in the introduction to Appendix B.

APPENDIX F: HISTORICAL AUSTRALIAN GOVERNMENT DATA

This appendix provides historical data for Australian Government fiscal aggregates across the general government, public non-financial corporations and non-financial public sectors.

Under the accrual Government Finance Statistics (GFS) framework, flows are recorded in the period in which they occurred. As a result, prior period outcomes may be revised where information arises that could reasonably be expected to have been known in the past, is material in at least one of the affected periods and can be reliably assigned to the relevant period(s).

Estimates up to and including 1998-99 are on cash terms, while estimates from 1999-2000 are cash proxies derived from an accrual framework. Due to methodological and data-source changes associated with the move to an accrual accounting framework, time series data that include measures derived under both cash and accrual accounting should be used with caution.

There are other structural breaks within the data set, prior to the shift to accrual reporting. Classification differences and revisions, as well as changes to the structure of the budget, can impact on comparisons over such an extended period.

Specific factors that affect the comparability of data between years include:

- classification differences in the data relating to the period prior to 1976-77 (which means that earlier data may not be entirely consistent with data for 1976-77 onwards);
- adjustments in the coverage of agencies included in the accounts of the different sectors. These include the reclassification of Central Banking Authorities from the general government to the public financial corporations sector in 1998-99, and subsequent backcasting to account for this change;
- consistent with the revised GFS treatment announced by the Australian Bureau of Statistics (ABS) (Cat. No. 5501.0, released October 2002), the general government measures in this statement, from 1998-99 onwards, incorporate the interest component of superannuation related payments by the Australian Government general government in respect of accumulated public non-financial corporations' superannuation liabilities;
- transfers of taxing powers between the Australian Government and the states and territories;

Appendix F: Historical Australian Government data

- other changes in financial arrangements between the Australian Government and the state/local government sector; and
- changes in arrangements for transfer payments, where tax concessions or rebates are replaced by payments through the social security system. This has the effect of increasing both cash revenues and payments, as compared with earlier periods, but not changing cash balances. Changes in the opposite direction (tax expenditures replacing outlays) reduce both cash payments and receipts.

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

Table F1: Australian Government general government sector receipts, payments and surplus^(a)

	Receipts			Payments			Cash surplus	
	\$m	Per cent	Per cent of GDP	\$m	Per cent	Per cent of GDP	\$m	Per cent of GDP
		real growth			real growth			
1970-71	8,000	6.0	20.9	7,176	10.0	18.7	824	2.1
1971-72	8,827	3.3	20.9	7,987	4.2	18.9	840	2.0
1972-73	9,414	0.4	19.8	9,120	7.5	19.2	294	0.6
1973-74	11,890	10.4	20.6	10,829	3.8	18.8	1,061	1.8
1974-75	15,325	5.8	22.6	15,275	15.8	22.5	50	0.1
1975-76	18,316	3.6	23.0	19,876	12.8	25.0	-1,560	-2.0
1976-77	21,418	4.2	23.3	22,657	1.6	24.7	-1,239	-1.4
1977-78	23,491	0.9	23.4	25,489	3.5	25.4	-1,998	-2.0
1978-79	25,666	3.0	22.6	27,753	2.7	24.4	-2,087	-1.8
1979-80	29,780	5.9	23.1	31,041	2.1	24.1	-1,261	-1.0
1980-81	35,148	6.9	24.1	35,260	2.9	24.2	-112	-0.1
1981-82	40,831	2.9	24.3	40,394	1.4	24.0	437	0.3
1982-83	44,675	-1.7	24.7	47,907	6.5	26.5	-3,232	-1.8
1983-84	49,102	2.9	24.0	55,966	9.4	27.4	-6,864	-3.4
1984-85	57,758	11.8	25.6	63,639	8.1	28.2	-5,881	-2.6
1985-86	64,845	5.8	26.1	69,838	3.4	28.1	-4,993	-2.0
1986-87	73,145	5.1	26.9	75,392	0.6	27.7	-2,247	-0.8
1987-88	81,217	3.3	26.1	79,440	-2.0	25.6	1,777	0.6
1988-89	88,369	0.3	25.1	82,202	-4.6	23.4	6,167	1.8
1989-90	95,517	1.7	24.8	88,882	1.7	23.1	6,635	1.7
1990-91	97,705	-2.5	24.6	97,333	4.4	24.5	372	0.1
1991-92	92,966	-6.9	22.9	104,551	5.1	25.7	-11,585	-2.8
1992-93	94,448	0.5	22.2	111,484	5.5	26.2	-17,036	-4.0
1993-94	100,142	5.2	22.4	117,252	4.3	26.3	-17,110	-3.8
1994-95	109,720	8.7	23.3	122,901	4.0	26.1	-13,181	-2.8
1995-96	121,105	7.7	24.2	131,182	4.2	26.2	-10,077	-2.0
1996-97	129,845	5.2	24.6	135,126	1.0	25.6	-5,281	-1.0
1997-98	135,779	3.1	24.3	134,608	-1.8	24.1	1,171	0.2
1998-99	146,496	7.4	24.8	142,159	5.2	24.1	4,337	0.7
1999-00	165,806	na	26.6	152,747	na	24.5	13,059	2.1
2000-01	160,829	-7.2	24.1	154,858	-3.0	23.2	5,970	0.9
2001-02	162,524	-1.2	22.8	163,507	3.3	22.9	-983	-0.1
2002-03	176,147	5.0	23.2	168,661	0.0	22.2	7,486	1.0
2003-04	186,971	2.6	23.0	178,935	2.6	22.0	8,036	1.0
2004-05(e)	199,738	3.4	23.1	193,533	4.6	22.4	6,206	0.7
2005-06(e)	207,782	1.4	22.7	203,323	2.4	22.2	4,459	0.5
2006-07(p)	216,834	2.4	22.4	211,137	1.9	21.9	5,697	0.6
2007-08(p)	228,604	3.4	22.4	221,020	2.7	21.7	7,584	0.7

