MID-YEAR ECONOMIC AND FISCAL OUTLOOK 1997-98

STATEMENT BY
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FOREWORD

The 1997-98 Mid-Year Economic and Fiscal Outlook (MYEFO) has been drafted in line with the Charter of Budget Honesty Bill 1996, currently before the Parliament. The Charter requires that, inter alia, the Government provide a report by the end of January each year which provides updated information to allow the assessment of the Government's fiscal performance against its fiscal strategy.

Consistent with these requirements:

- **Part I** provides an overview of the economic and fiscal outlook.
- **Part II** discusses the economic forecasts which underpin the outlays and revenue estimates.
- **Part III** provides details of the fiscal position and the factors influencing outlays and revenue estimates.
- **Appendix A** provides details of decisions taken since the 1997-98 Budget which affect outlays and revenue estimates.
- **Appendix B** provides a detailed description of general and specific risks to the forward estimates.
- **Appendix C** discusses the sensitivity of the forward estimates to changes in economic and other parameters.
- **Appendix D** discusses the budgetary impact of concessional taxation treatment of specific groups and/or activities.
- **Appendix E** provides estimates for the Commonwealth general government sector and Government Finance Statistics (GFS) tables.
- **Appendix F** explains how items have been classified in the MYEFO.

The MYEFO provides the first economic forecasts for the 1998-99 financial year and their effect on the fiscal estimates.

CONTENTS

NOTES

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

- underlying outlays = total outlays - net advances;
- net advances = net equity transactions + net policy lending;
- ‘real’ means adjusted for the effect of inflation;
- real growth in outlays is measured by the non-farm Gross Domestic Product deflator;
- Budget year refers to 1997-98, while the forward years refer to 1998-99, 1999-2000 and 2000-01; and
- one billion is equal to one thousand million.

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

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

(c) In tables, the sign in front of the number reflects the impact of the change on the aggregate concerned, eg a negative in a revenue table reflects a reduction in revenue.

(d) For the budget balance, a negative sign indicates a deficit while no sign indicates a surplus. However, the GFS tables in Appendix E are based on the ABS sign convention, where a negative sign indicates a surplus.

(e) The following notations are used:

NEC/nec	not elsewhere classified
-	nil
..	not zero, but rounded to zero
na	not applicable (unless otherwise specified)
nfp	not for publication
$m	$ million

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

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

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

Minister	Portfolio
Prime Minister	Prime Minister and Cabinet
Treasurer	Treasury
Minister for Communications, the Information Economy and the Arts	Communications and the Arts

MID-YEAR ECONOMIC AND FISCAL OUTLOOK

PART I: OVERVIEW

The economy is expected to grow by 3¾ per cent in 1997-98, unchanged from the 1997-98 Budget. However, there has been some change in the composition of growth, with stronger domestic demand — boosted by interest rate reductions — offsetting a weaker external environment. Such growth should see unemployment falling to around 8 per cent by the June quarter 1998. Inflationary pressures should remain subdued, with underlying inflation expected to remain below 2 per cent for the remainder of 1997-98. The current account deficit is expected to increase to around 4¼ per cent of GDP as export growth slows in line with slower growth in Australia's major trading partners.

Financial instability in several Asian economies has lowered short-term growth prospects for the region. The effect on Australia is likely to be felt more in 1998-99, resulting in lower GDP growth, than in 1997-98. Australia's strong and improving fiscal position has been important in helping to shield the economy from the instability experienced in some economies.

The fiscal outlook remains broadly in line with 1997-98 Budget projections. Revised budget aggregates for 1997-98 to 2000-01 are shown in Table 1.

Table 1: Summary of Budget Aggregates

	1997-98		1998-99	
	Budget(a)	MYEFO	Budget(a)	MYEFO
Revenue ($m)	**133351**	**134604**	**142383**	**142672**
Per cent of GDP	*24.5*	*25.1*	*24.7*	*25.1*
Underlying Outlays ($m)	**137158**	**137350**	**140775**	**140214**
Per cent of GDP	*25.2*	*25.6*	*24.4*	*24.7*
Underlying Balance ($m)	**-3807**	**-2746**	**1608**	**2458**
Per cent of GDP	*-0.7*	*-0.5*	*0.3*	*0.4*
Memorandum items:				
Net Advances ($m)	-10229	-14528	-5176	-6448
Headline Balance ($m)	6423	11782	6784	8907
Per cent of GDP	*1.2*	*2.2*	*1.2*	*1.6*

	1999-00		2000-01	
	Budget(a)	MYEFO	Budget(a)	MYEFO
Revenue ($m)	**150330**	**150262**	**158911**	**159194**
Per cent of GDP	*24.6*	*24.9*	*24.5*	*24.9*
Underlying Outlays ($m)	**144947**	**145264**	**148219**	**148819**
Per cent of GDP	*23.7*	*24.1*	*22.9*	*23.3*
Underlying Balance ($m)	**5383**	**4998**	**10692**	**10375**
Per cent of GDP	*0.9*	*0.8*	*1.6*	*1.6*
Memorandum items:				
Net Advances ($m)	-394	-389	-405	-396
Headline Balance ($m)	5777	5387	11096	10771
Per cent of GDP	*0.9*	*0.9*	*1.7*	*1.7*

(a) As a result of classification changes since the 1997-98 Budget, estimates differ from those published in the 1997-98 Budget. These changes relate mainly to the treatment of the estimated proceeds of sales of the former Department of Administrative Services Business Units which were reclassified from net advances to underlying outlays.

Relative to the 1997-98 Budget, the estimated underlying budget balance has improved in 1997-98 and 1998-99 but worsened slightly in 1999-2000 and 2000-01. For 1998-99, the budget is estimated to be in small underlying surplus of $2.5 billion or 0.4 per cent of GDP compared with the 1997-98 Budget estimate of $1.6 billion or 0.3 per cent of GDP. Revisions of this size in aggregate budget figures are not significant and are well within the range of fluctuations expected at this stage.

Consistent with the Government's fiscal strategy and objectives:

- the budget is expected to return to underlying surplus by 1998-99; and

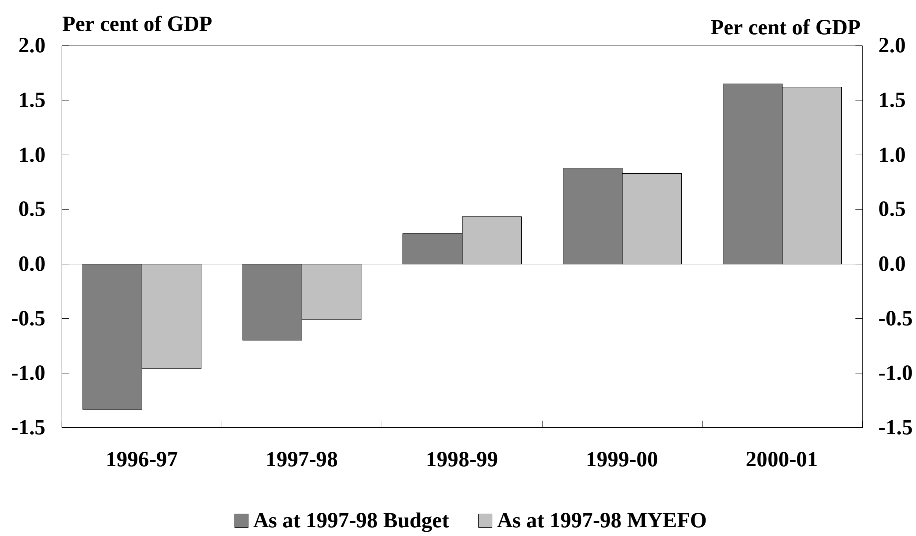
- thereafter, surpluses are expected to continue and increase over time while solid economic growth continues.

In line with the intention that fiscal consolidation be achieved primarily through outlays restraint, underlying outlays as a proportion of GDP are expected to decline consistently over the forward estimates period. By the year 2000-01, underlying outlays are estimated to fall to 23.3 per cent of GDP — their lowest level since 1973-74.

Current fiscal projections also indicate that the Government remains on track to reduce the Commonwealth's net debt to GDP ratio to 10 per cent of GDP by 2000-01.

Chart 1 shows the 1996-97 outcome and current projections for 1997-98 and the forward estimates period for the underlying budget balance against estimates in the 1997-98 Budget.

Chart 1: Underlying Budget Balance Estimates



In 1997-98, stronger revenue estimates more than offset a small increase in outlays so that the underlying deficit is smaller than that estimated at budget time. The revised estimate for 1998-99 results mostly from lower outlays relative to the 1997-98 Budget. The lower outlays reflect the improved outlook for inflation and lower public debt interest payments. Policy spending in the post-budget period partly offsets improvements in the fiscal outlook due to parameter changes in 1997-98 and 1998-99. In 1999-2000 and 2000-01, new policy spending more than offsets net parameter improvements.

Relative to budget time, the estimated headline budget surplus has been revised upwards by over $5 billion in 1997-98 and $2 billion in 1998-99. This reflects both improvements in the underlying budget balance and revised estimates of the proceeds of asset sales, chiefly those from the sale of one-third of Telstra.

PART II: ECONOMIC OUTLOOK

The outlook for GDP growth in 1997-98 is as forecast in the 1997-98 Budget, although there has been some change in the composition of growth, with stronger domestic demand offsetting a weaker net export position. Some of the developments since the 1997-98 Budget which suggest a stronger domestic outlook include easier monetary conditions (particularly the post-Budget declines in interest rates and the depreciation of the exchange rate), stronger than expected expenditure plans by the State and local government sector, and prospects for a larger contribution from non-farm stocks. In contrast, recent developments in some of Australia's Asian trading partners suggest that the international economy is now weaker than expected at budget time. The impact of the slowdown in the East Asian economies on the Australian economy, however, is likely to be more apparent in 1998-99 than in the current year, and the depreciation of the exchange rate which has occurred since 1997-98 Budget is likely to partially dampen the direct effects of weaker export demand. In addition to a weaker international environment, below-average rainfall is likely to result in a slightly weaker outlook for farm production than anticipated at budget time, despite timely Spring rainfall.

In 1998-99, the mounting effect of weaker growth in Australia's export markets is likely to coincide with slower growth in public final demand, reflecting the timing of expenditure on the Olympics and other infrastructure projects. Offsetting these influences, easier monetary conditions will still be providing a substantial stimulus to private sector activity. On balance, the slowdown in Australia's East Asian trading partners is expected to result in GDP growth in 1998-99 being weaker than that forecast for 1997-98. In the absence of the impacts resulting from international developments, it is likely that GDP growth in Australia would have been significantly stronger in 1998-99.

The upturn in employment evident since mid-1997 is likely to continue, reflecting ongoing solid growth in output. A sustained gradual reduction in unemployment is thus expected in 1997-98. Notwithstanding the prospect of continued strong growth in activity and the recent depreciation of the exchange rate, inflation is expected to remain low, consistent with the Reserve Bank's medium-term target. Some increase in the current account deficit as a percentage of GDP is in prospect, reflecting the impact of weaker international conditions on both net export volumes and the terms of trade; note, however, that a large part of the increase in 1997-98 is due to the impact of the Reserve Bank gold sales lowering the current account deficit in 1996-97.

International Economic Developments

Over the past six months the outlook for many of Australia's trading partners in the East Asian region has weakened substantially in the face of financial market turbulence. There is continuing strength in North America and Europe.

Compared with budget time estimates, major trading partner (MTP) growth will be significantly weaker in 1997-98, with that weakness extending into 1998-99. Australia's MTP growth in the two years is expected to be close to 3 per cent, which would be the lowest aggregate growth performance in over a decade.

Growth performance between different countries and regions will be out of synchronisation, far more than was apparent at budget time when it was generally thought there was a prospect of greater convergence.

For 1997-98, strong growth is likely to continue in the United States and the United Kingdom, and activity in continental Europe should strengthen a little. Against that, growth in East Asia will weaken markedly, reflecting both slower than expected growth in Japan and a sharp deterioration in the prospects of several East Asian economies. For 1998-99, growth should slow in the United States and the United Kingdom to more sustainable levels, and growth in continental Europe is expected to consolidate. Growth in East Asian MTP is expected to remain positive but subdued.

Growth in ASEAN economies will be decidedly weaker in both 1997-98 and 1998-99. To this point, Indonesia and Thailand have been most affected by financial turbulence, but are undertaking reform measures, including measures to address weaknesses in the banking and financial sectors, as part of International Monetary Fund (IMF) adjustment packages. Growth in Malaysia is also expected to slow further. Growth in ASEAN MTP in 1997-98 is expected to be less than half that assumed at budget time, with the likelihood that lower growth will be carried through into 1998-99.

Korea’s economic prospects have deteriorated dramatically since the 1997-98 Budget. Korea also has agreed to an IMF package which will require restructuring of the troubled industrial and financial sectors, substantial consolidation of the banking sector and a strengthening of monetary and fiscal policies. Again, growth rates for 1997-98 and 1998-99 are expected to fall markedly. Growth in 1997-98 is expected to be less than half that assumed at budget time, with the possibility that the current disruption and the needed structural reforms will push out any sustained recovery beyond 1998-99.

In Japan, the outlook has also deteriorated, with little or no growth now expected in 1997-98. This reflects continued weak domestic demand — including the effect of the 1 April 1997 value added tax increase — and weaker prospects for exports. Net exports are not expected to contribute significantly to growth — in contrast to the large contribution in 1996-97. Growth is expected to pick up in 1998-99 to around 2 per cent on the back of stronger domestic demand — although this will be influenced by policy responses to the current financial market problems, including forced closures and liquidations of several securities houses and banks.

In terms of risks to the outlook, the uncertainties in East Asia figure prominently. In this regard, much will depend upon the adequacy of the policy responses in troubled economies. Considerable adjustment needs to be undertaken and firm adherence to the programmes being instituted in conjunction with the IMF will be critical, particularly in Korea. Any delay in addressing the deep-seated problems in the financial sectors of these economies (including Japan) could contribute to ongoing market concerns and delay the recovery in confidence which is critical to regional growth prospects.

Growth in the United States in 1997-98 is expected to remain strong at around 3¼ per cent, up slightly from budget time. By most measures the economy is operating at full capacity, but there is still no obvious pick-up in inflation although there are signs of some firming of wage pressures. Growth in 1998-99 is expected to slow to around the long-term trend rate. Developments in East Asia may also detract a little from growth in the United States; cheaper Asian imports will help contain inflationary pressures.

There is evidence of a strong link between the economic cycles of the United States and Australia. The importance for Australia of developments in the United States has been evident on a number of occasions. Relatively strong growth in Japan, Australia's major trading partner, was insufficient to insulate the domestic economy from the impact of slowdowns in the other major industrialised economies in the early 1980s and 1990s, led by developments in the United States. Similarly, Australia has experienced continued relatively strong export performance over recent years, despite ongoing subdued growth in Japan.

Australia also has particularly strong trade links with East Asia. The contribution which weaker exports to Asia made to slower GDP growth in Australia during 1996 is evidence of that. In part, the Australian export performance at that time reflected a weaker export performance by several Asian economies. This in turn related to trends in price competitiveness arising from exchange rates appreciations over preceding years and from oversupply in several key Asian export sectors, notably semi-conductors. Conversely, the recent substantial exchange rate depreciations experienced by many of the East Asian economies are likely to result in a more positive outlook for export growth relative to their overall GDP growth. An important issue, however, will be whether the resultant increased East Asian share of world exports occurs at the expense of other countries to which Australia traditionally exports.

The Effects of International Developments on Domestic Activity

The substantially weaker growth now in prospect for East Asian economies will adversely affect domestic economic conditions. However, there remains considerable uncertainty about the timing and magnitude of these impacts.

Australia's export volume growth is likely to be adversely affected. Least so, in aggregate, are likely to be rural commodities, though some particular components will undoubtedly be affected more than others. The volumes of a number of important rural exports, such as cereals, are largely determined by the quantity produced rather than movements in the income levels of export markets. Moreover, countries outside Asia are major markets for many rural exports. In addition, for some rural commodities, such as beef and veal and sugar, supply difficulties elsewhere in the world will work to the advantage of Australian suppliers, despite a downturn in demand from East Asia. Likely to be most affected are exports of manufactures and services (such as tourism and various business services), demand for which tends to be influenced more by changes in incomes in countries of destination. Non-rural commodities may also be substantially affected, with weaker world industrial production adversely influencing a range of commodities; iron ore, other metal ores and minerals, coal, aluminium and alumina, and other refined metals are examples of commodities for which trends in industrial production are important in determining likely export volumes. However, as with rural commodities, export volumes of some non-rural commodities (for example, a large part of the mineral fuels) are likely to be determined more by domestic supply considerations than by movements in overall trading partner activity. Indeed, strong growth in mining investment in recent years has resulted in a significant increase in the aggregate supply potential of non-rural commodities. As a result, Australian exporters might seek to divert sales to other, less affected, markets by accepting somewhat lower prices, thus at least partially offsetting the impact of reduced volumes resulting from weaker Asian demand. Nevertheless, with world industrial production likely to be weaker than would otherwise be the case, some adverse impacts on export volumes of these commodities is expected.

A significant decline in Australia's aggregate commodity price index (expressed in $US) has occurred in recent months, and further weakness can be expected, in part reflecting likely outcomes of the forthcoming contract negotiations for the bulk ores. Weakness in commodity prices will reduce income growth for both the household and corporate sectors, with consequent influence on expenditures of these sectors. The adverse impact on prices is likely to be more significant the more the industrialised economies are affected by weaker activity in the Asian economies.

However, the reduction in commodity prices has been associated with a significant depreciation of the exchange rate in recent months against the $US, in part reflecting actual and prospective movements in commodity prices and an overall assessment of the influence of developments in the Asian economies. To date, the depreciation of the $A has been more pronounced than the decline in commodity prices. As a result, the Reserve Bank of Australia (RBA) all items commodity price index expressed in $A for November was around 5 per cent higher than for July. This depreciation of the exchange rate is helping to offset the adverse impacts on income flows of lower world commodity prices and, by boosting the competitiveness of exporters and domestic producers, will also help to minimise the detraction from GDP growth from net exports.

The significant exchange rate depreciations experienced by some countries in the Asian region against the $A will tend to boost imports from those countries and that may be significant for some specific imports to Australia. However, the depreciation of the $A against countries which represent the major source of Australia's imports has more than offset this (as reflected in the movement of the Australian currency on a TWI basis). The resultant overall higher prices for imports will add to underlying inflation — predominantly in 1998-99 — and will also tend to discourage overall import growth. This latter influence is likely to be reinforced by lower expenditures resulting from the direct effects of lower export volumes and reduced income growth associated with impacts on the terms of trade. Thus, the impact on domestic activity from any reduction in domestic demand will be at least partially offset by reduced demand for overseas products.

Another consideration is the extent to which domestic activity will be affected by possible loss of confidence, by both consumers and businesses, as a result of developments in East Asia. Reflecting the recent upward trend in employment, there has been some improvement in consumer perceptions about unemployment and, given the forecast continuation of solid employment growth and a gradual reduction in the unemployment rate, further improvement can be expected. There have been signs in recent business surveys that developments in East Asia have lowered business confidence. However, actual and perceived trading conditions have continued to improve and, reflecting such outcomes and continuing high rates of return on capital investment, business investment intentions have continued to rise. Thus, while the effects of changes in confidence are particularly difficult to quantify, and will therefore remain an important area of uncertainty surrounding the outlook, at this stage there appears to be little indication of adverse impacts unfolding to reduce investment intentions.

A final area of uncertainty surrounds the likely timing of impacts on domestic activity. The influences need to be considered against a background of strengthening export volume growth during 1997, following a period of weaker growth in 1996. Monthly data to date do not indicate a significant easing in export volume growth, though some impacts (for example, tourist arrivals from some ASEAN economies) are evident. The trade and financial contracts in place for many goods suggest that impacts may not be felt for these goods until well into 1998. Moreover, the nature of stock cycles is also likely to lead to some inertia in the adjustment process, further delaying overall impacts on production until into 1998. Finally, as pointed out above, the combination of exchange rate and commodity price movements to date has actually been positive for some Australian producers. For example, any downward adjustment to bulk ore contract prices will not take effect before April 1998, by which time these producers will have had the benefit of a substantial exchange rate depreciation for some considerable time. Indeed, while this is expected to change over the course of 1998, the initial aggregate terms of trade effect is likely to have been positive. In combination, these factors suggest that, while there will be some influence on domestic activity in 1997-98, a significant impact is unlikely to become apparent before 1998-99.

In summary, the forecasts incorporate a substantial detraction from Australian GDP growth, in 1998-99 in particular, as a result of recent and prospective developments in the East Asian economies. These influences are likely to reflect weaker growth in export volumes and in sectoral income growth as a result of weakness in the terms of trade. However, continued solid growth in the United States and a strengthening outlook for Europe will underpin growth in aggregate world demand. Sharp increases in the competitiveness of some East Asian economies should support their export performance, with consequent implications for Australian suppliers. Being low-cost producers for many commodities and currently experiencing a sharp increase in mining capacity, Australian exporters may be well placed to take a considerable portion of the overall effect through lower prices rather than volumes. To the extent that the influence is felt through reduced prices, some offset will have occurred as a result of the recent exchange rate depreciation, with the net effect to date of movements in the exchange rate and commodity prices actually being positive for growth. In addition, to the extent that there is a reduction in domestic expenditure and production as a result of Asian developments, there will be a partial offset in terms of reduced demand for imports.

Finally, in assessing the overall outlook, domestic considerations need to be borne in mind. The pick-up in the pace of activity experienced in the first half of 1997 has continued into 1997-98, and stimulatory factors can be expected to support ongoing strong growth in domestic expenditures over the remainder of 1997-98 and throughout 1998-99.

Forecasting Assumptions

In line with usual practice, the exchange rate is assumed to remain unchanged from the average level reached in recent months. Such an assumption results in the exchange rate on a TWI basis being about 4 per cent below the assumption underlying the 1997-98 Budget forecasts. Seasonal conditions affecting the rural sector in 1998-99 are assumed to be consistent with average yields being attained across the range of major commodities.

Domestic Economy — 1997-98

Demand and Output

The forecasts for 1997-98 are summarised in Table 2. GDP growth of 3¾ per cent is expected in 1997-98 in line with the Budget forecast though with some changes to the expected composition of growth. These changes reflect stronger domestic demand offset by the impacts of a weaker international environment. The composition of growth in activity will also be affected by some large transactions which took place in 1996-97, in particular the privatisation of the Loy Yang B power station, the export of an ANZAC frigate and gold sales by the Reserve Bank. To more easily identify the effects of these transactions, which involved a transfer between different expenditure categories, actual and forecast increases for some selected major aggregates are presented in Table 3 on a basis which excludes the transfers.

Consistent with the 1997-98 Budget outlook, there has been a strong pick-up in **private consumption** expenditure. Continuing solid growth in real household disposable income should underpin continuing strength in private consumption, resulting in a stronger rate of increase for the year as a whole than previously forecast. In year-average terms, a modest unwinding of the recent increase in the household saving ratio is expected, which would bring it into line with recent experience. Consumers' cash flows should also benefit from the reductions in interest rates since the Budget.

The recovery in **dwelling investment** has become more apparent since the 1997-98 Budget, and partial indicators point to continued solid growth. The upswing is being underpinned by very favourable levels of housing affordability reflecting the lowest nominal mortgage interest rates since 1970. The existence of relatively low vacancy rates in some capital cities indicates that the previously existing excess supply of housing has been largely unwound.

Business investment growth is forecast to be slightly stronger than at budget time, despite the impact of government asset sales which boosted private investment in 1996-97.[1] Weaker than previously expected non-residential construction investment is likely to be more than outweighed by stronger equipment investment.

Since the 1997-98 Budget, there have been mixed signals on the outlook for non-residential construction investment. In particular, the latest set of non-residential building expectations for 1997-98 from the ABS Capital Expenditure Survey imply a much weaker outlook than suggested by survey information at budget time. However, other indicators of building and engineering activity remain more positive. The aggregate value of work yet to be done is high, approvals continue to rise at a strong rate, and finance commitments and known commencements for some large building and infrastructure projects suggest ongoing strength. These conflicting indicators pose a considerable degree of uncertainty for the outlook for non-residential construction

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1 The actual level of asset sales in 1996-97 substantially exceeded the estimates underpinning the 1997-98 Budget with implications for both components of business investment and public investment. As a result, the revised forecast growth rates for these components in 1997-98 are not directly comparable with the 1997-98 Budget forecasts.

investment. However, forecast growth in this area has been revised down compared with that at budget time.

In contrast to non-residential construction, the outlook for equipment investment has improved since budget time. Surveyed investment intentions have risen and a number of favourable investment fundamentals — namely, a high corporate profit share, a high net rate of return on the capital stock, a relatively high surveyed rate of capacity utilisation, and low nominal interest rates — point to solid growth. Indeed, the forecast implies a realisation ratio (the ratio of actual investment undertaken to investment intentions) which is conservative by recent experience.

After allowing for the effects of large and irregular transactions, **stocks** are expected to make no contribution to GDP growth, in line with the outlook at Budget. Strong sales growth, combined with a sharp run-down in private non-farm stocks, resulted in a significant reduction in the stocks-sales ratio in 1996-97. The size of the reduction in the stocks-sales ratio suggests that firms have cleared their excess stock-holdings, opening the way for ongoing sales growth to be translated into increased production — and stock-building — in 1997-98, to a slightly greater extent than considered likely at budget time. Farm and public authority stocks fell sharply in 1996-97, largely due to Reserve Bank gold sales and the export of an ANZAC frigate. Although some of the gold sales occurred early in 1997-98, a much more moderate run-down in farm and public authority stocks is likely for the year as a whole, resulting in a substantial reversal of the significant detraction from GDP growth evident in 1996-97; however, a full reversal is unlikely, given a greater rundown of farm stocks to support export sales in an environment of weaker rural production.

Table 2: Economic Outlook for 1997-98[a]

	1996-97	1997-98	
	Outcome(b)	Budget Forecasts	Revised Forecasts
Panel A - International Outlook			
Major trading partners			
Real GDP	4.3	4 1/2	3
Inflation	2.7	3	3
TWI (Index points)(c)	58.7	60	57 1/2
Panel B - Demand and Output(d)			
Private consumption	2.2	3 1/2	4 1/4
Private investment			
Dwellings	0.4	11	12
Total business investment(e)	17.6	8	10
Non-dwelling construction(e)	17.2	18	1
Equipment(e)	17.8	4	14
Private final demand	4.3	4 3/4	5 3/4
Public final demand(e)	-0.2	2 1/4	3 1/2
Total final demand	3.4	4 1/4	5 1/4
Increase in stocks(e)(f)			
Private non-farm(e)	-0.4	0	1/4
Farm and public authority(e)	-0.7	0	1/4
Gross national expenditure	2.3	4 1/4	6
Exports of goods and services(e)	9.9	7	4
Imports of goods and services	12.1	9	12
Net exports(f)	-0.4	- 1/4	-2
Gross domestic product (Average measure)	2.4	3 3/4	3 3/4
Non-farm product	1.9	4	4
Farm product	15.1	-2	-5
Panel C - Other Selected Economic Measures			
Prices and wages			
Consumer Price Index(g)	0.3	1 3/4	1
- Treasury 'Underlying' measure(g)	1.7	2	1 3/4
Gross non-farm product deflator	2.5	2	1 1/2
Average earnings(h)	4.6	4	4 1/4
Labour market			
Employment (Labour Force Survey basis)	1.1	2	1 1/4
Unemployment rate (per cent) (June quarter)	8.7	8	8
Participation rate (per cent) (June quarter)	63.2	63 3/4	63 1/4
External accounts			
Terms of trade	5.5	1 1/2	3 1/2
Current account balance			
$billion	-17.9	-21	-23
Percentage of GDP	-3.5	-4	-4 1/4

(a) Percentage change on preceding year unless otherwise indicated.
(b) Calculated using annual original data.
(c) Based on the technical assumption that the TWI remains around the level reached in recent months.
(d) Average 1989-90 prices.
(e) Affected by large and irregular business transactions. See Table 3 for estimates excluding these impacts.
(f) Percentage point contribution to growth in GDP (Average measure).
(g) Through the year to the June quarter.
(h) Average earnings (national accounts basis).

Table 3: Economic Outlook Excluding Transfers and One-off Transactions[(a)]

	1996-97	1997-98	
	Outcome	Budget Forecasts	Revised Forecasts
Total business investment	14.3	11	14
Public final demand	1.6	1 1/2	2 1/2
Increase in stocks(b)	-0.5	0	0
Gross national expenditure	2.8	4 1/4	5 1/2
Exports of goods and services	7.2	7	6

(a) Percentage change on preceding year unless otherwise indicated. Transfers are net second-hand asset sales from the public sector to the private sector. One-off transactions are gold sales by the Reserve Bank, 'lumpy' imports of aircraft, ships and satellites, and the export of an ANZAC frigate.

(b) Percentage point contribution to growth in GDP (Average measure) from non-farm, farm and public authority stocks.

Forecast growth in **public final demand** has been revised up since the 1997-98 Budget. The sale of a power station by the Victorian Government in the first half of 1997 lowered the level of public investment in 1996-97. Abstracting from this and similar asset sales, growth in public final demand is forecast to be 2½ per cent in 1997-98, compared with 1½ per cent at budget time.

The fall in **farm production** in 1997-98 is expected to be slightly greater than forecast at 1997-98 Budget. Wheat production will be lower than the record level of 1996-97. While there were concerns that dry conditions may have a significant adverse impact on the wheat crop, timely Spring rainfall is likely to result in production being similar to that assumed at budget time. However, below-average rainfall to date and its likely continuation for much of the financial year could result in lower production, relative to 1997-98 Budget, for other grains and the major components of livestock products.

Net exports are now expected to make a sizeable detraction from GDP growth in 1997-98, in large part due to the extent to which 1996-97 export outcomes were boosted by Reserve Bank gold sales and the sale of the ANZAC frigate. Nevertheless, even after allowing for these transactions, the net export detraction in 1997-98 is expected to be larger than previously forecast. Abstracting from these irregular sales, export growth in 1997-98 is expected to be a little weaker than forecast at 1997-98 Budget, reflecting both the impact of reduced farm production and the initial impacts of slower MTP growth. Import growth in 1997-98 is likely to be stronger than the 1997-98 Budget forecast, consistent with the stronger outlook for domestic demand. As noted previously, the recent appreciation of the Australian exchange rate against some Asian currencies will tend to boost imports from those countries. In contrast, however, the Australian dollar has depreciated significantly against the currencies of countries which represent Australia’s major source of imports. The resultant higher prices for imports from these countries will tend to discourage import growth, though, given normal lags of adjustment, the largest impacts will occur late in 1997-98 and into 1998-99.

Wages

On a National Accounts basis, **wage** growth is expected to be slightly stronger than anticipated at budget time, largely reflecting a strong increase recorded in the September quarter 1997. Nevertheless, for the year as a whole, continued low inflation and low inflation expectations should help to contain wage pressures by countering the effect of the expected improvement in the labour market on wage claims.

In terms of the outlook for wages, there are considerable uncertainties relating to the second and third stages of the ACTU's 'Living Wage' claim. However, the timing of these claims is such that they relate mainly to wage growth in 1998-99. In the short term, there is additional uncertainty surrounding the extent to which high wage claims in the construction and finance sectors may lead to more generalised wage pressures. Against this, recent falls in consumer inflation expectations to historically low levels and the prospect of continued low inflation may serve to moderate wage outcomes to a greater degree than forecast. In addition, the *Workplace Relations Act 1996*, by increasing the spread of genuine enterprise bargaining, may lead to a larger than assumed reduction in the extent of unwarranted wage flow-on.

Employment and Unemployment

Employment growth is expected to pick up during 1997-98 in response to recent and prospective trends in output and real wages. Relative to the 1997-98 Budget, forecast year-average growth in employment has been reduced, reflecting the weaker than anticipated outcome in the June quarter 1997. However, forecast growth during 1997-98 is unchanged from the 1997-98 Budget, reflecting both outcomes to date for the financial year and the expectation that growth in non-farm activity over the remainder of the year will be broadly in line with that previously forecast.

Increasing employment opportunities and real wage growth are expected to result in a slight rise in the **participation rate** over the remainder of 1997-98, with the result that not all of the forecast increase in employment will translate into a lower **unemployment rate**. The unemployment rate is expected to fall to around 8 per cent by the June quarter 1998, unchanged from that forecast at 1997-98 Budget.

