2000-01 BUDGET PAPER No. 1

BUDGET STRATEGY AND OUTLOOK 2000-01

CIRCULATED BY
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2000-01

Foreword

Budget Paper No. 1 — Budget Strategy and Outlook 2000-01 has been drafted in line with the *Charter of Budget Honesty Act 1998*. The Charter requires that, inter alia, the Government provide a statement of its fiscal strategy and a report on the economic and fiscal outlook.

Consistent with these requirements, this Paper contains eight statements:

- **Statement 1 — Fiscal Outlook and Strategy**. A Statement of the fiscal outlook and the Government's fiscal strategy. The fiscal outlook section provides an overview of the fiscal position and the factors influencing expense and revenue estimates. The Statement also contains a summary of budget priorities. Appendices provide information on rural and regional initiatives and fiscal reporting standards.

- **Statement 2 — Economic Outlook**. The Economic Outlook discusses the economic forecasts which underpin the expense and revenue estimates.

- **Statement 3 — Maintaining Low Inflation and Strong Growth.** This Statement provides an analysis of the expected economic impact of *The New Tax System*.

- **Statement 4 — Financial Outlook**. Discusses the primary financial statements of the Commonwealth: the operating statement, balance sheet and cash flow statement. Appendices provide information on: statistics, concepts and notes to the financial statements; sensitivity of fiscal aggregates to economic developments; and a detailed description of general and specific risks to the forward estimates.

- **Statement 5 — Revenue**. A detailed discussion of budget and forward year revenue estimates. The Statement also includes an overview of estimated tax expenditures for the budget and forward estimates years.

- **Statement 6 — Expenses and Net Capital Investment**. A Statement of the Government's expense and net capital investment estimates.

- **Statement 7 — Budget Funding.** Details of the Commonwealth's recent and prospective net funding requirements and budget funding activities.

- **Statement 8 — The Public Sector**. Trends in public sector balances as a whole and Government Finance Statistics tables.

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NOTES

(a) The following definitions are used in this Budget Paper:

- 'real' means adjusted for the effect of inflation;
- real growth in expenses is measured by the non-farm Gross Domestic Product deflator;
- Budget year refers to 2000-01, while the forward years refer to 2001-02, 2002-03 and 2003-04; and
- one billion is equal to one thousand million.

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

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

(c) For the budget balance, a negative sign indicates a deficit while no sign indicates a surplus. For the cash tables in Statement 8, however, the ABS sign convention is used for presenting a deficit, where a negative sign indicates a surplus.

(d) The following notations are used:

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

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

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

Budget Strategy and Outlook 2000-01 is one of a series of Budget Papers, the purpose of which is to provide information supplementary to that in the Budget Speech. A full list of the series is printed on the inside cover of this Paper.

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STATEMENT 1: FISCAL OUTLOOK AND STRATEGY

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STATEMENT 1: FISCAL OUTLOOK AND STRATEGY

Part I: Overview

The 2000-01 Budget provides the Government's fourth surplus in a row. This has been achieved while delivering landmark tax reform, including substantial income tax cuts, and a range of high priority spending initiatives, such as in rural and regional Australia.

Table 1: Summary of Budget Aggregates

	Actual	Estimates		Projections		
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Fiscal balance ($b)	**3.9**	**9.7**	**5.4**	**1.1**	**7.6**	**13.9**
Per cent of GDP	0.7	1.5	0.8	0.2	1.0	1.7
Underlying cash balance ($b)	**4.2**	**7.8**	**2.8**	**3.2**	**8.8**	**14.4**
Per cent of GDP	0.7	1.2	0.4	0.5	1.2	1.8

In accrual terms, the fiscal balance is expected to be in surplus by $5.4 billion or 0.8 per cent of GDP in 2000-01, an improvement of $1.0 billion on the corresponding estimate at the time of the *Mid-Year Economic and Fiscal Outlook 1999-2000* (MYEFO). This follows an estimated surplus of $9.7 billion in 1999-2000.

In cash terms, an underlying surplus of $2.8 billion or 0.4 per cent of GDP is expected in 2000-01, an improvement of $2.3 billion on the corresponding estimate at the time of MYEFO. The outcome for 1999-2000 is estimated to be much stronger than forecast at the time of MYEFO, an improvement of $4.4 billion to an estimated outcome of $7.8 billion.

In addition to *The New Tax System* reforms, which include the largest personal income tax cuts in Australia's history, the Government will also provide funding in this Budget to support a number of key new initiatives, including in the areas of rural and regional Australia, health and families. The Government is also announcing in this Budget that it will not be proceeding with the temporary Defence — East Timor levy.

The 2000-01 Budget surplus, together with the surpluses projected in the forward years, is consistent with the Government's medium-term fiscal strategy of achieving fiscal balance, on average, over the course of the economic cycle.

The Government has met — indeed exceeded all of the fiscal objectives it set for itself on coming into office in 1996. The budget was returned to surplus in 1997-98, one year ahead of target, surpluses have been maintained while economic growth prospects remain sound, the ratio of Commonwealth net debt to GDP has been more than halved, the tax burden has not increased, and expenses as a share of GDP have fallen.

The Australian economy is expected to continue to grow solidly by 3¾ per cent in 2000-01, following three years of strong growth of over 4 per cent a year. The growth forecasts have been revised up since the MYEFO, and this has contributed to the improvement in the budget surplus for 2000-01.

Inflationary pressures are expected to remain low, with ongoing inflation forecast to remain within the Reserve Bank's target band of 2 to 3 per cent on average over the course of the cycle. The introduction of *The New Tax System* will result in a one-off increase in prices, lifting the CPI to 5¾ per cent for 2000-01 as a whole. However, compensation measures and competitive pressures in the economy should ensure that this one-off impact is not built into ongoing inflation.

Table 2: Major Economic Parameters (percentage change from previous year)

	Forecasts		Projections		
	1999-2000	2000-01	2001-02	2002-03	2003-04
Real GDP	4 1/4	3 3/4	3 1/2	3 1/2	3 1/2
Employment(a)	2 3/4	2 1/4	2	2	2
Wages(b)	3	4 1/4	3 1/2	3 1/2	3 1/2
CPI(c)	2 1/2	5 3/4	2 1/2	2 1/2	2 1/2

(a) Labour Force Survey basis.
(b) Average earnings (national accounts basis).
(c) The CPI projections are set as the mid-point of the medium-term inflation target and as such make no allowance for the further impact of *The New Tax System*, as discussed in Statement 3.

While recent economic growth has been strong, it has been sustainable and imbalances that might otherwise have shortened the expansion have not emerged. Confidence in the macroeconomic policy framework has played an important role. Low inflation outcomes have been consistently achieved.

Wide ranging structural reform has made an important contribution to the good growth outcomes. Labour market and competition policy reforms have resulted in strengthened competitive pressure in product markets and delivered improved productivity, sustainable rises in real wages and falling unemployment.

Maintenance of a sound macroeconomic policy framework has been essential in ensuring continued good economic performance. As a key element in that policy framework, the Government's fiscal strategy has helped to maintain investor confidence and contributed to a lower interest rate environment.

Part II: Budget Aggregates

Table 3 provides details of the Commonwealth general government budget outlook.

Table 3: Commonwealth General Government Budget Aggregates[(a)]

	Actual	Estimates		Projections		
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Revenue ($b)	**151.9**	**164.7**	**153.5**	**158.6**	**168.3**	**180.5**
Per cent of GDP	25.6	26.2	23.0	22.4	22.4	22.7
Expenses ($b)	**146.6**	**155.2**	**150.3**	**156.5**	**160.1**	**165.5**
Per cent of GDP	24.7	24.7	22.5	22.1	21.3	20.8
Net operating balance ($b)	5.3	9.4	3.2	2.1	8.2	15.0
Net capital investment ($b)(b)	1.4	-0.3	-2.2	1.0	0.6	1.1
Fiscal balance ($b)	**3.9**	**9.7**	**5.4**	**1.1**	**7.6**	**13.9**
Per cent of GDP	0.7	1.5	0.8	0.2	1.0	1.7
Underlying cash balance ($b)	**4.2**	**7.8**	**2.8**	**3.2**	**8.8**	**14.4**
Per cent of GDP	0.7	1.2	0.4	0.5	1.2	1.8
Memorandum item:						
Headline cash balance ($b)	11.1	17.2	8.0	14.0	24.7	21.0

(a) Estimates in this table are presented on a Government Finance Statistics (GFS) basis, but with Goods and Services Tax (GST) revenue collected on behalf of the States and Territories netted off revenue and expenses (see Appendix B). There is an effective break in the revenue and expenses series in 2000-01 reflecting the introduction of *The New Tax System*.

(b) Net acquisition of non-financial assets.

In 2000-01 the Commonwealth budget is expected to remain in surplus, in both cash and accrual terms. Some reduction in the surplus is, however, expected relative to the anticipated outcome for 1999-2000. This reduction is explained by the substantial income tax cuts and increases in personal benefit payments that will be implemented from 1 July 2000 as part of *The New Tax System*.

Total revenue and expenses are expected to fall markedly as a percentage of GDP in 2000-01. These reductions reflect an effective break in both series with the introduction of *The New Tax System*, in particular the abolition of the wholesale sales tax and the abolition of financial assistance grants to the States. In addition, the delivery of personal income tax cuts will result in a large reduction in revenue. All revenue from the GST is appropriated to the States.

Although the estimated underlying cash and fiscal surpluses are broadly similar in most years, divergences can occur. In 2000-01, for example, the divergence is primarily explained by the introduction of the new Pay As You Go system for taxation collections.[1]

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1 Under the PAYG arrangements, there will be an effective bring forward of the taxation liabilities of companies and superannuation funds. This will boost accrual revenue significantly in 2000-01. However, as a transitional arrangement, some of the liabilities in 2000-01 can be deferred and paid in cash over the following 2½ to 5 years.

Chart 1 shows movements in the fiscal balance and underlying cash balance since 1996-97, while Chart 2 shows movements in revenue and expenses as a proportion of GDP. The growing surpluses beyond 2001-02 reflect further declines in the ratio of expenses to GDP, with revenue collections as a share of GDP remaining broadly stable.

Chart 1: Fiscal and Underlying Cash Balances

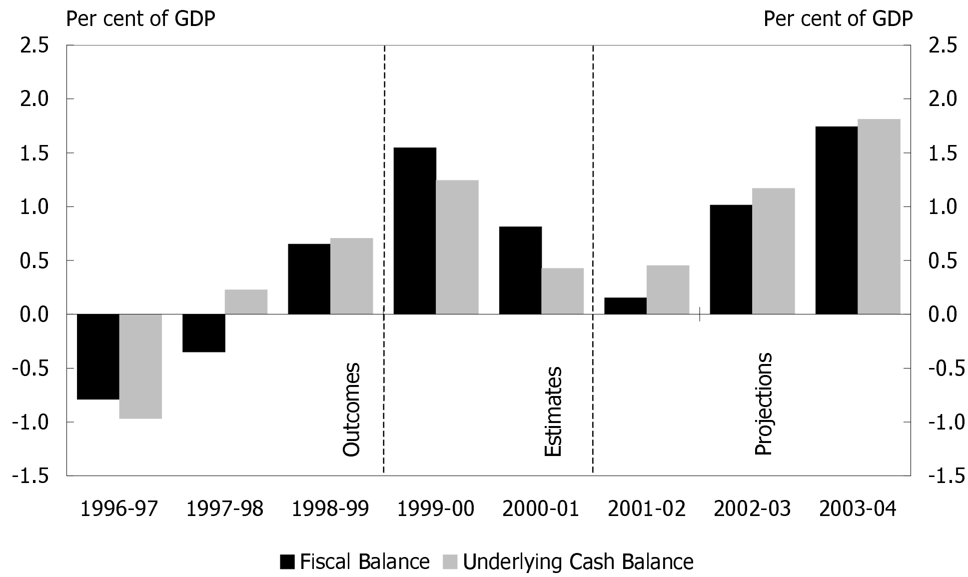
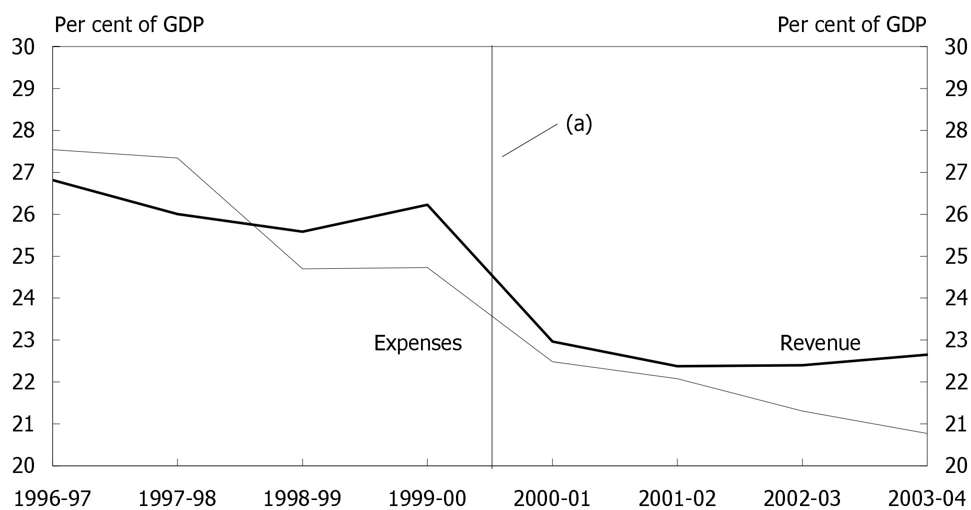


Chart 2: Commonwealth General Government Budget Aggregates



(a) There is an effective break in the series in 2000-01 as a result of the introduction of *The New Tax System*.

Table 4 provides a reconciliation of the fiscal balance estimates between those at the time of the 1999-2000 Budget, the 1999-2000 MYEFO and the 2000-01 Budget.