(a) There is a break in the series between 1998-99 and 1999-2000. Data for the years up to and including 1998-99 are consistent with the cash ABS GFS reporting requirements. From 1999-2000, data are derived from an accrual ABS GFS reporting framework, with receipts proxied by receipts from operating activities and sales of non-financial assets, and payments proxied by payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases. Due to associated methodological and data-source changes, time series data that encompass measures derived under both cash and accrual accounting should be used with caution.

na Not applicable, due to a structural break in the series.

Table F2: Australian Government general government sector taxation receipts, non-taxation receipts and total receipts^(a)

	Taxation receipts			Non-taxation receipts			Total receipts		
	\$m	Per cent real growth	Per cent of GDP	\$m	Per cent real growth	Per cent of GDP	\$m	Per cent real growth	Per cent of GDP
1970-71	7,148	6.0	18.6	852	6.0	2.2	8,000	6.0	20.9
1971-72	7,887	3.3	18.6	940	3.3	2.2	8,827	3.3	20.9
1972-73	8,411	0.4	17.7	1,003	0.4	2.1	9,414	0.4	19.8
1973-74	10,832	12.6	18.8	1,058	-7.8	1.8	11,890	10.4	20.6
1974-75	14,141	7.2	20.8	1,184	-8.1	1.7	15,325	5.8	22.6
1975-76	16,920	3.7	21.3	1,396	2.2	1.8	18,316	3.6	23.0
1976-77	19,714	3.8	21.5	1,704	8.7	1.9	21,418	4.2	23.3
1977-78	21,428	0.0	21.4	2,063	11.3	2.1	23,491	0.9	23.4
1978-79	23,409	3.0	20.6	2,257	3.2	2.0	25,666	3.0	22.6
1979-80	27,473	7.1	21.3	2,307	-6.7	1.8	29,780	5.9	23.1
1980-81	32,641	7.6	22.4	2,507	-1.5	1.7	35,148	6.9	24.1
1981-82	37,880	2.7	22.5	2,951	4.2	1.8	40,831	2.9	24.3
1982-83	41,025	-2.7	22.7	3,650	11.1	2.0	44,675	-1.7	24.7
1983-84	44,849	2.3	21.9	4,253	9.1	2.1	49,102	2.9	24.0
1984-85	52,970	12.3	23.5	4,788	7.0	2.1	57,758	11.8	25.6
1985-86	58,841	4.7	23.7	6,004	18.2	2.4	64,845	5.8	26.1
1986-87	66,467	5.3	24.4	6,678	3.7	2.5	73,145	5.1	26.9
1987-88	75,076	5.1	24.2	6,141	-14.5	2.0	81,217	3.3	26.1
1988-89	83,452	2.4	23.7	4,917	-26.2	1.4	88,369	0.3	25.1
1989-90	90,773	2.3	23.6	4,744	-9.2	1.2	95,517	1.7	24.8
1990-91	92,739	-2.6	23.3	4,966	-0.2	1.2	97,705	-2.5	24.6
1991-92	87,364	-7.9	21.5	5,602	10.3	1.4	92,966	-6.9	22.9
1992-93	88,760	0.6	20.8	5,688	0.5	1.3	94,448	0.5	22.2
1993-94	93,362	4.3	20.9	6,780	18.2	1.5	100,142	5.2	22.4
1994-95	104,921	11.5	22.3	4,799	-29.7	1.0	109,720	8.7	23.3
1995-96	115,700	7.6	23.1	5,405	9.9	1.1	121,105	7.7	24.2
1996-97	124,559	5.6	23.6	5,286	-4.1	1.0	129,845	5.2	24.6
1997-98	130,984	3.7	23.4	4,795	-10.6	0.9	135,779	3.1	24.3
1998-99	141,105	7.3	23.9	5,391	11.9	0.9	146,496	7.4	24.8
1999-00	150,695	na	24.2	15,111	na	2.4	165,806	na	26.6
2000-01	146,056	-7.2	21.9	14,774	-6.4	2.2	160,829	-7.2	24.1
2001-02	147,544	-1.2	20.7	14,980	-0.8	2.1	162,524	-1.2	22.8