Prices

The absence of inflationary pressures is reflected in low underlying and headline inflation. In the year to the September quarter 1997, **underlying inflation** slowed to 1.5 per cent, the lowest rate since the series commenced in 1972. Over the same period, the headline CPI declined by 0.3 per cent.

Underlying inflation should remain low, edging up to 1¾ per cent by the June quarter 1998, slightly lower than the 1997-98 Budget forecast. This small downward revision reflects lower nominal unit labour cost growth, the result of very strong labour productivity growth in recent quarters offsetting slightly stronger growth in wages. A lower exchange rate assumption than that adopted at budget time will tend to partially offset these lower unit labour cost outcomes, though there is unlikely to be a significant effect on underlying inflation until the later stages of 1997-98.

The improved outlook for underlying inflation and the recent reductions in mortgage interest rates have resulted in a lower forecast of **headline inflation** in 1997-98 than at budget time.

The improved outlook for inflation has also been reflected in consumer price expectations. Over the past year and a half, the median of surveyed consumer inflation expectations has fallen by just over 1 percentage point. To the extent that lower inflation expectations result in wage claims more in line with productivity improvements, they help to maintain low inflation.

The Current Account

The current account deficit is expected to increase in 1997-98 compared with the previous year, although much of the increase is due to the 1996-97 outcome being reduced by the Reserve Bank gold sales. Furthermore, the introduction of new international measurement standards which have tended to raise the level of historical current account deficits will result in the 1997-98 current account deficit being larger than that forecast at budget time, even if everything else remained unchanged. Abstracting from these changes in methodology, the effect of lower than expected net export volumes in 1997-98 is likely to be broadly offset by stronger than expected growth in the terms of trade. The outlook for the terms of trade reflects both a rise in export prices and a modest decline in import prices. As mentioned above, the combination of movements in the exchange rate and commodity prices to date have boosted export prices in $A terms, although some of this is likely to be unwound over the remainder of the year as further declines in world commodity prices (particularly related to negotiated contract prices for some bulk ores) occur. The expected decline in import prices, despite the impact of recent reductions in the trade-weighted exchange rate, reflects the ongoing impact of significant declines in computer prices. A slight rise in the net income deficit is forecast, reflecting trends in external debt levels.

Domestic Economy — 1998-99

Preliminary forecasts of key parameters for 1998-99 are presented for the first time in Table 4 (along with medium-term projections for 1999-2000 and 2000-01). These forecasts will be formally reviewed in the May 1998 Budget which will contain a fully elaborated set of forecasts for 1998-99.

GDP growth in 1998-99 is forecast to be weaker than the anticipated outcome for 1997-98. The key factors influencing growth in 1998-99 will be: the ongoing stimulus to private final demand from the easier monetary conditions which unfolded during 1996-97; slow growth in international demand; an easing in public final demand growth; and trends in the non-farm stock cycle.

As noted previously, the impact on Australia’s export volumes of the significant slowing in many of the East Asian economies is likely to be more pronounced in 1998-99 than in 1997-98. Public final demand growth is also likely to be weaker in 1998-99 than in 1997-98, reflecting lower levels of spending on the Olympics and other infrastructure projects. In contrast, private final demand growth is expected to remain strong, reflecting earlier reductions in interest rates and continuing strong employment growth; however, some easing in growth relative to the previous year is in prospect, in part reflecting indirect effects of the impact of international developments. With some involuntary stock-building likely to occur as overall domestic sales growth eases, a continued rebuilding of non-farm stock levels is likely to result in a similar contribution to growth to that expected in 1997-98.

If not for the impact of developments in East Asia, the continuation of the momentum in domestic growth which developed in 1997-98 would have likely led to significantly stronger growth in 1998-99. The overriding aim of the Government's economic reform agenda is to deliver an annual growth rate of over 4 per cent on average during the decade to 2010.

The slowing of output growth resulting from the weaker international environment will impact on employment growth, though not until later in the financial year, reflecting lags in the reaction of employment to output growth. As a result, employment growth through 1998-99 is likely to be similar to that through 1997-98 and, in year-average terms, stronger in 1998-99 than in 1997-98.

Wage pressures are expected to remain broadly unchanged in 1998-99, reflecting the relatively stable outlook for the labour market and continued low inflation. Inflation is expected to increase slightly during 1998-99, with higher nominal unit labour cost growth resulting from labour productivity growth easing toward longer-run structural levels.[2]

As a share of GDP, the current account deficit is expected to rise further in 1998-99. Continued strong import growth should again outpace growth in exports, with the latter being affected — both in terms of volumes and prices — by weak international conditions.

As outlined previously, a key uncertainty relating to the 1998-99 outlook concerns developments in the international economy, not only in respect of the likely magnitude of effects but also the means by which those impacts are transmitted to the Australian economy. Another uncertainty concerns the farm sector. Currently, the Bureau of Meteorology is forecasting below-average rainfall until March 1998. If this prediction proves correct, and drier than normal conditions extend throughout the planting period for next year's winter crop (April to July 1998), then a significant decline in farm production could occur, with consequent effects on overall activity, rural exports and the current account deficit. However, at this point, it is far too early to assess the likelihood of lower production, with this year's events an example of how El Nino outcomes do not necessarily translate into production outcomes.

Balancing these risks there is the possibility that the forecasts do not fully incorporate the stimulatory effect of recent reductions in interest rates on activity. It is difficult to estimate such effects but, reflecting the lags involved with monetary policy, recent reductions in interest rates to historically low levels should provide a considerable stimulus to activity in 1998-99. To the extent that the forecasts have under-estimated the boost to activity from lower interest rates, or misjudged the timing of the impact, activity in 1998-99 will be higher than forecast.

2 The CPI forecasts have been prepared on the basis of the existing 12th Series. Changes in methodology (particularly relating to measurement of housing costs and population coverage) will result in changes in component weights being introduced for the 13th Series CPI. The information required to prepare forecasts on the new CPI basis is not yet available.

Medium-term Projections

Table 4 presents the major economic parameters assumed in preparing the revised 1997-98 Budget estimates. The parameters comprise the forecasts for 1997-98 and 1998-99 discussed above, and medium-term projections for 1999-2000 and 2000-01.

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

	Forecasts		Projections	
	1997-98	1998-99	1999-00	2000-01
Real GDP(A)	3 3/4	3 1/4	3 1/2	3 1/2
Employment(a)	1 1/4	2 1/4	2 1/4	2 1/4
Wages(b)	4 1/4	4	3 1/2	3 1/2
Headline CPI	1/4	2 1/2	2 1/2	2 1/2
Underlying CPI	1 1/2	2 1/2	2 1/2	2 1/2

(a) Labour Force Survey basis.
(b) Average earnings (national accounts basis).

The parameters for 1998-99 differ from those published at budget time reflecting the transition from a projection year to a forecast. The parameters for 1999-2000 and 2000-01 are medium-term projections prepared solely as a basis for Budget figuring and do not represent forecasts. The assumption for GDP growth in the projection period is in line with the average growth experienced over the past three decades.

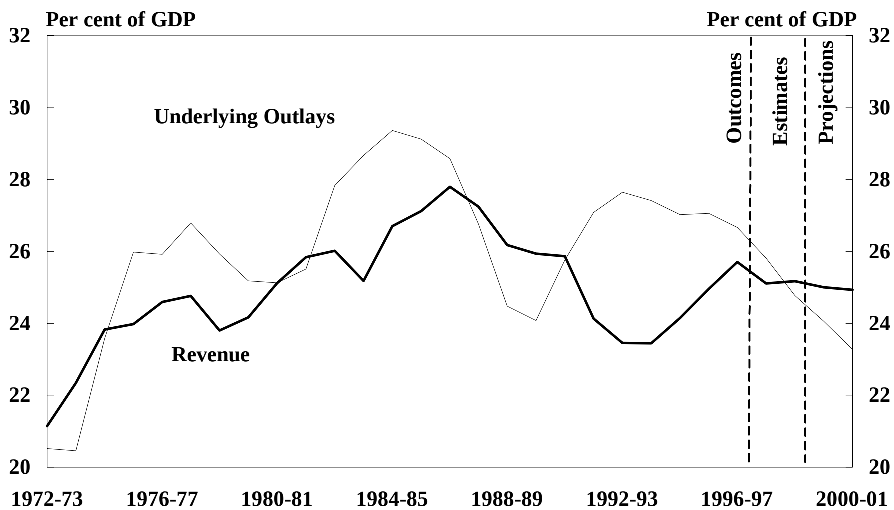
PART III: FISCAL OUTLOOK

OVERVIEW

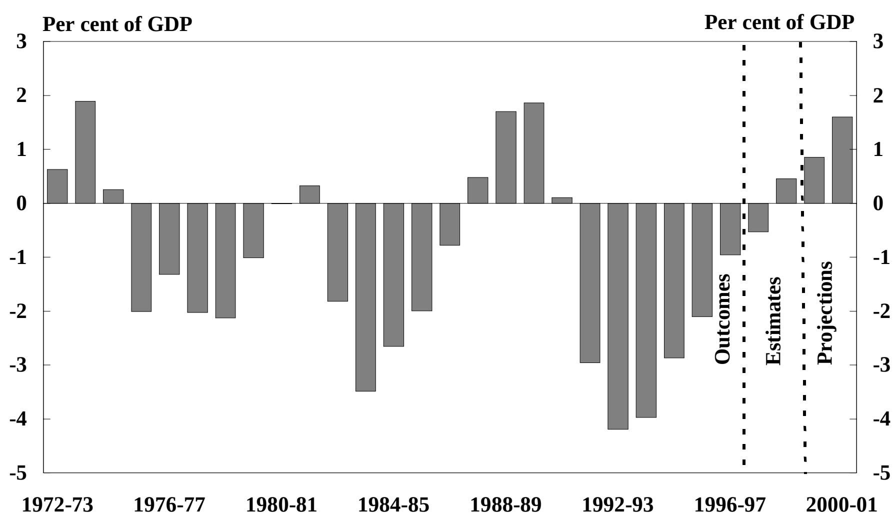
The fiscal outlook over the four years to 2000-01 remains for a steady improvement in the underlying budget balance. As shown in Chart 2, the underlying budget deficit is expected to narrow in 1997-98 and, in 1998-99, to move into surplus for the first time since the economy came out of recession. Further improvements in the underlying budget position beyond 1998-99 are expected in line with continued economic growth.

Chart 2: Underlying Budget Aggregates

Panel A: Budget Sector Revenue and Outlays



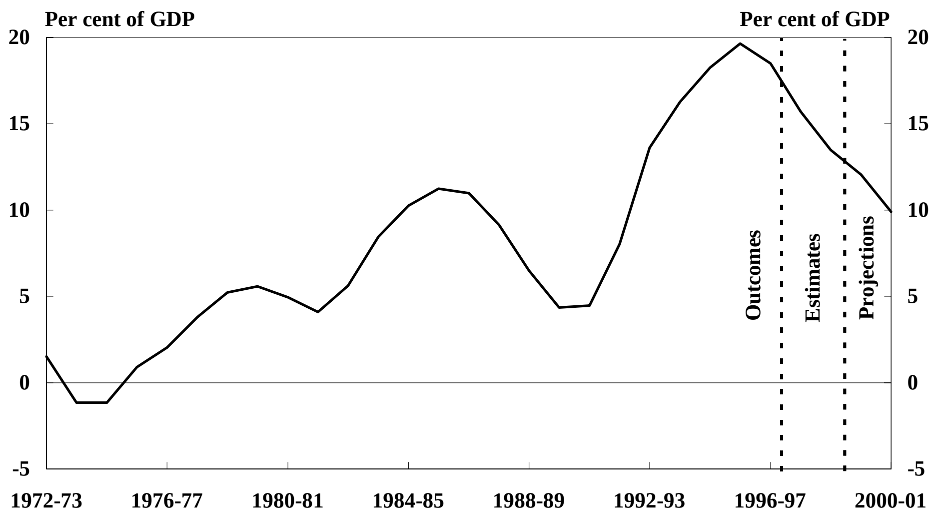
Panel B: Underlying Budget Balances



Consistent with the Government's objectives, the projected turnaround in the underlying balance from a deficit of $10.3 billion in 1995-96 to a surplus of $10.4 billion in 2000-01 is being achieved primarily through outlays restraint. Underlying outlays as a proportion of GDP are expected to decline continually over the budget and forward estimates period, falling from 26.7 per cent of GDP in 1996-97 to 23.3 per cent of GDP in 2000-01, their lowest level since 1973-74. By contrast, revenue is expected to decline by ½ percentage point of GDP in 1997-98 and remain broadly constant in the outyears at around 25 per cent of GDP (see Chart 2, Panel A).

As shown in Chart 3, on current fiscal projections, the Government remains on track to reduce the Commonwealth general government net debt to GDP ratio from just under 20 per cent of GDP in 1995-96 to around 10 per cent of GDP by 2000-01.

Chart 3: Commonwealth General Government Net Debt[(a)]



(a) Data for 1987-88 to 1996-97 are from ABS *Public Sector Financial Assets and Liabilities* (Cat. No.5513). These data take into account the reclassification of universities from the general government sector to a separate multi-jurisdictional sector. Data for years prior to 1987-88 are Treasury estimates which do not exclude universities. The adjustment for universities has only a negligible effect on the estimates.

Table 5 provides a reconciliation of budget estimates between those released at the time of the 1997-98 Budget and the 1997-98 MYEFO in terms of policy decisions and parameter and other variations.

Table 5: Reconciliation of Underlying Budget Balance Estimates[(a)]

	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
1997-98 Budget underlying balance estimates	**-3853**	**1597**	**5383**	**10692**
Effect of reclassifications since 1997-98 Budget(b)	-46	-11	0	0
Revised 1997-98 Budget underlying balance estimates(c)	**-3807**	**1608**	**5383**	**10692**
(per cent of GDP)	**-0.7**	**0.3**	**0.9**	**1.6**
Changes between 1997-98 Budget and MYEFO				
Effect of parameter and other variations				
Underlying outlays	-203	-1127	-416	-642
Revenue	1250	362	45	528
Total	-1453	-1489	-461	-1170
Effect of policy decisions				
Underlying outlays(d)	395	566	733	1242
Revenue	3	-73	-113	-244
Total	392	639	846	1486
1997-98 MYEFO underlying balance estimates	**-2746**	**2458**	**4998**	**10375**
(per cent of GDP)	**-0.5**	**0.4**	**0.8**	**1.6**

(a) A negative figure for revenue indicates a deterioration in the budget balance. For all other items a negative figure indicates an improvement in the budget balance.
(b) See footnote (a) to Table 1 for details of classification changes introduced since the 1997-98 Budget.
(c) Underlying balance at the 1997-98 Budget adjusted for the effect of reclassifications made since the 1997-98 Budget.
(d) Includes the public debt interest impact from measures affecting the headline balance. A separate breakdown of policy measures and their impact on public debt interest can be found in Table 7.

Parameter and other variations improve the fiscal outlook over the budget and forward estimates period. In 1997-98, this primarily reflects increases in taxation revenue and a higher RBA dividend.

An improved inflation outlook and lower public debt interest payments more than offset large upward revisions to programme specific parameters and provide for a significant reduction in outlays, particularly in the outyears. While much of the stronger than expected tax revenue collections in 1996-97 (which contributed to the better than expected outcome in that year) have been carried over into the tax collections base for 1997-98 and outyears, weaker parameters have resulted in very little overall projected change in tax revenue over the forward estimates period.

Policy decisions in the post 1997-98 Budget period up to and including 12 December 1997 add to outlays, and detract from revenues in most years. These decisions include amendments to policy decisions announced in the 1997-98 Budget.

Major policy decisions taken since the 1997-98 Budget include:

- measures announced by the Government in the Industry Statement *Investing for Growth*;
- a new National Illicit Drugs Strategy at a cost of over $88 million over four years;
- funding for the Advancing Australia agricultural package of $280 million over four years;

- an enhanced package of measures, at a cost of around $115 million over four years, to reduce Australia's Greenhouse gas emissions;

- funding for a number of projects under the National Domestic Violence Initiative;

- changes in the Commonwealth superannuation arrangements at a cost of $342 million over four years — the additional cost reflects only changes to the timing of payments and, on an accruals basis, this change represents no cost to the budget; and

- amendments to the Capital Gains Tax cost base provisions at a cost of $135 million over four years.

A full description of all policy decisions taken in the post 1997-98 Budget period can be found in Appendix A.

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

OUTLAYS

Table 6 provides estimates of budget sector outlays for 1997-98 to 2000-01.

Table 6: Estimates of Budget Sector Outlays

	1997-98		1998-99	
	Budget(a)	MYEFO	Budget(a)	MYEFO
Underlying Outlays ($m)	**137158**	**137350**	**140775**	**140214**
Real growth on previous yr (%)	*-1.5*	*-0.5*	*0.1*	*-0.4*
Per cent of GDP	*25.2*	*25.6*	*24.4*	*24.7*
Net Advances ($m)	-10229	-14528	-5176	-6448
Outlays ($m)	126928	122822	135599	133765
Real growth on previous year (%)	*-3.4*	*-5.9*	*4.2*	*6.3*
Per cent of GDP	*23.3*	*22.9*	*23.5*	*23.5*
	1999-00		**2000-01**	
	Budget(a)	MYEFO	Budget(a)	MYEFO
Underlying Outlays ($m)	**144947**	**145264**	**148219**	**148819**
Real growth on previous yr (%)	*0.6*	*1.0*	*-0.2*	*-0.1*
Per cent of GDP	*23.7*	*24.1*	*22.9*	*23.3*
Net Advances ($m)	-394	-389	-405	-396
Outlays ($m)	144553	144875	147815	148423
Real growth on previous year (%)	*4.1*	*5.6*	*-0.2*	*-0.1*
Per cent of GDP	*23.6*	*24.0*	*22.8*	*23.2*

(a) Figures differ from estimates published in the 1997-98 Budget due to classification changes introduced since the 1997-98 Budget. See footnote (a) to Table 1 for further details.

Relative to the 1997-98 Budget, underlying outlays are:

- not significantly different in any year;

- in real terms, now expected to fall by around ½ per cent in each of 1997-98 and 1998-99, increase by 1 per cent in 1999-2000 and remain essentially unchanged in 2000-01;
  - — at budget time, underlying outlays were expected to decline by around 1½ per cent in real terms in 1997-98 and remain broadly unchanged thereafter; and
- as a proportion of GDP, still expected to decline by around four percentage points from 27.1 per cent of GDP in 1995-96 to 23.3 per cent of GDP in 2000-01.

In 1997-98, headline outlays are estimated to be around $4 billion lower due mainly to revised proceeds of the partial sale of Telstra.

Table 7 reconciles the 1997-98 Budget underlying outlays estimates with current underlying outlays estimates in terms of policy decisions and parameter and other variations.

Table 7: Reconciliation of Changes to Budget Sector Underlying Outlays Since the 1997-98 Budget

	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
Underlying outlays at 1997-98 Budget	**137204**	**140786**	**144947**	**148219**
Effect of reclassifications(a)	-46	-11	0	0
Revised underlying outlays at 1997-98 Budget(b)	**137158**	**140775**	**144947**	**148219**
Changes from 1997-98 Budget to MYEFO				
Policy decisions	395	566	733	1242
of which public debt interest impact of measures(c)	3	24	58	124
Revisions to economic parameters				
Unemployment benefits	-367	-303	-227	-311
Prices and wages	-21	-426	-666	-667
Interest and exchange rates	11	53	-17	-17
Public debt interest	-486	-976	-1001	-1274
Sub-total revision to economic parameters	**-863**	**-1652**	**-1911**	**-2269**
Programme specific parameters	414	502	753	1007
Slippage in 1997-98 Budget decisions	7	-1	-3	-3
Other revisions	239	25	745	623
Sub-total parameter and other variations	**-203**	**-1127**	**-416**	**-642**
Total variations	192	-561	317	600
Underlying outlays at MYEFO	**137350**	**140214**	**145264**	**148819**

(a) See footnote (a) to Table 1 for details of classification changes introduced since the 1997-98 Budget.
(b) Underlying outlays at the 1997-98 Budget adjusted for the effect of reclassifications made since the 1997-98 Budget.
(c) Includes the public debt interest impact from measures affecting the headline balance.

Policy decisions increase total underlying outlays by around $0.4 billion in 1997-98, rising to $1.2 billion in 2000-01. Details of the policy decisions are set out in Table 8 and Appendix A.

The major influence on outlays estimates are revisions to the economic parameters which reduce outlays by $0.9 billion in 1997-98, rising to over $2 billion in 2000-01. These revisions mainly reflect:

- lower expected unemployment beneficiary numbers which will result in lower outlays on Newstart allowance;
- the improved outlook for inflation which will result in lower outlays on indexed benefits and payments; and
- lower public debt interest payments resulting largely from lower interest rates and higher than expected proceeds from asset sales.

Revisions to programme specific parameters increase underlying outlays in all years, ranging from $0.4 billion in 1997-98 to $1 billion in 2000-01. Revisions to programme specific parameters mainly reflect:

- higher than expected levels of Disability Support Pension; and
- higher than expected levels of demand for medical services and hospital services by veterans and their dependents.

Other revisions also increase underlying outlays over the budget and forward estimates period. These mainly reflect increases resulting from:

- higher levels of running costs in 1997-98 as a result of higher carryovers from the previous year;
- increased COMCARE outlays resulting from lower than expected premium receipts from a lower client base;
- a higher level of programme carryovers into 1997-98 from the previous year;
- revised contribution rates to the Commonwealth Superannuation Scheme and Public Sector Scheme;
- revised costings of previous budget measures; and
- an increase in the Contingency Reserve Allowance (see below).

Tables 9 to 11 provide data on underlying outlays by function, economic type and portfolio.

Contingency Reserve

The Contingency Reserve is an allowance, included in aggregate outlays figuring, to reflect anticipated events that are not assigned to individual programmes. The Contingency Reserve is an estimating device used to ensure that the estimates are based on the best information available at the time of publication. It is not a policy reserve.

The Contingency Reserve makes allowance for the established tendency for spending on existing government policy (particularly for demand-driven programmes) to be higher than estimated. This allowance is included in the forward estimates at the beginning of each Budget year and gradually removed as the Budget estimates are finalised. At the time of the 1997-98 Budget the figure was based on 0.75 per cent of headline outlays in the first forward year, increasing in each following year. Following a review of the accuracy of this allowance, this figure has now been increased to 1.0 per cent of underlying outlays in the first year, increasing in each following year.

The Contingency Reserve also includes an allowance for the difference between possible costs of the proposed Australian Health Care Agreements with the States and Territories currently being negotiated and amounts in the forward estimates.

In addition, it includes an allowance for commercial-in-confidence items which cannot be disclosed separately.

Since the 1997-98 Budget, estimates within the Contingency Reserve are anticipated to be around $70 million lower in 1997-98, around $550 million higher in 1998-99, rising to $1.1 billion in 2000-01.

Table 8: Policy Decisions taken since the 1997-98 Budget

	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
ATTORNEY-GENERAL				
Additional legal aid funding	4.7	2.5	0.7	0.7
Replacement of the High Court roof	0.9	0.0	0.0	0.0
Australian Protective Service - Increased rationalisation costs and establishment of an overdraft facility and business loan	1.6	0.0	0.0	0.0
Illicit Drugs Strategy - Supply reduction(a)	3.4	6.1	6.2	6.2
Commonwealth assistance to the States/Territories and Commonwealth cross portfolio projects under the national domestic violence initiative(b)	1.7	1.5	1.5	1.5
Government response to the Fair Trading Inquiry Report - Funding to improve small business access to justice and awareness of fair trading issues(c)	0.3	0.1	0.0	0.0
Total	**12.6**	**10.2**	**8.4**	**8.5**
COMMUNICATIONS AND THE ARTS				
Funding for Old Parliament House and the National Portrait Gallery	4.4	3.7	3.7	3.8
Funding for the Centenary of Federation Council	0.0	11.8	15.6	15.6
Establishment of the National Office of the Information Economy	3.0	3.0	3.0	0.0
Grants to assist the purchase of broadcasting reception equipment in remote areas to facilitate online service delivery	3.2	0.0	0.0	0.0
Grants for projects to assist people with disabilities to access online services	0.0	1.7	1.7	0.0
Community awareness raising programme on the benefits of online services	1.3	1.6	0.0	0.0
Grant to contribute towards the building of a replica of the 1606 Dutch ship Duyfken	0.0	0.5	0.0	0.0
Continued funding of Film Australia to maintain the National Interest Programme	0.0	0.0	6.7	6.8
Separated Indigenous Families - Government response to *Bringing Them Home* (d)	0.0	0.8	0.9	0.9
Total	**12.0**	**23.1**	**31.6**	**27.1**
EMPLOYMENT, EDUCATION, TRAINING AND YOUTH AFFAIRS				
Revisions to the AUSTUDY Actual Means Test	21.3	43.4	44.5	46.0
Modification to the ABSTUDY measure announced in the 1997-98 Budget	..	0.5	0.0	0.0
Illicit Drugs Strategy - Education	0.0	2.6	3.0	1.9
Aligning rates and conditions for older commencing students with the Youth Allowance	0.0	0.5	0.5	0.5
Enhancing access in schools and the community to IT and encouraging links between the IT industry and higher education	0.4	1.1	2.0	3.2
Drought exceptional circumstances - South Burnett(e)	0.3	0.5	0.3	0.0
Introduction of a Youth Allowance for students under 25 and for the unemployed under 21(f)	0.0	137.1	140.4	143.8
Total	**21.9**	**185.7**	**190.6**	**195.4**
ENVIRONMENT				
Independent monitor for the Port Hinchinbrook project	0.1	0.0	0.0	0.0
Great Barrier Reef Marine Park Authority - Funding to offset the reduction in revenue related to a variation to the Environment Management Charge	1.2	1.2	1.2	1.2
Enhanced package of measures to reduce Australia's greenhouse gas emissions(g)	0.0	29.7	34.6	37.1
Payments to the Tasmanian State Government under the Tasmanian Regional Forests Agreement(h)	5.4	5.3	0.3	0.0
Total	**6.7**	**36.2**	**36.2**	**38.3**

Table 8: Policy Decisions taken since the 1997-98 Budget (continued)

	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
FINANCE AND ADMINISTRATION				
Proceeds from sale of the National Transmission Network	nfp	nfp	nfp	nfp
Cost of sale of the National Transmission Network	3.5	0.0	0.0	0.0
Proceeds from sale of the Housing Loans Insurance Corporation*	0.0	0.0	0.0	0.0
Cost of sale of the Housing Loans Insurance Corporation	0.3	0.0	0.0	0.0
Member choice and Commonwealth superannuation arrangements(i)	0.0	12.0	40.0	290.0
Examination of Australian Defence Industries Ltd business for potential sale	4.0	0.0	0.0	0.0
Revised Commonwealth purchasing arrangements	0.0	-4.0	-4.1	-4.1
Proceeds from sale of Australian Defence Industries Ltd*	0.0	0.0	0.0	0.0
Cost of sale of Australian Defence Industries Ltd	5.5	4.5	0.0	0.0
Total	**nfp**	**nfp**	**nfp**	**nfp**
FOREIGN AFFAIRS AND TRADE				
Extension of the Export Market Development Grants for a further two grant years	0.0	0.0	0.0	150.0
Extension of the Export Access Programme to the year 2001-02	0.0	0.9	3.5	3.5
Tradestart - New export assistance for regional and rural Australia	0.0	0.5	0.5	0.5
Olympic Torch relay - The South Pacific Islands component	0.0	0.8	2.8	0.0
Total	**0.0**	**2.2**	**6.9**	**154.1**
HEALTH AND FAMILY SERVICES				
Increased funding provided under the Commonwealth/State Disability Agreement	nfp	nfp	nfp	nfp
Australian Radiation Protection and Nuclear Safety Administration	0.0	0.0	0.0	0.0
Additional funding for the implementation of Residential Aged Care (including the concessional resident subsidy)	1.1	1.9	7.8	8.6
Adjustments to the broadbanded health-related programmes	3.7	0.0	0.0	0.0
Coordinated care trials - Additional expenditure for contractual agreements	6.2	0.0	0.0	0.0
Delay income test for residential aged care and exempt existing residents	57.8	55.1	38.0	29.3
Illicit Drugs Strategy - Harm minimisation	1.3	12.4	12.7	10.4
Health Communication Network - Conversion of Commonwealth loan to equity*	0.0	0.0	0.0	0.0
Residential Aged Care - Charges, Transitional Arrangements and Industry Restructuring(j)	16.3	11.1	0.9	0.8
Exemption of certain drugs from Therapeutic Group Premiums(k)	4.3	14.6	16.4	18.2
Additional funding for health research	7.0	13.3	0.9	0.0
Changes to the Migration Programme - Increased focus on skills(l)	-1.2	-3.6	-6.3	-9.2
Resolution of residence status for certain persons in Australia(m)	0.5	2.3	1.6	1.1
Drought exceptional circumstances - South Burnett(e)	0.2	0.3	0.0	0.0
Agriculture - Advancing Australia (Farm Welfare)(n)	1.7	3.0	0.7	0.8
Commonwealth assistance to the States/Territories and Commonwealth cross portfolio projects under the national domestic violence initiative(b)	1.7	2.8	0.8	0.0
Separated Indigenous Families - Government response to *Bringing Them Home* (d)	0.0	8.7	10.3	10.5
Reform of the Child Support Scheme - Policy and administration(o)	0.0	0.5	0.5	0.5
Total	**nfp**	**nfp**	**nfp**	**nfp**
IMMIGRATION AND MULTICULTURAL AFFAIRS				
Changes to the Migration Programme - Increased focus on skills(l)	-2.0	-4.5	-4.9	-4.9
Resolution of residence status for certain persons in Australia(m)	1.2	7.4	-1.5	-0.8
Commonwealth assistance to the States/Territories and Commonwealth cross portfolio projects under the national domestic violence initiative(b)	..	0.0	0.0	0.0
Total	**-0.8**	**2.9**	**-6.3**	**-5.7**

Table 8: Policy Decisions taken since the 1997-98 Budget (continued)

	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
INDUSTRY, SCIENCE AND TOURISM				
Shipment of spent nuclear fuel rods to USA and the UK	0.3	0.6	12.8	10.1
A replacement nuclear research reactor for Australia	6.0	5.7	11.5	31.9
Continuation of machine tools and robots bounty to 30 June 1997	4.1	1.1	0.0	0.0
Continuation of book bounty to 31 December 1997	3.6	0.7	0.0	0.0
Year 2000 date change - Management of risks to continuity of government services and private sector business - funding for national awareness strategy	0.0	4.3	1.2	0.0
Newcastle assistance package - funding for tourism activities in the Hunter Region	1.0	0.0	0.0	0.0
Geelong Wool Combing - discharge of loan*	0.0	0.0	0.0	0.0
Commonwealth administration of safety net arrangements relating to States and Territories business franchise fees	3.1	0.0	0.0	0.0
Additional funding for innovation programmes	0.0	43.2	143.3	224.5
Additional funding for investment promotion, coordination and facilitation	0.0	3.0	3.0	11.4
Extend funding for APEC market integration activities	0.0	4.4	4.5	4.6
Funding for Software Quality Networks and Testing and Conformance Infrastructure	0.0	7.0	7.1	7.2
Commonwealth contribution toward the cost of Australia's participation at Hannover Expo 2000	0.5	6.9	1.0	0.0
Assistance to the Textiles, Clothing and Footwear industries	0.0	0.0	0.0	6.7
Illicit Drugs Strategy - Supply reduction(a)	3.7	7.9	6.5	4.4
Payments to the Tasmanian State Government under the Tasmanian Regional Forests Agreement(h)	1.0	1.0	1.0	0.0
Government response to the Fair Trading Inquiry Report - Funding to improve small business access to justice and awareness of fair trading issues(c)	0.4	0.3	0.3	0.3
Total	**23.6**	**86.0**	**192.2**	**301.1**
PRIMARY INDUSTRIES AND ENERGY				
Illegal fishing response initatives	4.1	0.0	0.0	0.0
Exceptional circumstances - Gippsland	2.6	0.0	0.0	0.0
Drought exceptional circumstances - South Burnett(e)	9.7	9.8	0.0	0.0
Agriculture - Advancing Australia (Farm Business and Community Programmes)	14.0	25.1	24.4	21.3
Agriculture - Advancing Australia (Farm Welfare)(n)	52.9	41.3	33.0	16.3
Payments to the Tasmanian State Government under the Tasmanian Regional Forests Agreement(h)	22.0	22.0	22.0	0.0
Snowy Mountains Hydro-electric Authority - Shortfall in cost recovery	12.0	0.0	0.0	0.0
Sydney-Moomba Pipeline Easement - Payments for easement rectification	..	0.0	0.0	0.0
Australian Quarantine and Inspection Service - meat inspection fee relief	3.6	1.4	0.0	0.0
Australian Quarantine and Inspection Service - working capital	1.0	0.0	0.0	0.0
Structural adjustment assistance for the pig meat industry	2.0	4.0	4.0	0.0
Enhanced package of measures to reduce Australia's greenhouse gas emissions(g)	0.0	4.4	4.5	4.4
Commonwealth assistance to the States/Territories and Commonwealth cross portfolio projects under the national domestic violence initative(b)	0.1	0.1	0.2	0.1
Total	**124.1**	**108.0**	**88.1**	**42.1**

Table 8: Policy Decisions taken since the 1997-98 Budget (continued)

	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
PRIME MINISTER AND CABINET				
Electronic circulation and management of Cabinet documentation	0.7	0.0	0.0	0.0
Commonwealth assistance to the States/Territories and Commonwealth cross portfolio projects under the national domestic violence initiative(b)	2.0	3.8	3.9	4.0
Separated Indigenous Families - Government response to *Bringing Them Home* (d)	0.0	3.0	2.8	2.8
Total	**2.7**	**6.8**	**6.6**	**6.8**
SOCIAL SECURITY				
New guidelines for migrant two year waiting period for social security payments	4.0	15.2	18.3	18.8
Introduction of a Youth Allowance for students under 25 and for the unemployed under 21(f)	0.0	-88.5	-106.9	-114.8
Reform of the Child Support Scheme - Policy and adminstration(o)	4.0	16.2	9.2	9.5
Amendment to allow rent assistance to sub-tenants in public housing where relevant State Housing Authority has been notified(p)	23.1	55.5	57.0	58.5
Amendment to allow payment of Family Payment above the minimum rate when a child and or parent/s go overseas for up to 13 weeks	1.6	3.3	3.4	3.5
Limiting Child Disability Allowance arrears to six months	3.8	4.2	4.4	4.8
Residential Aged Care - Charges, Transitional Arrangements and Industry Restructuring(j)	0.6	0.7	4.5	10.1
Changes to the Migration Programme - Increased focus on skills(l)	0.2	0.6	-3.6	-12.8
Drought exceptional circumstances - South Burnett(e)	0.4	0.5	0.0	0.0
Agriculture - Advancing Australia (Farm Welfare)(n)	11.0	6.9	11.5	11.6
Total	**48.6**	**14.6**	**-2.2**	**-10.7**
TRANSPORT AND REGIONAL DEVELOPMENT				
Commonwealth contribution to the Thredbo community centre	0.1	0.0	0.0	0.0
Newcastle assistance package	10.0	0.0	0.0	0.0
Supermarket to Asia: Export Gateways Initiative - Establishment of Sea and Air Freight Councils	1.2	1.0	0.6	0.0
Local government component of funding for the bridges survey	3.7	0.0	0.0	0.0
Effective maintenance of air services to the Indian Ocean Territories	0.9	0.0	0.0	0.0
Total	**15.8**	**1.0**	**0.6**	**0.0**
TREASURY				
Ex Gratia payment to approved charitable organisations and trust funds in memory of the Princess of Wales	0.6	0.0	0.0	0.0
Payments to the States in lieu of stamp duty on airport sales*	0.0	0.0	0.0	0.0
Initial funding for tasks associated with a proposed tax reform programme	5.0	0.0	0.0	0.0
Reform of the Child Support Scheme - Policy and administration(o)	0.0	-4.3	-12.5	-14.3
Government response to the Fair Trading Inquiry Report - Funding to improve small business access to justice and awareness of fair trading issues(c)	0.4	1.4	1.4	1.4
Total	**5.9**	**-2.9**	**-11.1**	**-12.9**
VETERANS' AFFAIRS				
Residential Aged Care - Charges, Transitional Arrangements and Industry Restructuring(j)	1.7	0.4	1.0	1.8
Agriculture - Advancing Australia (Farm Welfare)(n)	1.5	1.2	1.7	1.7
Amendment to allow rent assistance to sub-tenants in public housing where relevant State Housing Authority has been notified(p)	0.0	0.1	0.1	0.1
Exemption of certain drugs from Therapeutic Group Premiums(k)	0.5	1.6	1.7	1.9
Total	**3.7**	**3.3**	**4.5**	**5.5**
	1997-98	1998-99	1999-00	2000-01

Table 8: Policy Decisions taken since the 1997-98 Budget (continued)

	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
WORKPLACE RELATIONS AND SMALL BUSINESS				
Government response to the Fair Trading Inquiry Report - Funding to improve small business access to justice and awareness of fair trading issues(c)	1.5	1.7	1.2	0.9
Total	**1.5**	**1.7**	**1.2**	**0.9**

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

(a) Measure affects portfolios of the Attorney-General and Industry, Science and Tourism.

