

# **ECONOMIC STATEMENT**

JULY 2010

## **STATEMENT BY**

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COMMONWEALTH OF AUSTRALIA

AND

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MINISTER FOR FINANCE AND DEREGULATION  
OF THE COMMONWEALTH OF AUSTRALIA

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## Notes

- (a) The following definitions are used in the Economic Statement:
- ‘real’ means adjusted for the effect of inflation;
  - real growth in expenses is measured by the Consumer Price Index (CPI) deflator;
  - one billion is equal to one thousand million; and
  - the budget year refers to 2010-11, while the forward years refer to 2011-12, 2012-13 and 2013-14.
- (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.

## FOREWORD

In the context of renewed uncertainty around the global economic outlook the Government has released the July 2010 *Economic Statement* (ES) to provide an update of its economic forecasts and key fiscal aggregates.

The document contains:

- **Part 1 Overview** – contains summary information on the international and domestic economic outlook.
- **Part 2 Economic outlook** – contains an update on the international and domestic economy.
- **Part 3 Responsible Economic Management** – provides an overview of the key elements of the Government's reform agenda.
- **Part 4 Fiscal outlook** – provides an update of the budget outlook.

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## OVERVIEW

Since the 2010-11 Budget, uncertainty around the global economic recovery has increased. Despite this increased uncertainty and renewed volatility in global financial markets the outlook for the domestic economy remains positive. Responsible economic and fiscal management during the global financial crisis means Australia is in a strong position to withstand any intensification in global stresses.

Australia's economy continues to be stronger and the unemployment rate lower than in most other advanced economies, and Australia's fiscal position remains strong. While the global recovery is uneven, Australia will continue to benefit from its location in the world's fastest growing economic region.

The global economy is recovering, with strong growth in Asia but weak and uneven prospects in advanced economies, although the outlook is increasingly clouded by substantial downside risks. Continuing concerns over sovereign debt sustainability and banking sector weakness in the EU periphery are likely to be an ongoing source of volatility in financial markets.

Other global risks have also emerged including uncertainty over US growth prospects, the challenge in China of managing inflationary pressures and the difficulty in managing fiscal consolidation across the advanced economies in an environment where global growth is still fragile.

Despite these uncertainties, the outlook for the domestic economy remains positive. There are early signs that economic activity will gather momentum over 2010-11 and 2011-12 – driven by a substantial boost in the terms of trade and expected strong investment, largely associated with the mining boom.

The robust economy, strong fiscal position, solid banking system, impressive resource endowments and close trade ties with Asia means that Australia is well placed to ride out increased global uncertainties. The Australian economy is forecast to grow by 3 per cent in 2010-11 and 3¾ per cent in 2011-12, and the unemployment rate – which is already lower than in any of the major advanced economies – is expected to fall further to 4¾ per cent in 2011-12.

**Table 1: Major economic parameters<sup>(a)</sup>**

	Estimate(b)	Forecasts		Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14
Real GDP	2 1/4	3	3 3/4	3	3
Employment	2 3/4	2 1/4	2	1 1/2	1 1/2
Unemployment rate	5 1/4	5	4 3/4	5	5
CPI	3 1/4	2 3/4	2 3/4	2 1/2	2 1/2
Nominal GDP	3 1/4	9 1/4	5 1/4	5 1/4	5 1/4

(a) Real and nominal GDP are year average growth. Employment and CPI are through-the-year growth to the June quarter. The unemployment rate is the rate in the June quarter.

(b) Employment growth and the unemployment rate are ABS outcomes.

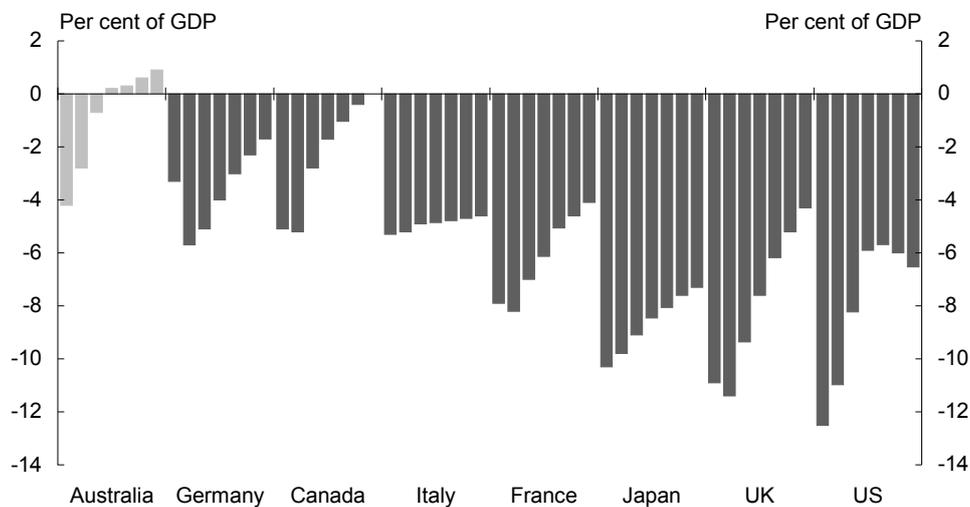
Source: ABS cat. nos. 5206.0, 6202.0 and 6345.0, Treasury.

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The emerging risks – particularly the sovereign debt issues in Europe – highlight the importance of sound and sustainable public finances, as stressed in the recent G20 Toronto Summit Declaration. In that regard, Australia is particularly well placed, with one of the strongest budget positions in the developed world.

The Budget is projected to return to a surplus in 2012-13. This means Australia will return to surplus ahead of any of the major advanced economies whose collective deficit is forecast to be 6.0 per cent of GDP in 2012 (Chart 1). Australian Government net debt is expected to peak at 6.0 per cent of GDP in 2011-12 – less than a tenth of the average of the major advanced economies.

**Chart 1: Budget balances of Australia and the G7, 2009-2015**



Australian data are for the Australian Government general government sector underlying cash balance and refer to financial years beginning 2009-10. Data for all other economies are total Government net lending and refer to calendar years. The Australian result for 2009-10 is an indicative estimate pending the preparation of audit cleared financial statements for government agencies. Final data for 2009-10 will be published in the 2009-10 Final Budget Outcome.

Source: IMF World Economic Outlook April 2010, IMF Fiscal Monitor May 2010 and Treasury.

The table below provides a summary of the key budget aggregates.

**Table 2: Summary of budget aggregates**

	Estimates		Projections	
	2010-11	2011-12	2012-13	2013-14
<b>Underlying cash balance (\$b)(a)</b>	<b>-40.4</b>	<b>-10.0</b>	<b>3.1</b>	<b>4.8</b>
Per cent of GDP	-2.8	-0.7	0.2	0.3
<b>Fiscal balance (\$b)</b>	<b>-39.0</b>	<b>-8.4</b>	<b>4.7</b>	<b>6.3</b>
Per cent of GDP	-2.7	-0.6	0.3	0.4

(a) Excludes expected Future Fund earnings.

Australia's strong fiscal position has been achieved by continuing to deliver on the Government's deficit exit strategy: keeping real payments growth below 2 per cent a year; maintaining tax as a share of GDP, on average, below the 2007-08 level; and allowing higher tax receipts to flow through to the budget bottom line.

The strength of the economy and soundness of our fiscal outlook has Australia in a strong position to take advantage of the resurgent growth in Asia and meet future challenges.

## ECONOMIC OUTLOOK

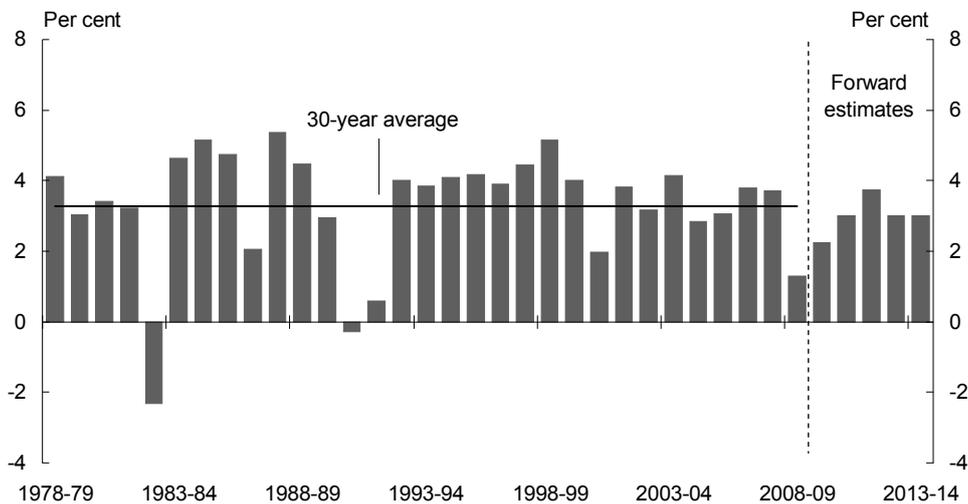
The Australian economy continues to perform well and the outlook remains positive, notwithstanding increased global uncertainty again starting to weigh on confidence.