2002-03	160,661	5.5	21.2	15,487	0.2	2.0	176,147	5.0	23.2
2003-04	172,243	3.7	21.2	14,729	-8.0	1.8	186,971	2.6	23.0
2004-05(e)	183,410	3.0	21.2	16,328	7.3	1.9	199,738	3.4	23.1
2005-06(e)	191,908	2.0	21.0	15,874	-5.2	1.7	207,782	1.4	22.7
2006-07(p)	201,164	2.8	20.8	15,670	-3.2	1.6	216,834	2.4	22.4
2007-08(p)	212,600	3.7	20.9	16,004	0.2	1.6	228,604	3.4	22.4

(a) There is a break in the series between 1998-99 and 1999-2000. Data for the years up to and including 1998-99 are consistent with the cash ABS GFS reporting requirements. From 1999-2000, data are derived from an accrual ABS GFS reporting framework, with receipts proxied by receipts from operating activities and sales of non-financial assets. Due to associated methodological and data-source changes, time series data that encompass measures derived under both cash and accrual accounting should be used with caution.

na Not applicable, due to a structural break in the series.

Table F3: Australian Government receipts (cash basis)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Actual	Estimate	Estimate	Projection	Projection
	\$m	\$m	\$m	\$m	\$m	\$m
Taxation receipts						
Income taxation						
Individuals and other withholding(a)						
Gross income tax withholding	84,134	89,638	95,750	101,380	108,620	116,370
Gross other individuals	17,436	19,935	21,220	22,100	22,162	23,140
less Refunds	11,651	12,325	13,700	15,020	16,612	17,965
Total individuals and other withholding	89,919	97,247	103,270	108,460	114,170	121,545
Companies	32,752	36,101	39,360	42,710	45,400	48,310
Superannuation funds						
Contributions and earnings	3,865	4,502	5,380	5,370	5,680	6,110
Superannuation surcharge	975	1,050	1,210	1,110	920	860
Total superannuation funds	4,840	5,551	6,590	6,480	6,600	6,970
Petroleum resource rent tax	1,712	1,168	1,560	1,460	1,700	1,580
Total income taxation	129,222	140,067	150,780	159,110	167,870	178,405
Indirect taxation						
Excise duty						
Petroleum and other fuel products	12,866	13,231	13,400	13,650	13,910	14,220
Crude oil	417	309	550	510	490	490
Other excise	7,450	7,539	7,700	7,830	7,970	8,130
Total excise duty	20,733	21,079	21,650	21,990	22,370	22,840
Customs duty	4,982	5,038	5,110	4,740	4,740	5,020
Other indirect taxes	858	992	1,060	1,120	1,200	1,270
Total indirect taxation	26,573	27,108	27,820	27,850	28,310	29,130
Fringe benefits tax(b)	3,103	3,226	3,200	3,290	3,380	3,480
Agricultural levies and other taxes	1,762	1,842	1,610	1,658	1,604	1,585
Total taxation receipts	160,661	172,243	183,410	191,908	201,164	212,600
Non-taxation receipts						
Interest received	982	1,056	1,355	1,386	1,972	2,886
Dividends and other	14,504	13,673	14,973	14,488	13,698	13,118
Total non-taxation receipts	15,487	14,729	16,328	15,874	15,670	16,004
Total receipts	176,147	186,971	199,738	207,782	216,834	228,604