(b) Measure affects portfolios of the Attorney-General, Health and Family Services, Immigration and Multicultural Affairs, Primary Industries and Energy and the Prime Minister and Cabinet.

(c) Measure affects portfolios of the Attorney-General, Industry, Science and Tourism, Treasury and Workplace Relations and Small Business.

(d) Measure affects portfolios of Communications and the Arts, Health and Family Services and Prime Minister and Cabinet.

(e) Measure affects portfolios of Employment, Education, Training and Youth Affairs, Health and Family Services, Primary Industries and Energy and Social Security.

(f) Measure affects portfolios of Employment, Education, Training and Youth Affairs and Social Security.

(g) Measure affects portfolios of the Environment and Primary Industries and Energy.

(h) Measure affects portfolios of the Environment, Industry, Science and Tourism and Primary Industries and Energy.

(i) Additional cost reflects only changes to the timing of payments and, on an accruals basis, represents no cost to the budget.

(j) Measure affects portfolios of Health and Family Services, Social Security and Veterans' Affairs.

(k) Measure affects portfolios of Health and Family Services and Veterans' Affairs.

(l) Measure affects portfolios of Health and Family Services, Immigration and Multicultural Affairs and Social Security.

(m) Measure affects portfolios of Health and Family Services, Immigration and Multicultural Affairs.

(n) Measure affects portfolios of Health and Family Services, Primary Industries and Energy, Social Security and Veterans' Affairs.

(o) Measure affects portfolios of Health and Family Services, Social Security and Treasury.

(p) Measure affects portfolios of Social Security and Veterans' Affairs.

Table 9: Changes to Budget Sector Underlying Outlays by Function since the 1997-98 Budget ($m)

	1997-98		1998-99		1999-00		2000-01	
	Budget(a)	MYEFO	Budget(a)	MYEFO	Budget(a)	MYEFO	Budget(a)	MYEFO
Legislative and Executive Affairs	549	564	577	578	504	505	494	499
Financial and Fiscal Affairs	1779	1855	1656	1664	1624	1628	1608	1608
Foreign Economic Aid	1758	1785	1779	1850	1818	1807	1856	1834
General Research	1227	1242	1246	1246	1210	1236	1162	1206
General Services	-150	30	-92	-116	139	216	213	238
Government Superannuation Benefits	1689	1799	1444	1638	1572	1677	1558	1920
Defence	10457	10484	10640	10657	10852	10814	11024	10983
Public Order and Safety	1139	1160	881	888	881	883	897	898
Education	10472	10757	10451	10726	10529	10795	10737	10993
Health	20700	20787	21422	21499	22449	22512	23617	23696
Social Security and Welfare	50930	50814	51489	50995	53014	52620	54201	53892
Housing and Community Amenities	1255	1139	1211	1262	1169	1247	1134	1224
Recreation and Culture	1320	1362	1329	1278	1322	1287	1255	1223
Fuel and Energy	19	35	13	20	11	12	8	10
Agriculture, Forestry and Fishing	1957	2097	1961	2044	1924	2012	1774	1799
Mining and Mineral Resources, other than Fuels; Manufacturing; and Construction	1767	1765	1642	1709	1532	1684	1443	1686
Transport and Communication	1475	1534	1409	1395	1380	1394	1347	1431
Tourism	98	111	87	88	87	87	88	88
Labour and Employment Affairs	2672	2757	2442	2457	2467	2447	2445	2417
Other Economic Affairs, nec	317	324	293	292	284	283	284	282
Public Debt Interest	8920	8554	8987	7924	8097	7011	7306	6317
General Purpose Intergovernment Transactions	17821	17821	18699	18417	19983	19688	20697	20375
Natural Disaster Relief	33	33	33	33	33	33	33	33
Contingency Reserve	-1247	-1314	1189	1751	2071	3392	3037	4167
Asset Sales	199	-147	-12	-83	-6	-6	0	0
Total Underlying Outlays	**137158**	**137350**	**140775**	**140214**	**144947**	**145264**	**148219**	**148819**
Memorandum Items								
Net Advances	-10229	-14528	-5176	-6448	-394	-389	-405	-396
Total Outlays	126928	122822	135599	133765	144553	144875	147815	148423

(a) Figures differ from estimates published in the 1997-98 Budget due to classification changes introduced since the 1997-98 Budget. See footnote (a) to Table 1 for further details.

Table 10: Changes to Budget Sector Outlays by Economic Type since the 1997-98 Budget ($m)

	1997-98		1998-99		1999-00		2000-01	
	Budget(a)	MYEFO	Budget(a)	MYEFO	Budget(a)	MYEFO	Budget(a)	MYEFO
CURRENT OUTLAYS								
Final Consumption Expenditure	23448	24257	23108	23868	23319	23952	23522	24406
Defence Salaries	3578	3517	3563	3563	3473	3466	3504	3493
Defence Non-Salaries	6801	6879	7001	7018	7302	7271	7441	7410
Non-Defence Salaries	4002	4202	3596	3845	3510	3729	3523	3747
Non-Defence Non-Salaries	9067	9659	8948	9442	9034	9486	9054	9756
Total Current Transfer Payments	111688	111590	113741	111999	116765	115187	118890	117522
Interest	9051	8700	9115	8049	8226	7139	7439	6446
Subsidies	2754	2915	2669	2731	2598	2730	2365	2572
Personal Benefit Payments	49030	48801	49931	49394	51502	51129	52676	52419
Grants to Non-Profit Institutions	2652	2633	2606	2646	2721	2722	2818	2800
Grants to Non-Budget Sector	14528	14449	14929	14801	15711	15589	16467	16340
Grants to State Governments	24919	25138	25739	25509	27157	26892	28125	27808
Grants Through State Governments	3276	3438	3467	3567	3638	3765	3785	3917
Grants Direct to Local Governments	231	226	236	237	253	253	269	268
Grants to Multi Jurisdictional Sector	4057	4090	3847	3866	3710	3723	3672	3682
Grants Overseas	1170	1179	1181	1175	1228	1222	1254	1247
Other Transfers	21	21	21	24	21	24	22	23
TOTAL CURRENT OUTLAYS	**135137**	**135848**	**136849**	**135867**	**140084**	**139139**	**142412**	**141928**
CAPITAL OUTLAYS								
Capital Outlays on Goods	121	-260	287	162	556	570	744	708
Capital Outlays on Land	-662	-698	92	280	63	440	-9	572
Total Capital Transfer Payments	2781	2734	2652	2685	2604	2638	2618	2636
Grants to Non-Budget Sector	336	347	296	304	306	316	312	349
Grants to State Governments	2156	2064	2107	2116	2065	2081	2083	2070
Grants Through State Governments	93	104	98	92	89	87	85	79
Grants Direct to Local Governments	11	11	7	7	4	6	2	2
Grants to Multi Jurisdictional Sector	38	38	39	39	39	39	40	40
Grants to Other Sectors	148	171	105	127	101	108	95	96
Total Net Advances	-10229	-14528	-5176	-6448	-394	-389	-405	-396
To Non-Budget Sector	18	20	-874	-883	-26	-16	-26	-15
To Other Governments	-885	-888	-196	-199	-1251	-1255	-1112	-1110
To Other Sectors	-9363	-13660	-4107	-5366	883	882	733	730
TOTAL CAPITAL OUTLAYS	**2240**	**1777**	**3031**	**3127**	**3223**	**3649**	**3353**	**3916**
Contingency Reserve	-219	-274	895	1220	1640	2476	2455	2975
TOTAL UNDERLYING OUTLAYS	**137158**	**137350**	**140775**	**140214**	**144947**	**145264**	**148219**	**148819**
TOTAL OUTLAYS	126928	122822	135599	133765	144553	144875	147815	148423

(a) Figures differ from estimates published in the 1997-98 Budget due to classification changes introduced since the 1997-98 Budget. See footnote (a) to Table 1 for further details.

Table 11: Changes to Budget Sector Underlying Outlays by Portfolio since the 1997-98 Budget ($m)

	1997-98		1998-99		1999-00		2000-01	
	Budget(a)	MYEFO	Budget(a)	MYEFO	Budget(a)	MYEFO	Budget(a)	MYEFO
Contingency Reserve	-1222	-1289	1090	1653	1871	3192	2737	3867
Parliament	164	163	160	159	161	159	162	160
Attorney-General	1118	1137	867	874	863	866	878	881
Communications and the Arts	1189	1212	1175	1197	1167	1196	1181	1205
Defence	11480	11522	11725	11812	11966	11871	12170	12067
Veterans' Affairs	6391	6741	6421	6806	6511	6981	6587	7141
Employment, Education, Training and Youth Affairs	12907	13253	12717	13011	12794	13051	12923	13166
Environment	589	584	640	652	613	697	588	703
Finance and Administration	1072	956	730	803	969	1166	982	1392
Foreign Affairs and Trade	2082	2109	1948	1932	1983	1978	2021	2003
Health and Family Services	22209	21980	22920	22647	24025	23688	25237	24876
Immigration and Multicultural Affairs	520	533	478	466	474	455	486	465
Industry, Science and Tourism	3358	3435	3400	3427	3348	3480	3185	3421
Primary Industries and Energy	1584	1788	1428	1576	1376	1472	1194	1217
Prime Minister and Cabinet	1132	1146	1275	1285	1398	1406	1522	1529
Social Security	42230	41866	42712	42132	43993	43507	45018	44568
Transport and Regional Development	2559	2644	2518	2519	2528	2554	2544	2643
Treasury	27405	27098	28182	26826	28511	27105	28404	27073
Workplace Relations and Small Business	390	470	391	436	396	439	399	442
Total Underlying Outlays	**137158**	**137350**	**140775**	**140214**	**144947**	**145264**	**148219**	**148819**
Memorandum Items								
Net Advances	-10229	-14528	-5176	-6448	-394	-389	-405	-396
Total Outlays	126928	122822	135599	133765	144553	144875	147815	148423

(a) Figures differ from estimates published in the 1997-98 Budget due to classification and Administrative Arrangements Order changes introduced since the 1997-98 Budget. See footnote (a) to Table 1 for further details of the classification changes.

REVENUE

Table 12 provides estimates of tax, non-tax and total revenue from 1997-98 to 2000-01.

Table 12: Estimates of Budget Sector Revenues

	1997-98		1998-99	
	Budget	MYEFO	Budget	MYEFO
Total tax ($m)	129433	130126	138248	138284
Real growth on previous year (%)	*2.0*	*1.8*	*4.2*	*3.7*
Per cent of GDP	*23.8*	*24.2*	*24.0*	*24.3*
Non-tax ($m)	3918	4479	4135	4388
Real growth on previous year (%)	*-27.0*	*-15.4*	*2.9*	*-4.4*
Per cent of GDP	*0.7*	*0.8*	*0.7*	*0.8*
Total revenue ($m)	**133351**	**134604**	**142383**	**142672**
Real growth on previous year (%)	*0.9*	*1.2*	*4.1*	*3.4*
Per cent of GDP	*24.5*	*25.1*	*24.7*	*25.1*
	1999-00		2000-01	
	Budget	MYEFO	Budget	MYEFO
Total tax ($m)	146191	145875	154796	155066
Real growth on previous year (%)	*3.3*	*2.8*	*3.3*	*3.7*
Per cent of GDP	*23.9*	*24.2*	*23.9*	*24.2*
Non-tax ($m)	4139	4387	4114	4128
Real growth on previous year (%)	*-2.2*	*-2.5*	*-3.0*	*-8.2*
Per cent of GDP	*0.7*	*0.7*	*0.6*	*0.6*
Total revenue ($m)	**150330**	**150262**	**158911**	**159194**
Real growth on previous year (%)	*3.1*	*2.7*	*3.1*	*3.3*
Per cent of GDP	*24.6*	*24.9*	*24.5*	*24.9*

Relative to the 1997-98 Budget:

- total revenue is expected to be higher in 1997-98 and 1998-99, slightly lower in 1999-2000 and slightly higher in 2000-01;
- in real terms, increases in total revenue are broadly similar to those previously forecast; and
- consistent with the 1997-98 Budget projections, revenue as a share of GDP is still expected to decline in 1997-98 by ½ percentage point from (now revised) 1996-97 levels and subsequently remain broadly unchanged in the outyears.

Revisions to the 1997-98 Budget estimates reflect revenue collections up to early December, as well as the impact of revisions to economic parameters and policy decisions taken since budget time up to, and including, 12 December 1997. The safety net arrangements agreed between the Commonwealth and the States to protect State revenues following the High Court decision on 5 August 1997 invalidating State business franchise fees have no net impact on budget revenue apart from administration costs. This reflects the fact that safety net arrangements represent a State tax imposed and collected by the Commonwealth at the request and on behalf of the States and Territories.

Table 13 reconciles the 1997-98 Budget revenue estimates to current revenue estimates in terms of policy decisions and parameter and other variations.

Table 13: Reconciliation of Changes to Budget Sector Revenue Since the 1997-98 Budget

	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
Revenue at 1997-98 Budget	**133351**	**142383**	**150330**	**158911**
Changes from 1997-98 Budget to MYEFO				
Policy decisions	3	-73	-113	-244
Revisions to parameters and other variations	1250	362	45	528
Total variations	1253	289	-69	283
Total revenue at MYEFO	**134604**	**142672**	**150262**	**159194**

Policy decisions in the post 1997-98 Budget period reduce revenue slightly in the outyears. The major policy changes from 1998-99 reflect Government amendments to the capital gains tax cost base provisions and measures contained in the Industry Statement *Investing for Growth*. In 2000-01, revenue is reduced by $200 million as a result of the Government's decision to abolish the requirement for banks to hold non-callable deposits with the Reserve Bank from 1 July 1999. Revenue policy decisions are outlined in Table 14 and detailed in Appendix A.

Table 14: Policy Decisions Taken Since the 1997-98 Budget

Description of Measure	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
Exemption of income derived by bona-fide prospectors	0.0	-2.0	0.0	0.0
Capital Gains Tax (extension of rollover relief through shares)	*	*	*	*
Capital Gains Tax (cost base provisions: transitional measure)	-5.0	-60.0	-70.0	0.0
Film Licensed Investment Companies (FLICs)	0.0	*	*	0.0
Extension of Interest Withholding Tax exemption	-1.0	-3.0	-3.0	-3.0
Extension of Offshore Banking Unit tax concession	0.0	-9.0	-16.0	-16.0
Capital Gains Tax - Non-residents' foreign source gains	..	..	..	..
Foreign banks subsidiaries - Thin capitalisation 'loan back' rules	..	..	..	..
Foreign Investment Fund rules - Exemption for United States FIFs	0.0	-2.0	-3.0	-3.0
Trust distributions to superannuation funds	0.0	15.0	15.0	15.0
TRADEX	0.0	-15.0	-30.0	-30.0
Manufacturing In Bond	*	*	*	*
Commonwealth safety net arrangements for Business Franchise Fees	3.1	0.0	0.0	0.0
Changes to the Migration Programme - Increased focus on skills	-7.0	-7.1	-7.3	-7.5
Resolution of residence status for certain persons in Australia	13.6	10.3	0.7	..
Changes to fees for the review of immigration decisions	-0.9	0.3	0.3	0.3
Abolition of Non-Callable Deposits	0.0	0.0	0.0	-200.0
Total Measures	2.9	-72.5	-113.3	-244.1

* The nature of the variations is such that a reliable estimate of their effect cannot be provided.

Table 15 provides a detailed breakdown of the changes to estimates of major revenue items for 1997-98.

Table 15: Revenue Estimates

	1997-98			
	Budget Estimate $m	MYEFO Estimate $m	Change on Budget $m	Change on Budget %
Taxation Revenue				
Income Tax				
Individuals -				
Gross PAYE	62050	61810	-240	-0.4
Gross Other Individuals(a)(b)	10540	10770	230	2.2
Gross Prescribed Payments System(c)	2430	2420	-10	-0.4
Medicare Levy	3740	3730	-10	-0.3
Refunds(d)	9000	9170	170	1.9
Total Individuals	69760	69560	-200	-0.3
Companies(a)	18590	18790	200	1.1
Superannuation Funds(a)	2490	2960	470	18.9
Withholding Tax	1230	1110	-120	-9.8
Petroleum Resource Rent Tax	850	920	70	8.2
Fringe Benefits Tax	3150	3170	20	0.6
Total Income Tax	96070	96510	440	0.5
Indirect Tax				
Sales Tax	14170	14090	-80	-0.6
Excise duty -				
Petroleum Products,				
Crude Oil and LPG	10840	10910	70	0.6
Other	2700	2710	10	0.4
Customs Duty - Imports (e)	3410	3600	190	5.6
Total Indirect Tax	31120	31310	190	0.6
Other Taxes, Fees and Fines	2243	2306	63	2.8
Total Taxation Revenue	129433	130126	693	0.5
Non-Tax Revenue				
Interest	999	999	-1	-0.1
Dividends and Other	2919	3480	561	19.2
Total Non-Tax Revenue	3918	4479	560	14.3
TOTAL REVENUE	133351	134604	1253	0.9

(a) Includes tax on realised capital gains.
(b) Includes Child Support Trust Account receipts of $477 million.
(c) Includes revenue and compliance impact of the Reportable Payments System payments by individuals of $1 million.
(d) Includes refunds of Child Support Trust Account receipts of $10 million.
(e) Customs duty collections include around $950 million of customs duty imposed on imported petroleum products, tobacco, beer and spirits, which is akin to excise duty on these items.

The change in the 1997-98 estimate is due to both higher taxation revenue and a higher RBA dividend payment. Revised dividend estimates also boost slightly the 1998-99 estimates of non-tax revenue.

Although most of the stronger than expected tax revenue collections in 1996-97 are expected to carry over into tax collections for 1997-98, downward revisions to some economic parameters since budget time are expected to reduce the overall increase in tax revenue. For instance, the slightly higher company tax revenue in 1997-98 reflects stronger company tax collections in 1996-97 more than offsetting the impact of lower than expected company income in 1996-97. PAYE revenue is slightly lower reflecting a downward revision to employment growth in 1997-98. Furthermore, an Australian

Taxation Office ruling on self-education expenses is expected to increase refunds in 1997-98. However, tax revenue from superannuation funds is expected to be higher reflecting stronger than expected collections in 1996-97 and stronger forecast contributions and earnings growth.

Total taxation revenue in 1998-99 is broadly unchanged from the 1997-98 Budget estimate reflecting offsetting movements in the income tax and other tax categories. Over the forward estimates period taxation revenue is projected to grow broadly in line with GDP.

Table 16 provides estimates of major categories of revenue from 1997-98 to 2000-01.

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

Table 16: Revenue Estimates

	1997-98			1998-99			1999-00			2000-01		
	Budget	MYEFO	Change on 1996-97	Budget	MYEFO	Change on 1997-98	Budget	MYEFO	Change on 1998-99	Budget	MYEFO	Change on 1999-00
	$ billion	$ billion	%	$ billion	$ billion	%	$ billion	$ billion	%	$ billion	$ billion	%
Individuals Tax	69.8	69.6	4.7	75.0	74.5	7.2	79.6	79.1	6.1	84.7	84.4	6.7
Per cent of GDP	*12.8*	*13.0*		*13.0*	*13.1*		*13.0*	*13.1*		*13.1*	*13.2*	
Other Income Tax	26.3	27.0	-1.4	28.1	28.7	6.4	29.8	30.1	5.1	31.6	32.3	7.3
Per cent of GDP	*4.8*	*5.0*		*4.9*	*5.0*		*4.9*	*5.0*		*4.9*	*5.1*	
Total Income Tax	96.1	96.5	2.9	103.0	103.2	6.9	109.4	109.2	5.8	116.3	116.7	6.9
Per cent of GDP	*17.7*	*18.0*		*17.9*	*18.2*		*17.9*	*18.1*		*17.9*	*18.2*	
Other Tax	33.4	33.6	4.9	35.2	35.1	4.3	36.8	36.7	4.5	38.5	38.4	4.6
Per cent of GDP	*6.1*	*6.3*		*6.1*	*6.2*		*6.0*	*6.1*		*5.9*	*6.0*	
Total Tax	129.4	130.1	3.4	138.2	138.3	6.3	146.2	145.9	5.5	154.8	155.1	6.3
Per cent of GDP	*23.8*	*24.2*		*24.0*	*24.3*		*23.9*	*24.2*		*23.9*	*24.2*	
Non-tax	3.9	4.5	-14.1	4.1	4.4	-2.0	4.1	4.4	0.0	4.1	4.1	-5.9
Per cent of GDP	*0.7*	*0.8*		*0.7*	*0.8*		*0.7*	*0.7*		*0.6*	*0.6*	
Total Revenue	**133.4**	**134.6**	**2.7**	**142.4**	**142.7**	**6.0**	**150.3**	**150.3**	**5.3**	**158.9**	**159.2**	**5.9**
Per cent of GDP	*24.5*	*25.1*		*24.7*	*25.1*		*24.6*	*24.9*		*24.5*	*24.9*	

APPENDIX A: POLICY DECISIONS TAKEN SINCE THE 1997-98 BUDGET

The following includes all decisions taken by the Government since the 1997-98 Budget up to, and including, 12 December 1997.

OUTLAYS

ATTORNEY-GENERAL

Additional legal aid funding

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
4.7	2.5	0.7	0.7

Explanation

The Government has agreed to provide additional legal aid funding as part of new legal aid agreements between the Commonwealth and the States and Territories, effective from 1 July 1997.

Further Information

The agreed level of legal aid funding, including the additional funding under these new agreements, is $106.6 million in 1997-98 and $102.8 million a year from 1998-99. This level of funding will be indexed from 2000-01.

ATTORNEY-GENERAL

Replacement of the High Court roof

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.9	0.0	0.0	0.0

Explanation

The Government has agreed to provide funding for the replacement of the High Court roof to avoid further water damage in the building and disruption of court proceedings.

ATTORNEY-GENERAL

Australian Protective Service — Increased rationalisation costs and establishment of an overdraft facility and business loan

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
1.6	0.0	0.0	0.0

Explanation

The Australian Protective Service (APS) received a one-off increase in funding for increases in dead rent costs of around $0.4 million as well as a $1.3 million business loan to finance the re-engineering of their information management platform and technological framework. The loan is repayable monthly, with interest, over a period of five years and will be supported by a full business case before any drawdowns are made.

Further Information

The APS was also provided with a budget-neutral overdraft facility (of up to $3.5 million) to cover payment of fortnightly salaries and wages in the event of late payments from clients. Any drawdown is expected to be repaid in the same financial year so that there is no effect on total outlays for any given year.

ATTORNEY-GENERAL

Illicit Drugs Strategy — Supply reduction

Financial Implications ($m)

	1997-98	1998-99	1999-00	2000-01
Attorney-General	3.4	6.1	6.2	6.2
Industry, Science and Tourism	3.7	7.9	6.5	4.4
Total	7.1	14.0	12.6	10.7

Explanation

As part of the National Drugs Strategy, an additional $88.7 million will be provided as the first instalment towards a new National Illicit Drugs Strategy. The strategy consists of three main parts: supply reduction (law enforcement); education; and treatment and research. Of the $88.7 million, $44.4 million will fund programmes administered by the Australian Customs Service (ACS), the Australian Federal Police (AFP), the National Crime Authority, the Australian Institute of Criminology, the Australian Transaction Reports and Analysis Centre (AUSTRAC) and the Attorney-General’s Department including:

- $15.7 million for 54 more operational investigative staff for the AFP, to be organised in three ‘strike teams’ which will target drug syndicates in Australia;

- $7.4 million on increasing the capacity of the ACS's cargo profiling system and examination facilities in Sydney;

- $7.4 million on improving Commonwealth law enforcement agencies' communication and information technology capabilities;

- $4.0 million on funding a National Heroin Signature Programme to identify trafficking patterns for heroin, improve research into drug-crime links and increase AFP funding for informant handling and witness protection;

- $1.5 million on enhancing AUSTRAC's capacity to monitor suspicious financial transactions;

- $1.5 million on additional intelligence analysts for the ACS; and

- $6.8 million on various improvements to surveillance and detection capacity in the Torres Strait, including the purchase of three high speed ACS vessels and establishment of a permanent AFP presence on Thursday Island.

COMMUNICATIONS AND THE ARTS

Funding for Old Parliament House and the National Portrait Gallery

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
4.4	3.7	3.7	3.8

Explanation

The Government has agreed to provide additional funding for the management, use and preservation of Old Parliament House and the National Portrait Gallery. The additional funding will enable:

- the introduction of a new single management structure for Old Parliament House integrating the National Portrait Gallery and the establishment of an Old Parliament House Governing Council; and

- the expansion of the National Portrait Gallery and establishment of a National Portrait Gallery Board.

Further Information

Funding provided to the National Museum of Australia and the National Library of Australia to provide services in Old Parliament House ($1.9 million in 1996-97) expired at the end of 1996-97.

COMMUNICATIONS AND THE ARTS

Funding for the Centenary of Federation Council

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	11.8	15.6	15.6

Explanation

The Government has agreed to provide additional funding as part of its support for the activities of the Centenary of Federation Council. The new funding involves:

- $33 million for the extension of the Centenary of Federation Community Grants Programme beyond 1997-98. The total Commonwealth commitment to the programme will be $35 million over a four-year period from 1997-98 to 2000-01 (including $2 million already approved in the 1997-98 Budget), subject to matching funding from the States and Territories. Grants will be provided in support of Centenary of Federation activities with the aim of encouraging a high level of community involvement in those activities; and

- $10 million over the three year period from 1998-99 to 2000-01 for the running costs of the Centenary of Federation Council and its Secretariat.

Further Information

In the 1997-98 Budget the Commonwealth made an initial allocation of $6 million for the activities of the Centenary of Federation Council ($2 million for the community grants programme and $4 million for running costs of the Council and its Secretariat).

COMMUNICATIONS AND THE ARTS

Establishment of the National Office of the Information Economy

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
3.0	3.0	3.0	0.0

Explanation

The Government has agreed to provide funding for the establishment of the National Office of the Information Economy (NOIE). NOIE is being established to develop, coordinate and overview policy relating to:

- the regulatory, legal and physical infrastructure environment for online activities, including facilitating electronic commerce;

- ensuring consistency of Commonwealth positions for international fora; and
- overseeing policies for applying new technology to government administration, information and service provision.

COMMUNICATIONS AND THE ARTS

Grants to assist the purchase of broadcasting reception equipment in remote areas to facilitate online service delivery

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
3.2	0.0	0.0	0.0

Explanation

This is one of a number of measures announced by the Government in the Industry Statement *Investing for Growth*, the Government's response to the Mortimer Review of business programmes and the Information Industries Taskforce and Information Policy Advisory Council reviews.

The Government is providing subsidies to individuals and communities in remote areas to assist in meeting the cost of purchasing digital reception equipment following the cessation of analogue television transmission services.

Further Information

Some remote areas of Australia have not had access to telecommunications infrastructure of a sufficient quality to allow reasonable access to data services such as the Internet. Access to online services will improve from November 1997 to mid 1998 with the planned conversion of remote area broadcasting services from analogue to digital transmission (which will provide online services but at an additional upgrade cost for replacement equipment).

In addition to the $3.2 million funding for this purpose, the Board of the Regional Telecommunications Infrastructure Fund (Networking the Nation) has agreed to provide $8 million from the fund.

COMMUNICATIONS AND THE ARTS

Grants for projects to assist people with disabilities to access online services

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	1.7	1.7	0.0

Explanation

This is one of a number of measures announced by the Government in the Industry Statement *Investing for Growth*, the Government's response to the Mortimer Review of business programmes and the Information Industries Taskforce and Information Policy Advisory Council reviews.

The Government is providing additional funding to establish a competitive grants programme which will fund innovative high quality projects to increase access to, and use of, online information and communications services for people with disabilities.