Over the past year the economy has been supported by substantial fiscal and monetary stimulus. This has helped position Australia as one of the strongest economies in the developed world and underpinned solid employment growth, with 353,000 jobs added in the past year.

As this policy stimulus is progressively withdrawn the outlook is increasingly dependent on a private sector recovery. There are early signs this recovery is underway, and conditions are expected to improve with growth in business investment and exports gathering momentum over 2010-11 and 2011-12 – driven by a substantial boost in the terms of trade and ongoing strong demand for Australian commodities.

Expected strong investment, largely associated with the mining boom, continues to underpin the positive growth outlook. The Australian economy is expected to grow by 3 per cent in 2010-11 and 3¾ per cent in 2011-12 (Chart 2), slightly lower than anticipated at Budget. However a higher terms of trade is supporting stronger nominal GDP growth than forecast at Budget.

Chart 2: Real GDP growth over the forward estimates



Source: ABS cat. no. 5206.0, Treasury.

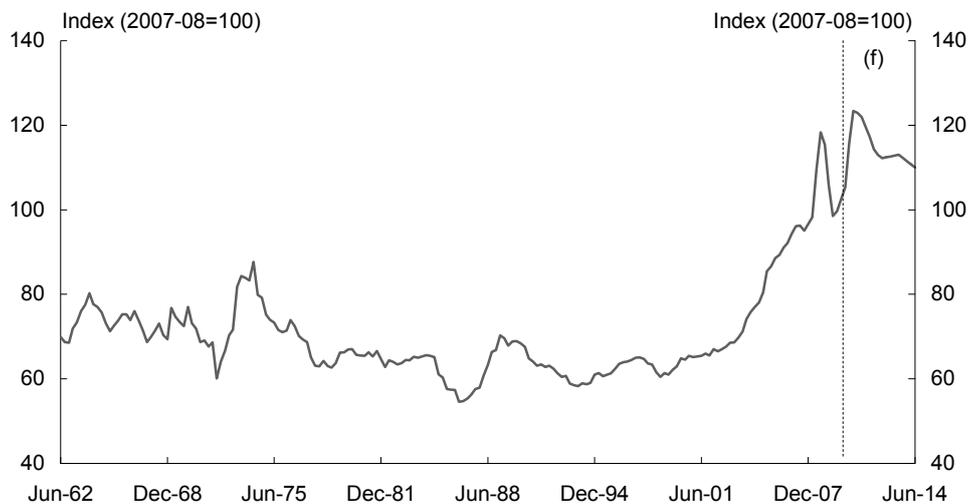
The global economy is continuing to recover, although the pace of growth remains uneven with emerging economies, particularly in Asia, growing much more strongly than advanced economies. The world economy is expected to grow by 4½ per cent in 2010 and 4 per cent in 2011.

However, the outlook is clouded by substantial downside risks. Concerns about European sovereign debt, uncertainty over the US transition to self sustaining growth, the challenge in China of managing inflationary pressures and the difficulty in managing fiscal consolidation across the advanced economies in an environment where global growth is still fragile all present risks for the global outlook.

To date, the renewed global uncertainty has not had a material impact on global growth or the Australian economy. However, if sustained, the increased financial market volatility and softening business and consumer confidence could start to weigh on growth.

Notwithstanding these risks, the global recovery, and in particular the strength of the Asian region, is expected to continue to generate strong demand for non-rural commodities, with further price increases expected for Australia’s main commodities, iron ore and coal. Over the past year iron ore prices have more than doubled and there have been substantial increases in coal prices. The terms of trade are forecast to increase by 17 per cent in 2010-11 – to around their highest levels on record, before declining as expected increases in global supply start to moderate commodity price pressures (Chart 3).

**Chart 3: Terms of trade**

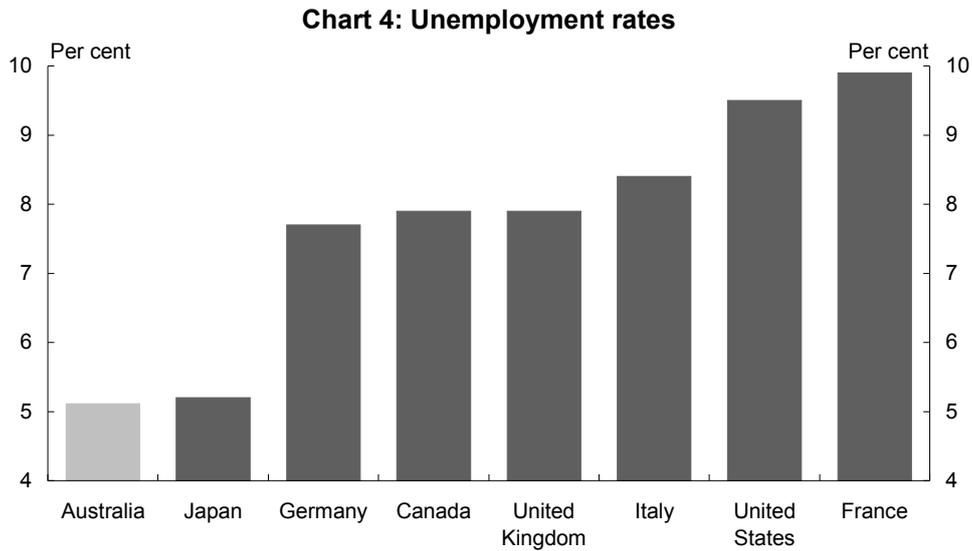


Source: ABS cat. no. 5206.0 and Treasury.

The higher terms of trade will flow through to higher income. Nominal GDP is forecast to grow by 9¼ per cent in 2010-11, which is stronger than at Budget, and by 5¼ per cent in 2011-12. The higher terms of trade is also supporting substantial investment in mining projects. Business investment is expected to pick up considerably in the second half of 2010, with new engineering construction expected to grow by around 17 per cent in 2010-11 and 20 per cent in 2011-12.

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The Australian labour market has been resilient over the past two years and is expected to continue to perform strongly. Australia's unemployment rate, which is already lower than any of the major advanced economies, is expected to fall further to 4¾ per cent in late 2011-12 (Chart 4).



Source: Thomson Reuters, ABS cat. no. 6202.0.

Headline and underlying inflation are each forecast to be 2¾ per cent through the year to June 2011 and 2012. Although contained, inflationary risks are on the upside, with the economy returning to capacity over the forecast period.

## DETAIL OF SECTORAL FORECASTS FOR THE AUSTRALIAN ECONOMY

**Table 3: Domestic economy forecasts<sup>(a)</sup>**

	Estimate		Forecasts			
	2009-10		2010-11		2011-12	
	Budget	ES(b)	Budget	ES	Budget	ES
<b>Panel A - Demand and output(c)</b>						
Household consumption	2 3/4	2 1/2	3 1/2	3	4	3 3/4
Private investment						
Dwellings	3	1	7 1/2	5 1/2	4	5 1/2
Total business investment(d)	-2	-3	7	7 1/2	12 1/2	12 1/2
Non-dwelling constructions(d)	-7	-8	8	7 1/2	14 1/2	14
Machinery and equipment(d)	- 1/2	-2	6	7	13	13 1/2
Private final demand(d)	1 3/4	1 1/4	4 1/2	4	6	5 3/4
Public final demand(d)	7 1/4	9	1	1 3/4	- 1/2	-1 3/4
Total final demand	3	3	3 3/4	3 1/2	4 1/2	4
Change in inventories(e)	3/4	3/4	1/2	1/2	0	0
Gross national expenditure	3 3/4	3 3/4	4 1/4	3 3/4	4 3/4	4
Exports of goods and services	1 1/2	2	5	4 1/2	6	6
Imports of goods and services	5	6	9	8 1/2	8 1/2	8
Net exports(e)	- 3/4	- 3/4	-1	-1	- 3/4	- 1/2
Real gross domestic product	2	2 1/4	3 1/4	3	4	3 3/4
Non-farm product	2	2 1/4	3 1/2	3 1/4	4	3 3/4
Farm product	6	2	1	0	2	1
Nominal gross domestic product	2 3/4	3 1/4	8 1/2	9 1/4	5 3/4	5 1/4
<b>Panel B - Other selected economic measures</b>						
External accounts						
Terms of trade	-3 3/4	-3	14 1/4	17	-3 3/4	-4 1/2
Current account balance (per cent of GDP)	-4 3/4	-4 3/4	-3 3/4	-3	-5	-4 1/2
Labour market						
Employment (labour force survey basis)(f)	2 1/2	2 3/4	2 1/4	2 1/4	2	2
Unemployment rate (per cent)(g)	5 1/4	5 1/4	5	5	4 3/4	4 3/4
Participation rate (per cent)(g)	65 1/4	65 1/4	65 1/2	65 1/2	65 1/2	65 1/2
Prices and wages						
Consumer price index(h)	3 1/4	3 1/4	2 1/2	2 3/4	2 1/2	2 3/4
Gross non-farm product deflator	1	1 1/4	5	6 1/4	1 3/4	1 1/2
Wage price index(f)	2 3/4	3	3 3/4	3 3/4	4	4

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

(b) Employment growth, the unemployment rate and the participation rate are ABS outcomes.