(a) Includes Medicare levy receipts (\$5,000 million in 2002-03 and \$5,560 million in 2003-04).

(b) Consistent with GFS reporting standards, excludes fringe benefits tax collected from Australian Government agencies (\$355 million in 2002-03 and \$364 million in 2003-04).

Table F4: Australian Government general government sector net debt and net interest payments^(a)

	Net debt(b)		Net interest payments(c)	
	\$m	Per cent of GDP	\$m	Per cent of GDP
1972-73	-790	-1.7	-266	-0.6
1973-74	-1,851	-3.2	-306	-0.5
1974-75	-1,901	-2.8	-267	-0.4
1975-76	-341	-0.4	-389	-0.5
1976-77	898	1.0	-161	-0.2
1977-78	2,896	2.9	-106	-0.1
1978-79	4,983	4.4	126	0.1
1979-80	6,244	4.8	290	0.2
1980-81	6,356	4.4	444	0.3
1981-82	5,919	3.5	475	0.3
1982-83	9,151	5.1	654	0.4
1983-84	16,015	7.8	1,327	0.6
1984-85	21,896	9.7	2,462	1.1
1985-86	26,889	10.8	3,626	1.5
1986-87	29,136	10.7	4,387	1.6
1987-88	27,359	8.8	4,019	1.3
1988-89	21,982	6.2	3,722	1.1
1989-90	16,121	4.2	3,848	1.0
1990-91	16,936	4.3	2,834	0.7
1991-92	31,132	7.7	2,739	0.7
1992-93	55,218	13.0	2,912	0.7
1993-94	70,223	15.7	4,549	1.0
1994-95	83,492	17.8	6,310	1.3
1995-96	95,831	19.1	7,812	1.6
1996-97	96,281	18.2	8,449	1.6
1997-98	82,935	14.8	7,381	1.3
1998-99	70,402	11.9	6,901	1.2
1999-00	53,768	8.6	6,014	1.0
2000-01	42,651	6.4	4,855	0.7
2001-02	38,024	5.3	4,238	0.6
2002-03	29,665	3.9	3,641	0.5
2003-04	23,421	2.9	2,994	0.4
2004-05(e)	19,693	2.3	2,509	0.3
2005-06(e)	14,192	1.5	3,223	0.4
2006-07(p)	-3,061	-0.3	1,874	0.2
2007-08(p)	-22,007	-2.2	616	0.1

(a) There is a break in the net debt and net interest series between 1998-99 and 1999-2000 (the first year of accrual budgeting). Up to 1998-99, Australian Government general government debt instruments are valued at historic cost. From 1999-2000, Australian Government general government debt instruments are valued at market prices, consistent with accrual GFS standards.

(b) Source: ABS Cat. No. 5513.0, 5501.0, Australian Government Final Budget Outcomes and Treasury estimates.

(c) Excludes superannuation related interest flows.

Table F5: Australian Government general government sector revenue, expenses, net capital investment, net capital investment, fiscal balance and net worth^(a)