COMMUNICATIONS AND THE ARTS

Community awareness raising programme on the benefits of online services

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
1.3	1.6	0.0	0.0

Explanation

This is one of a number of measures announced by the Government in the Industry Statement *Investing for Growth*, the Government's response to the Mortimer Review of business programmes and the Information Industries Taskforce and Information Policy Advisory Council reviews.

The Government is providing additional funding to the National Office of the Information Economy to administer an awareness raising programme to inform the public of the benefits of 'going online'. Initiatives to be funded will include a special Internet website, a phone hotline, an 'online laboratory' which will travel to community centres, development of material to facilitate family Internet nights at schools and a volunteer programme to help elderly and handicapped people to use the Internet.

COMMUNICATIONS AND THE ARTS

Grant to contribute towards the building of a replica of the 1606 Dutch ship Duyfken

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	0.5	0.0	0.0

Explanation

As announced by the Prime Minister on 10 November 1997, during the visit by the Dutch Prime Minister, Mr Wim Kok, the Australian Government will contribute $500,000 towards the building of a replica of the 1606 Dutch ship, Duyfken. Mr Kok announced that the Dutch government will provide a similar amount in recognition of Australia's historic ties with the Netherlands.

The grants will be made in 1997-98 through rephasing other programme payments within the Department of Communications and the Arts' Cultural Development Programme into 1998-99. The Cultural Development Programme will be supplemented in 1998-99 by $500,000 to enable rephased payments to be met.

COMMUNICATIONS AND THE ARTS

Continued funding of Film Australia to maintain the National Interest Programme

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	0.0	6.7	6.8

Explanation

Film Australia's main function is the production and distribution of documentaries under contract to the Commonwealth to produce the National Interest Programme (NIP). Funding for the NIP was extended in the 1997-98 Budget until the end of 1998-99, pending the outcome of a Government review of further options for delivering assistance to the Australian documentary film sector including the feasibility of privatising Film Australia. The Government has now decided to retain Film Australia in its present form and has extended funding for the NIP until the end of 2002-03.

EMPLOYMENT, EDUCATION, TRAINING AND YOUTH AFFAIRS

Revisions to the AUSTUDY Actual Means Test

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
21.3	43.4	44.5	46.0

Explanation

AUSTUDY assists students whose individual and family circumstances are such that, without financial help, full-time study would not be possible. The Actual Means Test (AMT) was introduced in the 1995-96 Budget because of widespread community concern that people with substantial financial resources were gaining access to AUSTUDY assistance because of their ability to legitimately minimise their taxable incomes.

This measure proposes a number of changes to the AMT. These changes will take effect from 1 January 1998 and include:

- basing the AMT on historical financial year means with applicants no longer having to estimate future year's expenditure;
- excluding student assistance, non-taxable Department of Veterans' Affairs and other social security payments from actual means;
- calculating the notional gross income based on two income earners rather than one income earner in the family;
- changing the treatment of 'arm's length' loans under the AMT so that only loan repayments will be treated as assessable expenditure;
- amending arrangements for the treatment of expenditure financed by savings so that this expenditure is excluded from actual means;
- excluding certain low risk categories from the AMT; and
- expanding the treatment of negatively geared investments to non-AMT applicants so that there is parity with AMT applicants.

Further Information

The aggregate cost of the amendments detailed above is expected to be largely offset by increased savings associated with, for example, the verification of AUSTUDY entitlements and variations to the estimated AMT savings from previous AMT measures. The net effect of all these initiatives in a full financial year is estimated to be around $11 million.

EMPLOYMENT, EDUCATION, TRAINING AND YOUTH AFFAIRS

Modification to the ABSTUDY measure announced in the 1997-98 Budget

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
..	0.5	0.0	0.0

Explanation

In the 1997-98 Budget, a measure was introduced to apply some limits to a range of ABSTUDY benefits that had previously been unlimited. Following further consultation, changes to the 1997-98 Budget measure were announced which:

- increased the limit for ABSTUDY fares and travel allowances annually to a maximum of six return trips and 40 days of away-from-base activity per student, per course, with some transitional arrangements applying in 1998 to some approved courses; and

- allow interstate travel to approved basic certificate and enabling courses where it is not available in a student's home State, or Territory, or where it would be more cost-effective than intrastate travel.

Further Information

This measure is expected to be fully offset through other Department of Employment, Education, Training and Youth Affairs appropriations.

The ABSTUDY programme is designed to help overcome disincentives to participate in secondary and further education by indigenous Australians through the provision of financial assistance to study. Of these benefits, away-from-base assistance is effectively for in-the-field training, clinical experiences for health courses and instruction and tuition away from the student's place of study. Away-from-base assistance is usually paid to the institution, travel agent or accommodation provider, but can be paid to the student in some instances.

EMPLOYMENT, EDUCATION, TRAINING AND YOUTH AFFAIRS

Illicit Drugs Strategy — Education

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	2.6	3.0	1.9

Explanation

As part of the National Drugs Strategy, an additional $88.7 million will be provided as the first instalment towards a new National Illicit Drugs Strategy. The strategy consists of three main parts: supply reduction (law enforcement); education; and treatment and research. Of the $88.7 million, $7.5 million will fund programmes administered by the Department of Employment, Education, Training and Youth Affairs. The Government's School Drug Education Strategy will:

- adopt a goal of no illicit drugs in schools. The strategy will be developed in close consultation with State and Territory governments, school principals, teachers, health professionals, parents and the community. There will also be close collaboration across Commonwealth portfolios, particularly between health and education; and

- provide funds for the development of new, high quality curriculum and teacher professional development materials; drug awareness in teacher education and health courses; research into drug usage by school students; partnerships between government and non-government organisations to develop strategies for specific localities; case studies to encourage best practice; and an annual national award for combating drug abuse in schools.

EMPLOYMENT, EDUCATION, TRAINING AND YOUTH AFFAIRS

Aligning rates and conditions for older commencing students with the Youth Allowance

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	0.5	0.5	0.5

Explanation

This measure aligns rate and entitlement conditions for students who commence study at 25 years of age or older with those applying under the Youth Allowance (except that the older commencing students will not have access to rent assistance). Aligning both rate and eligibility conditions will streamline administrative arrangements. Information about the implementation of the Youth Allowance measure can be found under the Social Security portfolio.

EMPLOYMENT, EDUCATION, TRAINING AND YOUTH AFFAIRS

Enhancing access in schools and the community to IT and encouraging links between the IT industry and higher education

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.4	1.1	2.0	3.2

Explanation

This is one of a number of measures announced by the Government in the Industry Statement *Investing for Growth,* the Government's response to the Mortimer Review of business programmes and the Information Industries Taskforce and Information Policy Advisory Council reviews. These measures are designed to enhance the prospects for growth and strengthen the capacity of Australian industries.

This particular measure aims to enhance access to IT in schools and encourage industry and higher education linkages. There are three main parts to this initiative:

- surplus Commonwealth IT equipment to schools — funding of $0.3 million over three years to 1999-00 will be made available to help develop a process whereby Commonwealth Departments can donate surplus computers and other information and communication technology (ICT) equipment to schools to improve student access to these technologies;

- community IT access through schools — funding of $0.6 million over two years to 1998-99 will be provided for a pilot project to enhance community access to ICT skills through schools. The pilot project will be conducted in eight different regions across Australia, targeting rural areas and areas of socioeconomic disadvantage. Schools in the targeted areas will provide non-accredited courses in ICT or guided access sessions for the community, particularly parents; and

- 50 additional Australian Postgraduate Awards — additional funding of $9.2 million from 1998-99 to 2001-02 will be provided for an additional 50 Australian Postgraduate Awards to facilitate partnerships between the information, communication and technology industry and higher education institutions. It will encourage high calibre postgraduate research students to undertake industry based research in this area under the supervision of senior academics and industry partners. The additional specifically targeted 50 awards, which will be available in each year from 1999 to 2001, will provide a student stipend of $20,500 to each award holder for the duration of their courses.

ENVIRONMENT

Independent monitor for the Port Hinchinbrook project

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.1	0.0	0.0	0.0

Explanation

Under the joint Deed of Agreement between the Commonwealth and the State of Queensland an independent monitor has been appointed to oversee the private development of Port Hinchinbrook. The costs are to be shared between the two Governments.

ENVIRONMENT

Great Barrier Reef Marine Park Authority — Funding to offset the reduction in revenue related to a variation to the Environment Management Charge

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
1.2	1.2	1.2	1.2

Explanation

In the 1996-97 Budget the Government agreed to increase the Great Barrier Reef Marine Park Authority's Environment Management Charge (EMC) from $1 to $6 per person per day. The increase was reflected in the Government's revenue estimates and was matched by a corresponding payment to the Great Barrier Reef Marine Park Authority under a special appropriation in accordance with section 39I of the *Great Barrier Reef Marine Park Act 1975*.

After further consideration the new EMC will now be increased to $4 per visitor per day with effect from 1 April 1998. As a result, the revenue from the EMC and the equivalent payment to the Authority will be lower than expected. The base funding for the Authority has been increased by $1.2 million a year to alleviate the reduction to its special appropriation.

ENVIRONMENT

Enhanced package of measures to reduce Australia's greenhouse gas emissions

Financial Implications ($m)

	1997-98	1998-99	1999-00	2000-01
Environment	0.0	29.7	34.6	37.1
Primary Industries and Energy	0.0	4.4	4.5	4.4
Total	0.0	34.1	39.1	41.5

Note: The administrative arrangements for the Commonwealth Greenhouse Office are still to be finalised and the above allocation of funding between individual portfolios may change.

Explanation

The Government has committed to an enhanced package of domestic greenhouse measures which builds on Australia's existing 'no-regrets' domestic National Greenhouse Strategy (NGS). An expenditure package totalling $177.9 million from 1998-99 to 2002-03 will comprise measures designed to reduce Australia's greenhouse gas emissions in key sectors where emissions are high or projected to grow strongly. This expenditure will be on both new measures and substantially expanding existing programmes.

The enhanced greenhouse package of measures addresses emissions across many sectors including residential, industry, transport, energy, agriculture, forestry and government operations. Particular priorities are to:

- boost the use of renewable energy;
- accelerate the rate of energy market reform;
- implement national codes and standards for buildings, appliances and industrial equipment;
- foster growth in plantation forestry as a sink for greenhouse gases; and
- extend the Greenhouse Challenge Programme.

A Commonwealth Greenhouse Office will be established within the Department of Environment with responsibility for coordinating domestic climate change policy and delivery of greenhouse response programmes.

FINANCE AND ADMINISTRATION

Proceeds from sale of the National Transmission Network

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
nfp	nfp	nfp	nfp

Explanation

This measure represents the proceeds from the sale of the National Transmission Network which are classified as commercial-in-confidence and are not for publication. Proceeds from this sale will impact on the underlying and headline balance as it is classified as a sale of a physical asset.

FINANCE AND ADMINISTRATION

Cost of sale of the National Transmission Network

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
3.5	0.0	0.0	0.0

Explanation

Following the announcement in the 1997-98 Budget, the Government subsequently decided to sell the National Transmission Network by open tender with the sale managed by the Office of Asset Sales. This measure represents the cost of progressing the sale.

FINANCE AND ADMINISTRATION

Proceeds from sale of the Housing Loans Insurance Corporation

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	0.0	0.0	0.0

Explanation

This measure represents the proceeds from the sale of the Housing Loans Insurance Corporation which are classified as commercial-in-confidence and are not for publication. Proceeds from this sale will not impact on the underlying budget balance but will impact on the headline measure of the budget balance.

FINANCE AND ADMINISTRATION

Cost of sale of the Housing Loans Insurance Corporation

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.3	0.0	0.0	0.0

Explanation

This measure relates to the costs associated with progressing the sale of the Housing Loans Insurance Corporation to GE Capital Services Australia.

FINANCE AND ADMINISTRATION

Member choice and Commonwealth superannuation arrangements

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	12.0	40.0	290.0

Explanation

The Government has decided to introduce a choice of either a complying superannuation fund or a Retirement Savings Account (RSA) to new and existing Commonwealth civilian employees. This measure brings forward future superannuation liabilities for existing employees without increasing the cost of superannuation to employers. It represents, therefore, no net cost to the Budget on an accruals basis.

These arrangements will mean that:

- from 1 July 1998, employer superannuation for new Commonwealth civilian employees will be provided through a complying superannuation fund or a RSA of their choice;
- from 1 July 2000, existing Commonwealth civilian employees will have the choice of remaining in their existing scheme or electing to join another complying superannuation fund or RSA; and
- future superannuation liabilities for new employees and for existing employees who elect to join a new fund or RSA are fully funded.

FINANCE AND ADMINISTRATION

Examination of Australian Defence Industries Ltd business for potential sale

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
4.0	0.0	0.0	0.0

Explanation

Following the Government's announcement in the 1997-98 Budget, the study for the possible sale of Australian Defence Industries (ADI) Ltd has been progressed. Funding has been provided to consider the optimal timing for offering ADI for sale together with the means of sale and other sale issues.

Further Information

The Government has engaged business, legal and investigating accountant advisers to prepare recommendations on how best to progress the possible sale of the Commonwealth's equity in ADI. The Government has asked the same advisers to examine options for the future disposition of the shares in the Australian Submarine Corporation (ASC) currently held by the Australian Industry Development Corporation.

Due diligence investigations of ADI and ASC are also ongoing.

FINANCE AND ADMINISTRATION

Revised Commonwealth purchasing arrangements

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	-4.0	-4.1	-4.1

Explanation

The Government has agreed to a range of improvements to Commonwealth purchasing policy that include requiring agencies to clearly identify in tender documentation (for projects greater than $10 million) industry development criteria and any opportunities for small and medium enterprise participation. Common Use Arrangements (CUAs) will also be restructured, and commissions currently levied on suppliers will be abolished. This will represent a net savings to the Budget.

FINANCE AND ADMINISTRATION

Proceeds from the sale of Australian Defence Industries Ltd

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	0.0	0.0	0.0

Explanation

This represents the potential proceeds from the sale of the Australian Defence Industries Ltd after taking into account likely market factors and the structure of the sale. The proceeds are classified as commercial-in-confidence and are not for publication. Proceeds from this sale will not impact on the underlying budget balance but do impact on the headline measure of the budget balance.

FINANCE AND ADMINISTRATION

Cost of sale of Australian Defence Industries Ltd

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
5.5	4.5	0.0	0.0

Explanation

Following completion of the scoping study announced in the 1997-98 Budget, the Government has decided to sell Australian Defence Industries Ltd through a trade sale to be managed by the Office of Asset Sales and Information Technology Outsourcing. This measure is in addition to the amount of $4 million provided in 1997-98 for the progression of the scoping study and initial vendor due diligence.

FOREIGN AFFAIRS AND TRADE

Extension of the Export Market Development Grants for a further two grant years

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	0.0	0.0	150.0

Explanation

This is one of a number of measures announced by the Government in the Industry Statement *Investing for Growth*, the Government's response to the Mortimer Review of business programmes and the Information Industries Taskforce and Information Policy

Advisory Council reviews. These measures are designed to enhance the prospects for growth and strengthen the capacity of Australian industries.

The Export Market Development Grants (EMDG) scheme provides taxable cash grants to assist small to medium sized enterprises in undertaking export promotion activities. Under existing legislative provisions of the *Export Market Development Grants Act 1997*, the scheme is open for eligible claimants up to and including the grant year beginning 1 July 1998. This measure extends the life of the programme to the grant year beginning 1 July 2000 for which funding is provided in 2001-02.

FOREIGN AFFAIRS AND TRADE

Extension of the Export Access Programme to the year 2001-02

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	0.9	3.5	3.5

Explanation

This is one of a number of measures announced by the Government in the Industry Statement *Investing for Growth,* the Government's response to the Mortimer Review of business programmes and the Information Industries Taskforce and Information Policy Advisory Council reviews. These measures are designed to enhance the prospects for growth and strengthen the capacity of Australian industries.

The Export Access Programme provides export market assistance for small to medium sized enterprises (SMEs). The programme, currently delivered by major industry associations on behalf of Austrade, targets 500 SMEs a year, assisting them to undertake export activity on a sustainable basis.

The programme is a key means of helping to internationalise Australian SMEs. Its funding will be extended until 2001-02. At the same time, the Government will ensure the programme is better integrated with other trade promotion activities through a new advisory board and revised operating arrangements consistent with the Mortimer programme design principles. The programme will have a stronger regional focus and increased emphasis on sectors with particular export potential, such as the information sector.

FOREIGN AFFAIRS AND TRADE

Tradestart — New export assistance for regional and rural Australia

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	0.5	0.5	0.5

Explanation

This is one of a number of measures announced by the Government in the Industry Statement *Investing for Growth,* the Government's response to the Mortimer Review of business programmes and the Information Technology Taskforce and Information Policy Advisory Council reviews. These measures are designed to enhance the prospects for growth and strengthen the capacity of Australian industries.

Tradestart is a new programme to improve export outcomes for regional Australia. Tradestart will be delivered through Austrade to exporters and potential exporters. The programme will coordinate Austrade's Regional Trade Commissioners with an expanded Associate Officer network to improve the delivery of Austrade services to regional centres. It will enable industry associations and a range of business and regional development organisations, at both the State and local level, to deliver Austrade's services direct to the local business community. The Associate Officers will provide direct links to Austrade's international network and advanced electronic information systems and to the Export Access programme. The programme will draw on the resources of the private sector and links with State government bodies to ensure that Australian business people outside major metropolitan centres have equitable access to the Government's export assistance programmes.

FOREIGN AFFAIRS AND TRADE

Olympic Torch relay — The South Pacific Islands component

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	0.8	2.8	0.0

Explanation

The Oceania National Olympic Committees (ONOC) proposed that the Olympic Torch pass through the Pacific region on its way to Australia from Greece, reflecting a theme of the Sydney Olympic bid that Sydney's hosting of the Games would provide an opportunity to project a positive image of the Pacific to the world. The Prime Minister announced at the 1997 South Pacific Forum that the Government intends to achieve this objective by underwriting the costs of carrying the Olympic Torch to all ONOC member countries.

It is expected that the Olympic Torch relay will further cement the spirit of the Olympics within these countries, highlight the role of sport in development and provide a great boost to the tourism industry in the region — an important part of many island economies. This measure provides funding of $3.6 million for this purpose. These funds will be paid to the Sydney Organising Committee for the Olympic Games who will have responsibility for implementation of the Olympic Torch relay.

HEALTH AND FAMILY SERVICES

Increased funding provided under the Commonwealth/State Disability Agreement

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
nfp	nfp	nfp	nfp

Explanation

The Commonwealth has offered increased funding for any State which signs a five year agreement with the Commonwealth on responsibilities for disability services. Because the Commonwealth/State Disability Agreement is in the stage of negotiation, the financial details of this measure are not for publication.

HEALTH AND FAMILY SERVICES

Australian Radiation Protection and Nuclear Safety Administration

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	0.0	0.0	0.0

Explanation

A new agency, the Australian Radiation Protection and Nuclear Safety Agency (ARPNSA) is to be formed within the Health and Family Services portfolio by combining the resources of the Australian Radiation Laboratory (ARL) and the Nuclear Safety Bureau (NSB). The current level of funding for the ARL and NSB will form base funding for the ARPNSA and this is to be supplemented in the short term, as part of the initial set-up arrangements, as follows:

1998-99	$0.7 million
1999-00	$0.9 million
2000-01	$0.6 million
2001-02	$0.4 million

However, the funding for this measure will be met from existing estimates and hence will have zero cost to the budget.

HEALTH AND FAMILY SERVICES

Additional funding for the implementation of Residential Aged Care (including the concessional resident subsidy)

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
1.1	1.9	7.8	8.6

Explanation

The Government has decided, as a result of negotiations in respect of the 1996-97 Structural Reform of Aged Care measure, to raise the concessional resident supplement to $7 per day for those facilities which have up to 40 per cent of concessional residents and $12 per day for those facilities which have greater than 40 per cent of their residents entitled to concessional supplementation.

As part of the implementation arrangements of the *Aged Care Act 1997*, the Government has agreed to the establishment of a complaints resolution scheme for the Aged Care Programme. The complaints resolution scheme will be oversighted by independent committees and will be responsible to the Minister for Health and Family Services and the Parliament. These committees will be able to make formal determinations where negotiation and mediation have failed. It is intended there will be five committees, comprising at least three community representatives and a chairperson.

HEALTH AND FAMILY SERVICES

Adjustments to the broadbanded health-related programmes

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
3.7	0.0	0.0	0.0

Explanation

Funding levels for the Blood Transfusion Services have been increased by $7.2 million following a decision not to proceed with the transfer of Commonwealth funds for this programme to the States/Territories under the broadbanding arrangements for a range of existing health service specific purpose payments. This increase in funding has been partially offset by a reduction of $3.5 million in recognition of a new cost share funding arrangement between the Commonwealth and the States/Territories for imported blood products.

HEALTH AND FAMILY SERVICES

Coordinated care trials — Additional expenditure for contractual agreements

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
6.2	0.0	0.0	0.0

Explanation

Additional funding has been provided to support the necessary level of infrastructure, including evaluation, as the trials become operational during 1997-98.

Further Information

This project involves trials of coordinated care for people with ongoing and complex health needs.

HEALTH AND FAMILY SERVICES

Delay income test for residential aged care and exempt existing residents

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
57.8	55.1	38.0	29.3

Explanation

Income testing was to apply to all residents of aged care facilities with effect from 1 November 1997. The income test is now to apply only to new residents admitted on or after 1 March 1998 at a cost of:

$46.9 million in 1997-98;
$44.9 million in 1998-99;
$30.7 million in 1999-00; and
$23.1 million in 2000-01.

To protect hostel residents in care before 1 October 1997 from a loss in disposable income, the Government is providing an additional supplement to service providers, enabling them to reduce fees accordingly. This supplement will be at a cost of:

$10.9 million in 1997-98;
$10.2 million in 1998-99;
$7.3 million in 1999-00; and
$6.2 million in 2000-01.

HEALTH AND FAMILY SERVICES

Illicit Drugs Strategy — Harm minimisation

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
1.3	12.4	12.7	10.4

Explanation

As part of the National Drugs Strategy, an additional $88.7 million will be provided as the first instalment towards a new National Illicit Drugs Strategy. The strategy consists of three main parts: supply reduction (law enforcement), education, and treatment and research. Of the $88.7 million, $36.8 million will fund programmes administered by the Department of Health and Family Services as follows:

- $4.9 million for a Community Grant Programme for local drug prevention and education projects. Funding will be conditional on the capacity of projects to help equip those in the front line, such as parents, to play their part against illicit drugs;

- $1.8 million for a national One-Stop Shop to disseminate information to the general community, including parents, schools, universities, health professionals and health care facilities;

- $21.7 million towards establishing and operating new non-government treatment facilities, with a particular emphasis on filling geographic and target group gaps in the coverage of existing treatment services, to be identified in consultation with the States and Territories;

- $3.1 million towards training on-line professionals (including general practitioners, hospital staff and police officers) who come into contact with drug users or at-risk groups;

- $4.0 million for the National Health and Medical Research Council to undertake research into new ways to prevent and treat illicit drug use. The new research programme will give a stronger focus to abstinence-based treatments, more effective treatments, and approaches which aim to accelerate the re-integration of drug users into the community; and

- $1.3 million for the non-heroin treatment trials agreed by the Ministerial Council on Drug Strategy in July 1997, to go towards evaluation and dissemination of best practice.

HEALTH AND FAMILY SERVICES

Health Communication Network — Conversion of Commonwealth loan to equity

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	0.0	0.0	0.0

Explanation

In August 1997 the Health Communication Network was financially restructured, resulting in the redeemable preference shares and Commonwealth loan being converted to ordinary shares.

This measure will increase headline outlays by $0.3 million a year over the four years to 2000-01. The Commonwealth's underlying budget position is not affected by these payments.

HEALTH AND FAMILY SERVICES

Residential Aged Care — Charges, Transitional Arrangements and Industry Restructuring

Financial Implications ($m)

	1997-98	1998-99	1999-00	2000-01
Health and Family Services	16.3	11.1	0.9	0.8
Social Security	0.6	0.7	4.5	10.1
Veterans' Affairs	1.7	0.4	1.0	1.8
Total	18.6	12.2	6.3	12.7

Explanation

In order to assist pensioners to meet accommodation charges, all rent derived from the former home is to be exempted from the pension income test and residential care fees where a nursing home level resident is paying the accommodation charge. In addition, the period for which the former home is to be excluded from the age and service pension assets test is to be increased from two to five years where the pensioner is a nursing home level resident, is renting out their former home, and is paying the accommodation charge.

This measure also includes a commitment of $20 million over 1997-98 and 1998-99 to assist residential aged care facilities to restructure and meet certification and accreditation requirements. The additional funding will provide both source capital for some facilities and a pool of funding to re-fashion care services in some regional and rural areas.

Additional administrative expenses required in implementing these and related changes are also included.

HEALTH AND FAMILY SERVICES

Exemption of certain drugs from Therapeutic Group Premiums

Financial Implications ($m)

	1997-98	1998-99	1999-00	2000-01
Health and Family Services	4.3	14.6	16.4	18.2
Veterans' Affairs	0.5	1.6	1.7	1.9
Total	4.7	16.2	18.2	20.2

Explanation

As announced in the 1997-98 Budget, the list of drugs to be included in the Therapeutic Group Premiums (TGP) measure was contingent on expert clinical advice. After taking such advice into account, the Government decided to exclude a number of drugs from this measure.

The Selective Serotonin Reuptake Inhibitors (SSRIs), which are used in the treatment of depression, are no longer included in the measure. However, some savings in respect of this group of drugs are still expected to be achieved through price reductions, and because the medical profession has agreed to introduce practice guidelines to achieve the rational use of these drugs.

Beta blockers, drugs used mainly in the treatment of cardiovascular disorders, have also been excluded from the TGP measure, as have a small number of individual drugs in the remaining categories.

These changes will also apply to the Repatriation Pharmaceutical Benefits Scheme.

Overall, the savings achieved by the TGP measure will be reduced by $59.3 million over four years.

HEALTH AND FAMILY SERVICES

Additional funding for health research

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
7.0	13.3	0.9	0.0

Explanation

Additional funding has been provided to the health research programme administered by the National Health and Medical Research Council (NHMRC) for research grants commencing in 1998.

The additional funding will enable the NHMRC to maintain its grants in calendar year 1998 at the 1997 levels.

IMMIGRATION AND MULTICULTURAL AFFAIRS

Changes to the Migration Programme — Increased focus on skills

Financial Implications ($m)

	1997-98	1998-99	1999-00	2000-01
Health and Family Services	-1.2	-3.6	-6.3	-9.2
Immigration and Multicultural Affairs	-2.0	-4.5	-4.9	-4.9
Social Security	0.2	0.6	-3.6	-12.8
Total	-3.0	-7.5	-14.8	-26.9

Explanation

This measure reduces the size of the migration (non-humanitarian) programme from 74,000 places in 1996-97 to 68,000 places in 1997-98. Within the reduced programme, the number of places in the Family Stream has been decreased in favour of an increase in the number of skilled migrants. The Concessional Family category has been renamed the Skilled Australian-Linked category and included in the Skills Stream following changes to selection criteria, including English language ability, to enhance the skills focus.

The reduction and changes in composition of the programme are expected to lead to a decline in demand for Government programmes, including the Adult Migrant English Programme, social welfare benefits, and medical and pharmaceutical benefits.

Further Information

The reductions in the size of the programme will require greater use of capping and queuing provisions, where available, and particularly in the Parent and Other Preferential Family categories.

See also related revenue measure titled *Changes to the Migration Programme — increased focus on skills*.

IMMIGRATION AND MULTICULTURAL AFFAIRS

Resolution of residence status for certain persons in Australia

Financial Implications ($m)

	1997-98	1998-99	1999-00	2000-01
Health and Family Services	0.5	2.3	1.6	1.1
Immigration and Multicultural Affairs	1.2	7.4	-1.5	-0.8
Total	1.8	9.8	0.1	0.3

Explanation

The Government announced on 13 June 1997 its decision to make access to permanent residence available to certain groups who have been in Australia on a long-term temporary basis. To be eligible, applicants must have entered Australia as passport holders of the following countries on or before the following dates: Kuwait and Iraq — 31 October 1991; Lebanon — 30 November 1991; China, Sri Lanka and countries in the former Yugoslavia region — 1 November 1993. Applicants must have continued to reside in Australia since then, and must meet standard health and character criteria. It is estimated that the decision covers around 8,000 people.

Initially, eligible applicants will be granted temporary residence with work rights and access to medical and pharmaceutical benefits, and with opportunities to sponsor existing spouses and dependent children. Where adult applicants do not possess functional English, they will also have access to English as a second language tuition under the Adult Migrant English Programme (AMEP) with the grant of temporary residence. After they have resided in Australia for a total of 10 years, eligible applicants will be granted permanent residence and counted against the migration programme for that year.

Outlays in the Immigration and Multicultural Affairs portfolio reflect costs associated with processing applications and appeals, and the effective bringing forward of access to AMEP for those adults without functional English. Outlays in the Health and Family Services portfolio reflect access to medical and pharmaceutical benefits pending granting of permanent residence and being counted within the migration programme.

Further Information

Humanitarian temporary entry permits have previously been put in place for certain of the nationals covered by this measure. Permits for some groups have been rolled over on a number of occasions. The above dates reflect when some of the previous arrangements for these groups ceased.

See also related revenue measure titled *Resolution of residence status for certain persons in Australia*.

INDUSTRY, SCIENCE AND TOURISM

Shipment of spent nuclear fuel rods to the USA and the UK

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.3	0.6	12.8	10.1

Explanation

The Government has provided funding to the Australian Nuclear Science and Technology Organisation (ANSTO) for the removal of spent nuclear fuel rods arising from the operation of ANSTO's research reactor. Currently, there are in excess of 1600 spent fuel elements stored at ANSTO's Lucas Heights facility and a further 300 elements are expected to be generated over the remaining life of the current reactor. The 689 USA-origin spent fuel elements will be returned to the USA, with shipments expected to begin in the next 12 months. The balance of about 1300 spent fuel elements will be shipped to Dounreay, Scotland for reprocessing, with shipments expected to begin in the next two years. All overseas shipments of spent nuclear fuel rods will be subject to an environmental assessment process under the *Environmental Protection Act 1974.*

INDUSTRY, SCIENCE AND TOURISM

A replacement nuclear research reactor for Australia

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
6.0	5.7	11.5	31.9

Explanation

The Australian Nuclear Science and Technology Organisation (ANSTO) is Australia's major centre for nuclear science and operates Australia's only research reactor, the High Flux Australian Reactor (HIFAR), at Lucas Heights on the outskirts of Sydney. The Government has allocated $306 million over eight years for the construction of a new research reactor at Lucas Heights to replace HIFAR which was constructed in the 1950s and would require major refurbishment to continue operations into the next century. The new reactor is expected to be commissioned in 2005 and will incorporate a modern and expanded range of instrumentation and facilities for scientific research and the production of radioisotopes. It will support ANSTO's work in such areas as environmental studies, agriculture and assisting industry. It will also enhance scientific research and higher education through improving access to modern nuclear facilities.

INDUSTRY, SCIENCE AND TOURISM

Continuation of machine tools and robots bounty to 30 June 1997

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
4.1	1.1	0.0	0.0

Explanation

The Government announced that the machine tools and robots bounty was to terminate on 20 August 1996. Following the Senate's rejection of the amending legislation the bounty continued to be paid for activities undertaken up to the scheduled termination date on 30 June 1997. Under the provisions of the enabling legislation, payments of the bounty will be made for eligible activities up to about September 1998.

Further Information

The bounty reimburses 5 per cent of the manufacturer's costs.

INDUSTRY, SCIENCE AND TOURISM

Continuation of book bounty to 31 December 1997

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
3.6	0.7	0.0	0.0

Explanation

The Government announced that the book bounty was to terminate on 20 August 1996. Following the Senate's rejection of the amending legislation, the bounty will continue to be paid for activities undertaken up to its originally scheduled termination date of 31 December 1997.

Further Information

Financial assistance to the book printing industry is provided via bounty payments under the *Bounty (Books) Act 1986*. The bounty reimburses 4.5 per cent of the book publisher's printing costs.