(c) Chain volume measures except for nominal gross domestic product which is in current prices.

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

(e) Percentage point contribution to growth in GDP.

(f) Seasonally adjusted, through the year growth rate to the June quarter.

(g) Seasonally adjusted, estimate for the June quarter.

(h) Through the year growth rate to the June quarter.

Note: The domestic economy forecasts are based on several technical assumptions. The exchange rate is assumed to remain around its recent average level — a trade weighted index of 68 and a United States dollar exchange rate of around 85 US cents. Interest rates are assumed to move broadly in line with market expectations. Oil prices (Malaysian Tapis) are assumed to remain around US\$80 per barrel. The farm sector forecasts are based on an assumption of average seasonal conditions.

Source: ABS cat. nos. 5206.0, 5302.0, 6202.0, 6345.0, 6401.0, unpublished ABS data and Treasury.

## **RESPONSIBLE ECONOMIC MANAGEMENT**

The Government has pursued steady and responsible economic policies through one of the most challenging periods in recent history.

When the global financial crisis threatened the Australian economy, the Government did what was necessary to strengthen our financial system, support growth and protect jobs and small businesses.

Fiscal stimulus meant the Australian economy avoided recession during the global financial crisis. This prevented large scale job losses and business failures, avoiding long-term loss of productive capacity. This has helped position Australia for future growth.

Through continued responsible economic management and reforms that further strengthen and secure future growth, the Government is positioning Australia to take maximum advantage of growth in our region, and ensuring that all Australians share in the benefits of a strong economy.

## **DEFICIT EXIT STRATEGY**

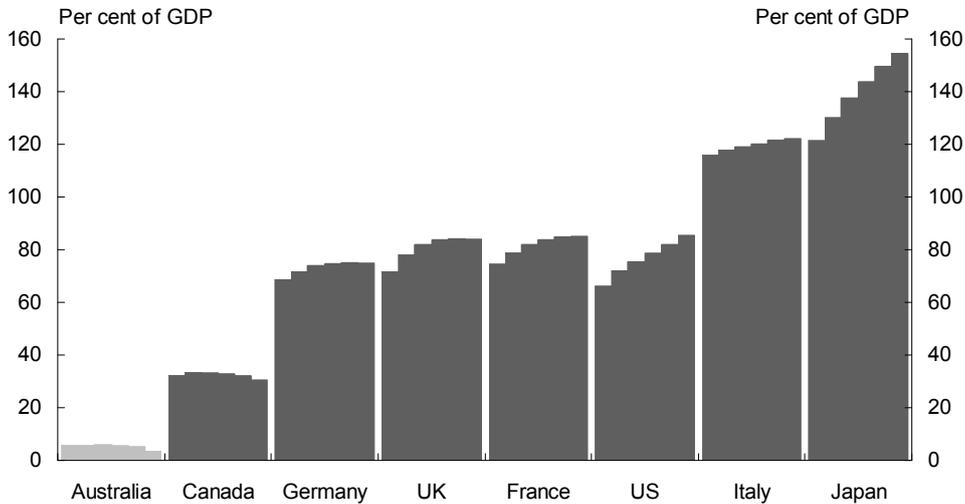
During the global financial crisis, the Government supported the economy by allowing the budget automatic stabilisers to operate and implemented timely, targeted and temporary fiscal stimulus. These measures supported growth and minimised job losses.

With the economic recovery taking hold, stimulus measures are being withdrawn and the Government is consolidating its fiscal position while continuing to deliver key reforms that support growth.

The Government remains committed to delivering on its deficit exit strategy, and returning the Budget to surplus in 2012-13, well before any of the major advanced economies. This would represent the fastest fiscal consolidation in Australia since at least the 1960s and puts Australia at the forefront of global fiscal consolidation efforts.

Australian Government net debt, which is expected to peak at 6.0 per cent of GDP in 2011-12, is lower than any of the major advanced economies, whose collective net debt is expected to reach 94.2 per cent of GDP in 2015 (Chart 5).

**Chart 5: Government net debt for Australia and the G7 (2010-2015)**



Source: IMF World Economic Outlook April 2010, IMF Fiscal Monitor May 2010 and Treasury.

The Government will continue to focus on its deficit exit strategy by:

- holding real growth in spending to 2 per cent a year until the budget returns to surplus; and
- allowing the level of tax receipts to recover naturally as the economy improves, while maintaining the commitment to keep taxation as a share of GDP below the 2007-08 level on average.

The focus of the fiscal strategy in future years will remain on returning the budget to surplus, including by continuing to reprioritise existing expenditure, consistent with 2 per cent real expenditure growth.

Once the budget returns to surplus, and while the economy is growing at or above trend, the Government will maintain the 2 per cent annual cap on real spending growth, on average, until surpluses are at least 1 per cent of GDP.

Delivering on the Government's fiscal strategy will ensure that Australia's fiscal position remains one of the strongest in the developed world.

And it forms an important element of the Government's medium-term fiscal strategy, to deliver budget surpluses, on average, over the medium term.

## **STRENGTHENING AND SECURING THE ECONOMY**

The Government is implementing economic reforms to strengthen and secure the economy. This will ensure Australia is well positioned to take full advantage of the opportunities created by strong growth in our region, while preparing to meet future challenges.

Challenges ahead include managing the stresses that accompany a higher terms of trade, building additional capacity in the workforce and infrastructure to allow the economy to grow sustainably, meeting the needs of an ageing population and responding effectively to climate change.

The Government's focus is on putting in place reforms that allow the economy to grow sustainably over time and ensure all Australians benefit from a stronger economy.

As part of this agenda the Government is implementing an ambitious tax reform program to make the tax system fairer, simpler and more competitive. This includes ensuring Australia's resource wealth contributes to the nation's long-term prosperity.

On 2 July 2010, the Government announced improved resource tax arrangements which will apply from 1 July 2012 to Australia's most highly profitable non-renewable resources. The new resource tax arrangements will provide funding for an historic boost to superannuation, further investment in new and better infrastructure, business tax cuts including an up-front tax break and less red tape for small businesses and personal tax simplification.

The company tax rate is being reduced to 29 per cent from 2013-14, with a head start for small businesses from 2012-13, and small businesses will also enjoy an instant write-off for assets costing less than \$5,000. This will boost competitiveness, expand investment, increase real wages and create new job opportunities.

Demand for our exports and ageing infrastructure are putting pressure on existing capacity. That is why the Government is investing in Australia's road, rail and port infrastructure to lift the productive capacity of the economy. In real terms, the Government is more than doubling expenditure on major transport infrastructure in the six years to 2013-14.

The new Regional Infrastructure Fund will invest \$6 billion over the next decade, providing the infrastructure that Australia needs to continue to expand, and limit the re-emergence of bottlenecks that have impeded growth in the past.

The Government is investing up to \$43 billion to build the National Broadband Network, to enhance Australia's productivity and ensure Australia's businesses have the communication infrastructure necessary to compete in the global economy.

The Government has made substantial investments to boost the skills of Australian workers and ensure that the education and training system meets the economy's changing needs.

Across the school, training and higher education systems, the Government is injecting more funding and improving the quality and performance of the education system to achieve better outcomes.

The Government's higher education reforms will uncap university places, allowing universities to offer a place to all eligible students and will also inject substantial new funding, including performance funding, to boost quality.

The Government's early childhood education agenda, development of a national curriculum and significant increase in investment in schools are improving the quality of education available to our children.

These reforms will ensure that more Australians benefit from high-quality education and will expand the opportunity to contribute to and share in the income and job benefits of economic growth.

To promote workforce participation, help give more children the best start in life and support working families, the Government is introducing the nation's first comprehensive Paid Parental Leave scheme. From 1 January 2011, the scheme will provide 148,000 eligible new parents each year with up to 18 weeks of payment at the national minimum wage – currently \$570 per week – to care for their baby full-time during the vital early months of development.

To address the challenges of an ageing population, the Government has introduced major reforms to the retirement income system, including raising the superannuation guarantee to 12 per cent, extending the guarantee to workers aged 70 to 74, providing a Government contribution of up to \$500 annually to low-income earners and expanding the contributions cap for older Australians making catch-up contributions.

These reforms will boost the financial security of retirees, improve the long-term sustainability of the pension system and increase the pool of superannuation savings by an estimated \$500 billion by 2035.

An ageing population and rising healthcare costs will place considerable strains on Australia's health system in the coming decades, with total healthcare expenditure projected to more than double as a share of the economy over the next four decades. That's why the Government is undertaking fundamental reform of our health and hospitals system.