Table 4: Reconciliation of 1999-2000 Budget, MYEFO and 2000-01 Budget Fiscal Balance Estimates

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m
1999-2000 Budget fiscal balance	**5426**	**7195**	**5189**	**11353**
(per cent of GDP)	0.9	1.1	0.7	1.5
Changes between 1999-2000 Budget and MYEFO				
Effect of policy decisions(a)				
Revenue	-28	3051	1222	2388
Expenses	1281	4259	3533	3663
Net capital investment	145	255	110	26
Total policy decisions(b)	-1455	-1463	-2421	-1301
Effect of parameter and other variations				
Revenue	-428	262	3037	3019
Expenses	-852	2291	3555	3738
Net capital investment	-475	-689	-691	-722
Total parameter and other variations(b)	899	-1340	173	3
1999-2000 MYEFO fiscal balance	**4871**	**4392**	**2941**	**10056**
(per cent of GDP)	0.8	0.7	0.4	1.3
Changes between MYEFO and 2000-01 Budget				
Effect of policy decisions(a)				
Revenue	1	-1390	-427	-392
Expenses	25	872	832	728
Net capital investment	35	-197	11	-82
Total policy decisions(b)	-59	-2064	-1270	-1038
Effect of parameter and other variations				
Revenue	4362	3544	3731	3177
Expenses	824	3008	3801	3983
Net capital investment	-1548	-2813	175	171
Total parameter and other variations(b)	5087	3348	-246	-978
Reclassification of swap transactions(b)(c)	-195	-240	-354	-430
2000-01 Budget fiscal balance	**9704**	**5436**	**1072**	**7610**
(per cent of GDP)	1.5	0.8	0.2	1.0

(a) Excluding the public debt net interest effect of policy measures.
(b) Effect on fiscal balance.
(c) Information on the reclassification of swap transactions is contained in Appendix B.

Since MYEFO, the estimated fiscal surpluses for 1999-2000 and 2000-01 have been revised upwards, with some reduction to the surpluses expected in the forward years.

In 2000-01, policy decisions since MYEFO total $2.1 billion. However, this is more than offset by economic parameter and other variations, including:

- an increase in the proceeds anticipated from the sale of telecommunications spectrum licences; and

- a significant upward revision to expected taxation revenue. This reflects both the flow-on effect of higher than expected collections in 1999-2000, and the impact of stronger economic activity than forecast at MYEFO.

Major new policy decisions since MYEFO include:

- a decision by the Government not to proceed with the temporary Defence — East Timor levy, with an estimated cost to revenue of $900 million in 2000-01;

- setting beer excise rates on conservative assumptions so as to ensure the retail price of a carton of regular full strength beer need not increase by any more than 1.9 per cent, with an additional cost against the forward estimates of $460 million;

- an additional $1.8 billion in assistance to rural and regional Australia over the next four years. This includes $562 million over four years for the *Regional Health Package — More Doctors, Better Services*, around $500 million over the next four years for the Fuel Sales Grants Scheme and $309 million for the *Agriculture — Advancing Australia (AAA) Package*;

- an additional $240 million over four years for the Stronger Families and Communities Strategy;

- extra funding of around $240 million over three years to public and not-for-profit hospitals to ease the transition to changes to the fringe benefits tax (FBT) legislation and an extra $120 million over four years for residential aged care subsidies. This assistance is in addition to the announced increase in the level of the FBT cap applying to public benevolent institutions and non-profit employers;

- total funding of $228 million in 2000-01 to address high priority Defence needs, including the enhancement of two Collins Class submarines;

- additional funding to assist East Timor's transition to nationhood, involving $100 million in foreign aid and $104 million for the continued deployment of Australian Federal Police; and

- an extension of the Defence property sales programme, to yield an estimated $541 million over four years.

A full description of all policy decisions taken since the 1999-2000 MYEFO can be found in *Budget Paper No. 2 — Budget Measures 2000-01*.

Box 1: Removal of the Defence — East Timor Levy

The Government is announcing in this Budget that it will not be proceeding with the Defence — East Timor levy. The temporary levy was to apply for twelve months commencing from 1 July 2000 and was expected to raise $900 million in 2000-01. The decision to remove the levy reflects the lower than expected cost of the Defence deployment in East Timor and the improvement in the budget position.

The Defence deployment to East Timor is now expected to cost $945 million in 2000-01, down from the $1089 million expected when the levy was announced last November. Taking into account United Nations (UN) reimbursement, the net cost of the Defence deployment is now expected to be $831 million in 2000-01. The lower cost in 2000-01 than originally expected reflects the success of the Australian-led International Force East Timor (INTERFET) and the smooth transition to the UN Transitional Administration in East Timor. Other contributing factors include free logistical support from the United States and lower defence personnel costs.

On the basis of the budget estimates when the levy was announced last November, the unanticipated costs of Australia's East Timor deployment would have pushed the Budget into deficit in underlying cash terms in 2000-01.

The improved budget position since then means that the costs of the East Timor deployment in 2000-01 can be absorbed without a levy while still achieving a substantial surplus.

Parameter and other variations since MYEFO are principally the result of reclassification between revenue and expenses.

- The first is a reclassification of the Diesel Fuel Rebate Scheme (DFRS) from a revenue offset to an expense. This follows the agreement with the Australian Democrats to introduce a targeted grants scheme (whilst retaining a rebate scheme) in place of the tax credit scheme proposed in *A New Tax System*. This reclassification increases revenue by around $1½ billion in 1999-2000 and $2 billion in 2000-01, with equivalent increases in expenses.

- The second relates to a re-evaluation of the expected distribution of the *Family Tax Benefit (FTB) Package* between revenue and expenses. Recent survey data suggest that more families than previously expected will claim the FTB as a cash payment rather than through the taxation system, increasing expenses by over $½ billion from 2000-01.

Abstracting from policy measures and the DFRS and FTB revisions, estimated expenses in 2000-01 have increased by around $0.4 billion since MYEFO. This is partly explained by the effect of economic parameter variations, with the regular drawdown of the conservative bias allowance largely offsetting a range of programme specific parameter and other variations.

As indicated in Table 4, parameter and other variations are expected to result in a substantial reduction in net capital investment of around $2.8 billion in 2000-01. This variation mainly reflects an upward revision to the expected proceeds from the sale of non-financial assets, principally telecommunications spectrum licences. In the calculation of net capital investment, proceeds from the sale of non-financial assets are subtracted from purchases of non-financial assets. Consequently, an increase in the proceeds from the sale of non-financial assets reduces net capital investment and increases the fiscal balance.

Beyond 2000-01, the upward revisions to net capital investment since MYEFO mainly reflect the inclusion, for the first time, of a conservative bias allowance to account for an identified tendency for agencies to underestimate their capital investment expenditure beyond the budget year.

Further details on variations in the expenses and net capital investment estimates since MYEFO are provided in Budget Statement 6.

On the revenue side, estimated taxation revenue in 2000-01 has been revised upwards by around $1 billion since MYEFO (again abstracting from policy measures and the DFRS and FTB changes). This reflects an assessment that recent stronger than expected revenue collections, particularly from companies and oil producers, will have some flow-on effect into 2000-01. Upward revisions to forecast economic activity since MYEFO also point to a stronger outlook for taxation revenue in 2000-01.

Further details on variations in taxation and non-taxation revenue since MYEFO are provided in Budget Statement 5.

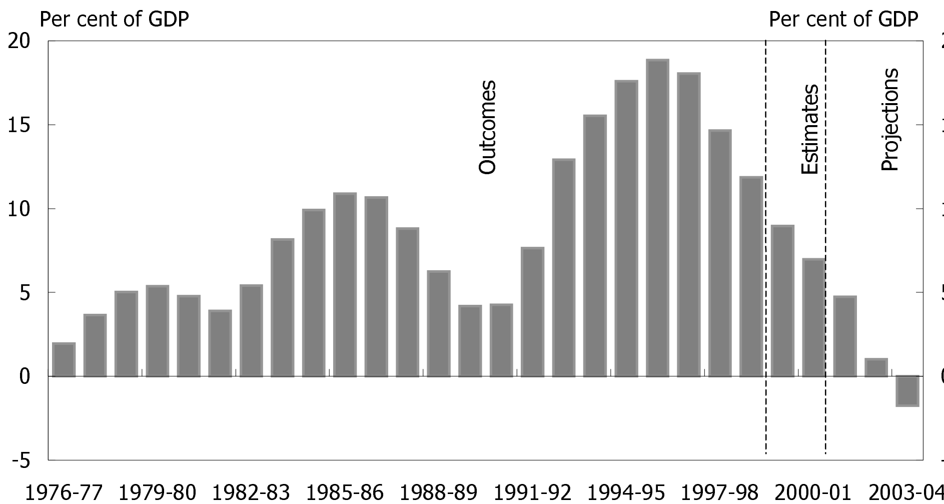
Appendix C in Statement 4 contains a Statement of Risks which details potential factors which could materially affect the fiscal outlook. A discussion of the estimated sensitivity of the expenses and revenue estimates to changes in economic parameters is provided in Appendix B of Statement 4.

NET ASSETS AND NET DEBT

The level of Commonwealth general government net debt has fallen consistently since the mid-1990s, from a peak of almost 20 per cent of GDP in 1995-96 to an expected 7.1 per cent of GDP in 2000-01. This means that the Government's target of halving the ratio of Commonwealth general government net debt to GDP by 2000-01 will be comfortably exceeded. This represents a sharp turnaround from the rapid build-up in net debt levels in the first half of the 1990s. In dollar terms, around $50 billion of net debt has been repaid since the Coalition came to office in 1996, reflecting the combined effect of budget surpluses and asset sales, principally Telstra.

The fiscal surpluses in prospect beyond 2000-01 provide the opportunity for Australia to further reduce its net debt in coming years. Factoring in the sale of further equity in Telstra in the projection period from 2001–02 means that net debt can be completely eliminated by 2003-04.

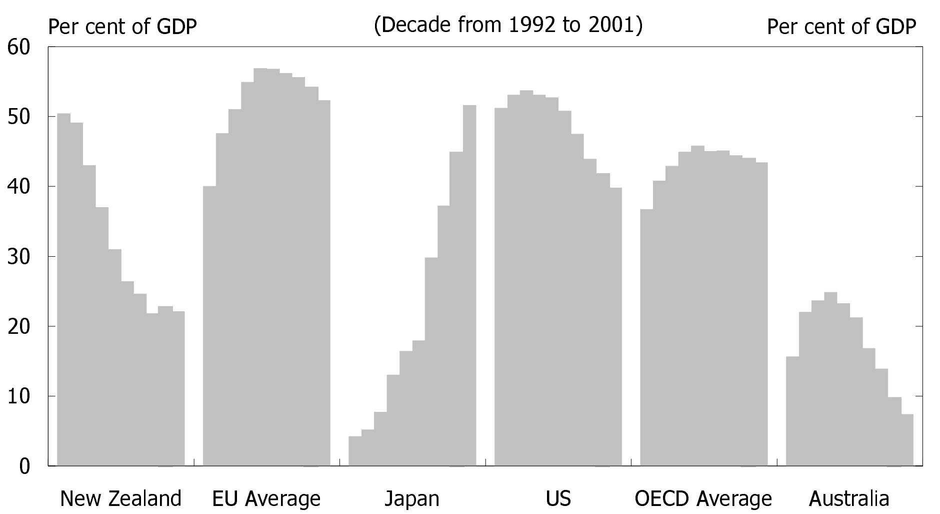
Chart 3: Commonwealth General Government Net Debt[(a)]



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

Australia's government net debt level compares very favourably with levels in other countries (Chart 4). In fact, Australia's net debt is among the lowest in the OECD, with the OECD average at over 40 per cent of GDP.

Chart 4: Government Net Debt Levels in Selected Countries[(a)]



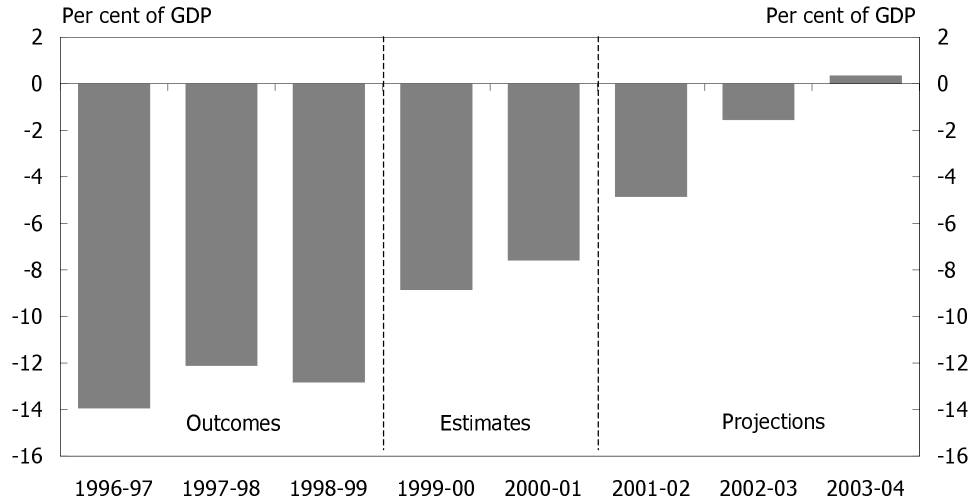
(a) Data are for the total general government sector (that is, the aggregate of all levels of government, including the social security sector but excluding the PTE sector).

Source: *OECD Economic Outlook 66*, Reserve Bank of New Zealand *Monetary Policy Statement*, December 1999, ABS *Public Sector Financial Assets and Liabilities, 1998 (Cat No 5513.0)* and Treasury estimates.

Last year's Budget incorporated, for the first time, a statement of financial position or balance sheet, consistent with the Commonwealth's move to accrual budgeting and reporting.