	Revenue		Expenses		Net capital investment		Fiscal balance		Net worth(b)(c)	
	\$m	Per cent of GDP	\$m	Per cent of GDP	\$m	Per cent of GDP	\$m	Per cent of GDP	\$m	Per cent of GDP
1996-97	141,688	26.8	145,809	27.6	90	0.0	-4,211	-0.8	-74,354	-14.1
1997-98	146,820	26.3	148,646	26.6	147	0.0	-1,973	-0.4	-68,544	-12.3
1998-99	151,897	25.8	146,620	24.9	1,433	0.2	3,844	0.7	-76,150	-12.9
1999-00	166,810	26.8	156,144	25.0	-1,225	-0.2	11,892	1.9	-40,552	-6.5
2000-01	161,737	24.2	157,121	23.5	-1,168	-0.2	5,784	0.9	-43,090	-6.4
2001-02	162,547	22.8	166,763	23.4	-369	-0.1	-3,847	-0.5	-48,634	-6.8
2002-03	175,180	23.1	169,486	22.4	-219	0.0	5,913	0.8	-52,277	-6.9
2003-04	187,559	23.1	181,271	22.3	724	0.1	5,564	0.7	-37,803	-4.7
2004-05(e)	199,443	23.0	193,808	22.4	705	0.1	4,929	0.6	-37,152	-4.3
2005-06(e)	207,497	22.7	203,585	22.2	415	0.0	3,497	0.4	-34,175	-3.7
2006-07(p)	217,570	22.5	212,363	22.0	223	0.0	4,984	0.5	-26,803	-2.8
2007-08(p)	229,341	22.5	222,890	21.9	-125	0.0	6,577	0.6	-21,593	-2.1

(a) The fiscal balance is equal to revenue less expenses less net capital investment. Net worth is calculated as assets minus liabilities.

(b) There is a break in the net worth series between 1998-99 and 1999-2000. Data up to 1998-99 are sourced from the Australian Government's Consolidated Financial Statements based on Australian accounting standards. Data beginning in 1999-2000 are based on the GFS framework. For the general government sector, the major change across the break in the series is an improvement in net worth. This is primarily due to the move from valuing investments in public corporations at historic cost to current market value (which is calculated using the share price for listed corporations). This is partly offset by defence weapons platforms no longer being recorded as assets.

(c) From 2002-03, net worth also included the initial recognition of a provision for asbestos related claims. At the time of the 2002-03 Final Budget Outcome, a reliable actuarial measure was not available. Following an actuarial review, a provision for asbestos related claims was included in the audited 2002-03 Consolidated Financial Statements.

Appendix F: Historical Australian Government data

Table F6: Australian Government general government sector accrual taxation revenue, non-taxation revenue and total revenue

	Taxation revenue			Non-taxation revenue			Total revenue		
	\$m	Per cent	Per cent	\$m	Per cent	Per cent	\$m	Per cent	Per cent
		real	of GDP		real	of GDP		real	of GDP
	growth			growth			growth		
1999-00	152,791	na	24.5	14,020	na	2.2	166,810	na	26.8
2000-01	151,385	-5.2	22.6	10,352	-29.3	1.5	161,737	-7.2	24.2
2001-02	150,025	-3.1	21.0	12,522	18.3	1.8	162,547	-1.7	22.8
2002-03	163,221	5.4	21.5	11,958	-7.4	1.6	175,180	4.5	23.1
2003-04	175,058	3.7	21.5	12,501	1.1	1.5	187,559	3.5	23.1
2004-05(e)	187,622	3.7	21.7	11,821	-8.5	1.4	199,443	2.9	23.0
2005-06(e)	195,427	1.6	21.3	12,071	-0.4	1.3	207,497	1.4	22.7
2006-07(p)	205,192	3.0	21.2	12,378	0.6	1.3	217,570	2.8	22.5
2007-08(p)	216,709	3.6	21.3	12,633	0.1	1.2	229,341	3.4	22.5

na Data not available.