INDUSTRY, SCIENCE AND TOURISM

Year 2000 date change — Management of risks to continuity of government services and private sector business — Funding for national awareness strategy

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	4.3	1.2	0.0

Explanation

This measure provides funding for the Commonwealth's contribution towards a national strategy designed to ensure that all stakeholders (particularly small business) are aware of the risks associated with the Year 2000 date change and take appropriate action. The Minister for Industry, Science and Technology, in conjunction with State Governments, the Australian Information Industry Association, Business Council of Australia and other relevant bodies, is coordinating national activities for the Year 2000 date change. These activities include an awareness campaign for various stakeholders at risk across government and industry sectors, promulgating the roles and responsibilities of stakeholders and surveys to track progress.

INDUSTRY, SCIENCE AND TOURISM

Newcastle assistance package — funding for tourism activities in the Hunter Region

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
1.0	0.0	0.0	0.0

Explanation

The Government agreed to provide $1 million to the Hunter Regional Tourism Organisation for the development of a range of tourism activities to assist the Hunter Region to diversify and develop the local economy in preparation for the closure of the BHP steel plant in 1999.

Further Information

The Government also announced a range of other initiatives as part of its commitment to the Hunter Region. These include around $10 million to contribute to the sustainable long-term economic development of the Hunter Region, and a number of initiatives to be funded from within existing programmes. See also the measure titled *Newcastle Assistance Package* under the Transport and Regional Development portfolio.

INDUSTRY, SCIENCE AND TOURISM

Geelong Wool Combing — Discharge of loan

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	0.0	0.0	0.0

Explanation

This measure reflects the Government's decision to agree to the early discharge by Geelong Wool Combing (GWC) of a low interest loan granted by the Commonwealth to the company in 1992 under the Further Wool Processing programme. The Government has agreed to the early discharge of the loan, subject to Bremer Woll-Kaemmerei AG (BWK), the parent company, agreeing that any investment decision to increase its worldwide wool combing capacity will be undertaken at the GWC plant. As a result of the decision to discharge the loan GWC will no longer be making annual interest payments to the Budget.

The measure does not have a direct impact on underlying outlays (as it is the repayment of a loan) but improves the headline balance by $8 million in 1997-98.

Further Information

In 1992, BWK, the world's second largest wool comber, established GWC as a subsidiary to process growers' wool on a commission-only basis primarily for the expanding Asian markets. To facilitate the $85 million investment the Commonwealth provided finance to the new venture in the form of a $5 million grant and a $15 million low interest loan.

INDUSTRY, SCIENCE AND TOURISM

Commonwealth administration of safety net arrangements relating to States and Territories business franchise fees

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
3.1	0.0	0.0	0.0

Explanation

The Government agreed to provide $3.1 million to the Australian Customs Service to fund its collection and compliance audit costs of the temporary increase in tobacco and petroleum products excise. This temporary increase is part of the safety net arrangements introduced to protect State and Territory revenue following the High Court decision on business franchise fees.

The safety net provides for the collection by the Commonwealth of an excise surcharge on tobacco and petroleum products amounting to an estimated $5 billion to meet the shortfall in State revenues in 1997-98. This revenue is distributed to the States in accordance with the formulae set out in the *State Grants (General Purposes) Amendment Act 1997*.

Under these formulae the funds expended on the costs of the safety net's administration are withheld from the distribution of revenue to the States. See also the revenue measure *Commonwealth Administration of Safety Net Arrangements Relating to States and Territories Business Franchise Fees.*

Further Information

Excise is payable on tobacco, alcohol and petroleum produced or imported for Australian consumption. State Governments collected business franchise fees (BFFs) on these commodities but the BFF on tobacco imposed by the New South Wales Government was found to be unconstitutional by the High Court on 5 August 1997. Under the State revenue safety net arrangements announced by the Treasurer on 6 August 1997, and introduced at the unanimous request of the States and Territories, the rate of excise on tobacco trebled (from $84 to $251 per kilo) while for certain petroleum products it increased by 8.1 cents per litre (from around 33-35 cents to 41-43 cents). A further refinement to tobacco excise has since been made to introduce a hybrid excise system incorporating an ad valorem element.

INDUSTRY, SCIENCE AND TOURISM

Additional funding for innovation programmes

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	43.2	143.3	224.5

Explanation

This is one of a number of measures announced by the Government in the Industry Statement *Investing for Growth*, the Government's response to the Mortimer Review of business programmes and the Information Industries Taskforce and Information Policy Advisory Council reviews. These measures are designed to enhance the prospects for growth and strengthen the capacity of Australian industries.

The Government has provided an additional $671 million over the four years to 2001-02 to the Industry, Science and Tourism portfolio to support business innovation. The funding will be used on the following initiatives:

- the Research & Development Start programme will be re-focused and expanded to provide additional grants on a competitive basis to business to support research and development activities. This will involve funding of $556 million over 1998-99 to 2001-02. The programme will also be extended to assist some companies currently ineligible and to provide higher levels of assistance for exceptional projects with strong prospects for commercialisation;

- the Government will support a second round of Innovation Investment Fund licences, with $43 million being provided over 1998-99 to 2001-02. The licensed funds will invest in a portfolio of small technology based firms commercialising research and development. Funds established under the programme are managed by private sector managers, selected on a competitive basis, and consist of Government and private equity; and

- an additional $72 million over 1998-99 to 2001-02 will be used to promote international science and technology collaboration, attract leading edge technologies to Australia, and improve the rate of diffusion of new technologies to Australian industry.

INDUSTRY, SCIENCE AND TOURISM

Additional funding for investment promotion, coordination and facilitation

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	3.0	3.0	11.4

Explanation

This is one of a number of measures announced by the Government in the Industry Statement *Investing for Growth*, the Government's response to the Mortimer Review of business programmes and the Information Industries Taskforce and Information Policy Advisory Council reviews. These measures are designed to enhance the prospects for growth and strengthen the capacity of Australian industries.

Invest Australia will be established to market Australia as an investment location and to win additional investment for Australia. Invest Australia will subsume the current Investment, Promotion and Facilitation programme. The measure also provides funding for an Office of the Strategic Investment Coordinator to be established in the Prime Minister's portfolio. The Office of the Strategic Investment Coordinator will coordinate case by case assessments to determine the need for investment incentives. The Strategic Investment Coordinator will also be responsible for facilitating government approval processes for major projects. The measure also provides funding of $11.5 million in 2001-02 for investment promotion, coordination and facilitation.

INDUSTRY, SCIENCE AND TOURISM

Extend funding for APEC market integration activities

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	4.4	4.5	4.6

Explanation

This is one of a number of measures announced by the Government in the Industry Statement *Investing for Growth,* the Government's response to the Mortimer Review of business programmes and the Information Industries Taskforce and Information Policy Advisory Council reviews. These measures are designed to enhance the prospects for growth and strengthen the capacity of Australian industries.

This measure extends the funding at current levels to 2001-02 for the programme established in 1994-95 to achieve greater market integration with APEC economies in standards and conformance, international industrial cooperation, and customs harmonisation. The key activities to be undertaken with the funding provided in this measure include:

- promoting closer collaboration and alignment of standards in the region;
- increasing international industrial cooperation by assisting the Government and the private sector to continue their involvement in the work of the APEC International Science and Technology Working Group; and
- the Australian Customs Service working with other customs services to harmonise and simplify customs procedures in the region.

INDUSTRY, SCIENCE AND TOURISM

Funding for Software Quality Networks and Testing and Conformance Infrastructure

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	7.0	7.1	7.2

Explanation

This is one of a number of measures announced by the Government in the Industry Statement *Investing for Growth,* the Government's response to the Mortimer Review of business programmes and the Information Industries Taskforce and Information Policy Advisory Council reviews. These measures are designed to enhance the prospects for growth and strengthen the capacity of Australian industries.

The measure provides funding for the establishment of a national network of software engineering quality centres. The centres will provide both software development companies and industry at large with access to the latest software engineering technology. They will offer a range of facilities, information services, education and training, technical problem solving, applied research and process improvement activities. The centres will raise industry awareness of software engineering best practice thereby reducing development time, lowering software development and maintenance costs and improving quality.

The measure also provides funding to enable industry to have access to appropriate testbed facilities within Australia or overseas. The testing and conformance infrastructure initiatives will provide funding to:

- trial novel computing and communications technologies in testbed environments;
- have the product qualified to overseas standards;
- develop testing systems where they are not otherwise available; and
- establish testbeds for areas of need identified by industry or where Australia has scope to support emerging industries.

The initiatives detailed above will enable business to assess whether new software and hardware products meet domestic and international standards. They will make product development in Australia a more cost-effective option.

INDUSTRY, SCIENCE AND TOURISM

Commonwealth contribution towards the cost of Australia's participation at Hannover Expo 2000

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.5	6.9	1.0	0.0

Explanation

This measure provides the Commonwealth's contribution towards the cost of Australia participating at Expo 2000 to be held in Hannover, Germany, from 1 June to 31 October 2000. The Commonwealth will match an expected contribution of $8.5 million from the States and Territories towards the cost of the design, construction and operation of the Australian pavilion, which will be arranged by the Commonwealth's Office of National Tourism. The pavilion will:

- promote the growth of international tourism in Australia;
- advance the growth of Australian trade, industry and investment;

- encourage increased awareness of Australian society and culture; and
- enhance diplomatic and cultural ties.

Forty million people are expected to attend the Expo.

INDUSTRY, SCIENCE AND TOURISM

Assistance to the Textiles, Clothing and Footwear industries

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	0.0	0.0	6.7

Explanation

This measure provides funding for the following elements of the Textile, Clothing and Footwear (TCF) package agreed by the Government to :

- establish a TCF Technology Development Fund at a cost of $10 million;
- provide $10 million for a national centre for excellence for TCF training; and
- establish a market development programme with funding of $2.5 million a year.

Funding for these programmes commences in 2000-01.

Other elements include a TCF investment programme, the development of Action Agendas for wool, cotton, leather and fashion, the extension of the Overseas Assembly Provisions and a review of the tariff concessions for TCF.

The package provides a practical period of transition, designed to promote investment and innovation in the TCF industry, and encourage the development of sustainable, internationally competitive TCF industries in Australia.

PRIMARY INDUSTRIES AND ENERGY

Illegal fishing response initiatives

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
4.1	0.0	0.0	0.0

Explanation

This measure provides additional funding for an Australian Defence Force and Australian Fisheries Management Authority joint operation to apprehend illegal foreign fishing vessels in the Australian Antarctic fisheries.

Further Information

This measure arose following the recent development of illegal fishing in the Australian Exclusive Economic Zone in the Antarctic, particularly around the Heard Island and McDonald Islands area. The illegal activity represented:

- a challenge to sovereign rights exercised in the zone;
- a physical threat to Australian citizens and licensed vessels;
- a substantial compromise to fisheries management;
- an environmental threat (no introduced species, World Heritage nomination); and
- a threat to the viability of the Convention for the Conservation of Antarctic Marine Living Resources, which requires member states to enforce agreed conservation measures.

PRIMARY INDUSTRIES AND ENERGY

Exceptional circumstances — Gippsland

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
2.6	0.0	0.0	0.0

Explanation

This measure reflects the exceptional circumstances assistance approved by the Government in July 1997 for the Gippsland region. The Gippsland region suffered from a severe combination of climatic events which had a significant impact on livestock condition, pasture production and farm cash incomes.

The measure provides for eligible farmers to receive an interest rate subsidy of up to 100 per cent for 12 months on additional working capital borrowings incurred between 1 September 1996 and 31 December 1997 as a result of the exceptional circumstances.

As part of the package, $50,000 was provided to the Victorian Farmers' Federation Disaster Relief Fund to assist farm families in the Gippsland region to meet the costs of food, utility bills and personal expenses.

PRIMARY INDUSTRIES AND ENERGY

Drought exceptional circumstances — South Burnett

Financial Implications ($m)

	1997-98	1998-99	1999-00	2000-01
Employment, Education, Training and Youth Affairs	0.3	0.5	0.3	0.0
Health and Family Services	0.2	0.3	0.0	0.0
Primary Industries and Energy	9.7	9.8	0.0	0.0
Social Security	0.4	0.5	0.0	0.0
Total	10.5	11.0	0.3	0.0

Explanation

This measure reflects the Government's decision of 29 August 1997 to redeclare the South Burnett region under drought exceptional circumstances. It had been anticipated in the 1997-98 Budget that drought conditions in southern Queensland and northern NSW would have eased. However, in the South Burnett region, dry conditions have persisted.

The Drought Relief Payment (DRP) is available as income support to assist farmers affected by exceptional drought. Farmers in drought exceptional circumstances areas may be eligible for the DRP if they meet income and off-farm assets tests. Payments may continue for 12 months after revocation of a drought declaration. Farm families eligible for DRP can also receive AUSTUDY payments, family payments and Health Care Cards which will also entitle them to access the Pharmaceutical Benefits Scheme at the concessional rate.

Under drought exceptional circumstances provisions, interest rate subsidies of up to 100 per cent can be provided to farmers adversely affected by exceptional drought conditions who would otherwise have prospects for long term profitability and sustainability. The assistance is for loans for productivity improvements, carry on finance, and debt restructuring.

PRIMARY INDUSTRIES AND ENERGY

Agriculture — Advancing Australia (Farm Business and Community Programmes)

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
14.0	25.1	24.4	21.3

Explanation

This measure builds upon the Integrated Rural Policy Package announced in the 1997-98 Budget. Agriculture — Advancing Australia has been divided into two separate measures; Farm Business (FarmBis) and Community Programmes, and Farm Welfare.

The objective of this measure is to promote a self-reliant, productive rural sector supported by targeted government measures which focus on building skills and capacity of rural industries and communities to manage effectively in an uncertain environment.

The measure comprises several components. FarmBis will provide a framework for promoting a positive approach to change and build on the farm sector's culture of continuous improvement to help farmers improve the competitiveness and sustainability of their businesses.

The rural communities programme will assist small rural communities to manage change by supporting locally focussed rural counselling, community development and information and technology infrastructure. As part of the measure, regional strategic planning, climate research and development and a communications strategy will also be developed.

PRIMARY INDUSTRIES AND ENERGY

Agriculture — Advancing Australia (Farm Welfare)

Financial Implications ($m)

	1997-98	1998-99	1999-00	2000-01
Health and Family Services	1.7	3.0	0.7	0.8
Primary Industries and Energy	52.9	41.3	33.0	16.3
Social Security	11.0	6.9	11.5	11.6
Veterans' Affairs	1.5	1.2	1.7	1.7
Total	67.1	52.4	47.0	30.4

Explanation

This measure builds upon the Integrated Rural Policy Package announced in the 1997-98 Budget. Agriculture — Advancing Australia has been divided into two separate measures; Farm Business (FarmBis) and Community Programmes, and Farm Welfare. Farm Welfare forms a significant part of the Government's rural strategy, meeting both welfare and adjustment objectives by providing income and re-establishment support to farmers in financial difficulty.

There are several components to this measure. The Farm Family Restart Scheme will provide income support to low income farmers who cannot borrow against their assets. Income support equivalent to Newstart Allowance is available to farmers for a maximum of one year. Recipients will not be subject to the activity test. To assist farmers' future farming decisions, obligatory financial counselling is a component of the scheme. In addition, an asset tested re-establishment grant of up to $45,000 (less the cost of the income support already provided) is available to farmers participating in the scheme who wish to leave farming.

Another component of this measure will provide assistance to retiring farmers who would, except for gifting provisions, qualify for the Age Pension. This new provision allows them to transfer complete ownership of the family farm to a younger generation, retire and have immediate access to the age pension without the value of the farm affecting their entitlements under the assets test. Currently, older farmers who gift assets of more than $10,000 a year will have a reduced rate of pension for five years. As a result they may have no entitlement. For three years from 15 September 1997, eligible farmers who gift the family farm to the next generation will not be subject to this rate reduction. These provisions will apply to retiring farmers with net equity in the family farm of less than $500,000, who have owned their farm for at least 15 years or have been actively involved in farming for 20 years. The farmer's average income must have been less than the pension rate in the preceding three years and the family member(s) to whom they are gifting their farm must have had an active involvement in the farm over the three preceding years.

Also included is an extension of the Drought Relief Payment (DRP) for a large number of farmers in specified areas whose payments were due to cease on 30 September 1997. The DRP was extended for these farmers pending completion of the Agriculture — Advancing Australia package.

This measure also entitles eligible farmers to access the Pharmaceutical Benefits Scheme at the concessional rate.

PRIMARY INDUSTRIES AND ENERGY

Payments to the Tasmanian State Government under the Tasmanian Regional Forests Agreement

Financial Implications ($m)

	1997-98	1998-99	1999-00	2000-01
Environment	5.4	5.3	0.3	0.0
Industry, Science and Tourism	1.0	1.0	1.0	0.0
Primary Industries and Energy	22.0	22.0	22.0	0.0
Total	28.4	28.3	23.3	0.0

Explanation

This measure provides funding to the Tasmanian Government for the signing of the Regional Forest Agreement (RFA) with the Commonwealth for plantation establishment and thinnings, infrastructure (including new roads), tourism facilities and private land conservation. The funding is to assist Tasmania to implement the RFA without significantly impacting adversely on the forestry industry and economy.

Further Information

RFAs are agreements made between the Commonwealth and States and Territories established under the National Forest Policy Statement. Agreements establish the process for the ecologically sustainable management of forests and set aside a forest reserve system which is comprehensive, adequate and representative of the pre-European forest ecosystems.

PRIMARY INDUSTRIES AND ENERGY

Snowy Mountains Hydro-Electric Authority — Shortfall in cost recovery

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
12.0	0.0	0.0	0.0

Explanation

Additional funding was required to cover the Commonwealth’s share of the monthly shortfall between net revenue from the sale of the electricity and the net cost of production payable to the Snowy Mountains Hydro-Electric Authority (SMHEA), following the ACT’s unexpected decision to no longer take the Commonwealth’s share of SMHEA electricity.

PRIMARY INDUSTRIES AND ENERGY

Sydney-Moomba Pipeline Easement — Payments for easement rectification

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
..	0.0	0.0	0.0

Explanation

This measure relates to the Government's decision to dispose of the Commonwealth's interest in the Sydney-Moomba Pipeline easements. Policy considerations which led to the Commonwealth originally retaining an interest in the easements no longer apply.

The measure provides funding of $49,000 in 1997-98 to complete the Commonwealth's contractual easement rectification obligations for the pipeline easements entered into at the time of the sale of the pipeline to East Australian Pipeline Ltd in June 1994. This action is now being undertaken in conjunction with the planned disposal of the Commonwealth's residual easement ownership interest.

PRIMARY INDUSTRIES AND ENERGY

Australian Quarantine and Inspection Service — Meat inspection fee relief

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
3.6	1.4	0.0	0.0

Explanation

Following the announcement by the Government of proposed increases in meat inspection charges in the 1997-98 Budget, agreement was reached with meat industry representatives to adjust the fee structure. Accordingly, additional funding has been provided for an operating subsidy of $3.6 million in 1997-98 and $1.4 million in 1998-99 to offset fee increases that would otherwise have been required.

PRIMARY INDUSTRIES AND ENERGY

Australian Quarantine and Inspection Service — Working capital

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
1.0	0.0	0.0	0.0

Explanation

A capital injection is required for the new Meat Inspection Service Trust Account as it has been established with a net deficit arising from losses in the meat programme in previous years. The funding of $1 million under this item represents an advance on the proposed capital injection to fund short term cashflow requirements.

PRIMARY INDUSTRIES AND ENERGY

Structural adjustment assistance for the pig meat industry

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
2.0	4.0	4.0	0.0

Explanation

Following decisions by the Australian Quarantine Inspection Service to allow imports of pork, the Government has agreed to provide $10 million for structural adjustment assistance to the pig meat industry to improve its competitiveness and to provide a focus on exports.

PRIME MINISTER AND CABINET

Electronic circulation and management of Cabinet documentation

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.7	0.0	0.0	0.0

Explanation

Funding has been provided to develop and implement a system for managing and circulating Cabinet documents in electronic form. The new system is expected to improve both the speed and security of document circulation.

PRIME MINISTER AND CABINET

Commonwealth assistance to the States/Territories and Commonwealth cross portfolio projects under the national domestic violence initiative

Financial Implications ($m)

	1997-98	1998-99	1999-00	2000-01
Attorney-General	1.7	1.5	1.5	1.5
Health and Family Services	1.7	2.8	0.8	0.0
Immigration and Multicultural Affairs	..	0.0	0.0	0.0
Primary Industries and Energy	0.1	0.1	0.2	0.1
Prime Minister and Cabinet	2.0	3.8	3.9	4.0
Total	5.5	8.1	6.4	5.6

Explanation

Funding has been provided for cooperative work with the States and Territories in establishing a new national initiative on domestic violence, to address community attitudes and violent behaviour, and to develop innovative responses that more effectively reduce and manage violence in its various forms.

Funding provided to the Department of the Prime Minister and Cabinet will be used by the Commonwealth to develop joint strategies and projects with the States and Territories on a range of themes such as breaking the cycle of violence, breaking the patterns of violence, educating against violence, information and best practice, rural and remote communities, and protection of the law.

Funds provided to other portfolios will be used on a range of projects such as expanding family and relationship counselling services, working with families as victims of domestic violence, rural and remote domestic violence prevention initiatives and undertaking research to investigate domestic violence in mining/agricultural communities.

PRIME MINISTER AND CABINET

Separated Indigenous Families — Government response to *Bringing Them Home*

Financial Implications ($m)

	1997-98	1998-99	1999-00	2000-01
Communications and the Arts	0.0	0.8	0.9	0.9
Health and Family Services	0.0	8.7	10.3	10.5
Prime Minister and Cabinet	0.0	3.0	2.8	2.8
Total	0.0	12.5	14.0	14.3

Explanation

The Government has agreed to a package of cross-portfolio initiatives in response to *Bringing Them Home*, the Human Rights and Equal Opportunity

Commission's (HREOC's) Report of the National Inquiry into the Separation of Aboriginal and Torres Strait Islander Children from their Families.

The HREOC Report identifies family reunion as the most significant and urgent need of those affected by family separation. In line with an earlier Government commitment to respond positively to recommendations in the Report concerning family reunion and directly related matters, this measure comprises:

- an expanded and enhanced Link-Up service to assist those indigenous people wishing to effect reunion with their families;

- enhanced indigenous mental health services to help those coping with the distress of family separations;

- an indexing project for Australian Archives to allow easier access to family records; and

- an oral history project to record the history of family separations.

Further Information

The HREOC inquiry was commissioned by the previous government. The Commission's report, tabled in May 1997, contains 54 wide-ranging recommendations covering areas of Commonwealth, State and Territory, and non-government responsibilities. The recommendations fall into three broad categories:

- those relating to reparation/compensation for individuals removed and their families and communities;

- those relating to contemporary separation practices, in particular Commonwealth legislation to govern child welfare policies; and

- those relating to family reunion, health and other services for those affected by past policies and practices.

SOCIAL SECURITY

New guidelines for migrant two year waiting period for social security payments

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
4.0	15.2	18.3	18.8

Explanation

This measure reflects a loss of savings that are expected to occur as a result of the Senate disallowing Ministerial guidelines which set out provisions for access by newly arrived migrants to Special Benefit during their two year waiting period.

The Department of Social Security has implemented alternative Secretary's guidelines that are expected to influence the measure by increasing the number of successful applications for Special Benefit by newly arrived migrants during their two year waiting period.

SOCIAL SECURITY

Introduction of a Youth Allowance for students under 25 and for the unemployed under 21

Financial Implications ($m)

	1997-98	1998-99	1999-00	2000-01
Employment, Education, Training and Youth Affairs	0.0	137.1	140.4	143.8
Social Security	0.0	-88.5	-106.9	-114.8
Total	0.0	48.7	33.5	29.0

Explanation

Youth Allowance is a new payment which was announced in June 1997 and will be implemented on 1 July 1998. It will provide a simplified and flexible system of income support for young people that will include incentives to remain in education and training. Youth Allowance will replace AUSTUDY for students under 25; Youth Training, Newstart and Sickness Allowance for under 21 year olds; and more-than-minimum rate Family Payment for secondary students aged 16-18. All young people receiving Youth Allowance will be subject to a parental means test unless considered independent.

Youth Allowance will extend rent assistance to students, and abolish the education leaver waiting period and the minimum payment threshold of $1,000 for students, thereby increasing outlays. Young people aged 18-20 receiving Newstart or Sickness Allowance at the time of the announcement of Youth Allowance on 17 June 1997, and who are still receiving a payment on 1 July 1998, will have their entitlements preserved. The preservation of benefits for this group contributes to the cost of this measure in the first two years.

SOCIAL SECURITY

Reform of the Child Support Scheme — Policy and administration

Financial Implications ($m)

	1997-98	1998-99	1999-00	2000-01
Health and Family Services	0.0	0.5	0.5	0.5
Social Security	4.0	16.2	9.2	9.5
Treasury	0.0	-4.3	-12.5	-14.3
Total	4.0	12.4	-2.8	-4.3

Explanation

This measure further addresses recommendations made by the Joint Select Committee on Certain Family Law Issues in its report on the operation and effectiveness of the Child Support Scheme. This measure will improve the Scheme's flexibility, provide greater equity and more regular financial support for children.

Changes to the Child Support Scheme will take effect progressively from 1 July 1998 and include:

- introducing a minimum child support payment of $260 a year for all payers;
- increasing the 'exempt income' amount for child support payers and for each parent with shared care of a child;
- reducing the amount of payees' income which is disregarded in the child support formula and allowing high child care costs as a ground for departure from the formula;
- changing the family income test for payers with subsequent families;
- applying the Family Payment maintenance income test to payments of child support arrears and to non-agency payments made directly to payees by liable parents who normally pay through the Child Support Agency;
- requiring parents to move to private collection arrangements where regular payments are likely to continue;
- amending the income base used to calculate child support assessments to include net rental property losses and foreign income which is taxable; and
- a range of administrative reforms such as improving registration and disbursement processes and the administration of family violence cases.

SOCIAL SECURITY

Amendment to allow rent assistance to sub-tenants in public housing where relevant State Housing Authority has been notified

Financial Implications ($m)

	1997-98	1998-99	1999-00	2000-01
Social Security	23.1	55.5	57.0	58.5
Veterans' Affairs	0.0	0.1	0.1	0.1
Total	23.1	55.6	57.1	58.5

Explanation

This measure sets out amendments made by the Government to the proposal, which was announced as part of the 1997-98 Budget, to deny Rent Assistance to sub-tenants in public housing on the basis that this group is already subsidised by State government housing authorities under the Commonwealth-State Housing Agreement.

Legislation to effect the proposal was included in the Social Security and Veterans' Affairs (Family and Other Measures) Bill 1997 introduced into Parliament on 25 June 1997. The Senate requested a number of amendments to this Bill. The changes, accepted by the Government, and subsequently passed into legislation, were to exempt those sub-tenants whose income has been taken into account in calculating the amount of government rent payable in respect of the public housing dwelling.

The costs set out in the above table reflect the loss of savings against the original measure announced by the Government. Overall the measure, as modified, is expected to cost $2 million in 1997-98 and achieve savings of $2 million in 1998-99 and $3 million in each of 1999-2000, 2000-01 and 2001-02.

SOCIAL SECURITY

Amendment to allow payment of Family Payment above the minimum rate when a child and or parent/s go overseas for up to 13 weeks

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
1.6	3.3	3.4	3.5

Explanation

Above minimum rate Family Payment is provided to assist low income families with the costs of raising their children. It is paid up to $96 per fortnight for each child under 13, $124.90 per fortnight for each child aged 13 to 15, and $60 per fortnight for secondary students aged 16 to 18.

Under current arrangements, payment of above minimum rate Family Payment is permitted for up to 13 weeks when one or both parents travel overseas and the child remains in Australia. However, if the child travels overseas with or without his or her parent(s) above minimum rate Family Payment is not paid while the child is overseas.

In the 1997-98 Budget the Government announced arrangements to remove this anomaly from 1 January 1998 by making above minimum rate Family Payment available for up to eight weeks when parents and/or their children travel overseas.

Legislation to effect the proposal was included in the Social Security and Veterans' Affairs (Family and Other Measures) Bill 1997 introduced into Parliament on 25 June 1997. The Senate requested amendments to extend the eight week period to 13 weeks. These amendments were accepted by the Government and subsequently passed into legislation.

The costs set out in the above table represent the increase in cost above those announced by the Government for the original measure. However, the overall measure as modified is expected to cost around $10 million in the first full year.

SOCIAL SECURITY

Limiting Child Disability Allowance arrears to six months

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
3.8	4.2	4.4	4.8

Explanation

Currently, clients qualifying for Child Disability Allowance (CDA) may apply for up to 12 months arrears of the payment. This compares with three months arrears for other social security payments. The Senate rejected the proposed revised arrangements which, from January 1998, would have limited the maximum arrears payable for CDA to six months. The Government has accepted this and therefore the current arrangements will continue to apply to the new claimants.

The cost set out in the above table reflect the loss of savings against the original measure announced by the Government.

TRANSPORT AND REGIONAL DEVELOPMENT

Commonwealth contribution to the Thredbo community centre

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.1	0.0	0.0	0.0

Explanation

Following the landslide in Thredbo on 31 July 1997, the Government agreed to contribute $100,000 towards the construction of a Thredbo Memorial Community Centre which will serve as a memorial to those who died in the disaster.

TRANSPORT AND REGIONAL DEVELOPMENT

Newcastle assistance package

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
10.0	0.0	0.0	0.0

Explanation

The Government announced on 13 May 1997 that it would provide around $10 million to contribute to the sustainable long term economic development of the Hunter Region. This funding is in addition to that committed by the NSW Government and BHP Limited.

Further Information

The Government has also announced a range of other initiatives as part of its commitment to the Hunter Region. These initiatives will be funded from existing programmes. They include:

- $850,000 over four years for the establishment of a Resource Recovery Centre for the Hunter Region;
- $500,000 over four years for remedial work for Lake Macquarie;
- an additional $1 million to the Hunter Regional Tourism Organisation; and
- $1 million to fund a further 125 Special Employer Support Programme places.

TRANSPORT AND REGIONAL DEVELOPMENT

Supermarket to Asia: Export Gateways Initiative — Establishment of Sea and Air Freight Councils

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
1.2	1.0	0.6	0.0

Explanation

The Government has announced as part of its Supermarket to Asia Council Initiative:

- provision of seed funding for the establishment of Sea and Air Freight Councils at Australia's principal export hubs;

- funding for the production and distribution of a training and promotional video on cargo handling and air freight packaging; and

- funding for an export logistics study.

Further Information

The Supermarket to Asia Council brings industry and government leaders together to identify impediments to export of agri-food and to seek opportunities for growth in this industry. The Export Gateways initiatives were developed by the Council's Transport and Logistics Working Group and comprise key outputs that will promote an export culture in this industry.

The Sea and Air Freight Councils will facilitate improvements in efficiency along the logistics chain from growers and producers to the final customers. This will be achieved through improved channels of communication and information sharing between industry participants.

The production of the video on cargo handling and packaging for export will promote a more effective and focused operating environment in the industry.

The export logistics study will identify for new exporters how to establish an efficient and cost effective transport and logistics chain which will provide a best practice benchmark. Part of the final report will be a 'how to' guide for potential exporters.

TRANSPORT AND REGIONAL DEVELOPMENT

Local government component of funding for the bridges survey

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
3.7	0.0	0.0	0.0

Explanation

The Government has agreed to fund a national bridges survey to determine the extent of upgrading necessary to implement the heavy vehicle mass limit increase recommended by the National Road Transport Commission. Funding is to be shared equally between the three tiers of government. Funding to cover the local government contribution is to be made available to the Australian Land Transport Development programme.

TRANSPORT AND REGIONAL DEVELOPMENT

Effective maintenance of air services to the Indian Ocean Territories

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.9	0.0	0.0	0.0

Explanation

On 26 October 1997 the airline servicing the route from Perth to the Indian Ocean Territories withdrew from the route. A replacement airline willing to operate on a purely commercial basis could not be found.

Consequently, the Government has agreed to underwrite the route to maintain air services to the Indian Ocean Territories and has agreed to provide funding of up to $0.9 million to cover an interim six month contract. During this time a competitive tender process will be conducted for the provision of services beyond this contract.

TREASURY

Ex Gratia payment to approved charitable organisations and trust funds in memory of the Princess of Wales

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.6	0.0	0.0	0.0

Explanation

The Government has agreed to donate the equivalent of sales tax receipts from the sale of the tribute compact disc produced in memory of Diana, Princess of Wales, to charitable organisations associated with the Princess of Wales, or to approved trusts for such purposes. Details of the specific recipient charities are expected to be available early in 1998.