Chart 5 shows recent trends, current estimates and projections in Commonwealth net asset levels as a share of GDP.

Chart 5: Commonwealth General Government Net Assets



Net assets is defined as physical and financial assets less total liabilities.

Consistent with the Government's objective to improve its net assets position over the medium to long term, net assets are projected to improve over the forward estimates period. This reflects both expected operating surpluses and revaluation effects associated with the proposed sale of the Government's remaining share in Telstra.

Part III: Budget Priorities

In framing the 2000-01 Budget, the Government has given priority to delivering on its commitment to reform the Australian taxation system, including providing for the largest income tax cuts in Australia's history. Priority has also been given to a range of key measures to improve living standards and future economic prospects, particularly in rural and regional Australia.

- Key measures in this Budget will benefit rural and regional Australia through improving rural and regional health services and assisting the rural sector to become more innovative, profitable and sustainable.

- Other key measures will enhance family and community life, fund a number of high priority defence projects and facilitate the transition to digital television services.

Strong economic growth, together with ongoing scrutiny of the efficiency and effectiveness of service delivery, has helped to ensure that surpluses can be maintained and net debt reduced while increased resources can be directed to priority areas.

TAX REFORM

Reform of the tax system is essential for Australia to compete and prosper in a competitive world economy. Importantly, tax reform will also ensure that there is a sustainable revenue base so that government can continue to deliver essential services to the Australian community.

The introduction of *The New Tax System* on 1 July 2000 will deliver to Australians income tax cuts worth $12 billion a year. More than 80 per cent of taxpayers will face a top marginal tax rate of just 30 per cent or less. All pensions and allowances will be increased by 4 per cent, and are guaranteed to remain 2 per cent above what they otherwise would have been. Furthermore, family benefits will be increased by $2.4 billion a year.

The New Tax System replaces a range of inefficient indirect taxes, including the wholesale sales tax and various State taxes and duties, with the Goods and Services Tax (GST). All GST revenue will belong to the States. GST-free status will apply in a number of areas, including fresh and basic foods, most health services, education and exports. In addition, local government rates will not be subject to GST.

To help in the transition to *The New Tax System*, the Government is delivering a $500 million assistance programme to small and medium businesses, community groups and education bodies.

In addition, to ensure that the prices of goods and services are adjusted properly following the introduction of the GST, price monitoring will be undertaken by the

Australian Competition and Consumer Commission (ACCC). Additional funding is being provided to the ACCC in this Budget to expand its monitoring of prices and to assist with covering its legal expenses.

The Government is also in the process of implementing *The New Business Tax System*, in response to the recommendations of the Ralph Committee. These reforms will provide Australia with internationally competitive business tax arrangements, which will create the environment for achieving higher economic growth, more jobs and improved saving.

The New Business Tax System will give Australia one of the lowest company tax rates in the region. The company tax rate has been reduced to 34 per cent for the 2000-01 income tax year, and will fall to 30 per cent thereafter. This is being funded, in part, by the replacement (except for small business) of accelerated depreciation arrangements with an effective life system.

Incentives to save and invest have been improved with the introduction of an internationally competitive capital gains tax regime. For individuals, only 50 per cent of net capital gains on assets, owned for at least 12 months, are now taxed, while, for individual small business taxpayers, 75 per cent on any capital gain on active business assets owned for at least 12 months is now exempt from capital gains tax.

Additional funding has also been provided in this Budget for the implementation of the business tax reforms, including additional resources for the ATO to cover administration and systems costs.

Reform of Commonwealth-State Relations

In June 1999, Commonwealth, State and Territory Heads of Government endorsed the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*. The Agreement provides the States with all GST revenues, thereby reducing their reliance on Commonwealth grants. The Agreement also establishes a timetable for the abolition of a range of inefficient State taxes.

These arrangements will provide the States with access to a more robust source of revenue that will grow over time. The State budgets will be substantially better off over the medium term which will ensure they can continue to provide a sustainable level of public services such as hospital, schools and law enforcement. In 2000-01, the States will receive GST revenues totalling some $24 billion.

Rural and Regional Australia

Rural and regional Australia is an ongoing priority for the Government, with substantial assistance already targeted specifically at the needs and circumstances of regional areas.

In total, an additional $1,828 million in assistance will be provided to rural and regional Australia over the next four years. Key measures are shown in Table 5, with a comprehensive list at Appendix A. Measures in this Budget will: improve rural and regional health; address problems with fuel costs in rural and regional areas; support the competitiveness and profitability of the rural sector; and facilitate the timely introduction of digital television to regional Australia.

The *Regional Health Package — More Doctors, Better Services* is designed to provide more doctors and better health services in rural areas, at a cost of $562 million over four years.

The number of general practitioner (GP) services in rural and regional areas will be significantly boosted through increasing the number of vocational training places for GPs and also increasing the distribution of training places allocated to rural areas. This will boost the number of GP registrars delivering services in rural and regional Australia by at least 75 in 2000-01 rising to at least 225 in 2002-03. Many of these registrars will be likely to practice in rural and regional Australia after their training has ended.

The package includes a longer-term strategy to increase the number of rural doctors through encouraging students from rural areas to study medicine and for graduates to commit to rural practice. The Government will provide $32 million over four years to create 100 bonded scholarships per year. These scholarships will be offered to new medical students each year in return for a commitment to practice in rural areas for at least six years. Medical graduates who commit to practicing in rural areas will be able to reduce their HECS debt. To enable more students with rural backgrounds to undertake medical training, the number of Rural Australian Medical Undergraduate Scholarships will be doubled.

People in rural areas have difficulty accessing specialist medical services. Funding of $48 million over four years will be provided for a specialist outreach programme that will offer incentives and / or pay travel costs to specialists to conduct outreach specialty work. Funding of $49 million over four years has also been provided to improve access to allied health services such as practice nurses, psychologists and physiotherapists.

The Government will make a significant investment in regional based medical education and infrastructure. Funding has been provided for the establishment of nine new clinical schools and three new University Departments of Rural Health over the next three years. This expansion of medical training facilities in regional Australia will increase the opportunity for medical students to complete training in rural service delivery and enhance support for rural health practitioners.

Underpinning these initiatives is funding to improve the health and aged care infrastructure in the country with 85 additional regional health services and assistance to small rural community hospitals and aged care facilities. Regional health services are a flexible way to deliver medical, community health, mental health and aged care services to smaller communities. In recognition of the important role of pharmacists in rural health infrastructure, extra assistance of around $42 million over four years will also be provided to improve access to quality pharmacy services in rural and remote Australia.

The New Tax System will deliver significant benefits to rural and regional Australia. Consistent with its commitment, the Government will reduce excise on petrol and diesel so that the pump price of these commodities for consumers need not rise as a result of the introduction of the GST. In addition, the Government will introduce a Fuels sales grants scheme from 1 July 2000 to reduce the pump price of petrol and diesel in non-metropolitan and remote areas and help address the divergence in fuel prices between city and regional areas. The scheme will cost around $500 million over the next four years and will be tiered to provide a higher grant for sales in remote areas.

Fuel costs for businesses in rural and regional Australia will decrease further due to the availability of credits for GST paid, the expansion of the Diesel Fuel Rebate Scheme (DFRS) and the introduction of the Diesel and Alternative Fuel Grant Scheme (DAFGS). The DFRS will enable eligible business activities, such as agriculture and mining, to claim a full rebate of the diesel excise paid. The DAFGS together with the availability of input tax credits for business, will lower the cost of diesel used in many transport vehicles by around 24 cents per litre. Moreover, *The New Tax System* will cut the cost of both petrol and diesel for all registered business by about 10 per cent.

The Government will provide funding of $309 million over four years for the continuation and enhancement of the *AAA Package*. The *AAA Package* will play a major role in improving the competitiveness, sustainability and profitability of the farming sector, whilst retaining essential elements of social welfare. The package includes a range of initiatives to enhance farmer skills training, encourage innovation, improve market access for our agricultural and food exports and enhance support to families in financial difficulty.

The Government will provide regional and remote commercial television broadcasters with assistance in the digital conversion process from 2000-01 under the *Regional Equalisation Plan*. Assistance of around $100 million will be provided over the next four years primarily in the form of annual licence fee rebates. Total assistance over the life of the plan will be up to $260 million.

The Government will increase from 50 per cent to 75 per cent the discount for all farm and business assets for the Youth Allowance family assets test. This responds to concerns that the former family assets test may have imposed a disincentive for young people from families with farm and small business assets to continue education and training. In recognition of the high cost of education for people living in remote parts of Australia, the Government is increasing funding under the Assistance for Isolated Children Scheme by $16 million over the next four years.

Table 5: Additional Assistance to Rural and Regional Australia

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m	Total $m
Regional Health Package - More Doctors, Better Services					
New general practitioner registrars	10	21	32	40	102
Medical training - additional university departments of rural health and clinical schools	9	25	38	46	118
Regional health services expansion	5	14	22	28	69
Medical specialist outreach assistance	5	14	15	15	48
More allied health services	11	11	13	15	49
Bonded scholarships for medical students to practice in rural areas	3	6	10	13	32
Enhanced Rural and Remote Pharmacy Package	8	12	11	11	42
Other Regional Health Package measures	18	23	28	33	102
Total	**68**	**127**	**167**	**201**	**562**
Fuels Sales Grants Scheme	121	120	125	135	501
Continuation of the Agriculture-Advancing Australia Package	38	74	91	107	309
Increase in Youth Allowance assets limits for farms and businesses	19	37	38	39	132
Regional equalisation plan for digital television	23	23	27	27	100
Other rural and regional measures	59	60	60	45	224
Total additional assistance	**327**	**441**	**508**	**553**	**1828**

A HEALTHY AUSTRALIA

In addition to the health initiatives in this Budget specifically directed at rural and regional Australia, important measures in the areas of population health and safety and improved medication management will deliver benefits more broadly.

Extra funding has already been announced since MYEFO for public hospitals and nursing homes. Additional funding to the States of around $650 million will be provided over the last four years of the Australian Health Care Agreements. This will further increase the States' capacity to improve public hospital services. The Government has also recently announced that it will provide around $240 million over three years to public and not-for-profit hospitals to assist with the transition to the new fringe benefits tax arrangments. An extra $148 million over six years in residential aged care subsidies will deliver a common rate of subsidy across the States and facilitate improvements in the quality of care.

The 2000-01 Budget provides additional funding of $93 million over four years for population health and safety measures, including for food standards and regulation and significantly reducing the risk of transmission of blood borne diseases though blood and blood products.

Measures in this Budget are designed to improve the management of Pharmaceutical Benefits Scheme (PBS) medications. Consumers will be able to opt into a new electronic medication records arrangement, where those consumers and their practitioners or pharmacists can access their personal medication records and safeguard against potentially dangerous drug interactions. Safety net entitlements for eligible consumers will also be able to be automatically calculated.

As part of the ongoing management of the PBS, and on advice from the Pharmaceutical Benefits Advisory Committee, most nasal sprays will be deleted from the PBS, providing savings of around $62 million over the next four years. More generally, improved pharmaceutical benefits entitlement monitoring is expected to ensure that benefits are not provided inappropriately to persons who are not eligible for the subsidy.

The Department of Veterans' Affairs will assume responsibility for home and community care like services for entitled members of the veteran community. This initiative will increase the number of veterans who receive these services, improving the well-being and independence of veterans through the provision of better targeted support in the home. Non-veterans will also benefit because places will be freed up in the existing Home and Community Care (HACC) programme. HACC is a successful preventive measure aimed at deferring the need for the elderly to enter residential care.

The Government has met its election commitment to respond to the findings of the Vietnam Veterans' Health Study with a package in this Budget that will improve the health of veterans and their family members.

STRONGER FAMILIES

Implementation of *The New Tax System* will provide significant financial assistance to families through tax cuts, increased family benefits, and reductions in family benefit withdrawal rates.

The recently announced Stronger Families and Communities Strategy will invest an additional $240 million over four years in: early intervention parenting and family relationships support; encouraging community leadership, volunteering and partnerships; helping communities tackle their own challenges; and developing a more thorough understanding of Australian society and its needs. The Strategy has a particular focus on assisting communities in rural and regional Australia.

The major component of this Strategy is an additional $65 million over four years to assist families to fulfill both work and family responsibilities through increased flexibility and choice of childcare. Subsidies for in-home care and incentives for the establishment of child care centres in rural areas where there is a recognised need will be provided. Families who will particularly benefit from this proposal include families working outside standard business hours; families who have a sick child; and families who live in rural and regional areas.

The Budget also includes a package of Child Support measures that will improve post-separation relationships, encourage parents to maintain contact with their children after separation and help payers support the children of their subsequent families. For example, to encourage parents to maintain contact with their children following separation or divorce, the Government will modify the child support formula to recognise the additional costs faced by parents who maintain contact with their children. A specific and transparent allowance for the cost of caring for a child between 10 per cent and 30 per cent of the nights of the year will be incorporated into the child support formula. In such cases, the child support formula will be reduced by either two or three percentage points depending on the level of contact.

A Fair and Effective Welfare System

Consistent with maintaining a sustainable social safety net and promoting equity, this Budget introduces further measures to ensure government assistance is targeted to the most disadvantaged. In particular, enhanced compliance with the eligibility criteria for income support is expected to deliver savings of around $171 million over four years. Another key measure will amend the means test treatment of private trusts and private companies for social security purposes to ensure that beneficiaries who hold their assets in private companies or trusts receive the same treatment under the means test as those beneficiaries who hold their assets directly. This is expected to deliver savings of around $300 million over the next four years.

The Government will also introduce a *Preparing for Work Agreement* for new claimants of unemployment payments. These agreements will increase compliance with mutual obligations requirements, ensure that beneficiaries are aware of their rights and obligations associated with grant payments and streamline unemployment processes. One-to-one assistance with the same designated Centrelink officer will encourage the economic participation of the unemployed people involved. The agreement will deliver a strong 'up-front' message to all job seekers that they must meet their obligation to actively job search and participate in a range of additional activities in return for receiving unemployment payments.