The Government's National Health and Hospitals Network will prepare our health system for the decades ahead and ensure Australians receive the healthcare they deserve into the future. For the first time, the Commonwealth will be the majority

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funder of public hospitals, and will take full responsibility for GP, primary health care and aged care – providing clear roles and responsibilities and more sustainable funding.

Along with increased responsibility, the Commonwealth's \$7.4 billion of additional investment in our health and hospitals system will mean more hospital services with reduced waiting times, improved primary health care and better after-hours access, more doctors, more nurses and more allied health professionals and improved access to aged care.

Climate change is a core challenge for the future, and the Government is committed to the target of reducing greenhouse gas emissions by between 5 and 25 per cent below 2000 levels by 2020. The Government recognises that putting a price on carbon is necessary to address climate change, and will work to build the deep community consensus we need to support the transition to a low pollution economy.

The Government is also tackling climate change by investing in clean energy, including the \$5.1 billion Clean Energy Initiative to support ground-breaking technologies like solar, wind, geothermal and clean coal in Australia. An expanded Renewable Energy Target will ensure 20 per cent of Australia's electricity will come from renewable energy sources by 2020. The Government is also helping households move to renewable energy by providing financial assistance for solar panels to more than 100,000 households and community organisations, which not only tackles climate change but importantly helps families save on energy costs.

These are all important steps towards building a stronger and more secure future.

## **ENSURING AUSTRALIANS BENEFIT FROM A STRONGER ECONOMY**

By safeguarding the economy and jobs through the global downturn, the Government delivered greater financial security for families, pensioners and carers. But the Government recognises the difficulties that many Australians still face, and is committed to ensuring all Australians benefit from a stronger economy.

That is why the Government is delivering measures to ease the cost of living.

The Government has delivered significant tax cuts in each of its three budgets to provide assistance to working families, particularly directed towards lower and middle income earners. The low income tax offset has been increased from \$750 in 2007 to \$1,500 in 2010, meaning that those eligible for the full low income tax offset now have an effective tax free threshold of \$16,000.

Overall, the Government has delivered tax cuts totalling \$47 billion over four years to Australian working families. These tax cuts mean an individual earning \$50,000 has an extra \$1,750 in their pocket each year.

The Government is also committed to making tax time easier for all Australians. As part of tax reform, the Government will provide individual taxpayers the option to claim a standard deduction of \$500 for work-related expenses and the costs of managing tax affairs from 1 July 2012, increasing to \$1,000 from 1 July 2013. When fully implemented, it is expected that 6.4 million Australians will be better off choosing the standard deduction instead of adding up their individual expenses.

The Government remains focussed on helping working families meet the costs of child care and education.

The Government has increased the Child Care Rebate from 30 to 50 per cent of out-of-pocket costs, up to \$7,500 per child. Families will now have the choice of receiving these payments fortnightly. This will ensure that families receive financial assistance at the time they pay their child care fees, to reduce pressure on the family budget.

The Education Tax Refund is assisting parents with the costs of educating their children, providing a rebate for certain educational expenses such as home computers, internet connection, school textbooks and stationery.

The Education Tax Refund has already assisted more than one and a half million children. The Government is now expanding the range of expenses that are eligible for the Education Tax Refund to include school uniforms for both primary and secondary school students, commencing from 1 July 2011.

And the Government has reformed the aged pension, providing more assistance to pensioners, and at the same time making the retirement income system more sustainable. In the last year, for pensioners on the maximum rate, the pension plus supplement has increased by more than \$100 per fortnight for singles and around \$76 per fortnight for couples combined.

These measures will help ensure all Australians share in the benefits of a stronger economy.

## FISCAL OUTLOOK

The Government's delivery of its fiscal strategy has continued to sustain the budget position, ensuring that Australia is on track to return the Budget to surplus in 2012-13.

The forecast underlying cash deficit in 2010-11 is expected to fall slightly to \$40.4 billion (or 2.8 per cent of GDP); while preliminary estimates indicate that the underlying cash deficit in 2009-10 will be around \$55 billion (or 4.2 per cent of GDP), approximately \$2 billion lower than previously forecast. The final results for 2009-10 will be determined following the finalisation of audit cleared financial statements and will be published in the 2009-10 Final Budget Outcome by 30 September 2010.

Consistent with the deficit exit strategy, real payments growth has been kept below 2 per cent in the years that the economy is expected to grow above trend (Table 4).

**Table 4: Delivering the 2 per cent cap on spending**

	2010-11(a)	2011-12	2012-13	2013-14
Real payment growth	1.4	-1.1	1.5	1.8

(a) Real payment growth in 2010-11 has been calculated using preliminary data for 2009-10 pending the preparation of audit cleared financial statements for government agencies. Final data for 2009-10 will be published in the 2009-10 Final Budget Outcome.

Policy decisions taken since the 2010-11 Budget largely reflect the impact of changes to the *Stronger, Fairer, Simpler* tax reform package. The net impact of these policy changes, excluding parameter variations, is \$5.7 billion over the forward estimates (including \$7.5 billion from changes to the resource tax arrangements).

However, parameter variations since the 2010-11 Budget increase revenue raised under the new framework by \$6 billion. This means that the Government's tax reform package remains fully funded over the forward estimates period.

The Government has continued to reprioritise expenditure and has fully offset the impact of all other policy decisions taken since the 2010-11 Budget. Further details on policy decisions are set out in Appendix B.

Since the 2010-11 Budget, parameter and other variations have led to taxation receipt estimates being revised up by around \$310 million in 2010-11 and around \$7.8 billion over the four years to 2013-14. A stronger outlook for commodity prices is reflected in higher than otherwise taxes on resource rents and company profits. This is offset in part by downward revisions in consumption taxes associated with a weaker consumption outlook.

Parameter and other variations since the 2010-11 Budget have reduced payments by around \$177 million in 2010-11 and by around \$3.1 billion over the four years to 2013-14. These variations largely reflect a reduction in expected public debt interest

costs and a reduction in GST payments to the States and Territories, consistent with lower GST collections.

Table 5 provides a reconciliation of the variations in the underlying cash balance estimates.

**Table 5: Reconciliation of 2010-11 Budget and ES underlying cash balance estimates**

	Estimates		Projections	
	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
<b>2010-11 Budget underlying cash balance(a)</b>	<b>-40,756</b>	<b>-13,045</b>	<b>1,016</b>	<b>5,432</b>
Per cent of GDP	-2.9	-0.9	0.1	0.3
<b>Changes from 2010-11 Budget to ES</b>				
Effect of policy decisions(b)	-132	196	-310	-5,377
Effect of parameter and other variations(c)	538	2,808	2,428	4,748
<b>Total variations</b>	<b>405</b>	<b>3,004</b>	<b>2,118</b>	<b>-629</b>
<b>ES underlying cash balance(a)</b>	<b>-40,351</b>	<b>-10,041</b>	<b>3,134</b>	<b>4,803</b>
Per cent of GDP	-2.8	-0.7	0.2	0.3

(a) Excludes expected Future Fund earnings.

(b) Excludes secondary impacts on public debt interest of policy decisions and offsets from the contingency reserve for decisions taken.

(c) Includes contingency reserve offsets to policy decisions.

Table 6 provides a reconciliation of the fiscal balance estimates.

**Table 6: Reconciliation of 2010-11 Budget and ES fiscal balance estimates<sup>(a)</sup>**

	Estimates		Projections	
	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
<b>2010-11 Budget fiscal balance</b>	<b>-39,598</b>	<b>-12,093</b>	<b>1,960</b>	<b>6,325</b>
Per cent of GDP	-2.8	-0.8	0.1	0.4
<b>Changes from 2010-11 Budget to ES</b>				
Effect of policy decisions(b)				
Revenue	-3	-10	-901	-5,950
Expenses	27	-735	-654	-625
Net capital investment	100	0	0	0
Total policy decisions impact on fiscal balance	-130	725	-247	-5,325
Effect of parameter and other variations(c)				
Revenue	267	1,949	1,629	3,891
Expenses	-775	-1,207	-1,583	-1,643
Net capital investment	269	184	190	190
Total parameter and other variations impact on fiscal balance	773	2,973	3,022	5,344
<b>ES fiscal balance</b>	<b>-38,955</b>	<b>-8,395</b>	<b>4,735</b>	<b>6,345</b>
Per cent of GDP	-2.7	-0.6	0.3	0.4

(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 secondary impacts on public debt interest of policy decisions and offsets from the contingency reserve for decisions taken.

(c) Includes contingency reserve offsets to policy decisions.

Improvements in the budget position have further reduced the Government's forecast net debt from 2011-12 onwards. Net debt is now expected to peak at 6.0 per cent of GDP in 2011-12, compared to the previous forecast of 6.1 per cent of GDP in 2011-12, and fall to 5.3 per cent by the end of the forward estimates.