TREASURY

Payments to the States in lieu of stamp duty on airport sales

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	0.0	0.0	0.0

Explanation

The High Court's *Allders* decision invalidated State stamp duty on Commonwealth places. Under the Inter-jurisdictional Taxation Agreement, the Commonwealth has agreed to make stamp duty equivalent payments to relevant State Governments on the sale of the Brisbane, Melbourne and Perth airport leases. These payments to State Governments are in lieu of stamp duty on the sale of the airport leases which would have been payable but for the *Allders* decision.

The estimated total of the payments expected to be made to the State Governments for Phase One airports is $94.3 million. Headline outlays will increase by that amount.

The Commonwealth's underlying budget position is not affected by these payments.

TREASURY

Initial funding for tasks associated with a proposed tax reform programme

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
5.0	0.0	0.0	0.0

Explanation

In August 1997, the Prime Minister announced the Government's plan for reform and modernisation of the Australian tax system. The process for reform includes the formation of a taxation task force to prepare options for reform. Additional resources will be provided to the Treasury portfolio to enable the task force to develop and analyse tax reform options. The resources will also provide for certain payments associated with a Government Members Tax Consultative Task Force, including for advertising and the hire of consultants and support staff as necessary, but not including direct expenses of Task Force members.

WORKPLACE RELATIONS AND SMALL BUSINESS

Government response to the Fair Trading Inquiry Report — Funding to improve small business access to justice and awareness of fair trading issues

Financial Implications ($m)

	1997-98	1998-99	1999-00	2000-01
Attorney-General	0.3	0.1	0.0	0.0
Industry, Science and Tourism	0.4	0.3	0.3	0.3
Treasury	0.4	1.4	1.4	1.4
Workplace Relations and Small Business	1.5	1.7	1.2	0.9
Total	2.5	3.5	2.9	2.6

Explanation

In response to the Fair Trading Inquiry Report *Finding a Balance*, which was prepared by the House of Representatives Standing Committee on Industry, Science and Technology, the Government announced a package of measures intended to make the legal system work more effectively for small business and improve the enforcement of current legal provisions and small business awareness on fair trading issues.

The Government has provided funding to improve small business access to justice by providing the Australian Consumer and Competition Commission (ACCC) with the resources to undertake test cases and representative action on behalf of small business, improve enforcement, and improve accessibility by small business to alternative dispute resolution. The Attorney–General's Department has received funding to examine impediments to small business accessing the legal system. The measure also provides funding to the Department of Workplace Relations and Small Business to establish an education campaign to increase awareness by small business of information on issues relating to fair-trading and to help small business to manage in a competitive environment.

In addition, the Government has announced that it will:

- amend the *Trade Practices Act 1974* to enable the legal underpinning of codes of practice where it can be demonstrated that voluntary codes of practice have been ineffective, establish a mandatory franchising code of practice, and make the Oil Code mandatory. The ACCC is to be funded to administer mandatory codes and develop new ones;

- amend the *Trade Practices Act 1974* to provide small business with the same protection against unconscionable conduct that is given by law to consumers. The provision will be limited to commercial transactions less than $1 million. The protection will not be available to publicly listed companies; and

- address the problems with current retail tenancy arrangements arising from the imbalance in bargaining power by implementing national minimum standards for State and Territory retail tenancy legislation.

Further Information

The issue of commercial dealings between firms was referred to the House of Representatives Standing Committee on Industry, Science and Technology Committee in 1996 by the then Minister for Small Business and Consumer Affairs. The Committee was asked to investigate and make recommendations on:

- major business conduct issues arising out of commercial dealings between firms (focusing on franchising and retail tenancy); and

- the economic and social implications of small business conduct.

Evidence given to the Committee indicated that small business was vulnerable to exploitation in areas of retail tenancy, franchising, and misuse of market power and small business finance.

The Committee recommended action to improve small business access to justice and improvements to small business education. They also recommended legislative protection for small business, particularly by strengthening the section of the *Trade Practices Act 1974* that covers unfair conduct.

The Committee also made a number of recommendations on small business finance. These have been addressed in the context of the Government's response to the Wallis Report.

REVENUE

TAXATION REVENUE

Exemption of income derived by bona fide prospectors

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	-2.0	0.0	0.0

Explanation

The Government announced in the 1996-97 Budget that the section 23(pa) exemption for income derived by *bona fide* prospectors from the sale, transfer or assignment of rights to mine for gold or a prescribed metal or mineral would not be available in respect of income derived under contracts entered into after 20 August 1996.

The Senate amended the legislation to repeal section 23(pa) by removing the requirement that the person to whom the section 23(pa) exemption applied be a *bona fide* prospector when the income is derived. This changed policy applied until 30 June 1997.

Capital Gains Tax (extension of rollover relief through shares)

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
*	*	*	*

* The nature of the variations is such that a reliable estimate of their effect cannot be provided.

Explanation

On 24 March 1997, the Government announced in *More Time For Business* a further major extension of its initiative to provide capital gains tax rollover relief for small business, extending relief to rollovers accomplished through the sale of shares.

On 26 August 1997, the Treasurer issued a Press Release announcing details of the rollover relief through shares measure. Two changes had been made to the details of the measure which had been costed before the 1997-98 Budget: the underlying active assets test had been replaced by an apportionment test; and the measure has been extended to include rollover relief on the sale of units in a unit trust.

While not specifically quantifiable, it is expected that these changes will have only a relatively minor effect on the costings incorporated in the 1997-98 Budget.

Capital Gains Tax (cost base provisions: transitional measure)

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
-5.0	-60.0	-70.0	0.0

Explanation

In the 1997-98 Budget, the Government announced that the CGT provisions would be amended to ensure that expenditure is included in the cost base (or indexed cost base) of an asset only to the extent that net revenue deductions are not allowable as a result of the expenditure. The measure applies to disposals of assets acquired after Budget night.

Certain types of capital expenditure are currently treated as separate assets for CGT purposes from the underlying asset (land or building) they seek to improve or modify. Accordingly, the measure, as announced, applies where such expenditure is incurred after the budget on improving or modifying land or a building acquired before the budget. While such expenditures give rise to the double deductions intended to be removed by the budget measure, they may be viewed as being in respect of pre-Budget night land or buildings. It was not the Government's intention that the measure apply to such expenditures. Accordingly, on 2 November 1997, the Government announced that taxpayers who incur such expenditure after the 1997-98 Budget, but before 1 July 1999, on land or a building acquired before Budget night will be excluded from the measure.

This transitional measure should minimise the impact of the new cost base rules on projects genuinely in train at the time of the 1997-98 Budget and will provide a more certain environment for the construction industry and others (such as primary producers) affected by the revised arrangements.

Film Licensed Investment Companies (FLICs)

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	*	*	0.0

* The nature of the variation is such that a reliable estimate of their effect cannot be provided.

Explanation

The Government announced in November the introduction of a pilot Film Licensed Investment Company (FLIC) scheme for two years from 1998-99. The pilot scheme will provide a 100 per cent tax deduction to investors in the FLIC, which will be licensed to invest in a slate of eligible Australian film and television productions. The FLIC will be able to raise up to $20 million in concessional finance in each of the two years.

The trial FLIC scheme will operate alongside the existing tax concessions for investment in films, in particular Divisions 10BA and 10B of the *Income Tax Assessment Act 1936*. Under Division 10BA, investors in eligible Australian films are provided with a

100 per cent deduction. Investors in the FLIC will not be able to access the Division 10BA and 10B concessions. The advantage of the FLIC concession over 10BA is that investors will be able to invest in a slate of films through the FLIC, and thereby spread some of their risks. The FLIC scheme will be reviewed at the end of the two years.

The cost to the revenue of the pilot FLIC will depend on the extent of the take-up under the concession, the tax rates of the investors and the extent to which it substitutes for access to the Division 10BA and 10B concessions. If the FLIC raises the maximum $20 million in concessional capital in each of the two years, and this all represents additional investment in the film industry, the cost to revenue would be a maximum of around $10 million each year.

Extension of Interest Withholding Tax (IWT) exemption

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
-1.0	-3.0	-3.0	-3.0

Explanation

As announced by the Government in the *Investing for Growth* industry policy statement on 8 December 1997, the IWT exemptions provided under section 128F of the *Income Tax Assessment Act 1936* will be widened by removing, for eligible debentures issued by companies, the present requirement that they be issued outside Australia, and that the interest be paid outside Australia. This measure was introduced in order to encourage the development of the domestic corporate debt market. The wider exemption will apply to issues made after the date of the introduction of the amending legislation, but will not apply to Commonwealth Government securities or securities issued by State and Territory central borrowing authorities. The current IWT treatment of sovereign issuers, which allows them to issue IWT free offshore provided conditions such as the public offer test are met, will continue to apply. This measure will remove a tax discrimination in favour of foreign financial markets over domestic markets, and facilitate the deepening and greater liquidity of the Australian corporate debt market.

Extension of Offshore Banking Unit tax concession

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	-9.0	-16.0	-16.0

Explanation

As part of its commitment to making Australia a more attractive regional financial centre the Government announced in the *Investing for Growth* industry policy statement on 8 December 1997, the concessional taxation regime for Offshore Banking Units (OBUs) is to be made more attractive in a number of ways.

Currently only banks and authorised foreign exchange dealers can establish an OBU and become eligible for the tax concessions. Eligibility is to be extended to funds managers and life insurance companies in order to facilitate greater non-bank competition for offshore business. Funds managers will be defined with reference to corporations subject to the *Financial Corporations Act 1974*.

The range of eligible activities of OBUs will be extended to include trading with any person in gold and custodial services provided to non-resident 'offshore persons'. Trading, hedging and other eligible contract activity in Australian dollars with an 'offshore person', including another OBU, will also be allowed as eligible offshore banking activities.

The income of offshore charities that are exempt in their home jurisdiction and whose investments are managed by an OBU will be exempt from tax.

In order to reduce compliance costs for OBUs, the requirement that they maintain separate nostro accounts is to be removed, subject to the new arrangements providing a satisfactory basis for Australian Taxation Office audits.

The scope of the OBU interest withholding tax (IWT) exemption will be clarified, by amendment if necessary, to ensure that it is comprehensive in its coverage of offshore banking eligible activities.

The exclusion from the OBU IWT exemption under section 128GB(3) of the *Income Tax Assessment Act (1936) (ITAA)* is to be repealed, to allow an IWT exemption for interest paid on offshore borrowings under 'conduit' arrangements.

Where the 'Australian asset percentage' of an OBU offshore investment trust is not more than 10 per cent, the Capital Gains Tax (CGT) liability for non-residents disposing of an interest 10 per cent or greater in the trust will be reduced to make it proportional to the share of the gain that relates to any underlying Australian assets held by the trust.

The interaction between the OBU offshore investment trust provisions (section 121EL of the *ITAA*) and trust provisions (sections 98(3) and 98(4) of the *ITAA*) will be clarified, if necessary by a legislative amendment, to ensure that tax is only payable in respect of the Australian source income.

OBU income will be deemed to have a foreign source for foreign tax credit purposes where the income has been subject to foreign tax, and in these cases a deduction will be denied.

The 'thick capitalisation' provisions, which deem interest in respect of 90 per cent of an OBU's 'resident owner money', will not apply if arm's length interest is already paid in respect of 90 per cent or more of the resident owner money, and where the provisions do apply interest will be deemed only to the extent that interest is not actually paid.

The penalties applying to OBUs for breaches relating to the IWT concession will be reduced to bring them into line with penalties applying to breaches of the income tax concession.

These measures will apply from the date the amending legislation is introduced into Parliament.

Capital Gains Tax — Non-residents' foreign source gains

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
..	..	..	..

Explanation

As announced by the Government in the *Investing for Growth* industry policy statement on 8 December 1997, the *ITAA* will be amended, unless the same outcome can be achieved through a tax ruling, to ensure that CGT does not apply to capital gains distributed by a unit trust where such gains have a foreign source and are distributed to non-residents. If legislation is required then the change would take effect for disposals made after the date of introduction of the amending legislation.

Foreign bank subsidiaries — Thin capitalisation 'loan back' rules

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
..	..	..	..

Explanation

As announced by the Government in the *Investing for Growth* industry policy statement on 8 December 1997, an impediment, arising from the thin capitalisation 'loan back' provisions, to foreign bank subsidiaries obtaining offshore funds free of IWT on behalf of a related foreign bank branch will be removed by an amendment to the *ITAA* effective from the date of introduction of the amending legislation.

Foreign Investment Fund (FIF) rules — Exemption for United States FIFs

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	-2.0	-3.0	-3.0

Explanation

As part of the *Investing for Growth* industry policy statement announced by the Government on 8 December 1997, the FIF tax rules are to be relaxed to exempt FIF investments located in the United States. The exemption will encourage Australian funds managers to make their operations internationally competitive, by exposing them to competition from US funds and facilitating portfolio allocations to such funds. The substantial similarity of relevant US tax rules to those in Australia will ensure that the exemption does not significantly weaken the FIF rules. The exemption will apply for notional accounting periods ending on or after the date of introduction of the amending legislation.

Trust distributions to superannuation funds

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	15.0	15.0	15.0

Explanation

The Treasurer announced on 25 November 1997 that the tax law will be amended so that trust distributions made from all trusts (other than unit trusts) to superannuation funds will be taxed at 47 per cent. The tax law is also to be amended to ensure that distributions from unit trusts to superannuation funds in excess of arm's-length amounts will also be taxed at 47 per cent. These changes will apply from 25 November 1997 and are intended to close a loophole which allowed these types of distributions to be taxed at a concessional rate of tax.

TRADEX

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	-15.0	-30.0	-30.0

Explanation

On 8 December 1997, the Government announced in *Investing for Growth* the integration of the existing Duty Drawback and Tariff Export Concession (TEXCO) schemes into a simplified and more accessible scheme entitled TRADEX. TRADEX provides relief from customs and excise duty and sales tax on imported goods intended for re-export, or used as inputs to exports.

Manufacturing In Bond (MIB)

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
*	*	*	*

* The nature of the variation is such that a reliable estimate of their effect cannot be provided.

Explanation

The MIB measure was announced by the Government in its *Investing for Growth* statement, on 8 December 1997. It provides essentially the same import duty and tax concessions as TRADEX. It is aimed at further reducing compliance costs for high volume importers and exporters. The introduction of MIB provides a low cost customs regime whereby license holders will be able to import goods duty free, value add, and be able to re-export the final product without incurring a duty liability.

Commonwealth administration of safety net arrangements relating to States and Territories Business Franchise Fees

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
3.1	0.0	0.0	0.0

Explanation

Safety net arrangements were introduced by the Government to protect State and Territory revenue following the High Court decision on business franchise fees. The safety net provides for the collection by the Commonwealth of an excise surcharge on tobacco and petroleum products amounting to an estimated $5 billion to meet the shortfall in State revenues in 1997-98. This revenue is distributed to the States in accordance with the formulae set out in the *State Grants (General Purpose) Amendment Act 1997*.

Under the formulae, the funds expended on the costs of the safety net’s administration are withheld from the distribution of revenue to the States. The Government agreed to provide $3.1 million to the Australian Customs Service to fund its collection of compliance audit costs of the temporary increase in tobacco and petroleum products excise. The increase in revenue represents the recovery of Commonwealth administration costs.

NON-TAXATION REVENUE

Changes to the Migration Programme — Increased focus on skills

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
-7.0	-7.1	-7.3	-7.5

Explanation

This measure reflects a reduction in the number of places in the 1997-98 migration programme in the Parent and Preferential Family categories. Successful applicants are subject to a mandatory Assurance of Support Bond, and hence are required to pay a second instalment of $945 on their application charge before visa issue. The number of visas issued in these categories is expected to decline from approximately 9,400 in 1996-97 to 2,000 in 1997-98.

Further Information

See related outlays measure titled *Changes to the Migration Programme — Increased focus on skills*.

Resolution of residence status for certain persons in Australia

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
13.6	10.3	0.7	..

Explanation

The Government announced on 13 June 1997 its decision to make access to permanent residence available to certain groups who have been in Australia on a long-term temporary basis. Processing costs will be covered by an initial application fee of $2,000. Additionally, successful applicants without functional English will be required to pay a second instalment of their application charge prior to visa issue. English as a second language tuition under the Adult Migrant English Programme will be available to these persons. The second instalment will be $4,470 for principal applicants and $2,235 for a spouse and each dependant aged 18 years and over.

Further Information

See related outlays measure titled *Resolution of residence status for certain persons in Australia*.

Changes to fees for the review of immigration decisions

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
-0.9	0.3	0.3	0.3

Explanation

Fees for the review of immigration decisions have been increased effective from 1 July 1997.

The revenue generated from this measure will be used to offset the cost of the proposal to merge the Migration Internal Review Office (MIRO) and the Immigration Review Tribunal (IRT) to form a single independent review tribunal, to be called the Migration Review Tribunal (MRT) from 1 July 1998. This proposed merger was announced in the 1997-98 Budget.

The increased fees will recover a greater share of costs from unsuccessful applicants and may discourage more frivolous applications.

Further Information

Prior to 1 July 1997, application fees were $200 for appeals to MIRO and $300 for appeals to the IRT. Fees were refunded to successful applicants. The original package of measures announced by the Government in the 1997-98 Budget included an increase in MIRO and IRT fees to $500 and a fee of $500 for the proposed MRT, accompanied by the introduction of a 'no refunds' policy.

Given likely opposition in the Senate, the Government decided not to proceed with the 'no refunds' policy. Fees for the IRT and the proposed MRT have instead been increased to $850 to maintain budget neutrality over four years.

Abolition of Non-Callable Deposits

Financial Implications ($m)

1997-98	1998-99	1999-00	2000-01
0.0	0.0	0.0	-200.0

Explanation

Banks are currently required, under the *Banking Act 1959*, to hold 1 per cent of their liabilities with the Reserve Bank of Australia as non-callable deposits. The interest paid to the banks on these funds is currently 5 per cent below the prevailing market rate.

As announced by the Treasurer on 2 September 1997, consequent on, and subject to, the transfer to the Commonwealth of regulatory responsibility for building societies and credit unions, and the establishment of a single prudential regulator fully funded by industry fees and charges, the existing requirement that banks hold non-callable deposits at the Reserve Bank will be abolished. This will eliminate a competitive disadvantage of licensed banks compared with their unlicensed competitors and ensure that all licensed deposit-taking institutions face the same regulatory arrangements.

The measure is expected to take effect by 1 July 1999 and impact on the Reserve Bank earnings in 1999-2000 with an expected fall in Reserve Bank dividends from 2000-2001 of $200 million per annum at current interest rates.

APPENDIX B: STATEMENT OF RISKS

OVERVIEW

The forward estimates of revenue and outlays in the MYEFO incorporate assumptions and judgements based on information available at the time of publication.

A range of factors may influence the actual budget outcome in future years. The Charter of Budget Honesty Bill 1996 requires these to be disclosed in a Statement of Risks in each Economic and Fiscal Outlook Report. The purpose of this report is to increase the transparency of the fiscal projections.

Events which could affect fiscal outcomes include:

- changes in economic and other parameters;
- matters which have not been included in the fiscal forecasts because of uncertainty about their timing, magnitude, or whether they will eventuate; and
- the realisation of contingent liabilities.

Economic and Other Parameters

Some degree of uncertainty attaches to budget time and forward estimates for both revenues and outlays. For example, past experience indicates that the actual revenue outcome could vary from the initial estimate by about 2 per cent on average for the budget year.

The major factor influencing expected outlays and revenues in any year is typically changes in forecasts of economic and non-economic parameters. Differences between the economic parameter forecasts and outcomes have not caused any clear bias toward understatement or overstatement of outlays and revenue — and therefore the budget balance. The sensitivity of the estimates to major economic parameters (but not other parameters) is discussed in Appendix C.

Differences in non-economic (programme-specific) parameter forecasts and outcomes, however, have been strongly biased towards an understatement of outlays in recent years. Programme-specific parameters are specific assumptions underpinning specific programme estimates, eg client numbers and/or average rates payable on family payments, family tax payments and disability support pension programmes.

The projected values for programme specific parameters are determined jointly with the relevant spending portfolio, drawing on trends in actual payments and information which the portfolio is able to provide on the impact of policy changes on the programme estimates. Forecasting of programme-specific parameters has been complicated by substantial policy changes in the past decade.

Fiscal Risks

Fiscal risks are general developments or specific events which may have an effect on the fiscal outlook. In some cases, the events will simply raise the possibility of some fiscal impact. In other cases, some fiscal impact will be reasonably certain, but it will not be included in the forward estimates because the timing or magnitude is not known. Fiscal risks may affect both outlays and revenue and may be positive or negative.

Specific sources of fiscal risk include:

- litigation currently before the courts; and

- possible Senate rejection of budget measures.

Some fiscal risks are reflected in the Outlays Contingency Reserve and are therefore included in the aggregate outlays figuring. The Contingency Reserve is an allowance included in aggregate outlays to reflect anticipated events which cannot be assigned to individual programmes at budget time. These items are also not included in the Statement of Risks. Fiscal risks in the Contingency Reserve include expected running costs carryovers from 1997-98 to 1998-99, an allowance for the difference between the possible cost of negotiating the proposed Australian Health Care Agreements with the States and Territories and amounts already in the forward estimates, and allowances for the established tendency for estimates of some programme expenditure to be overstated in the budget year and understated in the forward years.

Matters that are not currently under active consideration by government or pressure from interests outside the government for changes in spending levels are not treated as fiscal risks.

Details of known fiscal risks which may have an impact on fiscal forecasts but are not reflected in the forward estimates in the Economic and Fiscal Outlook are provided below.

Contingent Liabilities

Contingent liabilities differ from fiscal risks in that they are generally more readily quantifiable and clearly defined.

Contingent liabilities are defined as costs the Government will have to face if a particular event occurs. They include loan guarantees, non-loan guarantees, warranties, indemnities, uncalled capital and letters of comfort.

The Commonwealth’s major exposures to contingent liabilities arise out of legislation providing guarantees over certain liabilities of Commonwealth controlled financial institutions (ie the RBA, the Australian Industry Development Corporation and the Export Finance and Insurance Corporation) and the now fully privatised Commonwealth Bank of Australia. Other substantial non-loan guarantees include guaranteed payments from Telstra Corporation Ltd to the Telecom Superannuation Scheme.

The strategies for managing these exposures are aimed at ensuring the underlying strength and viability of the entities with respect to which guarantees have been provided so that the guarantees are not triggered. Similar strategies apply to entities not subject to explicit guarantees.

This is achieved through, for example:

- the appointment of specialist boards to manage the entities in accordance with sound business practice;

- specific oversight of the businesses by the Minister with responsibilities set down in establishing legislation (or the Memoranda and Articles of Association in the case of Corporations Law companies);

- general monitoring and oversight of all government business enterprises by the portfolio Minister and the Minister for Finance and Administration under Government Business Enterprise (GBE) monitoring arrangements; and

- where applicable, prudential oversight by the RBA, the Insurance and Superannuation Commission and the Australian Securities Commission.

The Government's GBE governance arrangements, revised in 1997, place the responsibility for GBE performance and risk management with the GBE's Board. The Boards are expected to establish processes and practices within the organisation to manage all risks associated with the GBE's operations. The Minister for Finance and Administration and the relevant portfolio Minister monitor the levels of debt and other associated operational risks of GBEs through the corporate plan and other reporting processes. Liabilities and risks are also assessed in the capital markets and by ratings agencies where the GBE holds non-Government debt and where there are private equity holders.

Other arrangements are in place governing the entering into and monitoring of contingent liabilities such as indemnities and uncalled capital. Uncalled capital is primarily associated with international financial institutions such as the International Bank for Reconstruction and Development, the Asian Development Bank and the European Bank for Reconstruction and Development. Arrangements concerning uncalled capital are approved by Parliament and reports on the institutions are provided annually by the Government to Parliament.

Consistent with Australian Bureau of Statistics (ABS) standards, transactions concerned with the management of international reserves and the monetary system are classified as financing transactions (and do not impact on the budget balance). Therefore, contingent liabilities (and assets) with the International Monetary Fund (IMF) are not shown here.

The issue of indemnities and other similar undertakings by Commonwealth agencies is primarily governed by the Finance Directions issued under the authority of the *Audit Act 1901* and related policy guidelines issued by the Department of Finance and Administration. The policy guidelines covering indemnities have been reviewed and were re-issued in Finance Circular 1997/06 in April 1997. The guidelines were prepared in consultation with the Australian National Audit Office (ANAO) and the

Attorney-General's Department and were extended to cover guarantees and letters of comfort. The guidelines reflected the recommendations contained in the ANAO Report *Commonwealth Guarantees, Indemnities and Letters of Comfort (*No. 6 of 1996-97).

DETAILS OF FISCAL RISKS AND CONTINGENT LIABILITIES

Fiscal risks and contingent liabilities with a possible impact on the forward estimates greater than $20 million in any one year or $40 million over the forward estimates period are listed below. Information on fiscal risks takes account of decisions of Parliament and other developments up to the close of parliamentary business on 12 December 1997. In general, information on contingent liabilities is based on information provided by departments and agencies and is current to the end of October 1997 (or a later date as indicated where that information is available). However, for the guarantees under the *Commonwealth Bank Sale Act 1995* and Northern Territory Government Loans the latest reliable information available on the balance of guarantees outstanding was at the end of June 1997.

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

Fiscal Risks

Outlays

Sale of Snowy Mountains Engineering Corporation (SMEC)

An indemnity has been given to SMEC in a Deed of Undertaking from the Commonwealth to Tinbury Ltd. The Deed provides an undertaking by the Commonwealth to Tinbury Ltd that if SMEC goes into liquidation within five years of the sale of SMEC, the Commonwealth will pay $1 million to Tinbury Ltd. This indemnity was issued on 9 November 1993 and will terminate on 8 November 1998.

Negotiation of Australian Health Care Agreements

The current Medicare Agreements between the Commonwealth and the States for the provision of hospital funding grants expire on 30 June 1998. The basis for Commonwealth and State cost sharing beyond 1997-98 is to be renegotiated. An allowance has been made in the Contingency Reserve for the costs of negotiating the proposed new Australian Health Care Agreements. However, there is a specific fiscal risk to the extent that the final costs negotiated vary from that allowance.

Pharmaceutical Benefits Scheme — Major New Listings

Cabinet approval is required when the cost of the listing of new drugs under the Pharmaceutical Benefits Scheme is over $10 million. New drugs can only be listed after an assessment of comparative effectiveness and value for money. The listing of these high-cost new drugs between now and 2000-01 has the potential to increase Commonwealth outlays by up to $200 million in total over four years.

Litigation cases in train – Department of Health and Family Services

The Department of Health and Family Services is involved in around 90 cases covering a wide range of litigation, where either the cases have not been heard or damages and costs have yet to be awarded. The litigation involves: Creutsfeldt-Jakob disease; Acquired Immune Deficiency Syndrome; Rehabilitation Services; benefit payments; defective products; and the Department as an employer. It is not possible to quantify the liability arising from the cases.

National Measles Eradication Programme

On 25 February 1997, the Minister for Health and Family Services foreshadowed the development of a one-off school based catch-up programme for measles immunisation. Feasibility studies are expected to be finalised by the end of 1997. The programme could be implemented in late 1998. Detailed costings are not available at this stage. However, it is estimated that a programme of this type could cost around $50 million.

Commonwealth/State Disability Agreement

The current Commonwealth/State Disability Agreement on responsibility for disability services is being extended month by month while negotiations continue on new arrangements. This matter is not yet resolved and the magnitude of any funding change is therefore not known at this stage.

Diesel Fuel Rebate Scheme — Major Litigation

Legal action through the Administrative Appeals Tribunal and the Federal Court is being pursued by a range of companies involved in quarrying activities for payment under the Diesel Fuel Rebate Scheme in respect of diesel fuel used in the extraction of sand and rock undertaken prior to 1 July 1995. Possible claims on the Commonwealth from a successful legal challenge could amount to some $90-100 million. The likelihood of this liability arising has diminished as a result of the Commonwealth's success in a recent action. The *Excise Act 1901* and the *Customs Act 1901* were amended with effect from 1 July 1995 to remove sand and rock extraction from eligibility under the Scheme.

Textiles, Clothing and Footwear (TCF) Assistance Package

In response to the Industry Commission report on the TCF industries the Government has announced a package of measures including: a TCF Technology Development Fund ($10 million); a national TCF training centre ($10 million); and a TCF Market Development programme ($2.5 million per annum). The Government also announced a pause in tariffs at levels scheduled for the year 2000. The following initiatives were also announced: a programme to provide adjustment assistance for regions and employees; a TCF investment programme; and action agendas for the wool, cotton, leather and fashion industries. The timing and the details, including the cost, of these initiatives have not been established.

Assistance to the Automotive Industry

In response to the Industry Commission report on the automotive industry, the Government has announced: maintaining tariffs at 15 per cent from January 2000 to January 2005 when they will be reduced to 10 per cent; the introduction of a programme to replace the Export Facilitation Scheme when it ends in 2000; and continuing the duty free allowance at 15 per cent. It was also announced that a market access package worth $20 million would be established. The Government is yet to finalise details of the market access initiative and the replacement for the Export Facilitation Scheme.

Litigation by Western Mining Corporation (WMC)

WMC won a Federal Court case challenging the Commonwealth in relation to its loss of permit for oil exploration in the Timor Gap (following a rezoning of the area). The appeal was heard by the High Court on 22-23 September 1997, with a final decision expected in 1998.

Drought Relief

Additional expenditure on drought relief is subject to climate variability which cannot be predicted with any degree of certainty. The number of Exceptional Circumstances Relief Payment recipients and exceptional circumstances interest rate subsidies approved will vary significantly each year depending on the severity of drought conditions.

Native Title Cost Sharing

The Commonwealth has previously offered to assist States and Territories in meeting costs associated with their validation of past Acts under legislation complementary to the *Native Title Act 1993*. As part of the proposed response to the Wik decision the Commonwealth offer has been extended to cover intermediate period Acts and future Acts arising under the 10 point plan. The extent of Commonwealth payments to the States pursuant to this offer will depend largely on the States' own liabilities to pay compensation to native title holders. Those liabilities cannot be quantified at this time. The Commonwealth has also offered to assist States and Territories with the costs of alternative arbitral bodies and regimes approved under the Act. The extent of this assistance will depend on decisions to establish such bodies and regimes, the timing of their recognition and the extent of their use.

Separation of Aboriginal Children from their Families in the Northern Territory

Earlier laws, policies and practices led to the separation of many Aboriginal and Torres Strait Islander families. Legal actions are under way against the Commonwealth concerning the separation of Aboriginal children from their families in the Northern Territory. The plaintiffs are claiming damages and if any or all of the actions are successful, the Commonwealth may be liable for payments.

Compensation claims — Finalisation of Acquisition of Properties for the Second Airport at Badgerys Creek

Compensation claims relating to disputes arising from the compulsory acquisition of properties acquired for the proposed Second Sydney Airport at Badgerys Creek which have not been finalised at 24 November 1997 give rise to a risk of $41.1 million. The properties were acquired under the *Lands Acquisition Act 1989*.

Northern Territory Government Loans

Loans of the Northern Territory Government (Private Treaty Loans, Public Loan Flotations, and Private Placement of Northern Territory Stock) are covered by Commonwealth guarantee under sections 47 and 47A of the *Northern Territory Self Government Act 1978*. As at 30 June 1997, the value of these loans was $197.8 million.

The payment of interest on the money borrowed by the Northern Territory Government is also guaranteed. At 30 June 1997, no interest payments were overdue.

Revenue

General risks

The forward estimates of revenue are subject to a number of general pressures or risks. These general pressures or risks include: tax minimisation and avoidance; financial innovation; internationalisation; developments in communications technology; changes in PAYE arrangements and personal services income; the treatment of trusts; changes in community expenditure patterns; taxpayer behavioural responses; and court decisions. Tax concessions (or 'tax expenditures') are particularly susceptible to these pressures and risks. These general risks may result in a shift in the composition of revenue collected from the various tax bases and/or an erosion of the tax base.

Tax minimisation and avoidance involves the use of provisions and 'loopholes' in the tax law which were not intended by policy-makers. With evidence of greater taxpayer focus on tax avoidance and minimisation schemes, and in the absence of closing these off, the revenue base will shrink relative to that projected in the forward estimates. The Government will continue to take legislative action to close off such schemes as they are identified. In addition, the Australian Taxation Office (ATO) will continue to undertake extensive compliance enforcement work, including pursuing matters through the courts, to maintain the integrity of the tax system.