Science and Technology

The Government has allocated funding of $31 million over four years in this Budget primarily to encourage the commercialisation of biotechnology research. Biotechnology offers economic opportunities for Australia, based on our existing research strengths in agriculture and medicine. Substantial funding is already provided for biotechnology research. The 1999-2000 Budget established a consistent regulatory regime for biotechnology and improved management of intellectual property as well as providing an additional $614 million over six years from 1999-2000 to the National Health and Medical Research Council for health and medical research, including in the area of biotechnology.

Further, $70 million has been allocated to facilitate the development of Gas to Liquid fuel technology in Australia. This should put Australia at the forefront of innovation in this field, with the possibility of greatly expanding the commercial potential of Australia's gas resources.

From 1 July 2000 a five cent per litre levy will apply to lubricating oils and similar products to fund payments to waste oil recyclers and reusers to support the sustainable management of waste oil. The Government has already committed $60 million over four years for transitional assistance to facilitate the appropriate disposal of waste oil.

COMMUNICATIONS AND THE ARTS

This Budget contains substantial measures to promote the transition to digital television services for the Australian Broadcasting Corporation (ABC), Special Broadcasting Service Corporation (SBS) and regional broadcasters. Digital television will allow viewers to receive broadcasts of widescreen, high definition programmes and interactive entertainment.

The funding for the ABC and SBS builds on the first tranche of assistance the Government provided to the national broadcasters in the 1998-99 Budget for the initial digital upgrade of their production and studio equipment. *The Regional Equalisation Plan* outlined above will assist regional and remote broadcasters during the transition to digital television services.

This Budget also makes provision for the continuation of triennium funding for the ABC and SBS.

Funding for the Australian Film Finance Corporation (AFFC) will be maintained at $50 million per annum. This will allow the AFFC to continue to play a key role in the production of Australian film and television programmes. The Budget will also provide $43 million over four years to implement the main recommendations of the Major Performing Arts Inquiry, with $34 million of this being additional funding and the balance from reprioritising within the portfolio. In partnership with the States, this will place the major performing arts companies on a firm artistic and financial footing.

A SECURE AUSTRALIA

The Government is in the process of a major review of Australia's defence requirements and will release a Defence White Paper later in the year. In this Budget the Government has provided a one-off increase of $100 million in 2000-01 to address priority areas. This will support defence force reserves and improvements in information management systems and logistic support.

This Budget also contains $128 million in additional funding in 2000-01 for the enhancement of two Collins Class submarines. The upgrade will result in two operational Collins submarines when the final Oberon Class submarine retires in 2001.

The Government has also agreed to a programme of Defence property sales. The sales mainly involve metropolitan office sites which are being sold in accordance with Commonwealth Property Principles.

BORDER INTEGRITY

This Budget introduces further measures to counter increases in unauthorised immigration. This includes a coordinated effort across government agencies to identify and combat people smuggling at its source and initiatives to improve the prospects of displaced persons through repatriation to home countries, integration in first asylum countries or resettlement in third countries. Mutual obligation and other welfare requirements are also being expanded to temporary protection visa holders. The establishment of a new detention facility in Darwin and streamlined assessment procedures will achieve ongoing reductions in detention costs.

In addition, a long-term strategy focusing on future detention requirements for unauthorised arrivals and visa over-stayers is being introduced. The strategy ensures that appropriate detention capacity will be available in the future.

EAST TIMOR

The Government is supporting the United Nations efforts to rebuild a secure East Timor. This has involved a significant deployment of Australian Defence Force and Australian Federal Police personnel. The Government has also provided assistance to refugees and aid for humanitarian relief and reconstruction. Table 6 summarises the financial cost to Australia.

The main cost arises from Australia's Defence commitment to East Timor, estimated to cost $945 million in 2000-01 and significant amounts in later years. This is down from the estimated cost at MYEFO of $1,089 million in 2000-01. In particular the success of the INTERFET operation and the smooth transition to UN Transitional Administration in East Timor (UNTAET) has lowered the expected costs from deployment. Other contributing factors to the reduction in costs include logistical support from the United States and lower defence personnel costs.

This Budget provides significant additional funding to assist East Timor in its transition to nationhood. Now that the situation in East Timor appears to have stabilised, the focus of aid over the next few years will shift to restoring basic services and improving governance while continuing to provide necessary humanitarian relief. This Budget provides $150 million in foreign aid to support East Timor, with $100 million of this being extra funding. This initiative builds on the funding of $75 million provided to meet the humanitarian and reconstruction needs of East Timor in 1999-2000.

Last year, the Government agreed to increase Australia's commitment to the UNTAET civilian police force from our first detachment of 50 personnel to 80 personnel. The

Government will continue its commitment of up to 80 deployed civilian police in East Timor by providing additional funding of around $104 million over the four years to 2002-03.

The UN will reimburse Australia for some of the costs of the Australian Defence Force deployment in East Timor in accordance with UN standard rates of reimbursement for troop contributing countries involved in UN Peacekeeping Missions.

Table 6: Net Cost of East Timor

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m	Total(a) $m
Expenses						
Defence						
Australian Defence Forces	731	922	736	669	675	3002
Tax exemption for ADF personnel in East Timor	62	23	23	23	23	92
Non-Defence						
Australian Federal Police	26	25	26	26	27	104
Aid	75	40	40	35	35	150
Provision of safe haven for evacuees	21	-	-	-	-	-
Australian Quarantine and Inspection Service	-	2	2	2	2	8
Revenue						
Defence						
UN reimbursement	18	114	106	76	76	372
Net cost of East Timor	**897**	**898**	**721**	**679**	**686**	**2984**

(a) Total cost over four years from 2000-01.

Part IV: Fiscal Strategy

The 2000-01 Budget has been framed within the Government's medium-term fiscal strategy. The primary objective of the strategy is to achieve fiscal balance on average over the course of the economic cycle. With the budget now in surplus, the supplementary objectives of the fiscal strategy are:

- maintaining fiscal surpluses over the forward estimates period while economic growth prospects remain sound;
- no increase in the overall tax burden from its 1996-97 level; and
- improving the Commonwealth net assets position over the medium to longer term.

The 2000-01 Budget continues to meet these objectives. The Government has also met its objectives to halve the ratio of Commonwealth general government net debt to GDP by the turn of the century, from its 1995-96 level, and reduce the ratio of expenses to GDP over the same period.

Rationale and Benefits of the Medium-Term Fiscal Strategy

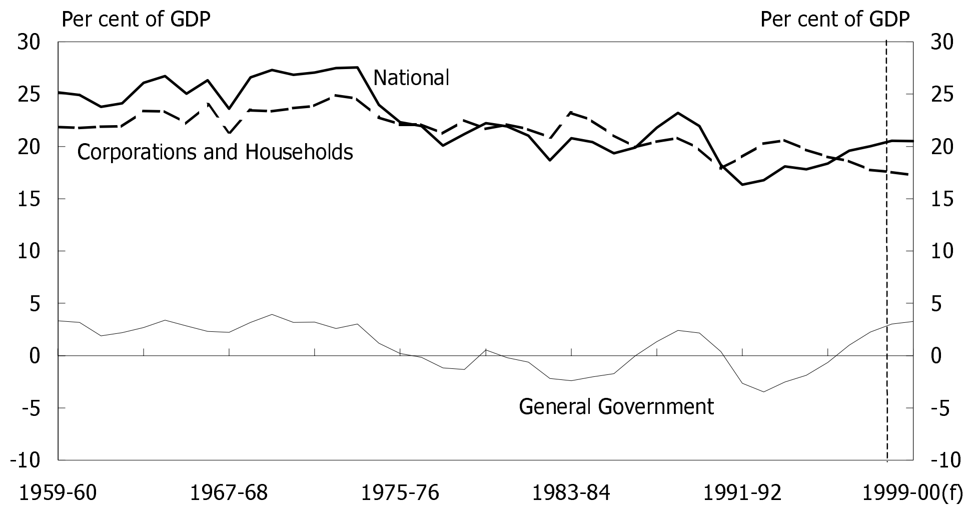
The Government's fiscal strategy is directed at ensuring that public finances are sustainable, and government spending is not financed by an accumulation of net liabilities over time. This contributes to a fair distribution of the burden of funding spending over the medium to longer term, as the cost of current spending is met by current taxpayers, and not passed forward to future generations through borrowing.

Improving the Government's net assets position reduces net interest payments, allowing a reduced tax burden or increased spending on services. This will help in managing future increases in health, aged care and pension costs associated with the ageing of the population.

A key element of prudent fiscal policy is that it helps create the conditions for maximising sustainable economic growth. Importantly it can contribute to national saving, facilitate a lower interest rate environment, promote steady and sustainable demand growth, provide a reasonable degree of stability and predictability of policy, and provide for efficient government taxation and spending.

Achieving fiscal balance on average over the economic cycle implies a positive level of Commonwealth general government saving (equal to general government investment). Government saving will be significantly higher than was achieved over the two decades to the mid-1990s, when governments dissaved on average, largely as a result of underlying Commonwealth deficits averaging around 1½ per cent of GDP (see Chart 6).

Chart 6: Components of National Saving[(a)]



(a) Gross saving and capital transfers
Sources: ABS Cat. No's 5204.0 and 5206.0; Treasury

Attaining this objective will improve the Commonwealth's currently negative net assets position over time, as net investment is likely to remain positive. Net debt will be stable in nominal terms over the full course of the cycle, and as the economy grows net debt will decline as a proportion of GDP. This abstracts from equity asset sales, the proceeds of which are being used primarily to further reduce net debt.

Privatisation can also improve the government net assets position, to the extent that the value of the asset is greater in private hands than in the Government's. These higher valuations reflect the potential efficiency gains achieved from subjecting assets and management to market disciplines[2].

In addition to its effects on the Government's own net assets position, improving government saving can also contribute to national saving. From a national perspective, movements in government saving may be offset to some degree by changes in private saving, but that offset is likely to be only partial. While some economists have argued that increases in public saving may be largely offset by decreases in private saving, most economists reject this proposition because private agents are unlikely to see government saving as a good substitute for private saving.

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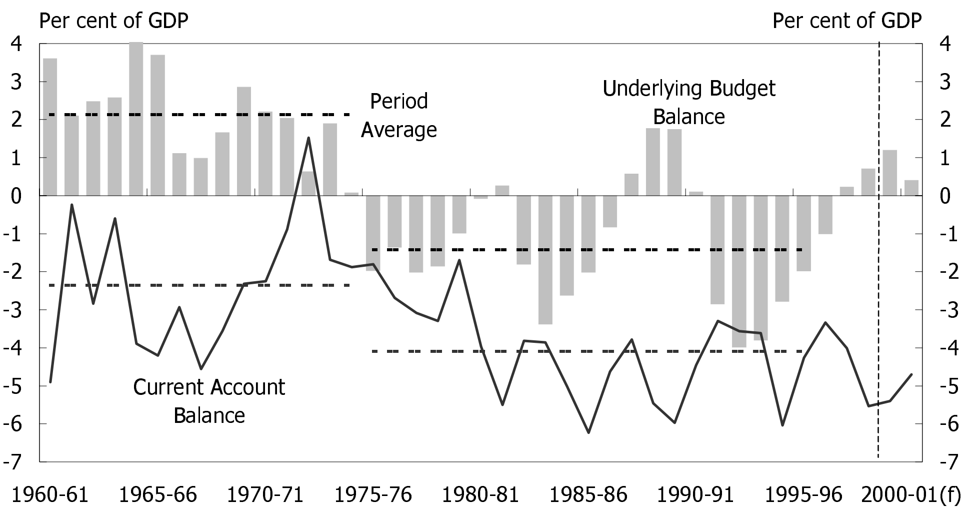
2 The effect on the net assets position is also dependent on accounting valuation conventions. Consistent with accounting standards, government equity assets, notably Telstra, are recorded in the Commonwealth's balance sheet at historic cost when the government has effective control (that is, a capacity to dominate decision making) of an entity. The historic cost of the Government's 50.1 per cent stake in Telstra is considerably below the equivalent value of 50.1 per cent of Telstra's shares.

At any point in time other factors, particularly cyclical conditions, may mask the link between government and national saving. However, Chart 6 shows that the trend decline in general government saving between the mid-1970s and the mid-1990s was associated with a trend decline in national saving over the same period. It seems reasonable to conclude that part of the trend decline in national saving during that time was caused by the decline in government saving.

The current account deficit (CAD) reflects the gap between national investment and saving. Chart 7 suggests that the decline in the average budget balance from the mid-1970s to the mid-1990s was a significant factor in the increase in average CADs from that time.

Chart 7: Current Account and Commonwealth Underlying Cash Balances[(a)]



(a) The budget balance data are for the general government sector, except in 1960-61 and 1961-62, in which cases the data are for the budget sector.
Sources: ABS Cat. No's 5206.0 and 5302.0; Treasury

Improving government saving, and thereby national saving, will not translate one for one into reductions in the CAD. Improved government saving may have a positive impact on private investment, offsetting some of the decline in the current account deficit that would otherwise occur. When the Government is not drawing on private domestic saving, this provides a greater supply of domestic saving to finance private investment. This may result in lower market interest rates than otherwise, encouraging investment.

The fiscal strategy is not directed at particular current account outcomes, however, but at addressing one of the underlying contributors to unsustainable current account deficits: namely, unsustainable government borrowing. Whatever the combination of a lower CAD and higher investment that results, national income in the future will be higher than would otherwise be the case. That is, to the extent that the current account is reduced, the proportion of future output paid to foreign lenders will be lower, while, to the extent that a greater supply of domestic saving can finance greater investment, future output will be increased.