**Table 7: Australian Government general government sector net financial worth, net worth, net debt and net interest payments**

	Estimates		Projections	
	2010-11 \$b	2011-12 \$b	2012-13 \$b	2013-14 \$b
Financial assets	219.7	225.2	233.7	238.0
Non-financial assets	104.8	108.9	112.2	114.9
<b>Total assets</b>	<b>324.5</b>	<b>334.2</b>	<b>345.9</b>	<b>353.0</b>
<b>Total liabilities</b>	<b>386.3</b>	<b>401.6</b>	<b>406.6</b>	<b>405.7</b>
<b>Net worth</b>	<b>-61.9</b>	<b>-67.4</b>	<b>-60.7</b>	<b>-52.7</b>
<b>Net financial worth(a)</b>	<b>-166.7</b>	<b>-176.4</b>	<b>-172.9</b>	<b>-167.6</b>
Per cent of GDP	-11.8	-11.8	-11.0	-10.1
<b>Net debt(b)</b>	<b>80.8</b>	<b>89.2</b>	<b>89.7</b>	<b>87.0</b>
Per cent of GDP	5.7	6.0	5.7	5.3
<b>Net interest payments</b>	<b>4.2</b>	<b>5.3</b>	<b>5.6</b>	<b>5.3</b>
Per cent of GDP	0.3	0.4	0.4	0.3

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

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

The improved net debt projections take into account provisions made in the 2010-11 Budget for the roll-out of the National Broadband Network (NBN). The provisions totalled \$18.3 billion over the forward estimates for the NBN based on the recommendations of the NBN Implementation Study (including \$18.1 billion in equity). The exact timing and quantum of funding for the NBN will be determined in the Government's response to the Implementation Study and following settlement of the Definitive Agreements between NBN Co and Telstra.

## MEDIUM-TERM FISCAL PROJECTIONS

Under the Government's fiscal strategy, the Budget is currently projected to return to surplus in 2012-13 and remain in a surplus position for the remainder of the medium-term (Chart 6). Net debt is also projected to return to zero in 2018-19 (Chart 7).

Medium-term fiscal projections

Chart 6: Underlying cash balance

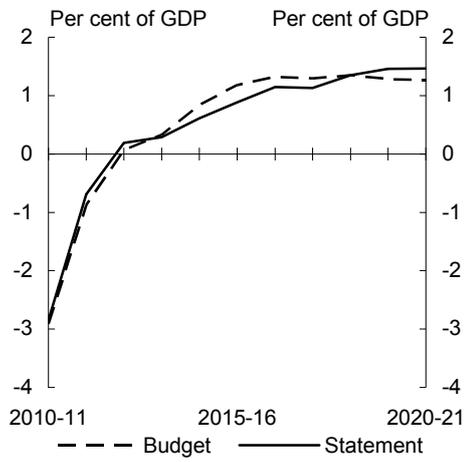
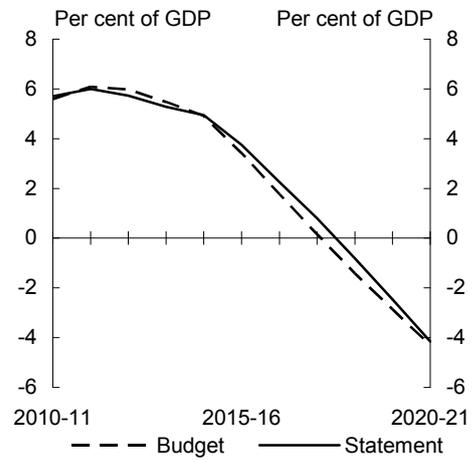


Chart 7: Net debt



## **APPENDIX A: FINANCIAL STATEMENTS**

The budget financial statements consist of an operating statement, including other economic flows, a balance sheet, and a cash flow statement for the Australian Government general government sector (GGS).

The *Charter of Budget Honesty Act 1998* (the Charter) requires that the budget be based on external reporting standards. These 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 accrual GFS framework; and
- Australian Accounting Standards (AAS), being AASB 1049 *Whole of Government and General Government Sector Financial Reporting* and other applicable Australian Equivalents to International Financial Reporting Standards.

The financial statements have been prepared on the same basis as the budget papers reflecting the Government's accounting policy that ABS GFS remains the basis of budget accounting policy, except where the Government applies the AAS because it provides a better conceptual basis for presenting information of relevance to users of public sector financial reports.

Budget reporting focuses on the GGS. The GGS 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, user charging and external funding. This sector comprises all government departments, offices and some other bodies. In preparing financial statements for the GGS all material transactions and balances between entities within the GGS have been eliminated.

Further information on the reporting frameworks and departures are provided in Statement 9 of Budget Paper No. 1, *Budget Strategy and Outlook 2010-11*.

**Table A1: Australian Government general government sector operating statement**

	Estimates		Projections	
	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
<b>Revenue</b>				
Taxation revenue	302,603	338,446	362,744	384,553
Sales of goods and services	8,047	8,249	8,158	8,074
Interest income	5,276	5,140	4,943	4,889
Dividend income	1,322	1,351	1,320	2,023
Other	4,838	5,150	5,483	5,609
<b>Total revenue</b>	<b>322,086</b>	<b>358,336</b>	<b>382,648</b>	<b>405,149</b>
<b>Expenses</b>				
Gross operating expenses				
Wages and salaries(a)	18,202	18,201	18,402	18,833
Superannuation	3,741	3,779	3,825	3,942
Depreciation and amortisation	5,495	5,558	5,725	5,854
Supply of goods and services	66,329	67,850	70,604	75,894
Other operating expenses(a)	4,369	4,428	4,587	4,740
<i>Total gross operating expenses</i>	<i>98,136</i>	<i>99,816</i>	<i>103,144</i>	<i>109,264</i>
Superannuation interest expense	7,065	7,301	7,552	7,818
Interest expenses	10,871	12,258	12,421	12,415
Current transfers				
Current grants	109,890	115,215	120,755	124,712
Subsidy expenses	8,743	9,140	9,442	9,574
Personal benefits	104,605	108,667	115,009	122,635
<i>Total current transfers</i>	<i>223,238</i>	<i>233,022</i>	<i>245,207</i>	<i>256,921</i>
Capital transfers				
Mutually agreed write-downs	1,888	2,081	2,267	2,413
Other capital grants	12,698	8,152	8,168	6,881
<i>Total capital transfers</i>	<i>14,586</i>	<i>10,233</i>	<i>10,436</i>	<i>9,294</i>
<b>Total expenses</b>	<b>353,896</b>	<b>362,630</b>	<b>378,759</b>	<b>395,712</b>
<b>Net operating balance</b>	<b>-31,810</b>	<b>-4,294</b>	<b>3,889</b>	<b>9,437</b>
<b>Other economic flows</b>				
Gain/loss on equity and on sale of assets(b)	2,262	3,513	7,669	3,583
Net write-downs of assets (including bad and doubtful debts)	-5,216	-5,369	-5,494	-5,785
Assets recognised for the first time	626	658	692	727
Liabilities recognised for the first time	0	0	0	0
Actuarial revaluations	0	0	0	0
Net foreign exchange gains	-10	0	0	0
Net swap interest received	0	0	0	0
Market valuation of debt	755	90	118	122
Other economic revaluations(c)	-601	-151	-174	-82
<b>Total other economic flows</b>	<b>-2,184</b>	<b>-1,259</b>	<b>2,810</b>	<b>-1,435</b>
<b>Comprehensive result -</b>				
<b>Total change in net worth</b>	<b>-33,994</b>	<b>-5,553</b>	<b>6,699</b>	<b>8,001</b>
<b>Net operating balance</b>	<b>-31,810</b>	<b>-4,294</b>	<b>3,889</b>	<b>9,437</b>
<b>Net acquisition of non-financial assets</b>				
Purchases of non-financial assets	11,949	10,213	9,284	8,919
less Sales of non-financial assets	379	1,048	4,705	453
less Depreciation	5,495	5,558	5,725	5,854
plus Change in inventories	725	441	517	497
plus Other movements in non-financial assets	344	52	-218	-16
<b>Total net acquisition of non-financial assets</b>	<b>7,144</b>	<b>4,101</b>	<b>-846</b>	<b>3,092</b>
<b>Fiscal balance (Net lending/borrowing)(d)</b>	<b>-38,955</b>	<b>-8,395</b>	<b>4,735</b>	<b>6,345</b>

(a) Consistent with ABS GFS classification, other employee related expenses are reported under other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.

(b) Reflects changes in the market valuation of investments and any revaluations at the point of disposal or sale.

(c) Largely reflects other revaluation of assets and liabilities.