Financial innovation has increased dramatically during the past two decades and the tax system has generally not kept pace with these innovations. As a result, uncertainty has arisen over the application of existing laws to new and often complex financial arrangements and the scope for tax minimisation and avoidance through the application of financial arrangements has expanded. Ideally, the tax laws relating to financial arrangements should not create uncertainty and anomalies, should not inhibit innovation or the capacity of industry to efficiently and effectively manage risks, and should not facilitate tax minimisation and avoidance. An issues paper on the taxation of financial arrangements was released by the Treasury and the ATO in late 1996 and public discussion and submissions from interested groups on the proposals are ongoing.

The **internationalisation** of the Australian economy also introduces a general risk to the forward estimates of revenue. Income tax collections from capital are subject to increasing downward pressure due to the relatively free international flow of capital, intra-corporate transfer pricing and 'tax competition' among jurisdictions. Similarly, income tax collections from labour are coming under increasing downward pressure as labour becomes more internationally mobile and subject to tax competition. The increasing global integration of economies also means the integrity of each country's tax system will increasingly rely on international cooperation on tax matters.

Developments in **communications technology**, such as the Internet, also raise a general risk to the forward estimates of revenue. Such developments may allow the purchase or sale of an increasing number of goods and services — including the provision of labour services — in a way which avoids the traditional tax bases (and indeed most alternative, reasonably sophisticated, tax bases). Such developments pose a major challenge in tax system design in most countries.

Changing taxpayer practices affecting **PAYE arrangements and personal services income** could also have significant consequences for the revenue estimates. Certain labour market practices involving the replacement of traditional common law employer/employee relationships with labour or result-based contracts are outside the scope of the PAYE provisions in the income tax law and must be taxed through other arrangements. In other cases, individuals may interpose an entity (eg a company) through which they provide personal services with the intention of 'alienating' the personal services income received. Alienation occurs where an individual performs work (personal service) but the relevant income is received by the interposed entity and either retained in the entity or distributed to other individuals (eg family members) who did not contribute to the work. In response to these trends, the Commissioner of Taxation will take the necessary steps to safeguard the intended operation of the law in these areas, including, where necessary, testing the law in the courts.

The tax treatment of **trusts** is another area of significant revenue risk, given the scope for trusts to be used to reduce tax liabilities and the reality of their modern day usage. As announced in the 1997-98 Budget, the Government will be reviewing the taxation of trusts.

Changes in **community expenditure patterns** are a further general risk in any tax system with differing tax rates. For example, the trend decline in expenditure on goods relative to services, moderate growth in alcohol and tobacco consumption and less intensive use of petroleum products exert downward pressure on the forward estimates of indirect tax revenue. These trends are allowed for in the estimates — it is only departures from the assumed trends that pose a risk.

Court decisions also increase the risk that revenue will be lower or higher than anticipated. Court decisions can affect the interpretation of tax legislation and, in the absence of Government action, can significantly change the level of revenue collected under that legislation.

Tax expenditures are particularly at risk of being exploited in an inappropriate manner, which can also have a significant effect on the forward estimates of revenue. The Government receives a steady stream of calls for new tax expenditures to be granted. If further tax expenditures are granted, the forward estimates of revenue will be adjusted downwards. Equally, if any existing tax expenditures are wound back, the forward estimates of revenue will be adjusted upwards. The Government has indicated that all tax expenditures will be subject to ongoing monitoring and evaluation to determine whether they remain relevant to meeting the Government's priorities.

The Government has announced an acceleration in the **tax reform** process. The Government is committed to a policy of no increase in the overall tax burden but any changes to the organisation and operation of the tax system in the future could have an effect on revenue collections between different heads of revenue. The Government has indicated that it will announce the form of its reform proposals prior to the next election.

Apart from the above-mentioned general risks which could have a cumulative impact over time, there are general risks to the forward estimates which could have a significant effect in any one year but not necessarily a cumulative effect over time. In any one year revenue will be influenced by a number of factors, including, for example, the degree to which companies and individuals realise losses and capital gains, the valuation of stock, the utilisation of specific tax expenditures and taxpayer behavioural responses to revenue measures. Such factors can have a particularly significant effect on company tax collections and the revenue forgone through tax expenditures. Generally, such factors are not, by their nature, able to be forecast with a high degree of certainty.

Specific Risks

There are also a number of specific risks to revenue that are currently the subject of ongoing analysis and evaluation by the Treasury and the ATO. Such risks can include, for example, specific tax minimisation and avoidance schemes. Early detection and Government response to such risks is desirable. It would be inappropriate to explicitly identify such current specific risks until the Government is in a position to respond to the risks. To do so may compromise the Government's policy response and magnify the downside risks to the forward estimates of revenue.

The Government has announced a number of measures to date which have already been factored into the forward estimates of revenue but are yet to be passed by Parliament. Should the passage of legislation relating to these measures be delayed, amended or rejected, the forward estimates will need to be appropriately adjusted. Legislation relating to some of these measures is discussed below.

The Government is committed to providing eligible taxpayers a choice between accelerated deductions for **Landcare works** under sections 75B and 75D of the *Income Tax Assessment Act 1936* or a tax rebate/credit set at the marginal tax rate of 34 cents in the dollar for qualifying expenditure. This will be implemented through the establishment of the Natural Heritage Trust of Australia Reserve arising from the partial privatisation of Telstra.

In the 1996-97 Budget, the Government introduced a surcharge on **superannuation contributions of high income earners**. The surcharge, of up to 15 per cent on all employer and tax deductible personal contributions made to superannuation funds or Retirement Savings Accounts, will be phased in over the income levels of $73,220 to $88,910 (1997-98 year).

Because the income levels are largely based on taxable income, there is a risk to revenue if otherwise high income earners enter into salary packaging arrangements to reduce the amount of their taxable income (but with no net impact on their total remuneration). The risk of such arrangements becoming widespread is likely to increase in 1997-98 (with the revenue impact occurring in 1998-99) and subsequent years. The ATO is monitoring the situation and will advise the Government of appropriate responses if evidence of salary packaging emerges.

Contingent Liabilities

Quantifiable

Telstra Corporation Ltd — Loan Guarantee

The Commonwealth has guaranteed loans taken out by Telstra Corporation Ltd. The principal amount covered by the guarantee as at 24 November 1997 was $392 million.

Australian Broadcasting Corporation

The Commonwealth has guaranteed loans totalling $193 million drawn by the Corporation. These loans were largely used to meet costs relating to the construction of premises for the Corporation at Southbank (Melbourne) and Ultimo (Sydney).

Special Broadcasting Service

The Commonwealth has guaranteed loans totalling $39 million drawn by the Corporation. These loans were used to pay for refurbishment and enhancement of the Corporation's premises at Artarmon in Sydney.

Commonwealth Indemnity Scheme

The Commonwealth has provided indemnities to the owners of artworks against the loss of, or damage to, those artworks whilst they are on loan to galleries participating in exhibitions organised under the Scheme. The global limit set by the Government on indemnities is $1 billion. The actual amount indemnified as at 24 November 1997 was approximately $813 million.

Defence Housing Authority

Private sector borrowing by the Defence Housing Authority is explicitly guaranteed by the Commonwealth under section 38 of the *Defence Housing Authority Act 1987*. The value of outstanding loans guaranteed at 2 December 1997 was $95 million.

AUSTUDY/ABSTUDY — Loan Supplement

The AUSTUDY Supplement is a voluntary loan scheme which enables tertiary students to obtain additional financial assistance to enable them to meet their living expenses while studying. The loans are negotiated with the Commonwealth Bank of Australia Ltd and guaranteed by the Commonwealth. As at 23 November 1997, the value of such loans was $1,117 million.

Adult Migrant English Programme (AMEP) — teacher redundancy costs

Under the terms of the 1993 memoranda of understanding between the Commonwealth and the States, the Commonwealth may be liable for some costs incurred by state AMEP service providers associated with redundancy packages for a proportion of their permanent teaching staff. The Department of Immigration and Multicultural Affairs is currently negotiating with state AMEP service providers with a view to extinguishing this liability.

Australian Industry Development Corporation (AIDC)

As at 24 November 1997, AIDC contingent liabilities totalled $449 million, being $387 million in respect of guarantees and credit risk facilities and $62 million in respect of borrowings by the Corporation which are subject to a Commonwealth guarantee. The Corporation's other guaranteed borrowings, totalling $2,646 million, have now, as a result of arrangements associated with the sale of certain assets of AIDC Ltd to UBS Australia Ltd, a wholly owned subsidiary of Union Bank of Switzerland, been offset by holdings in Commonwealth Government securities and certain hedging instruments guaranteed by UBS Australia. They have thus been netted off the gross borrowings to determine the contingent liabilities above.

Export Finance and Insurance Corporation (EFIC)

The Commonwealth guarantees the due payment by EFIC of money that is, or may at any time become, payable by EFIC to any person other than the Commonwealth. As at 31 October 1997 the contingent liability totals $6,790 million comprising contracts of insurance and guarantees ($2,920 million), loans ($970 million) and national interest provisions ($2,900 million).

Snowy Mountains Hydro-electric Authority (SMHEA)

The *Snowy Mountains Hydro-electric Power Act 1949* provides that borrowings by SMHEA may be guaranteed by the Commonwealth. The Authority has issued inscribed stock at a discount to finance capital works of the Scheme. The borrowings are subject to explicit Commonwealth guarantees. At 24 November 1997, the face value of guaranteed borrowings was $212.5 million, with the net amount guaranteed (excluding unamortised discount on the issue of inscribed stock) being $112.9 million.

Wool International

Under section 53(7) of the *Wool International Act 1991* the Commonwealth underwrites borrowings of Wool International for the management of the wool stockpile. Contingent liabilities to Wool International totalled $440 million at 31 October 1997. Sources of borrowings include domestic and overseas commercial borrowings. Wool International is reducing this debt through the sale of the stockpile. The target date for the payout of debt is 1998.

Australian Wheat Board (AWB)

Under the *Wheat Marketing Act 1989* the Commonwealth underwrites borrowings by the AWB that fund advance and related payments from the wheat pool totalling $3,389 million at 31 October 1997. Borrowings are repaid as the wheat pool is sold. The percentage underwritten by the Commonwealth is set at 85 per cent of the estimated aggregate net return on the wheat pool. The Commonwealth's responsibility for the underwriting of borrowings ceases after the 1998-99 season's pools are finalised.

There is also an additional borrowing guarantee for a total principal of $20 million for the AWB, which allows for the payout of equity in the 1990-91 pools to assist growers who were in financial difficulties at the time (following a fall in international wheat prices).

Queensland Fish Management Authority

The Commonwealth guaranteed a loan up to a maximum of $40.9 million to encourage the restructuring of the Northern Prawn Fishery. There is still $6.9 million outstanding to be paid off within three years. The loan was taken out by the Queensland Fisheries Management Authority on behalf of the Commonwealth to buy back surplus boat units from the fishery with repayment to be made by the industry through levies.

Guarantees under the Commonwealth Bank Sale Act 1995

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

The guarantee for the Commonwealth Bank of Australia relates to both on and off balance sheet liabilities. Of the existing contingent liability, 34 per cent involves off balance sheet liabilities. As at 30 June 1997, the balance of the guarantee was $104,174.1 million, a reduction of $220,830.6 million on the previous year.

The guarantee for CBOSC covers the due payments of any amount that is payable to or from the Fund, by CBOSC or by the Bank, in respect of a person who was a member, retired member or beneficiary of the Fund immediately before 19 July 1996. Total accrued benefits at 30 June 1997 have been valued at $4,022 million following an actuarial review. The outstanding value subject to the guarantee is estimated to be $4,017 million.

As of 1 July 1996, the Commonwealth Development Bank ceased to write new business and no additional liabilities are being incurred. The existing contingent liability will gradually decline with the retirement of existing loans and exposures. The revised estimate for the balance of this guarantee was $482 million as at June 1997.

Reserve Bank of Australia (RBA) Guarantee

This contingent liability relates to the Commonwealth's guarantee of the liabilities of the RBA. The major component of RBA liabilities relates to Notes (ie currency) on Issue.

This treatment of Notes largely relates to the historical convention of the convertibility of Notes to gold — coins are not treated as a liability in the Commonwealth's accounts. At 12 November 1997, Notes on Issue totalled $20,840 million.

The other major liability consists of deposits with the RBA by the banking sector. At 12 November 1997 these deposits amounted to $6,340 million. The large decrease from 30 June 1997 (when deposits amounted to around $13,600 million) to 12 November 1997 is principally due to the decrease in the value of exchange settlement accounts held with the RBA by the banking sector. In total, the guarantee for the RBA was $33,404 million as at 12 November 1997.

Uncalled Capital Subscriptions — International Financial Institutions

The liability relates to the value of the uncalled portion of the value of the Commonwealth's shares in the International Bank for Reconstruction and Development ($US2,769.5 million — estimated value $A3,956.4 million at 19 November 1997), the Asian Development Bank ($US2,477.5 million — estimated value $A3,539.3 million), and the European Bank for Reconstruction and Development ($US81.7 million — estimated value $A116.7 million).

Australian National Line (ANL) Ltd — $100 million Promissory Note Facility

In order to enable ANL to trade in an orderly fashion, the Commonwealth has guaranteed access to a promissory note facility of up to $100 million. Only $45 million has been drawn down by ANL under this facility. Therefore, the maximum exposure for the Commonwealth is $45 million, unless a further draw down/note issue is approved by the shareholder (ie the Commonwealth).

Unquantifiable

Australian Federal Police Adjustment Scheme

Under section 30(2) of the *Australian Federal Police Act 1979*, all Australian Federal Police (AFP) appointees who complete a fixed term appointment are entitled to a payment upon separation from the organisation. The entitlement is payable subject to, and in accordance with, eligibility conditions determined by the Commissioner of the AFP. Funding has been provided for the costs expected to be incurred over the next five years, but actual expenditure is subject to the number of staff separations.

Australian Trade Commission

Under the *Australian Trade Commission Act 1985* the Commonwealth guarantees payment by the Australian Trade Commission of money that is payable to any person other than the Commonwealth.

Telstra Corporation Ltd — Superannuation Guarantee

The Commonwealth has guaranteed payments from Telstra Corporation Ltd to the Telstra Superannuation Scheme. The Commonwealth has guaranteed that it will cover any benefits that may have to be paid from the Fund in the event that the Telstra Superannuation Scheme or Telstra is ever bankrupted and wound up.

Superannuation Act 1976 and the Public Sector Superannuation Scheme (PSS)

Under the *Superannuation Act 1976* (for the Commonwealth Superannuation Scheme (CSS)) and the PSS Trust Deed and Rules and determinations made under them, the Commonwealth guarantees payment of the amounts of members' contributions and productivity contributions with interest allocated to those amounts by respective Boards of Trustees.

The CSS and the PSS guarantee the accrued contributions and interest so there cannot be a negative rate of return on invested funds. The funds maintain a reserve which covers the possibility of negative returns. The Commonwealth has not had to make a payment in relation to this guarantee.

Sale of Aerospace Technologies of Australia (ASTA) Pty Ltd

An indemnity has been given to purchasers of ASTA to protect ASTA and the purchaser from any reasonable losses, costs (including legal expenses), liabilities and other outgoings incurred in respect of any asbestos, pollutant or other contaminant on or in the property or buildings of the Avalon property.

An indemnity has been given to purchasers of ASTA to indemnify the purchaser against any reasonable loss, cost or expense sustained or incurred as a result of:

- breach of warranty;
- any work done or liabilities incurred;
- liabilities which may occur in the future relating to ASTA Aircraft Services PtyLtd (ASTAAS), Pacific Aerospace Corporation Ltd (PAC) or ASTA airport (which were not purchased as a part of ASTA); and
- any taxes incurred or occurring in respect of the period prior to the sale.

An indemnity has been given to purchasers of ASTA to indemnify the purchaser against any payments made by ASTA in respect of indemnities given in connection with the research and development syndications which involve ASTA at or prior to the sale.

An indemnity has been given to purchasers of ASTA to indemnify the purchaser against any loss it suffers as a result of ASTA incurring any tax liability under the *Income Tax Assessment Act 1936* as a result of any action or inaction of ASTA in respect of the period prior to the sale, and in respect of any payments made by the Commonwealth to the purchaser.

These indemnities were issued on 20 June 1995 and will not extend to any claim which either accrues or is made more than four years after the closing date or is for an amount less than $100,000.

Sale of Australian Industry Development Corporation (AIDC) Limited

An indemnity has been provided to the Directors and nominated officers of AIDC Ltd and the AIDC Corporation to indemnify them against all actions, suits, claims, demands and reasonable costs and expenses (including costs and expenses incurred as a result of a governmental or parliamentary inquiry and legal costs and expenses certified reasonable by the Attorney-General) in respect of assistance provided to the Privatisation Advisory Committee (PAC), the Commonwealth and the Corporation in respect of the PAC process and the sale of shares. This indemnity was issued on 30 May 1996 and terminates upon the sale of any of the shares. The Commonwealth may also terminate this indemnity upon reasonable notice in writing to the Chairperson of the Corporation.

Sale of Commonwealth Funds Management (CFM) and Total Risk Management (TRM)

An indemnity has been provided to the Directors and certain officers of CFM and TRM to indemnify them against all actions, suits, claims, demands and reasonable costs (including legal costs and expenses certified reasonable by the Attorney-General) in relation to assistance given to the Commonwealth in the sale process in relation to provision of information to the Commonwealth or a third party. This indemnity was issued on 28 August 1996.

The Commonwealth has indemnified the purchaser of CFM, the Commonwealth Bank of Australia, from all losses and liabilities which may be suffered as a result of the exercise of powers under the *CFM Sale Act 1996.* These powers relate to the transfer of any assets rights and obligations or liabilities of the company, employment of staff and transfer of company shares.

The Commonwealth has also indemnified the Commonwealth Bank of Australia against any stamp duty payments related to the transaction other than the basic share transfer duty.

Sale of Avalon Airport Geelong Pty Ltd (AAG)

An indemnity has been given to the purchaser of AAG to indemnify the purchaser against any loss it suffers as a result of AAG incurring any tax liability under the *Income Tax Assessment Act 1936* as a result of any action or inaction of AAG in respect of the period prior to sale.

An indemnity has been given to the purchaser of AAG to indemnify the purchaser and AAG against all liabilities, losses, costs, damages, expenses and claims arising out of:

- any contamination on, in or affecting Avalon Airport that existed prior to closing;
- any remedial action taken by the purchaser or AAG in regard to any contamination on, in or affecting Avalon Airport that existed prior to closing in compliance with any notice or order issued by a regulator; and
- the construction, alteration or addition prior to closing of buildings using any materials or fixtures and fittings which are a potential health hazard.

An indemnity has been given to the purchaser of AAG to indemnify the purchaser against:

- the holding of, or disposal of, shares in PAC or ASTAAS by AAG prior to closing;
- the exposure at Avalon Airport of any person to asbestos prior to closing;
- any breach of representation or warranty by the Commonwealth under the sale agreement (claims will not exceed either individually or in aggregate the amount of the purchase price);
- any liability of AAG arising under any lease granted to it prior to closing by the Commonwealth, or out of AAG's use or occupation, of Avalon Airport prior to closing;
- any breach of environmental law by AAG arising out of its use or occupation of Avalon Airport prior to closing; and
- any claim or liability arising out of or in relation to the Paint Shop.

Sale of CSL Ltd

An indemnity has been given to Potter Warburg/Price Waterhouse (PW/PW) for protection for litigation costs, limited to circumstances where PW/PW was sued as a result of the proper performance of the consultancy relating to the sale of CSL Ltd. This indemnity was issued on 14 October 1992. The termination date is undefined, but is limited by statutes of limitation.

An indemnity has been given to Arthur Anderson (AA) for protection for litigation costs, limited to circumstances where AA was sued as a result of the proper performance of the consultancy relating to the sale of CSL Ltd. This indemnity was issued on 7 June 1993 and is continuing, however it is limited by statutes of limitation.

An indemnity has been given to CSL Ltd to protect CSL Ltd from any claim made against them for breach of confidentiality as a result of CSL Ltd having provided information to the Commonwealth, and the Commonwealth subsequently failing to ensure that confidentiality. This indemnity was issued on 14 September 1992.

Provisions for this latter indemnity are continuous. However, the parties clearly anticipate that the indemnity ceased to have practical effect after conclusion of the sale of CSL Ltd. This will be formalised through an exchange of letters.

Sale of Lease of Federal Airports Corporation (FAC) Airports

A letter of comfort has been provided to assure Standard and Poor's Ratings Group that the FAC will continue to have access to adequate liquidity to enable it to continue to service its obligations and effectively conduct its operations. This assurance was issued on 27 May 1994 and effectively terminates upon the completion of the assumption of FAC debt by the Commonwealth.

An indemnity has been given to Ernst & Young to indemnify them against legal costs incurred in respect of their obligations for legal compulsion to disclose. This indemnity was issued on 15 July 1996.

An indemnity has been given to the Board of the FAC to replace the extension of Finance Direction 21 to FAC Board members. This indemnity was issued on 3 October 1996 and is ongoing.

An indemnity has been given to Mallesons Stephen Jaques to indemnify the consultant in relation to all reasonable costs (including legal costs) incurred by the consultant in complying with any requests or directions by the Commonwealth given to the consultant pursuant to a confidentiality agreement dated 13 September 1996.

An indemnity has been given to BZW Australia Ltd to indemnify BZW against legal costs and disbursements incurred in respect of BZW's obligations for legal compulsion to disclose. This indemnity was issued on 18 August 1995 and is ongoing.

Sale of Sydney-Moomba Gas Pipeline

An indemnity has been given to East-Aust Pipeline Ltd in an Agreement entitled 'Asset Purchase Agreement' dated 30 June 1994 between the Commonwealth and East-Aust Pipeline Ltd. East-Aust Pipeline Ltd is indemnified against losses sustained due to a claim by an employee of the Pipeline Authority for negligence or accrued salary or other entitlements arising prior to the 'Transfer Day'. By implication East-Aust Pipeline Ltd cannot bring an action more than six years after the Transfer Day.

Sale of Snowy Mountains Engineering Corporation (SMEC)

An indemnity has been given to Tinbury Ltd in an agreement for the sale of shares in SMEC Ltd which indemnifies Tinbury Ltd from and against all damages, losses, liabilities, claims, costs and expenses which Tinbury Ltd may suffer from the Commonwealth's non-observance of any of the express representations, warranties, covenants or undertakings contained in the Agreement. This indemnity was issued on 21 October 1993 and is ongoing.

Commonwealth Bank Public Share Offer

In 1996, the Commonwealth provided an indemnity to the Commonwealth Bank, its directors and certain officers to cover the civil liability in relation to providing assistance to the Commonwealth in the offer context.

Indemnities for Banks

The Commonwealth has indemnified a number of banks in Europe and North America and the RBA against loss and damage arising from the acceptance of certain Commonwealth cheques bearing a facsimile signature having been impressed thereon without the authority of the Commonwealth.

Partial Sale of Telstra Corporation - Telstra Scoping Study

An indemnity has been provided to the present and certain former Telstra directors and officers to protect against any liability incurred in connection with a civil liability; defending criminal proceedings in Australia or overseas; any application in relation to criminal proceedings; any examination, investigation, inquiry or proceeding by the Australian Securities Commission or any other authority of any Government in Australia or elsewhere in relation to the Telstra Sale Scoping Study. This indemnity was issued on 23 September 1996 and is ongoing.

Partial Sale of Telstra Corporation — Telstra Share Offer

An indemnity has been provided to present and former directors of Telstra to protect against civil liability arising from, or in relation to, defending criminal proceedings under Australian or foreign laws (where the indemnified party is acquitted or the matter is settled, dismissed or withdrawn before judgement); liability arising from, or in relation to, any examination, investigation or inquiry or proceeding in which the Court grants relief to the indemnified party; or liability arising from, or in relation to, any examination, investigation, inquiry or proceeding by the Australian Securities Commission, or any other administrative body or Government authority in connection with a Telstra Sale Scheme.

An indemnity has been provided to certain executives of Telstra Corporation to protect against civil liability arising from, or in relation to, defending criminal proceedings under Australian or foreign laws (where the indemnified party is acquitted or the matter is settled, dismissed or withdrawn before judgement); liability arising from, or in relation to, any examination, investigation or inquiry or proceeding in which the Court grants relief to the indemnified party; or liability arising from, or in relation to, any examination, investigation, inquiry or proceeding by the Australian Securities Commission, or any other administrative body or Government authority in connection with a Telstra Sale Scheme.

Two indemnities have been provided to Telstra Corporation to protect against:

- civil liability arising from, or in relation to, defending criminal proceedings under Australian or foreign laws (where the indemnified party is acquitted or the matter is settled, dismissed or withdrawn before judgement); liability arising from, or in relation to, any examination, investigation or inquiry or proceeding in which the Court grants relief to the indemnified party; or liability arising from, or in relation to, any examination, investigation, inquiry or proceeding by the Australian Securities Commission, or any other administrative body or Government authority in connection with a Telstra Sale Scheme; and

- any penalty tax or additional tax within the meaning of Division II of the *Income Tax Assessment Act 1936* or any loss or cost incurred by Telstra arising from the payment of Franking Deficit Tax or Franking Deferral Tax.

Indemnities have been issued to the international underwriters of the Telstra Share Offer to protect them against any Australian documentary, stamp, transaction or registration or similar taxes.

An indemnity has been provided to the Joint Global Coordinators and Lead Managers to protect them against any claim arising from the acts of other parties where the Commonwealth requires them to rely on those acts in the performance of the consultancy services.

An indemnity has been provided to protect the Telstra Instalment Receipt Trustee against losses, liability, etc, arising from performance of its functions under the Trust Deed governing the administration of the instalment payment structure but not in relation to loss, liability, etc, resulting from negligence, default, etc, of the indemnified party.

An indemnity has been provided to the Bank of New York and its Custodian to protect them against any costs or losses that may arise in the performance of their obligations relating to the issuing of Interim American Depository Receipts in the United States of America but not in relation to loss, liability, etc, resulting from negligence, default, etc, of the indemnified party.

An indemnity has been provided by the Telstra Instalment Receipt Trustee, on the Commonwealth’s behalf, to Coopers & Lybrand and Price Waterhouse in relation to performance of their functions as the Instalment Receipt Registrar and Manager of the Instalment Receipt Trustee respectively.

CSL Ltd

CSL Ltd is indemnified against claims made by persons who contract specified infections from specified products and against employees contracting asbestos related injuries. CSL Ltd has unlimited cover for most events that occurred before the sale of CSL Ltd on 1 January 1994 but has more limited cover for a specified range of events that might occur during the period of the current contract. Given the open ended nature of some of the indemnities, damages and risk cannot be quantified.

Civil Aviation Safety Authority (CASA) — Indemnity in Relation to the Authority’s Safety Regulatory Functions

Under a Deed of Agreement, CASA is indemnified against claims incurred in carrying out its responsibilities for aviation safety regulation. Under existing arrangements, this indemnity is subject to annual renewal on payment of an annual premium by CASA to the Commonwealth. The current CASA safety regulatory indemnity expires on 5 July 1998.

Civil Aviation Safety Authority (CASA) — Indemnity to Officers of the Authority Administering the Carrier's Liability Insurance Requirements

An indemnity is given to those officers of CASA who administer the carrier’s liability insurance requirements under Part IVA of the *Civil Aviation (Carrier's Liability) Act 1959* and complementary state legislation. This indemnity is unquantifiable and no expiry date has been set.

Tripartite Deed Relating to the Sale of Phase 1 Airports

The Tripartite Deeds between the Commonwealth of Australia, airport lessees and lessees' financiers provide for the Commonwealth to 'step-in' as airport operator in defined circumstances. The potential liability of the Commonwealth in that event varies considerably with the specific factors leading to such an action.

If the Commonwealth entered into possession of an airport site it could recover its costs from a number of sources, including airport revenues.

Sale of Australian Airlines Ltd

The Commonwealth has given an indemnity to Australian Airlines Ltd to protect Australian Airlines Ltd Board members and officials against false or misleading information relating to the airline's operation resulting in litigation from prospective purchasers. This indemnity was issued on 28 May 1991 and is ongoing.

The Commonwealth has also given an indemnity to Australian Airlines Ltd to protect employees from civil action arising out of disclosure of information. This indemnity was issued on 19 November 1991 and is ongoing.

Qantas Trade Sale

An indemnity has been issued to British Airways PLC to protect it against loss resulting from a failure of the Commonwealth to meet its obligations in the Qantas trade sale. This indemnity was issued on 12 January 1993 and is ongoing.

An indemnity has also been issued to British Airways PLC to cover a loss in economic value of shares as a result of the Qantas trade sale. This indemnity was issued on 12 January 1993 and terminates on 30 June 2003.

A Letter of Comfort has been given to Qantas Airways Ltd to provide an assurance that the Commonwealth will continue to honour a $100 million standby facility. This letter was issued on 12 September 1991 and the termination date is unspecified.

Qantas Public Share Offer

An indemnity has been given to Qantas Airways Ltd to protect it from losses and costs resulting from any Commonwealth breach of the debt assumption agreement. This indemnity was issued on 12 January 1993 and is ongoing.

The Commonwealth has indemnified Qantas Airways Ltd Directors for all civil liabilities they may incur through their participation in the offer. The indemnity was issued in 1995.

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

An indemnity has been provided to each of the Commissioners of AN in respect of assistance, including the provision of information about AN at the request of the Commonwealth or its advisers for the purposes of the sale of AN, its business units or assets.

An indemnity has been provided to Directors and certain specified officers of NR for cooperation and assistance during the scoping study into the possible sale of the Commonwealth's equity in NR including the provision of information about NR at the request of the Commonwealth or its advisers for the purposes of the sale of NR.

Australia's Involvement in the International Monetary Fund (IMF) Assistance to Thailand, Indonesia and South Korea

In response to recent instability in regional financial markets and economies, Australia has offered to provide bilateral financing in support of IMF programmes in Thailand, Indonesia and Korea. In the case of Thailand, this has taken the form of a loan/currency swap between the RBA and the Bank of Thailand for $US1 billion which is to be drawn down over a three year period and repaid. In the event of default, the ability of the RBA to maintain the dividend stream projected in the forward estimates may be affected.

In the case of Indonesia and Korea, Australia has agreed to provide supplementary financing or 'second tier' financing of up to $US1 billion each. This will be accessed only if necessary and after recourse to IMF and other financing provided by the World Bank and Asian Development Bank. This financing would be provided via a loan/currency swap on a non-concessional basis that would be repaid to the Commonwealth. Financing has not been provided to Indonesia and Korea as yet.

Housing Loans Insurance Corporation (HLIC)

The Commonwealth guarantees the liabilities of the HLIC which provides mortgage insurance to lenders. Whilst it is possible to measure the total value of all insurance contracts on the HLIC's books at any given time, this does not realistically reflect the potential risk to the Commonwealth. The HLIC has never suffered a claim for the total value of any insurance contract in its 30-year history; claims amounts on policies usually amount to 10 to 20 per cent of the policy value.

Sale of the Housing Loans Insurance Corporation (HLIC)

The Commonwealth has agreed to sell the business of HLIC to GE Capital Australia. The sale agreement incorporates warranties, indemnities and sale price adjustments. Commonwealth liabilities for these matters are limited by total value and, in some cases, are also limited to time. Closing of the sale is expected to be before the end of 1997.

Sale of Australian Multimedia Enterprise (AME)

An indemnity has been provided to the Directors of AME to indemnify them against all actions, suits, claims, demands or proceedings and reasonable costs in respect of assistance provided by the Director for the purposes of investigating or conducting the sale of AME. The indemnity commenced on 3 July 1997.

Australian Maritime Safety Authority (AMSA) — in relation to ship-sourced marine pollution

In the normal course of operations, the Authority is responsible for the provision of funds necessary to meet the clean up costs arising from ship-sourced marine pollution. The Commonwealth has agreed that the Authority's responsibility be limited to a maximum outlay of $10 million. The Authority entered into a stand-by loan facility for this purpose. In the event of costs above that limit, funds will be provided by the Commonwealth. The Commonwealth's risk is unquantifiable. In all circumstances, the Authority is responsible for making appropriate efforts to recover the costs of any such incidents.

ANL Ltd

The Commonwealth has issued a guarantee for all ANL's major lease facilities. If the risk materialised the full termination value of the leases may be largely offset by the value of ANL's lessor loans and the value of assets that ANL would assume in the event of termination of the leases. The net value in the event that the leases are paid out may be around break-even.

ANL Ltd Board

An indemnity for ANL Ltd Board members was provided to protect against civil claims relating to employment and conduct as a director of ANL Ltd and subsidiary/associated companies. This indemnity is unquantifiable and no expiry date has been set.