Sound fiscal policy can limit the risk premia attached to interest rates. Rising levels of government debt and uncertainty regarding future policy can weigh on investors' confidence, such that they require higher interest rates to induce them to finance Australian debt, both for government and private issuers. This is of some importance given Australia has a relatively high and variable CAD, which may make us more exposed to shifts in investor sentiment. The medium-term strategy assures investors that the CAD over time will largely be based on private sector decisions subject to market disciplines. This is likely to have contributed to the marked fall in Australia's long-term interest rate differentials with the major economies since 1996.

While the fiscal strategy aims to improve on past levels of government saving, the focus of policy should principally be to maintain surplus levels which are prudent and sustainable. Australia now has net government debt which is comparatively very low and faces less future budgetary pressure from population ageing than most developed countries.

SUSTAINING THE MEDIUM-TERM STRATEGY

Sustaining the medium-term strategy requires an assessment of what surplus levels are needed at this stage of the economic cycle, in order to achieve balance over a full cycle. This in turn requires consideration of both the role of fiscal policy and the nature of the economic cycle.

As the budget balance is influenced by variations in the economy over the course of the economic cycle, some level of surplus is required at the present stage of the cycle in order to ensure that policy remains 'on track' to achieve balance on average. Allowing some degree of fluctuation in the budget position over the course of the cycle in response to 'automatic stabilisers' should generally be appropriate.[3] While there may also be a role for discretionary policy to manage cyclical extremes — recession or overheating — there is a need for caution in using discretionary policy to actively manage demand.

First, there are considerable uncertainties surrounding baseline economic forecasts, with turning points in the cycle particularly difficult to predict. In addition, it generally takes some time to recognise turning points and to formulate and implement policy responses. Further, fiscal policy tends to work with variable lags and uncertain effects.

Second, the potency of fiscal policy is likely to be lower today than in the past as a consequence of the floating of the exchange rate and increasingly mobile global capital.

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3 The term 'automatic stabilisers' refers to the tendency of the budget balance to move towards surplus during economic upturns and deficit during recessions. This tendency arises because taxation receipts rise and outlays, particularly on unemployment benefits, fall during upturns and vice versa during recessions.

This arises because a fiscal expansion, all else equal, will mean an increased call on foreign savings. The resulting capital inflow tends to appreciate the exchange rate, 'crowding out' the export and import-competing sectors of the economy.

Third, a fiscal policy response may not always be appropriate to changing economic circumstances. An example would be a shock to the price of factors of production (for example, a large increase in wages not matched by productivity) which might cause a short-term fall in output and employment. A fiscal stimulus to demand may provide a short term boost to output but, because this could not be sustained, would merely delay the inevitable process of adjustment required to re-establish balance in the economy.

A common approach to assessing the character of the budget balance at any point in the cycle is to decompose the balance into structural and cyclical elements. The latter part reflects the 'automatic stabiliser' effects on the budget of deviations of current output from the economy's long-term growth trend, which should net out over the course of an entire cycle. Adjusting the budget balance for these cyclical effects can provide an indication of how much of the fiscal position is structural, and therefore likely to persist as the economy moves back to trend.

There is, however, considerable difficulty in putting this into practice. The long-term trend is difficult to identify. Cycles are not regular or predictable and past experience may not provide a good guide to current or future cycles, particularly when the economy has been undergoing structural reforms that raise the trend growth rate over the medium term, leading to permanently higher economic capacity and output.

The large budget balance swings, of around 4 to 6 per cent of GDP, associated with cycles since the 1970s reflect both the automatic stabiliser impacts of severe recessions and the associated fiscal policy responses.

In these circumstances, even quite large surpluses at previous cycle peaks were insufficient to achieve balance over the full cycle. However, against the background of the Government's medium-term economic policy framework, there are sound reasons to believe that future cycles should be different from recent cycle experiences.

Structural reform has improved the operation of the labour market and raised the productivity growth trend in the current expansion and is likely to have reduced the unemployment rate at which inflationary pressures emerge. This should allow a lower average unemployment rate to be achieved over future cycles compared with that achieved in the past twenty years. In turn, a lower average unemployment rate in the future would mean that a lower budget balance is required to achieve a structurally balanced budget than would be the case if the future average unemployment rate matched the experience of past cycles.[4]

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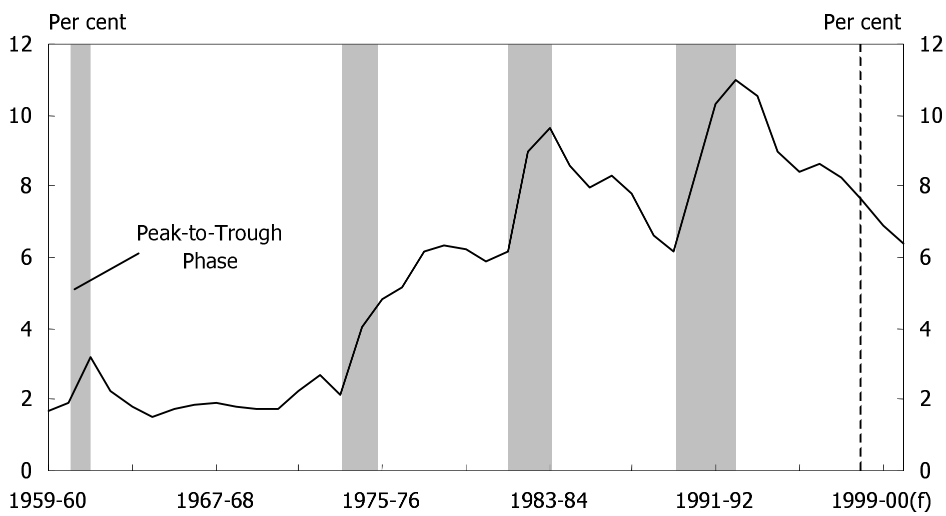
4 Consider an economy running a balanced budget at the time that the actual unemployment rate equaled the medium to longer-term average unemployment rate. Such an economy would be said to be in structural budget balance. Now consider the same economy running a

Uncertainty surrounds the economy's long-term growth trend, but present indications are that the economy still has some way to go before it reaches full capacity. The economy may tend to operate somewhat below full capacity on average over the cycle, but providing the current sound policy framework remains in place, the average unemployment rate achievable over future cycles is likely to be somewhat lower than the current rate of unemployment. On that basis, a substantial part of the forecast 2000-01 and projected out-year surpluses would be structural.

In addition, while business cycles are inherently difficult to predict, the macroeconomic policy framework that the Government has put in place can reduce the risk of severe recessions that might otherwise arise from policy responses to an overheating economy. This policy framework can also allow a more orderly response by the economy to external factors. For example, the orderly depreciation of the exchange rate in response to the Asian crisis was an important factor in preventing recession in the Asian economies from impacting significantly on domestic growth. Structural changes in the economy are also likely to have increased its ability to adjust to disturbances[5]. This suggests that it should be possible to achieve a more favourable cyclical experience, on average, than was achieved in the 1980s and early 1990s (Chart 8).

Chart 8: Economic Cycles as Reflected in the Unemployment Rate[(a)]



(a) Year average, with data from 1978-79 onwards on a Labour Force Survey basis.
Sources: ABS Cat. No's 1364.0 and 6202.0; Treasury.

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balanced budget, with the same unemployment rate, but the medium to longer-term average unemployment rate could be expected to be lower than the current rate. Such an economy would now be said to be running a structural surplus in that maintaining current policy settings would be expected to achieve a fiscal surplus on average over the entire cycle.

5 For a detailed discussion, see 'The Business Cycle – Developments in the Economy's Response to Disturbances', *Economic Roundup*, Summer 1998.

These factors suggest that consideration of the surplus levels needed to adhere to the medium-term strategy should not be based on the experience of recent cycles.

FISCAL POLICY IN 2000-01 AND BEYOND

The key issue for the 2000-01 Budget is the funding of *The New Tax System* reform package while keeping policy consistent with the medium-term fiscal strategy and appropriate to the needs of the economy. The changes to *The New Tax System* required to secure passage of the reform package through the Senate significantly increased the cost of the package, further reducing the underlying cash surplus in 2000-01. Despite this, the Government has continued to adhere to the medium-term strategy and the budget will remain in structural surplus in 2000-01.

Although the package will add to private incomes in the short term, this will be partly reflected in savings because of tax and other influences on spending. Moreover, tax reform will provide an ongoing boost to productive capacity that will help to sustain stronger growth over the medium term. This in turn will yield benefits to the budget over time that will assist future achievement of fiscal objectives.

As noted, structural reforms are increasing the economy's medium-term growth potential and allowing it to sustain lower unemployment. With an improved macroeconomic policy framework, this means that the economy's future performance should be better than recent economic cycles. Part of the fiscal dividend from this structural improvement can be allocated to tax reductions and carefully targeted new spending, while still maintaining a sound budget position.

Maintaining solid surpluses over the rest of the expansion will be important to continued good economic performance. The forward estimates indicate that the medium-term fiscal position remains sound. The large surpluses in the later outyears need to be treated with some caution, in view of the uncertainties affecting the projections and the 'no policy change' assumptions on which they are based. Nevertheless, appropriate surpluses should be achievable while economic growth remains sound. The Government will continue to assess economic developments and will set fiscal policy each year in the light of the outlook at that time and the requirements of sound economic management.

Appendix A: Rural and Regional Initiatives

Table A1: Rural and Regional Measures

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
EXPENSES				
Agriculture, Fisheries and Forestry				
Department of Agriculture, Fisheries and Forestry				
Assistance to farmers in central north-east South Australia	1.1	1.0	-	-
Building a national approach to animal and plant health	4.5	6.3	6.2	5.3
Continuation of the Agriculture - Advancing Australia Package	37.8	74.2	90.7	106.7
Exceptional circumstances recovery assistance	0.4	-	-	-
Portfolio total	**43.8**	**81.5**	**96.9**	**112.0**
Communications, Information Technology and the Arts				
Australian Communications Authority				
Universal service obligations contestability arrangements	1.8	1.0	1.0	1.0
Department of Communications, Information Technology and the Arts				
Regional Communications Partnership Fund	-	-	-	-
Regional Equalisation Plan for digital television - taxable grants	-	-	0.3	0.3
Portfolio total	**1.8**	**1.0**	**1.3**	**1.3**
Education, Training and Youth Affairs				
Department of Education, Training and Youth Affairs				
Additional resourcing for the Assistance for Isolated Children Scheme	2.2	4.5	4.8	5.1
Regional Health Package - More Doctors, Better Services	1.8	3.6	5.8	8.1
Portfolio total	**3.9**	**8.0**	**10.5**	**13.1**
Employment, Workplace Relations and Small Business				
Department of Employment, Workplace Relations and Small Buisiness				
Dairy Regional Assistance Programme	15.0	15.0	15.0	-
Portfolio total	**15.0**	**15.0**	**15.0**	**-**
Family and Community Services				
Department of Family and Community Services				
Continuation of payment to voluntary work agencies	1.2	1.6	1.6	1.7

Table A1: Rural and Regional Measures (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Family and Community Services ***continued***				
Expansion of the Community Development Employment Projects Scheme	-6.9	-14.2	-14.6	-15.0
Extension of the Retirement Assistance for Farmers Scheme	1.5	1.9	1.9	2.0
Increase in Youth Allowance assets limits for farms and businesses	18.5	36.8	37.7	38.6
Portfolio total	**14.3**	**26.1**	**26.6**	**27.3**
Finance and Administration				
Department of Finance and Administration				
Assistance to farmers in central north-east South Australia	-	-	-	-
Portfolio total	**-**	**-**	**-**	**-**
Health and Aged Care				
Department of Health and Aged Care				
National radiotherapy single machine unit trial	1.0	2.9	2.9	2.9
Regional Health Package - More Doctors, Better Services	66.2	123.0	161.3	192.5
Subsidisation of the accreditation fee for small residential aged care facilities	1.8	1.3	1.3	1.9
Portfolio total	**69.0**	**127.2**	**165.5**	**197.4**
Prime Minister and Cabinet				
Aboriginal and Torres Strait Islander Commission				
Expansion of the Community Development Employment Projects Scheme	9.2	19.0	19.5	20.0
Torres Strait Regional Authority				
Expansion of the Community Development Employment Projects Scheme	0.5	1.0	1.1	1.1
Portfolio total	**9.7**	**20.1**	**20.6**	**21.1**
Transport and Regional Services				
Department of Transport and Regional Services				
Beef 2000 Exposition	-	-	-	-
Provision of services to the Indian Ocean Territories	2.9	2.9	2.9	2.9
Year 2002 - Year of the Outback	-	0.2	0.4	-
Portfolio total	**2.9**	**3.1**	**3.3**	**2.9**
Treasury				
Australian Taxation Office				
Administration of the Fuels Sales Grants Scheme	9.5	-	-	-
Fuels Sales Grants Scheme	110.0	120.0	125.0	135.0
Portfolio total	**119.5**	**120.0**	**125.0**	**135.0**

Table A1: Rural and Regional Measures (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Veterans' Affairs				
Department of Veterans' Affairs				
Extension of the Retirement Assistance for Farmers Scheme	0.4	0.3	0.3	0.4
National radiotherapy single machine unit trial	..	..	..	..
Portfolio total	**0.4**	**0.3**	**0.3**	**0.4**
Total expense measures	**280.3**	**402.3**	**465.1**	**510.5**
REVENUE				
Communications, Information Technology and the Arts				
Australian Broadcasting Authority				
Regional equalisation plan for digital television - licence fee rebates	-22.6	-22.6	-26.9	-27.1
Portfolio total	**-22.6**	**-22.6**	**-26.9**	**-27.1**
Total revenue measures	**-22.6**	**-22.6**	**-26.9**	**-27.1**
CAPITAL				
Transport and Regional Services				
Department of Transport and Regional Services				
Indian Ocean Territories Infrastructure Development Programme	21.9	15.7	15.7	15.7
Portfolio total	**21.9**	**15.7**	**15.7**	**15.7**
Treasury				
Australian Taxation Office				
Administration of the Fuels Sales Grants Scheme	1.7	-	-	-
Portfolio total	**1.7**	**-**	**-**	**-**
Total capital measures	**23.6**	**15.7**	**15.7**	**15.7**
TOTAL ASSISTANCE TO RURAL AND REGIONAL AUSTRALIA	**326.5**	**440.6**	**507.7**	**553.3**

Appendix B: Fiscal Reporting Standards

Budget estimates in the 2000-01 Budget are presented on both a Government Finance Statistics (GFS) and an Australian Accounting Standard 31 *Financial Reporting by Governments* (AAS31) basis.