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

**Table A2: Australian Government general government sector balance sheet**

	Estimates		Projections	
	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
<b>Assets</b>				
Financial assets				
Cash and deposits	2,529	2,452	2,682	2,826
Advances paid	25,438	26,327	27,225	27,945
Investments, loans and placements	100,699	102,376	100,592	96,045
Other receivables	35,778	37,282	39,082	41,257
Equity investments				
Investments in other public sector entities	28,146	33,054	39,686	44,411
Equity accounted investments	260	259	258	257
Investments - shares	26,816	23,489	24,145	25,306
<i>Total financial assets</i>	<i>219,666</i>	<i>225,240</i>	<i>233,668</i>	<i>238,047</i>
Non-financial assets				
Land	8,326	8,225	8,204	8,111
Buildings	21,882	22,654	23,351	23,815
Plant, equipment and infrastructure	50,176	53,250	55,232	57,407
Inventories	7,015	7,079	7,338	7,533
Intangibles	5,068	5,323	5,678	5,528
Investment property	182	182	182	182
Biological assets	33	34	34	34
Heritage and cultural assets	9,106	9,119	9,130	9,143
Assets held for sale	106	88	102	85
Other non-financial assets	2,917	2,993	2,940	3,083
<i>Total non-financial assets</i>	<i>104,811</i>	<i>108,947</i>	<i>112,191</i>	<i>114,921</i>
<b>Total assets</b>	<b>324,477</b>	<b>334,187</b>	<b>345,860</b>	<b>352,968</b>
<b>Liabilities</b>				
Interest bearing liabilities				
Deposits held	230	230	230	230
Government securities	198,142	209,435	209,452	203,254
Loans	10,156	9,887	9,778	9,686
Other borrowing	919	819	717	623
<i>Total interest bearing liabilities</i>	<i>209,447</i>	<i>220,372</i>	<i>220,177</i>	<i>213,792</i>
Provisions and payables				
Superannuation liability	127,116	131,419	135,755	140,113
Other employee liabilities	10,203	10,481	10,766	11,060
Suppliers payable	5,062	5,109	5,135	5,231
Personal benefits payable	12,541	12,813	13,381	13,851
Subsidies payable	2,231	2,368	2,517	2,662
Grants payable	7,860	7,857	8,041	8,288
Other provisions and payables	11,872	11,177	10,797	10,681
<i>Total provisions and payables</i>	<i>176,884</i>	<i>181,224</i>	<i>186,392</i>	<i>191,884</i>
<b>Total liabilities</b>	<b>386,332</b>	<b>401,595</b>	<b>406,569</b>	<b>405,676</b>
<b>Net worth(a)</b>	<b>-61,855</b>	<b>-67,408</b>	<b>-60,710</b>	<b>-52,708</b>
<i>Net financial worth(b)</i>	<i>-166,666</i>	<i>-176,355</i>	<i>-172,901</i>	<i>-167,630</i>
<i>Net financial liabilities(c)</i>	<i>194,811</i>	<i>209,410</i>	<i>212,586</i>	<i>212,040</i>
<i>Net debt(d)</i>	<i>80,782</i>	<i>89,217</i>	<i>89,679</i>	<i>86,977</i>

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

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

(c) Net financial liabilities equals total liabilities less financial assets other than investments in other public sector entities.

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

**Table A3: Australian Government general government sector cash flow statement<sup>(a)</sup>**

	Estimates		Projections	
	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
<b>Cash receipts from operating activities</b>				
Taxes received	294,645	330,453	354,392	376,049
Receipts from sales of goods and services	7,986	8,200	8,089	8,038
Interest receipts	5,049	4,927	4,777	4,789
Dividends and income tax equivalents	2,164	1,444	1,418	2,063
Other receipts	4,551	4,759	5,177	5,269
<b>Total operating receipts</b>	<b>314,395</b>	<b>349,784</b>	<b>373,851</b>	<b>396,208</b>
<b>Cash payments for operating activities</b>				
Payments for employees	-24,787	-24,995	-25,476	-26,256
Payments for goods and services	-66,626	-67,879	-70,790	-76,110
Grants and subsidies paid	-130,216	-132,088	-138,063	-140,870
Interest paid	-9,238	-10,207	-10,367	-10,068
Personal benefit payments	-104,906	-108,386	-114,445	-122,191
Other payments	-3,954	-4,036	-4,159	-4,303
<b>Total operating payments</b>	<b>-339,727</b>	<b>-347,592</b>	<b>-363,302</b>	<b>-379,798</b>
<b>Net cash flows from operating activities</b>	<b>-25,332</b>	<b>2,192</b>	<b>10,550</b>	<b>16,410</b>
<b>Cash flows from investments in non-financial assets</b>				
Sales of non-financial assets	379	1,048	4,705	453
Purchases of non-financial assets	-12,314	-10,389	-9,196	-9,038
<b>Net cash flows from investments in non-financial assets</b>	<b>-11,935</b>	<b>-9,342</b>	<b>-4,492</b>	<b>-8,585</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>-10,636</b>	<b>-4,877</b>	<b>-6,326</b>	<b>-4,376</b>
<b>Cash flows from investments in financial assets for liquidity purposes</b>				
Increase in investments	7,264	1,673	1,397	3,995
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>7,264</b>	<b>1,673</b>	<b>1,397</b>	<b>3,995</b>
<b>Cash receipts from financing activities</b>				
Borrowing	40,777	10,704	0	0
Other financing	0	0	0	0
<b>Total cash receipts from financing activities</b>	<b>40,777</b>	<b>10,704</b>	<b>0</b>	<b>0</b>
<b>Cash payments for financing activities</b>				
Borrowing	0	0	-435	-6,994
Other financing	-12	-428	-464	-305
<b>Total cash payments for financing activities</b>	<b>-12</b>	<b>-428</b>	<b>-899</b>	<b>-7,299</b>
<b>Net cash flows from financing activities</b>	<b>40,766</b>	<b>10,276</b>	<b>-899</b>	<b>-7,299</b>
<b>Net increase/(decrease) in cash held</b>	<b>126</b>	<b>-78</b>	<b>230</b>	<b>144</b>

**Table A3: Australian Government general government sector cash flow statement (continued)<sup>(a)</sup>**

	Estimates		Projections	
	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
<b>Net cash flows from operating activities and investments in non-financial assets (Surplus+)/deficit(-)</b>	<b>-37,267</b>	<b>-7,149</b>	<b>6,058</b>	<b>7,825</b>
Finance leases and similar arrangements(b)	-163	0	0	0
<b>GFS cash surplus(+)/deficit(-)</b>	<b>-37,431</b>	<b>-7,149</b>	<b>6,058</b>	<b>7,825</b>
less Future Fund earnings	2,921	2,892	2,925	3,022
<b>Equals underlying cash balance(c)</b>	<b>-40,351</b>	<b>-10,041</b>	<b>3,134</b>	<b>4,803</b>
plus Net cash flows from investments in financial assets for policy purposes	-10,636	-4,877	-6,326	-4,376
plus Future Fund earnings	2,921	2,892	2,925	3,022
<b>Equals headline cash balance</b>	<b>-48,067</b>	<b>-12,026</b>	<b>-267</b>	<b>3,449</b>

(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.

(c) The term underlying cash balance is not used by the ABS.

## APPENDIX B: POLICY DECISIONS TAKEN SINCE THE 2010-11 BUDGET

**Table B1: Revenue measures since the 2010-11 Budget<sup>(a)</sup>**

	2009-10	2010-11	2011-12	2012-13	2013-14
	\$m	\$m	\$m	\$m	\$m
<b>AGRICULTURE, FISHERIES AND FORESTRY</b>					
<i>Department of Agriculture, Fisheries and Forestry</i>					
Passionfruit marketing levy	-	0.1	0.1	0.1	0.1
<b>Portfolio total</b>	<b>-</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
<b>ATTORNEY-GENERAL'S</b>					
<i>Australian Customs Service</i>					
Stronger, fairer, simpler – revised growth dividend	-	-	-	-1.0	-3.0
<b>Portfolio total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-1.0</b>	<b>-3.0</b>
<b>TREASURY</b>					
<i>Australian Taxation Office</i>					
Corporations law amendments – consequential amendment to the tax law	-	*	*	*	*
Exempting from taxation laws certain transactions involving security agencies	*	*	*	*	*
International tax					
– additional benefits agreement between Australia and the Marshall Islands	-	..	..	..	..
– amending the withholding tax definition of a managed investment trust	-	*	*	*	*
– tax information exchange agreement with the Marshall Islands	-	*	*	*	*
Minor amendments to the GST Regulations	-	-	-	-	-
Minor refinements to taxation of financial arrangements provisions	*	*	*	*	*
Personal income tax – exemption of pay and allowances for Operation RIVERBANK personnel	-	..	..	..	-
Philanthropy – updating the list of specifically listed deductible gift recipients	-	..	-1.3	-1.3	-0.1
Reportable employer superannuation contributions – clarification of the 2008-09 Budget measure	-	-	-	-	-

**Table B1: Revenue measures since the 2010-11 Budget<sup>(a)</sup> (continued)**

	2009-10	2010-11	2011-12	2012-13	2013-14
	\$m	\$m	\$m	\$m	\$m
<b>TREASURY (continued)</b>					
Stronger, fairer, simpler					
– improved resource taxation arrangements(b)	-	-	-	-1,000.0	-6,500.0
– early cut to the company tax rate for small business companies	-	-	-	200.0	150.0
– revised company tax cut	-	-	-	-	600.0
– revised growth dividend	-	-	-	-99.0	-197.0
Superannuation					
– account based pensions – extension of drawdown relief for retirees	-	-3.0	-9.0	-	-
– enabling the confiscation of the proceeds of crime from superannuation	-	*	*	*	*
Taxation laws – minor amendments	-	*	*	*	*
<i>Department of the Treasury</i>					
European Bank for Reconstruction and Development – increased capital	14.1	-	-	-	-
<b>Portfolio total</b>	<b>14.1</b>	<b>-3.0</b>	<b>-10.3</b>	<b>-900.3</b>	<b>-5,947.1</b>
<b>Total impact of revenue measures(c)</b>	<b>14.1</b>	<b>-3.0</b>	<b>-10.2</b>	<b>-901.2</b>	<b>-5,950.0</b>

\* 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 in revenue.