Table F7: Australian Government revenue (accrual basis)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Actual	Estimate	Estimate	Projection	Projection
	\$m	\$m	\$m	\$m	\$m	\$m
Taxation revenue						
Income taxation						
Individuals and other withholding(a)						
Gross income tax withholding	84,640	90,095	96,550	102,210	109,550	117,410
Gross other individuals	18,314	21,010	22,210	23,030	23,172	24,060
less Refunds	11,651	12,325	13,700	15,020	16,612	17,965
Total individuals and other withholding	91,303	98,779	105,060	110,220	116,110	123,505
Companies	33,365	36,337	40,870	43,360	46,380	49,380
Superannuation funds						
Contributions and earnings	3,617	4,487	5,390	5,380	5,710	6,140
Superannuation surcharge	1,279	1,298	1,320	1,200	1,000	930
Total superannuation funds	4,896	5,785	6,710	6,580	6,710	7,070
Petroleum resource rent tax	1,715	1,165	1,560	1,460	1,700	1,580
Total income taxation	131,278	142,067	154,200	161,620	170,900	181,535
Indirect taxation						
Excise duty						
Petroleum and other fuel products	12,920	13,220	13,400	13,650	13,910	14,220
Crude oil	417	309	550	510	490	490
Other excise	7,450	7,539	7,700	7,830	7,970	8,130
Total excise duty	20,787	21,068	21,650	21,990	22,370	22,840
Customs duty	5,573	5,622	5,714	5,350	5,342	5,622
Other indirect taxes	896	1,002	1,140	1,210	1,300	1,380
Total indirect taxation	27,255	27,692	28,504	28,550	29,012	29,842
Fringe benefits tax(b)	2,832	3,277	3,020	3,260	3,350	3,450
Agricultural levies and other taxes	1,856	2,023	1,898	1,997	1,930	1,882
Total taxation revenue	163,221	175,058	187,622	195,427	205,192	216,709
Non-taxation revenue						
Interest income	1,185	1,304	1,435	1,602	2,231	3,185
Dividends and other	10,773	11,197	10,386	10,469	10,147	9,447
Total non-taxation revenue	11,958	12,501	11,821	12,071	12,378	12,633
Total revenue	175,180	187,559	199,443	207,497	217,570	229,341

(a) Includes Medicare levy revenue (\$5,000 million in 2002-03 and \$5,560 million in 2003-04).

(b) Consistent with GFS reporting standards, excludes fringe benefits tax collected from Australian Government agencies (\$323 million in 2002-03 and \$365 million in 2003-04).

Appendix F: Historical Australian Government data

Table F8: Australian Government cash receipts, payments and cash surplus by institutional sector (\$m)^(a)

	General government			Public non-financial corporations			Non-financial public sector		
	Receipts	Payments	Cash surplus	Receipts	Payments	Cash surplus	Receipts	Payments	Cash surplus
1987-88	81,217	79,440	1,777	4,129	5,006	944	84,333	83,439	2,721
1988-89	88,369	82,202	6,167	4,177	6,035	257	91,544	87,188	6,424
1989-90	95,517	88,882	6,635	3,926	11,322	-5,261	98,387	99,081	1,374
1990-91	97,705	97,333	372	4,804	9,351	-2,139	101,315	105,476	-1,767
1991-92	92,966	104,551	-11,585	3,899	7,713	101	95,063	110,448	-11,484
1992-93	94,448	111,484	-17,036	4,385	7,819	-196	97,327	117,775	-17,232
1993-94	100,142	117,252	-17,110	5,178	6,476	1,482	103,065	121,457	-15,628
1994-95	109,720	122,901	-13,181	5,262	7,318	1,956	113,013	128,247	-11,225
1995-96	121,105	131,182	-10,077	4,927	8,190	-527	123,269	136,607	-10,604
1996-97	129,845	135,126	-5,281	4,782	7,373	473	131,512	139,385	-4,808
1997-98	135,779	134,608	1,171	6,238	7,923	1,119	139,560	140,006	2,290
1998-99	146,496	142,159	4,337	na	na	-353	na	na	3,984
1999-00	165,806	152,747	13,059	na	na	-2,594	na	na	10,465
2000-01	160,829	154,858	5,970	na	na	391	na	na	6,362
2001-02	162,524	163,507	-983	na	na	1,210	na	na	227
2002-03	176,147	168,661	7,486	na	na	1,280	na	na	8,766
2003-04	186,971	178,935	8,036	na	na	1,575	na	na	9,611
2004-05(e)	199,738	193,533	6,206	na	na	1,432	na	na	7,638
2005-06(e)	207,782	203,323	4,459	na	na	na	na	na	na
2006-07(p)	216,834	211,137	5,697	na	na	na	na	na	na
2007-08(p)	228,604	221,020	7,584	na	na	na	na	na	na

(a) There is a break in the series between 1998-99 and 1999-2000. Data for the years up to and including 1998-99 are consistent with the cash ABS GFS reporting requirements. From 1999-2000, data are derived from an accrual ABS GFS reporting framework, with receipts proxied by receipts from operating activities and sales of non-financial assets, and payments proxied by payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases. Due to associated methodological and data-source changes, time series data that encompass measures derived under both cash and accrual accounting should be used with caution.

na Data not available.