Box B1: GFS and AAS31 Reporting Frameworks

GFS Framework

The GFS reporting framework (refer to Statement 8) is a specialised statistical system designed to support economic analysis of the public sector. The framework allows comprehensive assessments to be made of the economic impact of government. The GFS framework is consistent with international statistical standards.

GFS statistics have previously been presented on a cash basis. The first presentation by the Australian Bureau of Statistics of public finance statistics on an accrual GFS accounting basis was contained in the 1999-2000 issue of *Government Financial Estimates, Australia* (Cat. No. 5501.0), released in April 2000.[6]

AAS31 Framework

AAS31 (Statement 4) requires governments to prepare accrual-based general purpose financial reports, including in relation to the assets they control, any liabilities incurred, and their revenues and expenses. This reporting is intended to provide a consolidated overview of the financial performance and position of government, including in the area of financing and investing activities. Users are not able to obtain this overview by analysing all of the individual financial reports of the many entities controlled by Commonwealth, State and Territory governments due to the existence of intra-government transactions.

Under AAS31, governments must prepare an operating statement (also known as a statement of revenues and expenses, or profit and loss statement), a statement of financial position (or balance sheet) and a statement of cash flows.

There is a general consistency of treatment between the GFS and AAS31 standards. Definitions of the scope of the public sector agree in almost all cases, as does the segmentation of the public sector into subsectors.

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6 The ABS information paper titled *Accruals-based Government Finance Statistics 2000* (Cat. No. 5517.0), released in March 2000, outlines the conceptual changes to the GFS framework and the changed format for GFS tables.

There are significant differences, however, in the treatment of some items. In particular, revaluations of financial and non-financial assets and liabilities are classified differently under AAS31 and GFS standards. Such transactions include, for example, gains or losses from foreign exchange rate variations.

Under AAS31 reporting, valuation changes may affect revenues or expenses. However, under GFS reporting revaluations are not considered to be transactions (that is, they are considered to be other economic flows) and accordingly do not form part of revenues or expenses. Moreover, most revaluations are not taken into account in the calculation of the GFS net operating balance.

Other differences between the two standards include the treatment of items such as provisions or allowances for doubtful debts, extraordinary items and finance leases.

In addition, since MYEFO, the Australian Bureau of Statistics (ABS) has revised the Australian GFS treatment of net cash settlement payments related to some financial derivatives (swaps and forward rate agreements), which has introduced another classification difference between the two standards.

The ABS change to the GFS classification is in accordance with revisions to the international statistical standards *System of National Accounts 1993* (SNA93) and the *IMF Balance of Payments Manual* (BPM5) adopted by the Inter-Secretariat Working Group on National Accounts and the IMF Committee on Balance of Payments Statistics.

Prior to these revisions, both SNA93 and BPM5 recommended that net cash settlement payments associated with these financial derivatives be recorded as property income (that is, interest revenues or interest expenses).

However, the IMF now considers this treatment to be inconsistent with the SNA93 definition of property income and has reclassified these transactions as financing items. Therefore, net cash settlement payments associated with these financial derivatives are no longer GFS revenues or expenses. The IMF has reflected this revised treatment of financial derivatives in the current draft of the second edition of its *Manual on Government Finance Statistics*. This revision was also ratified by the United Nations Statistical Commission at its annual meeting in early March 2000.

Nevertheless, these transactions continue to be treated as operating transactions (that is, as revenues and expenses) under Australian Accounting Standards.

Table B1 reconciles the GFS and AAS31 revenue and expenses estimates.

Table B1: Reconciliation of GFS and AAS31 Revenue and Expenses Estimates

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
GFS revenue (Statement 8, Appendix C)	**164664**	**177528**	**186599**	**197356**	**211201**
less GST revenue for States and Territories	0	24053	28029	29083	30737
GFS revenue (Statement 1)	**164664**	**153475**	**158570**	**168272**	**180464**
plus foreign exchange gains	0	0	0	0	0
plus other economic revaluations	0	0	0	0	0
plus profit on the sale of assets	1333	2805	53	69	41
plus swap interest received	1943	2348	2530	2692	2738
plus revenue allocated to GFS expenses	91	89	93	99	101
AAS31 revenue (Statement 5)	**168032**	**158718**	**161246**	**171131**	**183344**
GFS expenses (Statement 8, Appendix C)	**155248**	**174332**	**184514**	**189172**	**196192**
less GST grants to States and Territories	0	24053	28029	29083	30737
GFS expenses (Statement 1)	**155248**	**150279**	**156485**	**160089**	**165455**
plus revalutions/writedowns from superannuation	40	-30	78	-9	6
plus net writedown of assets/bad and doubtful debts	856	808	835	878	929
plus foreign exchange losses	397	3	0	0	0
plus other economic revaluations	64	221	0	0	0
plus loss on the sale of assets	51	4	1	1	1
less costs of asset sales	171	0	218	218	0
less other property expenses	0	0	0	0	0
plus swap interest paid	1816	2357	2455	2584	2569
plus revenue allocated to GFS expenses	91	89	93	99	101
AAS31 expenses (Statement 6)	**158392**	**153732**	**159728**	**163424**	**169061**

A further issue in regard to the reporting standards is that the Commonwealth revenue and expenses estimates in Budget Statements 1, 4, 5, 6 and 8 (except for Appendix C) do not include GST collections and equivalent payments to the States. Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the IGA), all GST revenue is appropriated to the States and Territories.

While for constitutional reasons the GST is levied by the Commonwealth, and can therefore be technically considered a Commonwealth revenue under the reporting standards, the clear policy intent of the IGA is that it is a State tax collected by the Commonwealth in an agency capacity. Estimates of GST revenues are provided in Table B1. Further details are provided in *Budget Paper No. 3 — Federal Financial Relations*.

Table B2 reconciles the accounting net operating result to the GFS net operating balance and the fiscal balance (GFS net lending). The fiscal balance measures the extent to which the Government is adding to or drawing from the national savings pool and contributing directly to the current account deficit.

Table B2: Reconciliation of AAS31 Net Operating Result and Fiscal Balance Estimates

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
AAS31 operating result before extraordinary items (Statement 4)	**9640**	**4985**	**1517**	**7707**	**14283**
Net classification differences	-224	-1789	568	476	726
GFS net operating balance (Statement 8)	**9416**	**3196**	**2085**	**8183**	**15009**
less purchase of property, plant and equipment and intangibles	4393	4884	4592	4567	4596
less assets acquired under finance leases	na	na	na	na	na
less other non-financial assets	-109	19	162	89	290
less increase in inventories	184	1	205	145	405
plus proceeds from sales of property, plant and equipment and intangibles	2223	4321	785	752	511
plus depreciation and amortisation	2533	2823	3160	3475	3654
Fiscal balance (GFS net lending)	**9704**	**5436**	**1072**	**7610**	**13884**

The reconciliation in Table B2 can be divided into two parts. The first part shows classification differences between the AAS31 operating result before extraordinary items and the GFS net operating balance. As discussed above, these differences relate mainly to the treatment of revaluations of financial and non-financial assets and liabilities under the two standards. Major revaluations include: writedowns of bad and doubtful debts (excluding those that are mutually agreed); changes in the valuation of superannuation liabilities; interest swap arrangements; cost of asset sales; and foreign exchange gains and losses.

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

STATEMENT 2: ECONOMIC OUTLOOK

Contents

STATEMENT 2: ECONOMIC OUTLOOK

Part I: Overview

The Australian economy has grown by more than 4 per cent in each of the last three years. In 2000-01, it is expected to grow by a solid 3¾ per cent. Employment growth is likely to remain robust, with unemployment falling to decade lows and the outlook for ongoing inflation remaining favourable.

This positive outlook for solid growth in a low inflation environment continues to be underpinned by the structural improvement in productivity performance evident during the current economic expansion.

A significant rebalancing of the components of growth is expected in 2000-01. Domestic demand is expected to grow at a more moderate pace than in recent years. This reflects moderating consumption growth as wealth effects from house price and share price movements stabilise as well as an unwinding of a net bring-forward of expenditure ahead of *The New Tax System*, and some effects of recent increases in interest rates. Partly offsetting the slowing in these elements of domestic demand will be stronger growth in business investment, and a significant strengthening in net exports. The strong net exports contribution to growth in 2000-01 reflects faster world economic growth and some moderation in domestic demand, along with a boost to services exports from the Olympics. The overall decline in the Australian exchange rate during the course of 1999-2000 will also contribute to a stronger net export performance in 2000-01.

The combination of strong economic growth, coupled with moderate wage outcomes and strong productivity growth, has supported employment growth and allowed the unemployment rate to decline to around the lowest levels in a decade. Employment growth is forecast to remain robust in 2000-01, at 2¼ per cent, following growth of around 2¾ per cent in 1999-2000. The unemployment rate is expected to fall further, to 6¼ per cent by the June quarter 2001. If the current macroeconomic policy framework is maintained together with ongoing structural reform, unemployment could fall further thereafter to levels not reached in a quarter of a century.

Inflation is expected to be around 2½ per cent in year-average terms in 1999-2000. The slight increase from the very low outcomes of previous years mainly reflects the impact of higher world oil prices over calendar 1999 and in the early months of this year. In 2000-01, ongoing inflation (that is, leaving aside the impact on prices of changes in indirect taxes) is forecast to be around 2½ per cent through the year to the June quarter 2001. This means that the major changes to indirect tax arrangements under *The New Tax System* will be occurring at a time when the outlook for ongoing inflation remains favourable and wage pressures continue to be moderate.

The effect of indirect tax reform on prices will not be felt evenly through 2000-01, with the main effect occurring in the September quarter 2000. In that quarter, the impact of the Goods and Services Tax (GST) on retail prices will be only partly offset by the removal of Wholesale Sales Tax (WST) on final consumption items. While estimating quarterly outcomes is inherently difficult, the overall increase in the CPI in the September quarter could be of the order of 4½ per cent, of which a little over 3¾ per cent would be the result of one-off price changes associated with indirect tax reform.

In subsequent quarters, increases in the CPI will be smaller than would otherwise have been the case, as the removal of WST and the reduction in the cost of fuel to business reduce embedded production and transportation costs and hence put downward pressure on retail prices. As a result, and as noted in the 1999-2000 *Mid-Year Economic and Fiscal Outlook* (MYEFO), *The New Tax System* is expected to add around 2¾ percentage points to the CPI through the year to the June quarter 2001, less than the projected increase for the September quarter. Taking together the estimate of ongoing inflation and the impact of *The New Tax System* on prices, the CPI is forecast to rise by around 5¼ per cent through the year to the June quarter 2001. Households will be more than compensated for the one-off price impact of indirect tax reform via income tax cuts and increases in welfare payments. The changes to indirect tax arrangements are therefore not expected to have any significant impact on wage settlements or ongoing inflationary pressure. These issues are discussed in more detail in Statement 3.

The New Tax System will provide substantial income tax cuts and increases in social security payments in 2000-01, with the impact on real household disposable income, and hence household consumption, only partly offset by overall increases in indirect taxes. However, it is likely that households are bringing forward some consumption expenditure into the latter part of 1999-2000, ahead of the changes to indirect tax arrangements. This means that this component of demand will be lower than otherwise in the early part of 2000-01.

A similar pattern is occurring in residential construction, with strong activity in this sector in 1999-2000 ahead of the introduction of *The New Tax System*. As a result a moderate easing in residential construction is expected in 2000-01.

Growth in public final demand in 2000-01 is also expected to be below the growth rates recorded in recent years, reflecting moderate growth in public consumption and much slower growth in public investment expenditure after two years of strong growth.

One component of domestic demand expected to grow more quickly in 2000-01 than in recent years is business investment, which will be supported by a stronger world economy and the beneficial impact of *The New Tax System* on the price of investment goods and business costs.

The current account deficit (CAD) is forecast to average 4¾ per cent of GDP in 2000-01, down from 5½ per cent of GDP in 1999-2000. Without the one-off boost to exports from the Olympics, the CAD would be expected to be closer to 5 per cent of GDP in 2000-01. The expected decline in the CAD reflects the impact on net export volumes and the terms of trade of the stronger world economy, along with some moderation in the rate of growth of domestic demand.