(b) The improved resource taxation arrangements measure does not take account of parameter changes that are expected to increase revenue by \$2.0 billion in 2012-13 and \$4.0 billion in 2013-14 relative to the fiscal projections published in the 2010-11 Budget.

(c) Measures may not add due to rounding.

**Table B2: Expense measures since the 2010-11 Budget<sup>(a)</sup>**

	2009-10	2010-11	2011-12	2012-13	2013-14
	\$m	\$m	\$m	\$m	\$m
<b>AGRICULTURE, FISHERIES AND FORESTRY</b>					
<i>Department of Agriculture, Fisheries and Forestry</i>					
Drought Assistance					
– Exceptional Circumstances assistance for primary producers	0.3	4.5	1.1	-	-
– Exceptional Circumstances assistance for small businesses	..	0.4	0.2	-	-
Illegal Logging Policy Implementation	-	-	-	-	-
<b>Portfolio total</b>	<b>0.3</b>	<b>4.8</b>	<b>1.3</b>	<b>-</b>	<b>-</b>
<b>ATTORNEY-GENERAL'S</b>					
<i>Attorney-General's Department</i>					
Anti-whaling Strategy: International Legal Action(b)	-	-	-	-	-
<i>Australian Federal Police</i>					
Increasing operational activity to combat people smuggling	-	22.3	-	-	-
<b>Portfolio total</b>	<b>-</b>	<b>22.3</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>BROADBAND, COMMUNICATIONS AND THE DIGITAL ECONOMY</b>					
<i>Department of Broadband, Communications and the Digital Economy</i>					
National Broadband Network					
– Telstra negotiations – Establishment of USO Co to take responsibility for the delivery of the Universal Service Obligation(c)	-	-	-	-	-
– Telstra negotiations – Retraining(d)	-	-	-	-	-
<b>Portfolio total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CLIMATE CHANGE AND ENERGY EFFICIENCY</b>					
<i>Department of Climate Change and Energy Efficiency</i>					
National Solar Schools Program – refinements	-	3.3	3.6	7.9	-5.1
<b>Portfolio total</b>	<b>-</b>	<b>3.3</b>	<b>3.6</b>	<b>7.9</b>	<b>-5.1</b>
<b>EDUCATION, EMPLOYMENT AND WORKPLACE RELATIONS</b>					
<i>Department of Education, Employment and Workplace Relations</i>					
Child Care Rebate – fortnightly payment(e)	-	4.6	4.9	4.0	0.6

**Table B2: Expense measures since the 2010-11 Budget<sup>(a)</sup> (continued)**

	2009-10 \$m	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
<b>EDUCATION, EMPLOYMENT AND WORKPLACE RELATIONS (continued)</b>					
Drought Assistance					
– Exceptional Circumstances assistance for primary producers	..	0.4	0.1	-	-
– Exceptional Circumstances assistance for small businesses	..	..	..	-	-
Job seeker engagement – increased support(f)	-	-	-	-	-
<b>Portfolio total</b>	<b>..</b>	<b>5.1</b>	<b>5.0</b>	<b>4.0</b>	<b>0.6</b>
<b>ENVIRONMENT, WATER, HERITAGE AND THE ARTS</b>					
<i>Department of the Environment, Water, Heritage and the Arts</i>					
Anti-whaling Strategy: International Legal Action(b)	-	-	-	-	-
<b>Portfolio total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FAMILIES, HOUSING, COMMUNITY SERVICES AND INDIGENOUS AFFAIRS</b>					
<i>Department of Families, Housing, Community Services and Indigenous Affairs</i>					
Superannuation – account based pensions – extension of drawdown relief for retirees(g)	-	15.0	-	-	-
Universal design for housing – voluntary guidelines	-	0.3	0.3	0.3	0.3
<b>Portfolio total</b>	<b>-</b>	<b>15.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
<b>FINANCE AND DEREGULATION</b>					
<i>Department of Finance and Deregulation</i>					
Funding for expansion of detention centres(h)	-	0.2	0.2	-	-
<b>Portfolio total</b>	<b>-</b>	<b>0.2</b>	<b>0.2</b>	<b>-</b>	<b>-</b>
<b>FOREIGN AFFAIRS AND TRADE</b>					
<i>AusAID</i>					
Overseas development assistance(i)					
– contribution to the Global Agriculture and Food Security Program	10.0	25.0	-	-	-
– contribution to the International Rice Research Institute	12.2	-	-	-	-
– contribution to the World Bank Palestinian Reform and Development Plan Trust Fund	10.0	-	-	-	-
– fifth replenishment of the Global Environment Facility	-	-	-	-	-
<i>Department of Foreign Affairs and Trade</i>					
Anti-whaling Strategy: International Legal Action(b)	-	-	-	-	-
<b>Portfolio total</b>	<b>32.2</b>	<b>25.0</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Table B2: Expense measures since the 2010-11 Budget<sup>(a)</sup> (continued)**

	2009-10 \$m	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
<b>HEALTH AND AGEING</b>					
<i>Cancer Australia</i>					
Cancer Australia and the National Breast and Ovarian Cancer Centre – creating a single national cancer control agency(b)	-	-	-	-	-
<i>Department of Health and Ageing</i>					
Cancer Australia and the National Breast and Ovarian Cancer Centre – creating a single national cancer control agency(b)	-	-	-	-	-
Drought Assistance					
– Exceptional Circumstances assistance for primary producers	-	0.1	..	-	-
– Exceptional Circumstances assistance for small businesses	-	..	..	-	-
Juvenile Diabetes Research Foundation – contribution	-	-	-	-	-
National Diabetes Services Scheme – extend access to insulin pump consumables	-	..	..	..	..
National Health and Hospitals Network – lead clinicians groups(b)	-	-	-	-	-
<i>National Breast and Ovarian Cancer Centre</i>					
Cancer Australia and the National Breast and Ovarian Cancer Centre – creating a single national cancer control agency(b)	-	-	-	-	-
<b>Portfolio total</b>	-	<b>0.1</b>	..	..	..
<b>HUMAN SERVICES</b>					
<i>Centrelink</i>					
Child Care Rebate – fortnightly payment(e)	-	-	-	-	-
Drought Assistance					
– Exceptional Circumstances assistance for primary producers	-	0.4	0.1	-	-
– Exceptional Circumstances assistance for small businesses	-	..	..	-	-
Job seeker engagement – increased support(f)	-	-	-	-	-
<b>Portfolio total</b>	-	<b>0.4</b>	<b>0.1</b>	-	-
<b>IMMIGRATION AND CITIZENSHIP</b>					
<i>Department of Immigration and Citizenship</i>					
Working Holiday Visa (Subclass 417) – reversal(j)	-	-	-	-	-
<b>Portfolio total</b>	-	-	-	-	-

**Table B2: Expense measures since the 2010-11 Budget<sup>(a)</sup> (continued)**

	2009-10 \$m	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
<b>INFRASTRUCTURE, TRANSPORT, REGIONAL DEVELOPMENT AND LOCAL GOVERNMENT</b>					
<i>Department of Infrastructure, Transport, Regional Development and Local Government</i>					
Regional and Local Community Infrastructure Program – additional funding(k)	-	100.0	-	-	-
Thornton Park commuter car park – additional funding(k)	-	1.8	-	-	-
<b>Portfolio total</b>	-	<b>101.8</b>	-	-	-
<b>TREASURY</b>					
<i>Australian Taxation Office</i>					
Education Tax Refund – extension(l)	-	-	110.0	110.0	120.0
Minor amendments to the GST Regulations(g)	-	-	-	-	-
Stronger, fairer, simpler – resource exploration refundable tax offset – reversal	-	-0.5	-521.6	-601.2	-681.2
<i>Department of the Treasury</i>					
Drought Assistance					
– Exceptional Circumstances assistance for primary producers	0.2	4.2	2.1	-	-
– Exceptional Circumstances assistance for small businesses	..	0.3	0.3	-	-
Exempting from taxation laws certain transactions involving security agencies(g)	*	*	*	*	*
Financial Reporting Panel – termination	-	-0.1	-0.4	-0.4	-0.4
National Solar Schools Program – refinements	-	9.0	9.6	-17.5	-10.7
Regional Infrastructure Fund – additional funding(k)	-	100.0	100.0	100.0	100.0
Stronger, fairer, simpler – revised growth dividend(g)	-	-	-	-16.0	-31.0
Tax Reform Communications campaign advertising funding reduction	-2.1	-20.3	-	-	-
<b>Portfolio total</b>	<b>-1.9</b>	<b>92.4</b>	<b>-299.9</b>	<b>-425.1</b>	<b>-503.3</b>
<b>Decisions taken but not yet announced(m)</b>	-	<b>-243.6</b>	<b>-445.4</b>	<b>-241.4</b>	<b>-117.7</b>
<b>Total impact of expense measures(n)</b>	<b>30.7</b>	<b>27.1</b>	<b>-734.9</b>	<b>-654.4</b>	<b>-625.1</b>

\* 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) Provision for this funding has already been included in the forward estimates.