APPENDIX C: SENSITIVITY OF FISCAL AGGREGATES TO ECONOMIC DEVELOPMENTS

Table 17 provides a guide to the sensitivity of the forward estimates of outlays and revenue to variations in economic parameters in 1997-98. Such a guide can provide only a 'rule of thumb' indication of the impact on the budget of changes in prices, wages and other parameters.

Table 17: Sensitivity of Fiscal Aggregates to Changes in Economic Parameters

	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
Outlays				
Prices	50	450	550	600
Wages	0	270	430	480
Newstart Allowance recipients	150	300	300	300
Safety Net Adjustment	0	70	260	330
Revenue				
Average earnings(a)	900	980	1050	1130
Employment	600	660	710	760
Company income	20	220	190	200
Other individuals income	40	120	140	150
Consumption(b)	270	290	310	320
CPI(c)	0	130	150	160
Imports(d)	30	40	50	50

(a) National accounts basis excluding superannuation and Commonwealth government redundancies.
(b) Impact on sales tax and excise revenue, assuming uniform percentage change in all components of the tax base.
(c) Impact on excise duty revenue.
(d) Impact on sales tax and customs duty revenue.

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

- Prices — all price deflators are assumed to increase by one percentage point at the start of the March quarter 1998, with wage deflators left unchanged;

- Wages — all wage and salary rates are assumed to increase by one percentage point from the beginning of the March quarter 1998, with price deflators left unchanged;

- Newstart Allowance recipients — the total number of recipients is assumed to increase by 5 per cent from the beginning of the March quarter 1998; and

- Safety Net Adjustment — the Safety Net Adjustment determined by the Australian Industrial Relations Commission (AIRC) is assumed to increase by $2 per week in the budget and forward years from the beginning of the March quarter 1998.

Projected outlays respond to changes in economic parameters through a variety of mechanisms. For example, the Government's decision to maintain pensions at 25 per cent of Male Total Average Weekly Earnings (MTAWE) means that projected spending on pensions will depend not just on changes to the CPI, by which pensions have been indexed for some time, but also on expected changes in the level of MTAWE. Payments to the States are subject to guarantees which make them sensitive to changes in the CPI.

In addition, a large component of Government spending, comprising running costs, other Commonwealth Own Purpose Outlays of a running cost nature and Specific Purpose Payments to the States of a running cost nature, is indexed to weighted averages of movements in underlying inflation and the Safety Net Adjustment determined by the AIRC. The Safety Net Adjustment is currently assumed to increase in future years in line with the decision handed down by the AIRC in April 1997.

Economic growth, and employment growth, affect the number of Newstart Allowance recipients and therefore the total spending on benefits. However, the relationship between GDP growth and Newstart Allowance recipients is highly variable and difficult to quantify. For this reason, Table 17 only includes the impact of changes in the number of Newstart Allowance recipients on the estimates.

On the revenue side, the figures show the estimated impact of a one percentage point change in a range of economic variables in 1997-98 as a whole. The CPI is assumed to increase by half a per cent in the March and June quarters 1998.

Differences in impact over the years reflect:

- the full-year impact of variations in parameters not occurring until the year following the variation;
- the effect on revenue collections of variations in company and other individuals income occurring largely in the year following the receipt of income; and
- for variations in most economic parameters, the flow-through effect of a higher (or lower) base in a year on revenue collections in subsequent years.

APPENDIX D: TAX EXPENDITURES

OVERVIEW

This appendix discusses the revenue impacts associated with concessional taxation treatment of specific groups and/or activities.

Individuals and businesses derive financial benefits from various tax concessions. These concessions are usually delivered by tax exemptions, deductions, rebates or reduced rates. They can either reduce or delay the collection of tax revenue. Tax concessions will influence the allocation of resources to different activities. Direct expenditures (outlays) could equally be used to allocate resources to different activities and deliver the benefits provided by the various tax concessions. For this reason, and noting their direct impact on the underlying budget deficit, these tax concessions are generally called 'tax expenditures'.

The Government has introduced the Charter of Budget Honesty Bill 1996 to Parliament. A feature of the Charter is the requirement that the MYEFO update key information contained in the most recent budget economic and fiscal outlook report and present a detailed statement of tax expenditures. This appendix updates information on tax expenditures presented in *1997-98 Budget Paper No. 1*. The accompanying *Tax Expenditures Statement* provides a detailed statement of tax expenditures.

AGGREGATE TAX EXPENDITURES

Table 18 shows estimates and projections for the period 1993-94 to 2000-01 of the aggregate of tax expenditures that have been identified and costed in the *1996-97 Tax Expenditures Statement* (TES).

Table 18: Aggregate Tax Expenditures and Direct Outlays 1993-94 to 2000-01

Year	Superannuation ($m)	Other Tax Expenditures ($m)(a)	Total ($m)	Budget Outlays ($m)(b)	Ratio of Tax Expenditures to Outlays (per cent)
1993-94	7665	8123	15788	117810	13.4
1994-95	5770	10459	16229	123559	13.1
1995-96	8315	9972	18287	131961	13.9
1996-97	8700	10769	19469	135928	14.3
1997-98 (est)	8490	10666	19156	137350	13.9
1998-99 (est)	8720	12042	20762	140214	14.8
1999-2000 (p)	9390	13509	22899	145264	15.8
2000-01 (p)	10025	14373	24398	148819	16.4

(a) This aggregate does not include timing measures.
(b) As a result of classification changes introduced since the 1997-98 Budget, underlying outlays estimates are not strictly comparable with those previously published.
(est) Estimates.
(p) Projections.

The availability of new information on forward estimates and decisions taken since the 1997-98 Budget was brought down has led to a re-estimation of actual costs and forward projections for aggregate tax expenditures. The major revision relates to the estimated cost of superannuation concessions. The taxable income of superannuation funds in 1995-96 and 1996-97 was substantially higher than originally estimated, especially fund earnings but also higher levels of contributions. As such, the estimated cost of the concession is around $2 billion higher in 1995-96 and $2.5 billion higher in 1996-97 than those published at budget time. This also flows through to higher projected costs for the outyears. This issue is also discussed in the 1996-97 TES.

There are a number of major considerations in analysing aggregate tax expenditures.

- Many of the tax expenditures that have been identified have not been costed due to a lack of data.

- There has been an inconsistent coverage of tax expenditures over time — some tax expenditures have been costed for only a few of the fiscal years that they have actually been part of the tax system. Changes in aggregates over time will therefore reflect both changes in the cost of individual tax expenditures and changes in the coverage of the tax expenditures costed.

- There can be quite large revisions to tax expenditure estimates due to changes over time in methodology and available data.

The aggregate projections should therefore be treated with considerable caution and should only be used to provide a broad indication of the historical and possible future growth path of the cost of tax expenditures.

Bearing these considerations in mind, Table 18 shows that the net cost of aggregate tax expenditures, in terms of foregone revenue, increased in 1996-97 to $19.5 billion from around $18.3 billion in 1995-96 (excluding so called ‘timing’ tax expenditures which merely defer tax revenue collections to a later date). Table 18 also indicates that assistance provided through aggregate tax expenditures is about 14 per cent of total Government assistance provided through direct outlays.

The cost of tax expenditures (excluding ‘timing’ tax expenditures) is projected to rise to $24.4 billion in 2000-01, an increase of 25 per cent from 1996-97. By comparison, direct outlays are expected to increase by 9 per cent over the same period.

TAX EXPENDITURES BY FUNCTIONAL CATEGORIES

Table 19 compares the costs of identified tax expenditures in 1996-97 with direct outlays by functional category. The functional categories are the same as for outlays in Table 18.

The figures for a number of tax expenditure categories are only approximations as some tax expenditures do not lend themselves to easy categorisation. For example, a general industry assistance measure will apply to all industries and it will not be possible to determine precisely which industry sectors have accessed the tax concession. Tax expenditures that cannot be classified as belonging to a particular functional category are aggregated in the ‘Not Allocated to Function’ category.

Table 19 shows that most tax expenditures are classified as being related to Social Security and Welfare (this category includes superannuation tax concessions).

- Around 21 per cent of total assistance in this category is provided through tax expenditures.

The table also highlights the significant tax relief provided to business and industry categories through tax expenditures.

- For example, under the Mining and Mineral Resources (other than fuels), Manufacturing and Construction, and Agriculture, Forestry and Fishing categories, 37 per cent of total assistance is provided through tax expenditures.

Table 19: Aggregate Tax Expenditures and Direct Outlays by Function 1996-97

	Tax Expenditures	Budget Outlays	Total
Function	$m(a)	$m	$m
General Public Services			
Legislative and Executive Affairs	0	481	481
Financial and Fiscal Affairs	0	1804	1804
Foreign Economic Aid	123	1718	1841
General Research	0	1158	1158
General Services	5	113	118
Government Superannuation Benefits	0	1420	1420
Defence	66	10055	10121
Public Order and Safety	0	1226	1226
Education	29	10321	10350
Health	529	19196	19725
Social Security and Welfare	13533	49598	63131
Housing & Community Amenities	211	1138	1349
Recreation and Culture	42	1375	1417
Fuel and Energy	610	22	632
Agriculture, Forestry and Fishing	354	1903	2257
Mining and Mineral Resources (other than fuels), Manufacturing and Construction	1722	1653	3375
Transport and Communication	25	1652	1677
Other Economic Affairs			
Tourism and Area Promotion	70	86	156
Labour and Employment Affairs	15	2945	2960
Other Economic Affairs nec	824	314	1138
Other Purposes			
Public Debt Interest	0	9402	9402
General Purpose Inter-government Transactions	0	18229	18229
Natural Disaster Relief	0	20	20
Contingency Reserve	0	0	0
Asset Sales	0	101	101
Not Allocated to Function	1311	0	1311
Total(b)	19469	135928	155397

(a) Aggregate cost of tax expenditures in functional categories is derived by summing the individual tax expenditure costings.
(b) Items may not sum to totals due to rounding.

APPENDIX E: COMMONWEALTH GOVERNMENT SECTOR STATISTICS

Consistent with the requirements of the Charter of Budget Honesty, and the Uniform Presentation Framework that has been agreed between the Commonwealth and the States, this appendix provides data on:

- budget and forward estimates for the Commonwealth general government underlying balance and its major components;
- transactions by economic type for the Commonwealth general government, Public Trading Enterprise (PTE) and consolidated non-financial sectors on a Government Finance Statistics (GFS) basis; and
- the Commonwealth's Loan Council Allocation (LCA).

COMMONWEALTH GENERAL GOVERNMENT SECTOR

This section presents estimates of the underlying balance — and the revenue and outlays components — for the Commonwealth general government sector. The Commonwealth general government sector comprises both a budget and non-budget component. The budget sector, which dominates the general government sector, consists of those departments and agencies whose transactions are recorded on the Commonwealth Public Account (CPA). The non-budget sector includes Commonwealth government authorities such as the ABC and CSIRO, which operate outside the CPA through their own bank accounts.

The estimates provided in Table 20 are based on GFS classification principles. However, as is the case in the budget sector, in order to provide an estimate of the underlying balance broadly consistent with the 'net lending' concept in the national accounts, no adjustment is made for increases in provisions (for payments by the budget sector of PTE superannuation provisions). General government estimates are also presented on a GFS consistent basis in Table 21 to Table 23 below.

Table 20: Summary of General Government Aggregates ($m)

	1996-97	1997-98	1998-99	1999-00	2000-01
Revenue	**131195**	**135031**	**143121**	**150690**	**159658**
Per cent of GDP	*25.7*	*25.2*	*25.2*	*25.0*	*25.0*
Underlying outlays	**136423**	**137823**	**140642**	**145714**	**149336**
Per cent of GDP	*26.7*	*25.7*	*24.7*	*24.2*	*23.3*
Underlying balance	**-5228**	**-2792**	**2479**	**4976**	**10322**
Per cent of GDP	*-1.0*	*-0.5*	*0.4*	*0.8*	*1.6*
Memorandum items:					
Net advances	-7251	-14402	-6385	-324	-331
Headline balance	2023	11610	8865	5300	10653
Per cent of GDP	*0.4*	*2.2*	*1.6*	*0.9*	*1.7*

Table 20 shows that the Commonwealth general government sector is expected to move from underlying deficit to underlying surplus in 1998-99, consistent with expected movements in the budget sector. This movement equates to a change from an underlying deficit of around ½ per cent of GDP in 1997-98 to an underlying surplus of around ½ per cent of GDP in 1998-99.

The relative movements in the general government underlying and headline balances are dependent on changes in net advances. For instance, there is a larger increase in the headline surplus in 1997-98 compared to the improvement in the underlying balance in the same year as a result of an increase in net advances in 1997-98 (mainly reflecting a higher level of equity asset sales).

GOVERNMENT FINANCE STATISTICS

This section presents Commonwealth financial data on a GFS basis. Three statistical tables are presented below, showing transactions by economic type for the Commonwealth general government, PTE and consolidated non-financial sectors.

The tables were produced by the Australian Bureau of Statistics (ABS) in consultation with the Department of Finance and Adminstration. The ABS sign convention is adopted, where a negative deficit represents a surplus. This is in contrast to the presentation of the budget balance elsewhere in this document where a negative balance represents a deficit.

Consistent with ABS practice, the current and capital deficits, in relation to the headline deficit, are separated in Table 21 to Table 23. Transactions between the Commonwealth general government and PTE sectors are included in Table 21 and Table 22 but are removed from Table 23 as they are internal transactions within the Commonwealth non-financial sector. Table 23 records the net operating surplus of the PTE sector as part of the revenue of the Commonwealth government sector. This is irrespective of whether that net operating surplus is actually remitted to the parent government.

Transactions between the Commonwealth non-financial and public financial enterprise (PFE) sectors are included in all tables. These transactions include income transfers such as dividends paid to general government, net advances paid by general government to PFEs and taxes paid by PFEs. Any unremitted elements of PFE net operating surplus are not included in Table 23.

The ABS general government deficit adjusted for net advances shown in Table 21 differs from the budget sector underlying deficit used elsewhere in this document in the treatment of provisions and a number of budget transactions listed in Appendix F. The ABS measure is adjusted for the increase in provisions (for payments of PTE superannuation provisions).

Table 21: Economic Transactions of Commonwealth Government ($m)

	1996-97	1997-98	1998-99	1999-00	2000-01
	General Government(a)				
Outlays					
Current Outlays					
Final consumption expenditure(b)	25477	27680	28715	30054	31024
Interest payments	9626	8758	8099	7176	6483
Subsidies paid to public trading enterprises	427	469	400	402	254
Personal benefit payments	56872	58685	59715	62189	64252
Current grants	36968	37537	37857	39470	40638
To private sector	4101	3992	4008	4137	4233
To State governments	28542	29241	29768	31377	32475
To Universities	4115	4079	3844	3703	3663
To local governments	210	226	237	253	268
Other transfer payments	2718	2720	2584	2583	2579
Total current outlays	*132088*	*135849*	*137370*	*141874*	*145230*
Capital outlays					
Expenditure on new fixed assets	1077	1212	990	1003	1150
Plus Expenditure on secondhand assets (net)	-360	-1177	-569	-112	-110
Equals Gross fixed capital expenditure	717	36	421	891	1040
Expenditure on land and intangible assets (net)	49	-700	245	431	568
Capital grants	3553	2633	2586	2523	2484
To other sectors	171	166	123	103	92
To other levels of government	3050	2430	2463	2420	2393
To public trading enterprises	333	37	0	0	0
Advances paid (net)	-7251	-14402	-6385	-324	-331
To public trading enterprises	-3091	99	-868	0	0
Abroad	223	180	174	249	244
To other levels of government	-1012	-888	-199	-1255	-1110
Other	-3371	-13794	-5492	682	535
Other capital outlays	15	5	19	-6	14
Total capital outlays	*-2916*	*-12429*	*-3114*	*3516*	*3775*
Total outlays	**129172**	**123421**	**134257**	**145390**	**149005**
Revenue					
Taxes, fees and fines	125873	130473	138642	146228	155426
Interest received from public trading enterprises	85	79	62	10	9
Interest received from other enterprises	1069	953	859	833	703
Other revenue	4168	3526	3558	3619	3520
Total revenue	**131195**	**135031**	**143121**	**150690**	**159658**
Financing and deficit measures					
Borrowing (net)	-655	-12724	-7351	-4196	-8993
Increase in provisions (net)	-966	-1206	-978	-988	-966
Other financing transactions (net)	-403	2320	-536	-116	-694
Total financing	-2023	-11610	-8865	-5300	-10653
Less Increase in provisions (net)	-966	-1206	-978	-988	-966
Equals Deficit	-1057	-10404	-7887	-4312	-9687
Of which					
Current deficit	1859	2025	-4773	-7828	-13462
Capital deficit	-2916	-12429	-3114	3516	3775
Less Advances paid (net)	-7251	-14402	-6385	-324	-331
Equals **Deficit adjusted for net advances**	**6194**	**3998**	**-1502**	**-3989**	**-9356**

(a) The general government sector is the combination of the budget and non-budget sectors after elimination of transactions internal to that sector and adjustments to the budget sector as outlined in Appendix F.

(b) The budget sector contingency reserve is included in final consumption expenditure in this table.

Table 22: Economic Transactions of Commonwealth Government ($m)

	1996-97	1997-98
	Public Trading Enterprises	
Outlays		
Current outlays		
Interest payments	977	927
To general government	85	79
To other enterprises	892	848
Income transferred to general government	1475	1323
Other transfer payments	666	1876
Total current outlays	*3117*	*4126*
Capital outlays		
Expenditure on new fixed assets	4758	4995
Plus Expenditure on secondhand assets (net)	-270	-287
Equals Gross fixed capital expenditure	4488	4708
Expenditure on land and intangible assets (net)	-86	-1
Capital grants to other levels of government	0	0
Advances paid (net)	0	0
Other capital outlays	-537	-446
Total capital outlays	*3866*	*4262*
Total outlays	**6983**	**8387**
Revenue		
Sales of goods and services	26369	24898
Plus Subsidies received	369	395
Less Operating expenditure	22862	20274
Equals Net operating surplus	3876	5019
Interest received	258	181
Capital grants received	333	37
Other revenue	38	38
Total revenue	**4505**	**5275**
Financing and deficit measures		
Advances received (net)	-3053	99
Borrowing (net)	2119	-217
Increase in provisions (net)	3378	2644
For depreciation	2816	2892
Other	562	-248
Other financing transactions (net)	34	586
Total financing	2478	3112
Less Increase in provisions (net)	3378	2644
Equals Deficit	-900	469
Of which		
Current deficit	-4433	-3756
Capital deficit	3533	4225
Less Advances paid (net)	0	0
Equals **Deficit adjusted for net advances**	**-900**	**469**

Table 23: Economic Transactions of Commonwealth Government ($m)

	1996-97	1997-98
	Consolidated Government(a)	
Outlays		
Current outlays		
Final consumption expenditure	25477	27680
Interest payments	10518	9606
Subsidies paid to public trading enterprises	427	469
Personal benefit payments	56872	58685
Current grants	36968	37537
To private sector	4101	3992
To State governments	28542	29241
To Universities	4115	4079
To local governments	210	226
Other transfer payments	2182	3582
Total current outlays	*132444*	*137560*
Capital outlays		
Expenditure on new fixed assets	5835	6208
Plus Expenditure on secondhand assets (net)	-630	-1464
Equals Gross fixed capital expenditure	5205	4744
Expenditure on land and intangible assets (net)	-36	-701
Capital grants	3221	2596
To other sectors	171	166
To other levels of government	3050	2430
Advances paid (net)	-4160	-14502
Other capital outlays	-522	-441
Total capital outlays	*3708*	*-8303*
Total outlays	**136152**	**129257**
Revenue		
Taxes, fees and fines	124671	129458
Net operating surplus of public trading enterprises	3876	5019
Interest received	1327	1134
Other revenue	2732	2243
Total revenue	**132606**	**137854**
Financing and Deficit measures		
Borrowing (net)	1465	-12941
Increase in provisions (net)	2412	1438
For depreciation	2816	2892
Other	-403	-1454
Other financing transactions (net)	-331	2906
Total financing	3546	-8597
Less Increase in provisions (net)	2412	1438
Equals Deficit	1134	-10035
Of which		
Current deficit	-2574	-1732
Capital deficit	3708	-8303
Less Advances paid (net)	-4160	-14502
Equals **Deficit adjusted for net advances**	**5294**	**4467**

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

LOAN COUNCIL

Table 24 presents a revised estimate of the Commonwealth's 1997-98 LCA, updating the budget time estimate provided in *1997-98 Budget Paper No. 3, Federal Financial Relations*. LCAs are on a headline rather than an underlying basis as they seek to measure a government's call on financial markets. The increase in the Commonwealth's estimated LCA surplus since budget time mainly reflects additional proceeds from the sale of one-third of the Commonwealth's equity in Telstra. As a result of this improvement, the Commonwealth expects to exceed the lower bound of the 2 per cent of revenue tolerance limit that applies on either side of its budget time LCA estimate.

Table 24: Commonwealth's Loan Council Allocation for 1997-98 ($m)

	Budget Time Estimate May 97	MYEFO Estimate
General government sector deficit	-5530	-10404
PTE sector net financing requirement	-248	370
Public sector deficit(a)	-5740	-10035
Memorandum items(b)	192	-455
Loan Council Allocation	-5548	-10490

(a) The budget time and MYEFO estimates of the public sector deficit were compiled by the ABS under contract and in consultation with the Department of Finance and Administration. The ABS sign convention is adopted, where a negative balance represents a surplus.

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

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

APPENDIX F: STATISTICS AND CONCEPTS

This part discusses the conceptual differences between Commonwealth budget statistics and Government Finance Statistics (GFS). The GFS data presented in Appendix E are consistent with the revised uniform presentation framework (UPF) between the Commonwealth and State and Territory Governments agreed at the March 1997 Loan Council meeting.[1]

In presenting statistics the Government adopts the standards established by the Australian Bureau of Statistics (ABS) in its *Government Finance Statistics: Concepts, Sources and Methods* (Cat. No. 5514.0). This standard integrates the 1968 United Nations publication *A System of National Accounts* (SNA) and the 1986 IMF publication *A Manual on Government Finance Statistics*, drawing on features of both. A revised version of the SNA standard was issued in 1993 but this has not yet been incorporated into ABS Government Finance or National Accounts statistics. The IMF standard is currently being revised.

SECTORAL COVERAGE

There are two ways to view the Commonwealth non-financial sector as shown in the following diagram:

- budget/non-budget sectors; and
- general government/public trading enterprise (PTE) sectors.

Diagram 1: Commonwealth Non-financial Public Sector

	BUDGET CLASSIFICATION	GFS CLASSIFICATION
Commonwealth Non-financial Public Sector	**Budget Sector** (eg DEETYA, DSS)	**General Government Sector** (includes both budget and non-budget sectors)
	Non-budget Sector — Non-budget General Government Sector (eg ABC, CSIRO)	
	— PTE Sector (eg Telstra, Australia Post)	**PTE Sector** (eg Telstra, Australia Post)

Commonwealth financial enterprises, such as the Reserve Bank, are currently excluded from Commonwealth government statistics in line with ABS practice.

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1 Financial assets and liabilities data were published as a supplement to the September 1997 *Statement of Commonwealth Financial Transactions* and were also incorporated in the ABS publication, *Public Sector Financial Assets and Liabilities, Australia*, released in November 1997.

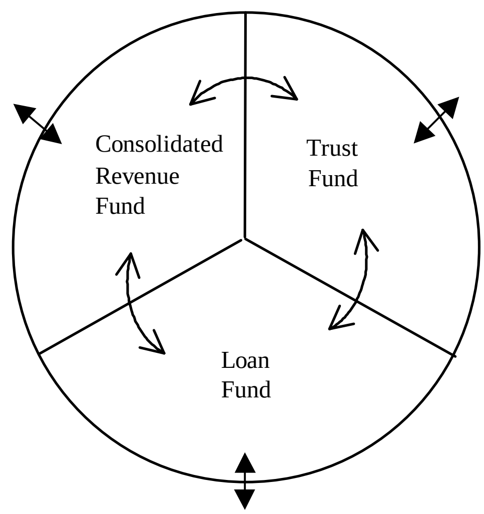
The term government business enterprise (GBE) is not an ABS concept but is used by the Commonwealth to describe a group of companies and authorities, located mainly in the PTE and public financial enterprise (PFE) sectors, which trade goods and/or services in the market with a prime objective of earning a commercial return. Government trading enterprises (GTEs) is a term used in the Council of Australian Governments context and refers to the commercial activities of the Commonwealth, States and Territories.

Commonwealth Budget Sector

Traditionally, the budget and mid-year statements have mainly presented transactions between the Commonwealth budget sector and other sectors of the economy, including transactions with non-budget Commonwealth entities. The Commonwealth budget sector consists of those departments and agencies whose day to day transactions are recorded in the Commonwealth Public Account (CPA), whether via the Consolidated Revenue Fund, Trust Fund or Loan Fund.

Transactions between budget sector agencies — such as payments of fringe benefits tax, customs duty and interdepartmental charges — are identified but netted out when calculating total budget outlays or revenue. Only transactions into and out of the CPA impact on budget outlays and revenue. These treatments of transactions are shown in the following diagram.

Diagram 2: Commonwealth Budget Sector



Excluded from the budget sector are many Commonwealth government authorities, such as CSIRO and the ABC, that operate outside the CPA through their own bank accounts. Although they may depend on appropriations from the Commonwealth budget in some cases, they are classified as part of the non-budget sector. Budget payments to them are classified as transfers to the non-budget sector. The ABS refers to this budget/non-budget distinction as the administrative sector classification.

ABS Government Sectors

The ABS GFS provides an alternative classification which allocates government units according to their role in providing market or non-market services. This approach recognises the different organisational focus of market oriented units by separating general government units that supply mainly non-market services from PTEs and PFEs which provide market goods and services.

This standardised classification system facilitates direct comparisons between governments in Australia and allows the impact of total government activity to be measured relative to other sectors of the economy.

PFEs are currently regarded as outside the scope of ABS GFS. However, under the revised uniform presentation framework, historical financial enterprise statistics will be phased in by all jurisdictions once the ABS has included PFE information in the GFS (currently proposed from 1998-99). This will provide a more complete coverage of the public sector associated with a proposal to reclassify State central borrowing authorities to the PFE sector.

The ABS has reclassified universities from the general government sector of the relevant jurisdiction to a new multi-jurisdictional general government category. This change was introduced in the *1997-98 Government Financial Estimates* published in November 1997. The data in Table 10 and Appendix E of this document reflect the new classification.

In practice, the Commonwealth budget and general government sectors are very similar. Since 1989-90 effectively all budget sector activity has been classified to general government. The general government sector also includes non-commercial government agencies that operate through private sector bank accounts, such as the ABC and CSIRO (referred to as general government non-budget sector).

To present Commonwealth GFS data, budget statistics are supplemented by ABS data on general government non-budget and PTE sector activity. Adjustments made to Commonwealth budget statistics to derive general government data include:

- budget data have been adjusted for the treatment of finance leases consistent with *Australian Accounting Standard 17*. Under that standard the asset and liability associated with a finance lease are brought to account in the financial records of the lessee. A finance lease is recognised where substantially all of the risks and benefits of ownership pass to the lessee;

- receipts by the Commonwealth of FBT payments by State governments have been reclassified from tax to non-tax revenue. This is because the ABS views such payments as transfers within the Commonwealth and State general government sectors;

- $190 million of taxation revenue has been removed from 1996-97 and recorded in 1995-96 as a result of it being receipted at the Australian Taxation Office on 30 June 1996 but not officially recorded in the CPA until early July 1996; and

- transfers of repatriation hospitals from the Commonwealth to the States have been recorded as Commonwealth capital grants to the States (a purchase of a capital asset has been recorded by the ABS in relevant State statistics).

CONSISTENCY OF COMMONWEALTH ACCOUNTING PRACTICES

This document has been developed to accord with the public sector accounting standards and the GFS concepts and methodology. The only exception to the treatment is the deviation of general government data from the Commonwealth budget statistics explained above.

CLASSIFICATION OF BUDGET AND GENERAL GOVERNMENT SECTOR TRANSACTIONS

Outlays, Revenue and Financing Transactions

Government sector transactions can also be viewed from an economic perspective and categorised into outlays, revenue and financing transactions.

In the general government context, outlays measure the net cost of providing general government goods and services generally allocated through collective political choice rather than through the operation of the market. They also quantify transfers and advances (loans and equity injections) made for public policy reasons.

User charges are offset against relevant payments in calculating outlays. The alternative treatment of classifying user charges as revenue would increase both outlays and revenue and inflate the reported cost of providing public goods and services.

Two other categories of receipts are offset against payments in the calculation of outlays to align with international standards. Advances (including loans to government enterprises, provision of equity to enterprises and, for the Commonwealth, loans to the States) are classified as outlays to reflect their public policy importance. Repayments of these advances, including the purchase of equity in enterprises by the private sector, are offset against payments to determine the net impact of advances. Consistent with the United Nations treatment adopted by the ABS, receipts from the sales of physical assets are recorded as offsets within outlays to assist in the measurement of the net stock of capital assets in the economy.

For the Commonwealth, outlays transactions under the asset sales programme, involving sales of equity and physical assets, are separately identified by function in the Budget Papers to enable analysts to make specific allowance for them. Those undertaken in the normal course of government activity remain classified to appropriate functional categories.

Underlying outlays exclude net advances (ie net policy lending and net equity transactions) from total outlays.

Revenue is the primary means of funding government, with any shortfall funded through borrowings or a rundown of financial assets (financing transactions). It comprises tax receipts (net of refunds) and non-tax receipts (interest, dividends etc) but excludes receipts from user charging, sale of assets and repayments of advances (loans and equity) which are classified as offsets within outlays. Revenue therefore measures the value of the resources, other than borrowings, raised by a government to fund outlays.

The difference between total outlays and revenue contributes to the level of the reported headline balance. The difference between underlying outlays (as defined above) and revenue determines the underlying budget balance. The rationale for focussing on the underlying outlays and budget balance measures is included in *1997-98 Budget Paper No.1*.

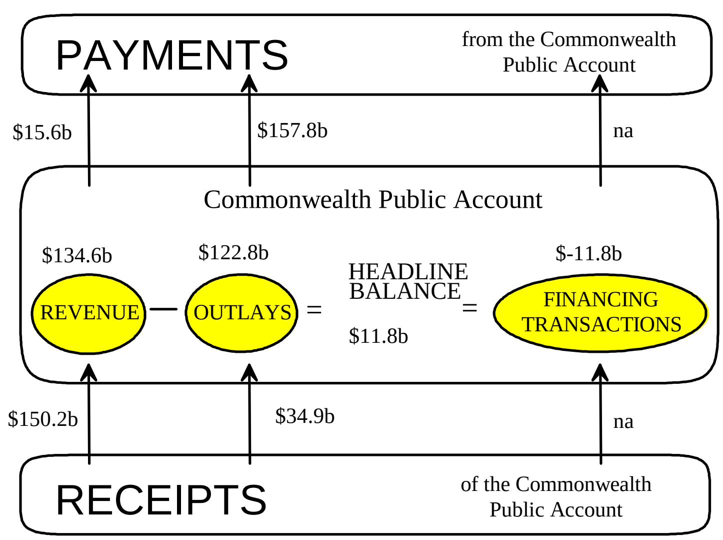
Financing transactions do not affect the balance and are referred to as below-the-line transactions. (Outlays and revenue transactions are referred to as above-the-line transactions.) Financing transactions are undertaken to finance the deficit or invest the surplus. They consist of borrowings and changes in holdings of financial assets such as cash or investments (excluding advances).

Payments and Receipts

In the Commonwealth Budget Papers, the terms payments and receipts indicate money flows out of and into the CPA. These are essentially accounting concepts used to present the Appropriation Bills and tax and non-tax moneys paid to the Budget (see *1997-98 Budget Paper No. 4*).

The relationship between accounting and economic concepts is shown in the following diagram for the Commonwealth.

Diagram 3: Commonwealth Budget Transactions — 1997-98 Estimates



Forthcoming Classification Changes

The ABS has decided to reclassify net advances (covering loans and repayments of loans for policy purposes and purchases/sales of equity) from capital outlays to financing transactions. This change will remove the necessity to calculate the deficit adjusted for net advances and will provide a more useful measure of total outlays. It is expected that this change will be first reflected in the *1996-97 Government Finance Statistics* to be published in April 1998.