Table 1: Domestic Economy Forecasts[(a)]

	Outcomes(b)	Estimates	Forecasts	
	1998-99 Year Average	1999-2000 Year Average	2000-01 Year Average	Four Quarters to June 2001
Panel A - Demand and Output(c)				
Household consumption	4.1	4 1/2	3 3/4	3 3/4
Private investment				
Dwellings	8.5	6	-3	-9
Total business investment	1.8	2	5	6
Other buildings and structures	1.5	-12	-9	-4
Machinery and equipment	-2.4	3	9	8
Private final demand	3.9	4 1/4	3 1/2	3 1/4
Public final demand	5.2	5	2 1/2	4 1/2
Total final demand	4.2	4 1/2	3 1/4	3 1/2
Change in inventories(d)				
Private non-farm	0.8	- 1/4	0	0
Farm and public authorities	-0.2	0	- 1/4	0
Gross national expenditure	4.8	4 1/4	3	3 1/2
Exports of goods and services	2.0	9	7	8
Imports of goods and services	4.9	10	4	7
Net exports(d)	-0.6	- 1/2	3/4	1/4
Gross domestic product	4.6	4 1/4	3 3/4	3 3/4
Non-farm product	4.3	4 1/4	3 3/4	3 3/4
Farm product(e)	10.6	3	1	-2
Panel B - Expenditure Excluding Transfers and One-off Transactions(c)(f)				
Total business investment	4.8	3	6	8
Other buildings and structures	10.6	-12	-6	1
Machinery and equipment	-1.8	4	9	10
Public final demand	3.4	4 1/2	2	3 1/4
Change in inventories(d)	0.5	0	- 1/4	1/4
Gross national expenditure	4.7	4 1/4	3	3 1/2
Exports of goods and services	2.5	8	8	8
Panel C - Other Selected Economic Measures				
Prices and wages				
Consumer Price Index	1.2	2 1/2	5 3/4	5 1/4
Gross non-farm product deflator	0.7	1 1/2	2 3/4	1 1/2
Average earnings(g)	4.1	3	4 1/4	4
Labour market				
Employment (Labour Force Survey basis)	2.2	2 3/4	2 1/4	2
Unemployment rate (per cent)(h)	7.6	7	6 1/2	6 1/4
Participation rate (per cent)(h)	63.2	63 1/4	63 1/2	63 1/2
External accounts				
Terms of trade	-5.2	3 1/2	1/4	-1 1/4
Current account balance				
$billion	-32.8	-33 1/2	-31 1/2	
Percentage of GDP	-5.5	-5 1/2	-4 3/4	

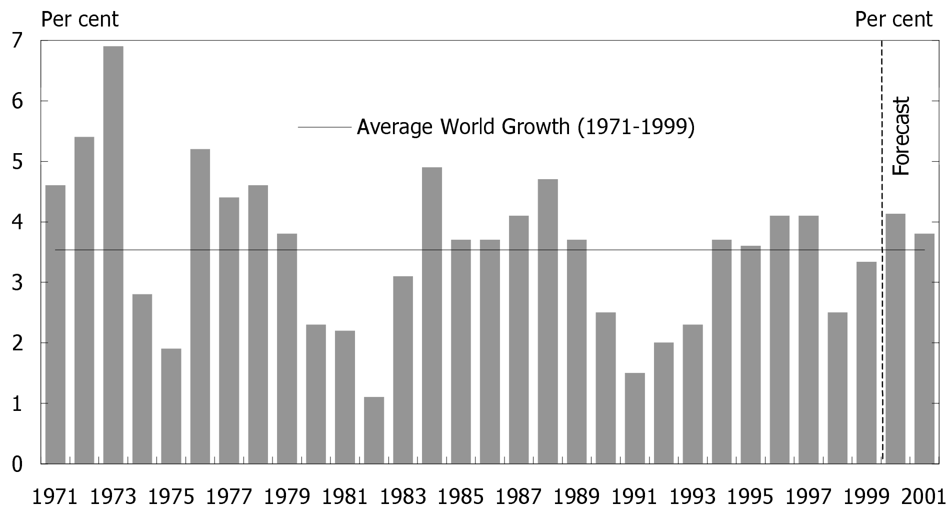
(a) Percentage change on preceding year unless otherwise indicated.
(b) Calculated using original data.
(c) Chain volume measure.
(d) Percentage point contribution to growth in GDP.
(e) Calculated at basic prices.
(f) Transfers are net second-hand asset sales from the public sector to the private sector. One-off transactions are gold sales by the Reserve Bank and the export of an ANZAC frigate.
(g) Average non-farm compensation of employees (national accounts basis).
(h) The estimate in the final column represents the forecast level in the June quarter 2001.

Part II: The Outlook for the International Economy

After a solid pick-up in 1999, world economic growth is expected to increase further in 2000 and 2001 to rates above the long-term average.

Supported by continuing strong economic growth in the United States (US) and a rebound in activity in non-Japan East Asia, which was larger and sooner than expected, the world economy grew by 3.3 per cent in 1999, after growth of 2.5 per cent in 1998. World growth is expected to strengthen further in 2000 to 4¼ per cent, with another year of strong growth in the US, improvement in Japan and Europe and continued solid growth in non-Japan East Asia. For 2001, while growth is expected to slow in the US, the momentum in other major economies is expected to continue. Overall, world growth is projected to moderate slightly to 3¾ per cent in 2001 — towards longer-term trend growth.

Chart 1: World GDP Growth Rates(a)



(a) World GDP growth rates are calculated using GDP weights based on purchasing power parity.
Source: Various national statistical publications, International Monetary Fund (IMF) and Treasury.

World inflation is expected to remain benign, despite the improving outlook for world economic activity. While the sharp increase in oil prices had raised some concerns about the outlook for inflation in the world economy, these concerns have dissipated somewhat following the late March agreement by the Organisation of Petroleum Exporting Countries to increase production of oil.

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

	1996	1997	1998	1999(b)	2000	2001
	Actual	Actual	Actual	Estimate	Forecast	Projection
World	4.1	4.1	2.5	3.3	4 1/4	3 3/4
Total OECD(c)	3.3	3.4	2.5	3.0	3 1/2	3
United States	3.6	4.2	4.3	4.2	4 1/4	3
Japan	5.2	1.6	-2.5	0.3	1 1/4	1 1/2
European Union	1.7	2.6	2.7	2.3	3 1/4	3
Non-Japan East Asia(d)	8.5	6.8	1.6	6.3	6 1/2	6

(a) Growth rates for World, Total Organisation for Economic Co-operation and Development (OECD), European Union (EU), and non-Japan East Asia are calculated using GDP weights based on purchasing power parity.

(b) Treasury estimates for World, total OECD, and European Union growth rates.

(c) Total OECD comprises the United States, Japan, Germany, France, Italy, the United Kingdom, Canada, Australia, Austria, Belgium, the Czech Republic, Denmark, Finland, Greece, Hungary, Iceland, Ireland, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Spain, Sweden, Switzerland, and Turkey.

(d) Non-Japan East Asia consists of Korea, Singapore, Taiwan, Hong Kong, China, Indonesia, Malaysia, Thailand, and the Philippines.

Source: Various national statistical publications, IMF and Treasury.

In 1999, the **United States** maintained the strong momentum of recent years, with growth accelerating over the second half of the year. This continued strength has seen the US achieve its longest economic expansion on record. As a result, the unemployment rate has fallen to around 4 per cent, the lowest level since the early 1970s.

Robust employment and wages growth have supported incomes, while historically high levels of consumer confidence and stock market wealth effects have further fuelled growth in private consumption expenditure in excess of income growth. Growth in investment has also remained strong in response to the strength in domestic and external demand.

An important factor supporting the duration and strength of the US expansion, with relatively subdued inflation, has been the positive supply-side influence from high productivity growth. It appears likely that this improvement is not purely a cyclical phenomenon, and that potential growth in the US has risen above 3 per cent.

The outlook for 2000 is for growth to average around 4¼ per cent, although slowing somewhat in late 2000 and moderating further in 2001 with growth in that year projected to average around 3 per cent. A moderate slowing in consumption growth is anticipated, driven in part by slowing but still robust growth in employment and real disposable income. Strong, albeit moderating, domestic demand, coupled with further growth in export demand, should see high levels of business investment continue.

While inflation is not expected to increase significantly, it represents a risk to the outlook if a stronger monetary policy response is required to promote a more sustainable level of growth. There are also downside risks arising from uncertainties about the movements in asset prices and the effects of sustained falls in these on consumption and investment. On the upside, improvements in productivity could see strong growth in the US continue.

Japan is expected to grow a little more quickly in 2000, after recovering from a contraction of 2.5 per cent in 1998 to grow by 0.3 per cent in 1999. Growth in Japan is expected to be underpinned by supportive fiscal policy, complemented by a gradual pick-up in private capital spending over 2000 and 2001. By contrast, private consumption expenditure is expected to remain weak until employment and household incomes start to grow sustainably. Uncertainties about Japan's future pension incomes and medical care costs are also expected to continue to dampen consumption. In the light of the strong yen since late 1998, export growth is expected to continue to be balanced by strong import growth, resulting in a negligible net contribution to growth from the external sector. Overall, growth is expected to increase to 1¼ per cent in 2000 and 1½ per cent in 2001.

The scope for ongoing fiscal stimulus is limited. Further progress on various structural reforms, especially in the financial and corporate sectors, is needed for Japan to achieve a more broadly-based and sustained economic recovery in the medium term.

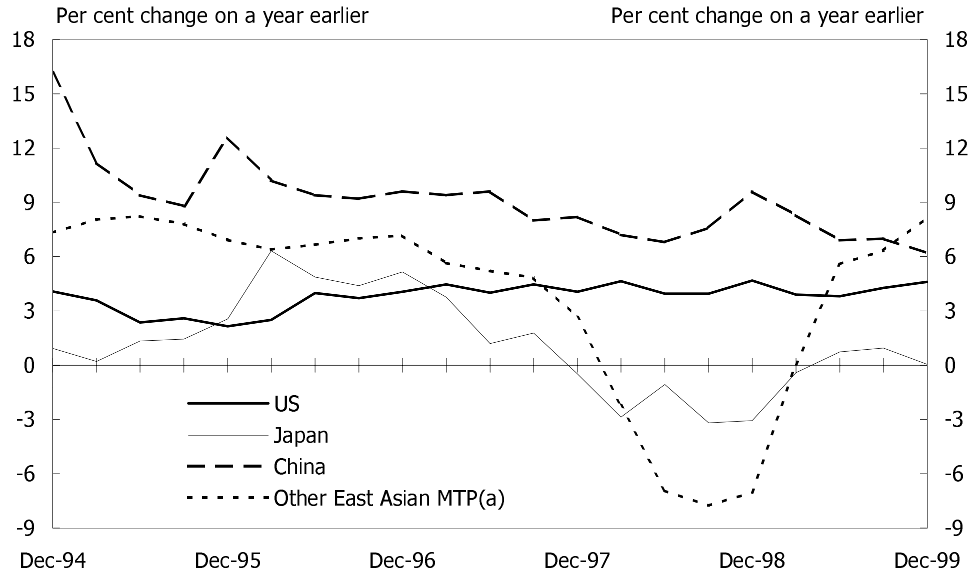
Growth in the **European Union** (EU) strengthened over the latter half of 1999, following slower growth earlier in the year, in part due to weakness in domestic demand in some of the larger economies and also weaker export demand reflecting the financial and economic instability in emerging market economies. Improved domestic demand growth provided the early stimulus, with a steady increase in external demand broadening the recovery. Growth in the EU is expected to increase to 3¼ per cent in 2000, moderating to 3 per cent in 2001, with support likely to come from improved business sentiment and industrial production, along with falling unemployment and a competitive euro. The improved world outlook will also underpin export growth in the region.

Growth in the three major euro economies is expected to converge somewhat in 2000 and 2001, as growth in Germany and Italy improves from the relative sluggishness of 1999 and the strong growth in France moderates slightly. The recent high level of activity in the United Kingdom is expected to ease.

While the outlook for the European Union is positive and core inflation (which excludes energy prices) has been low for a considerable time, the main risk to the region could be a sharp rise in wage and price pressures, as growth gathers strength in the larger economies, leading to a stronger than expected monetary policy response. To sustain higher rates of non-inflationary growth and reduce unemployment in the region, greater flexibility in labour and product markets is needed.

Growth in **non-Japan East Asia** rebounded strongly in 1999, after recording only modest growth of 1.6 per cent in 1998. The turnaround in 1999 occurred in all of the crisis-affected economies, and in some cases — notably Korea, Malaysia and Thailand — the turnaround was sharp (albeit from low bases). Even Indonesia, which suffered the deepest recession, returned to modest positive growth in 1999. Strong external demand, especially from the US, and supportive macroeconomic policies across the region have assisted in the turnaround in growth.

Chart 2: Economic Growth in Selected Major Trading Partners (MTP)



(a) Other East Asian MTP comprises Korea, Singapore, Taiwan, Hong Kong, Indonesia, Malaysia, Thailand, and the Philippines. GDP weights are based on purchasing power parity.
Source: Various national statistical publications, IMF and Treasury.

For 2000 and 2001, improving consumer and business confidence is expected to broaden the base of the recovery to include an increased contribution from domestic demand. Strong external demand (on the back of growth in the world economy and in the Asian region itself) is expected to continue. It is also expected that fiscal policies will remain supportive of growth. Overall, the region is expected to grow by 6½ per cent in 2000 and 6 per cent in 2001.

Longer-term prospects in Asia depend on the timely and effective implementation of further fundamental reforms, especially in the areas of financial and corporate restructuring, the soundness of the legal and governance systems and the transparency of domestic policies.

Prospects for **emerging market economies** have improved considerably, following the difficulties experienced in 1999. Solid recoveries are expected, particularly across most of Latin America and Russia, but vulnerabilities remain. Domestic demand is expected to continue to gather strength, and the external stimulus provided by stronger world growth, competitive exchange rates, and the rise in commodity prices (particularly energy and metal prices) should also help underpin a sustainable recovery. This will be supported by efforts to improve budget positions and strengthen public sector governance, although broader institutional and structural reforms are still needed.

Part III: The Outlook for the Domestic Economy

In framing the forecasts for the domestic economy the exchange rate is assumed, as is usual practice, to remain unchanged from the average levels reached in recent months. On these assumptions, the exchange rate would be lower on average in 2000-01 than in 1999-2000, helping to support the forecast strong turnaround in net exports.

Similarly, interest rates are assumed to remain around current levels, with the forecasts taking into account the 125 basis point increase in official interest rates between November last year and May 2000. The increase is expected to have a moderating influence on some components of domestic demand, such as residential investment and household spending on consumer durables, although the timing and magnitude of this effect is uncertain.

The farm production forecasts are based on an assumption of average seasonal conditions over the remainder of 1999-2000 and in 2000-01.