(c) The National Broadband Network - Telstra negotiations - Establishment of USO Co to take responsibility for the delivery of the Universal Service Obligation includes funding of \$50.0 million in each of 2012-13 and 2013-14 and \$100.0 million per annum ongoing from 2014-15. Provision for this funding was included in the Contingency Reserve at the 2010-11 Budget. The establishment of USO Co and the provision of Government funding are contingent on Definitive Agreements being reached between NBN Co and Telstra.

- (d) The National Broadband Network - Telstra negotiations - Retraining includes funding of up to \$100.0 million in 2011-12. Provision of this funding was included in the Contingency Reserve at the 2010-11 Budget. The provision of this funding is contingent on Definitive Agreements being reached between NBN Co and Telstra.
- (e) The impact of this measure is a cost of \$99.3 million in underlying cash terms over the forward estimates.
- (f) The cost of this measure will be met through a reduction in the number of Centrelink reviews of selected job seekers.
- (g) These measures can also be found in the revenue measures summary table.
- (h) These measures can also be found in the capital measures summary table.
- (i) These measures will be fully offset from the provision for expanded aid funding held in the Contingency Reserve.
- (j) This measure is a reversal of a previous decision, where DIAC absorbed the cost.
- (k) This measure has been funded by the removal of a previous decision taken but not yet announced.
- (l) The impact of this measure is a cost of \$220.0 million in underlying cash terms over the forward estimates. This measure has been funded by the removal of a previous decision taken but not yet announced.
- (m) Decisions taken but not yet announced includes the removal of some DTBNYA in previous budget cycles, which have been allocated to announced measures.
- (n) Measures may not add due to rounding.

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**Table B3: Capital measures since the 2010-11 Budget<sup>(a)</sup>**

	2009-10	2010-11	2011-12	2012-13	2013-14
	\$m	\$m	\$m	\$m	\$m
<b>ATTORNEY-GENERAL'S</b>					
<i>Australian Federal Police</i>					
Increasing operational activity to combat people smuggling(b)	-	2.5	-	-	-
<b>Portfolio total</b>	-	<b>2.5</b>	-	-	-
<b>IMMIGRATION AND CITIZENSHIP</b>					
<i>Department of Immigration and Citizenship</i>					
Funding for expansion of detention centres(b)	-	97.8	-	-	-
<b>Portfolio total</b>	-	<b>97.8</b>	-	-	-
<b>Total capital measures(c)</b>	-	<b>100.3</b>	-	-	-

\* 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) These measures can also be found in the expense measures summary table.

(c) Measures may not add due to rounding.

## **APPENDIX C: FISCAL IMPACT OF TAX REFORM**

On 2 July 2010, the Government announced improved resource tax arrangements which will apply from 1 July 2012 to Australia's most highly profitable non-renewable resources.

As part of these arrangements, the Government announced that it would not continue with the Resource Super Profits Tax (RSPT) and instead implement a Minerals Resource Rent Tax (MRRT) and an extended Petroleum Resource Rent Tax (PRRT), with these taxes limited to iron ore, coal, oil and gas.

The MRRT differed from the RSPT in a number of ways including: a lower tax rate of 30 per cent; a higher uplift rate; immediate write-off for deductions associated with new investment; no refundability for unused tax deductions; creditability rather than refundability for royalties; the option of a more generous starting base balanced by slower access to that base and an extraction allowance of 25 per cent.

The new resource tax arrangements are expected to generate \$10.5 billion in net revenue over the forward estimates (as shown in Table C1). This is \$1.5 billion lower than the 2010-11 Budget forecast for revenue from the RSPT, reflecting the net impact of policy changes and parameter variations including commodity prices.

The net revenue impact of this policy change, relative to the forecast RSPT at Budget and excluding parameter variations, is to reduce estimated revenue by \$7.5 billion over the forward estimates (as reported in Appendix B).

Since the 2010-11 Budget, the commodity price forecasts have also been revised up, taking into account new information from ABARE, industry sources and the outcome of the most recent commodity price negotiations. The revised commodity price forecasts increase revenue from the resource tax arrangements by \$6 billion over the forward estimates. Commodity prices are still expected to decline over the latter part of the forecast and through the medium term projection period.

At the time of the original announcement, the Government stated that all elements of the Stronger, Fairer, Simpler tax reform package were dependent on the package being balanced by revenues from resource taxation.

The reduced resource tax revenue forecasts made it necessary to amend other elements of the package to maintain a balance. As a result, the Government announced on 2 July 2010, that it would not proceed with the Resource Exploration Rebate and that the company tax rate would be reduced to 29 per cent from 2013-14, with small companies continuing to benefit from an early cut to the company tax rate to 29 per cent from 2012-13. These measures are also reported in Appendix B.

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As a result of these changes the *Stronger, Fairer, Simpler* tax reform package remains fully funded over the forward estimates.

**Table C1: Australian Government general government (cash) receipts**

	Estimates		Projections	
	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
Individuals and other withholding taxes				
Gross income tax withholding	129,820	142,840	153,970	165,620
Gross other individuals	29,810	34,280	37,280	40,010
<i>less:</i> Refunds	24,570	27,080	29,780	32,490
Total individuals and other withholding taxation	135,060	150,040	161,470	173,140
Fringe benefits tax	3,750	3,920	4,150	4,380
Superannuation funds	7,200	8,880	10,380	10,910
Company tax	64,800	78,040	78,540	79,560
Resource rent taxes(a)	1,690	2,110	7,930	11,310
<i>Memo: Net impact of MRRT and expanded PRRT</i>	-	-	4,000	6,500
<b>Income taxation receipts</b>	<b>212,500</b>	<b>242,990</b>	<b>262,470</b>	<b>279,300</b>
Sales taxes				
Goods and services tax	47,499	50,750	53,809	56,939
Wine equalisation tax	770	830	880	930
Luxury car tax	540	580	610	650
Other sales taxes	0	0	0	0
Total sales taxes	48,809	52,160	55,299	58,519
Excise duty				
Petrol	6,110	6,180	6,250	6,350
Diesel	7,020	7,230	7,540	7,860
Beer	2,050	2,130	2,200	2,280
Tobacco	5,610	5,770	5,910	6,160
Other excisable products	3,950	4,780	4,940	5,050
Of which: Other excisable beverages	940	1,040	1,130	1,230
Total excise duty receipts	24,740	26,090	26,840	27,700
Customs duty				
Textiles, clothing and footwear	680	760	800	860
Passenger motor vehicles	520	760	970	1,030
Excise-like goods	4,080	4,350	4,540	4,710
Other imports	1,210	1,380	1,510	1,610
<i>less:</i> Refunds and drawbacks	380	380	380	380
Total customs duty receipts	6,110	6,870	7,440	7,830
Other indirect taxation				
Agricultural levies	349	355	365	369
Other taxes	2,137	1,988	1,977	2,331
Total other indirect taxation receipts	2,486	2,343	2,342	2,700
<b>Indirect taxation receipts</b>	<b>82,145</b>	<b>87,463</b>	<b>91,922</b>	<b>96,749</b>
<b>Taxation receipts</b>	<b>294,645</b>	<b>330,453</b>	<b>354,392</b>	<b>376,049</b>
Sales of goods and services	7,986	8,200	8,089	8,038
Interest received	5,049	4,927	4,777	4,789
Dividends	2,164	1,444	1,418	2,063
Other non-taxation receipts	4,930	5,807	9,881	5,722
<b>Non-taxation receipts</b>	<b>20,129</b>	<b>20,379</b>	<b>24,164</b>	<b>20,613</b>
<b>Total receipts</b>	<b>314,774</b>	<b>350,832</b>	<b>378,556</b>	<b>396,661</b>

(a) Resource rent taxes include PRRT and gross receipts from the MRRT. The \$4 billion in 2012-13 and \$6.5 billion in 2013-14 represents the net impact on receipts across several different revenue heads of the new MRRT and the expanded PRRT. This includes the offsetting reductions in company tax (through deductibility) and interactions with other taxes.