DEMAND AND OUTPUT

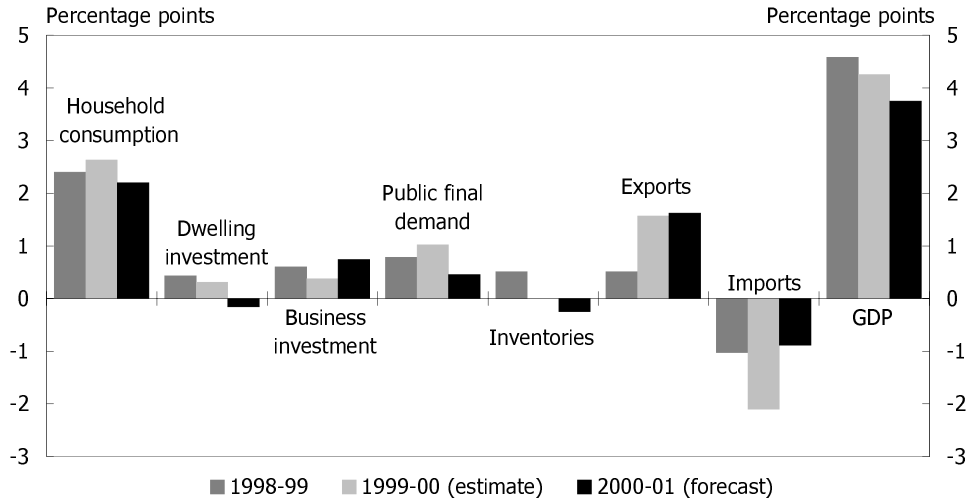
In 2000-01, economic growth in Australia is expected to be around 3¾ per cent. This will mean a further year of very solid growth with relatively low inflation, resulting in the unemployment rate declining to the lowest levels in a decade.

This favourable outlook follows three years of very strong growth. Estimates for 1999-2000 now have growth at 4¼ per cent, revised up from 3½ per cent at MYEFO. As discussed further in Box 1, growth is estimated to have been broadly based across industry sectors in 1999-2000, with particularly strong growth in communications, and property and business services.

In 2000-01, domestic demand is expected to grow at a more moderate pace than in recent years, partly reflecting an unwinding of a net bring-forward of expenditure ahead of *The New Tax System*, the effects of recent increases in interest rates and a slowing in public final demand. At the same time, business investment is expected to grow more quickly than in recent years and net exports are likely to strengthen significantly as the world economy returns to solid growth, domestic demand moderates, and services exports receive a boost from the Olympics (see Box 3). The decline in the exchange rate over the course of 1999-2000 will also support net exports next year.

The New Tax System will provide substantial income tax cuts and increases in social security payments in 2000-01, with the impact on real household disposable income, and hence household consumption, only partly offset by overall increases in indirect taxes. However, it is likely that households are bringing forward consumption expenditure into the latter part of 1999-2000 to some extent, ahead of the changes to indirect tax arrangements. This means that this component of demand will be lower than otherwise in the early part of 2000-01.

Chart 3: Contributions to GDP Growth(a)



(a) Adjusted for transfers and one-off transactions as noted in Table 1.
Source: ABS Cat. No. 5206.0 and Treasury.

A similar pattern is occurring in residential construction, with strong activity in this sector in 1999-2000, ahead of an expected moderate easing in 2000-01. Growth in public final demand in 2000-01 is also expected to be below the growth rates recorded in recent years, reflecting moderate growth in public consumption and slower growth in public investment expenditure after two years of strong growth.

Importantly, one component of domestic demand expected to grow more quickly in 2000-01 than in recent years is business investment, which will be supported by the beneficial impact of *The New Tax System* on the price of investment goods and business costs, together with a stronger outlook for the world economy and relatively high levels of capacity utilisation.

Unemployment is expected to decline to 6¼ per cent by the June quarter 2001, offering the prospect of the unemployment rate falling thereafter to its lowest levels in a quarter of a century if the current macroeconomic policy framework and ongoing structural reform agenda are maintained.

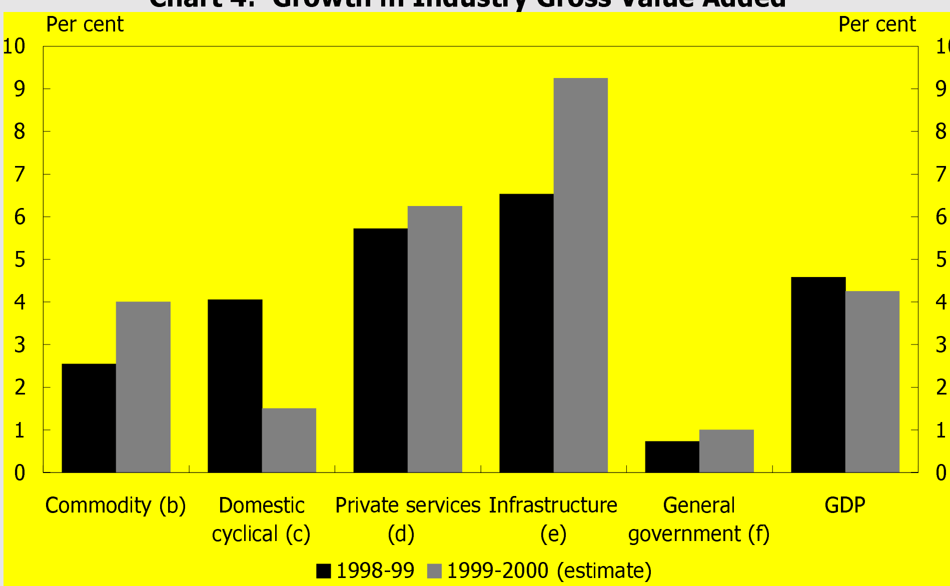
Box 1: Industry Growth Prospects

As was the case in 1998-99, growth is estimated to have been broadly based across all main industry groups in 1999-2000.

The infrastructure sector is again expected to have enjoyed the strongest growth in value added, reflecting very strong growth in the communications industry (see Chart 4). Private sector services are also estimated to have grown strongly in 1999-2000, and are forecast to make the largest contribution to GDP growth, driven by strength in property and business services, and finance and insurance. Industries with links to household consumption spending (such as wholesale and retail trade, and the consumer services sector) are also estimated to have enjoyed buoyant conditions in 1999-2000.

Following a relatively weak outcome in 1998-99, the commodity sector is expected to have grown more strongly in 1999-2000, largely reflecting a strong turnaround in mining value added as new projects commenced operations. Farm sector output is expected to have grown only modestly in 1999-2000, by 3 per cent, despite above average seasonal conditions and an increase in crop area sown.

Chart 4: Growth in Industry Gross Value Added[(a)]



(a) Industry gross value added calculated at basic prices.
(b) Agriculture, forestry and fishing; and mining.
(c) Manufacturing and construction.
(d) Wholesale trade; retail trade; accommodation, cafes and restaurants; transport and storage; finance and insurance; property and business services; cultural and recreational services; and personal and other services.
(e) Electricity, gas and water; and communication services.
(f) Government administration and defence; education; and health and community services.

Source: ABS Cat. No. 5206.0 and Treasury.

Box 1: Industry Growth Prospects (continued)

Growth in the domestic cyclical sector (which includes the manufacturing and construction industries) is estimated to have slowed in 1999-2000 due to much slower growth in construction industry value added, with strong growth in dwelling investment offsetting a large fall in private non-residential construction activity. The manufacturing sector is expected to have grown only modestly in 1999-2000, with demand for manufactured products being met, in part, through a run-down of inventories.

In 2000-01, more subdued growth is expected in the private services sector, in part due to the forecast slowing in household consumption expenditure. Construction activity is expected to fall in 2000-01, reflecting a fall in dwelling investment (as the bring-forward of dwelling investment is unwound) and a further fall in non-residential construction. The impact of the fall in construction value added on the domestic cyclical sector will only be partly offset by stronger growth in manufacturing, with domestic demand expected to remain solid and manufactured exports forecast to grow strongly.

On the other hand, a strong outlook for mining exports will continue to support output growth in the commodity sector, while farm output is expected to grow by just 1 per cent in 2000-01, reflecting a return to more normal seasonal conditions and area planted, along with lower beef and veal production as the rebuilding of the herd continues. Growth in the infrastructure sector is again expected to be very strong, driven by the likelihood of continuing strong growth in the communications industry.

HOUSEHOLD CONSUMPTION

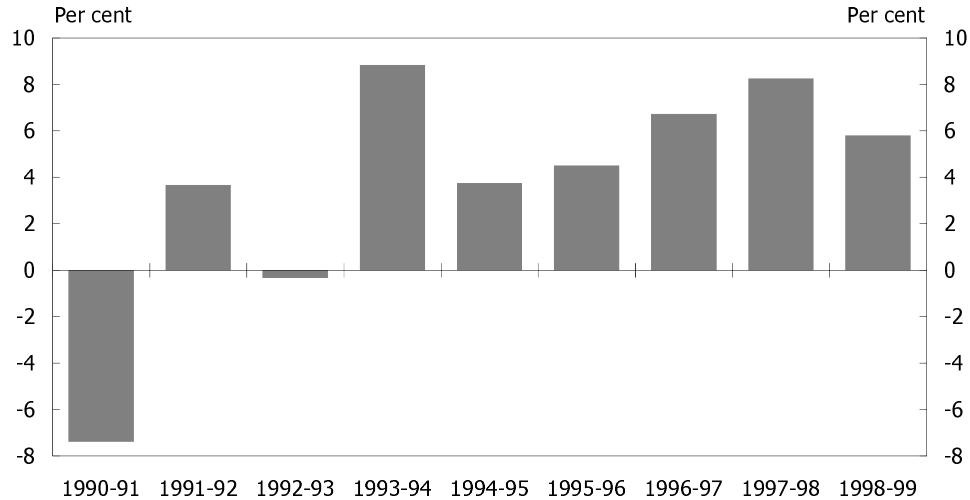
Growth in household consumption is expected to moderate slightly in 2000-01, to a still above trend rate of growth of 3¾ per cent, following several years of very strong growth.

Forecast solid growth in employment and a further fall in the unemployment rate will be supportive of consumption growth in 2000-01, as will the overall boost to real household incomes flowing from *The New Tax System*. The proposed demutualisation of the NRMA and forthcoming reductions in capital gains tax could also provide a fillip to household consumption growth in 2000-01.

On the other hand, asset prices and private sector wealth may grow less quickly, following several years of rapid growth, which partly reflected an environment of falling domestic and international interest rates (see Chart 5). Slower growth in wealth would reinforce the impact of recent increases in interest rates in moderating the growth in household consumption spending. Domestic and international equity prices have, in fact, declined modestly from earlier peaks, although they remain at historically high levels.

That said, the outlook for asset prices is always subject to considerable uncertainty, as is the precise impact of changes in interest rates and wealth on household spending decisions. For example, as outlined in last year's Statement 2, household debt has increased relative to household income in recent years, potentially making households more responsive to interest rate changes. On the other hand, household assets have grown more quickly than debt, leaving the household sector's balance sheet in a sound position.

Chart 5: Annual Growth in Real Private Sector Wealth



Source: Treasury.

The New Tax System will provide substantial income tax cuts and increases in welfare benefits in 2000-01, with the impact on real household disposable income, and hence household consumption, only partly offset by overall increases in indirect taxes. However, the changes to indirect tax arrangements on 1 July 2000 are also expected to result in some change to normal consumption patterns, as consumers bring forward consumption of some items that will rise in price and defer consumption of others that will fall in price. On balance, this is expected to result in a modest net bring-forward of household consumption into the latter part of 1999-2000, resulting in consumption in the first half of 2000-01 being a little lower than otherwise.

The magnitude of the bring-forward in household consumption is, however, subject to considerable uncertainty, with international experience with the introduction of a GST, particularly in New Zealand, suggesting that the magnitude of the assumed bring-forward may be conservative. If the bring-forward is larger than has been factored into the forecasts, then growth in household consumption in 1999-2000 would be stronger, at the expense of weaker growth in 2000-01. The bring-forward of household consumption could also be reinforced if households anticipate the forthcoming reductions in income tax. That said, recent softness in retail sales and measures of consumer confidence suggest that the expected bring-forward of consumption in the latter months of 1999-2000 could coincide with some moderation in 'underlying' growth in household consumption relative to the last couple of years.

DWELLING INVESTMENT

Following several years of strong growth, dwelling investment is expected to fall modestly by around 3 per cent in 2000-01, although remaining at high levels as a share of GDP.

Activity in this sector has been strong in 1999-2000, increasing by an estimated 6 per cent to an historically high level as a share of GDP. In part, this reflects a bring-forward of activity ahead of the changed indirect tax arrangements under *The New Tax System*. While first home buyers will be compensated for any increase in house construction costs associated with the new tax arrangements via the First Home Owners Scheme, there is likely to have been a net bring-forward of activity into 1999-2000 among other house builders and renovators. Partial indicators of dwelling investment, such as building approvals and housing finance approvals, rose sharply in the first half of 1999-2000 and remained at high levels during the early months of 2000.

An unwinding of this bring-forward of dwelling investment into 1999-2000 is likely to result in a modest decline in 2000-01. However, there is some uncertainty about the magnitude of the bring-forward, and the subsequent unwinding in 2000-01. It is also likely that dwelling investment will remain at a high level in the early part of 2000-01, as some 'pre-GST' construction activity slips into 2000-01.

Less supportive demographic factors and declining housing affordability, reflecting the combination of higher house prices and interest rates, are also expected to exert a moderating influence on dwelling investment in 2000-01. Nevertheless, ongoing solid growth in expenditure on alterations and additions to existing dwellings (in line with solid growth in household incomes and sound household balance sheets) and the beneficial impact of the First Home Owners Scheme should result in only a relatively mild fall in residential investment in 2000-01.

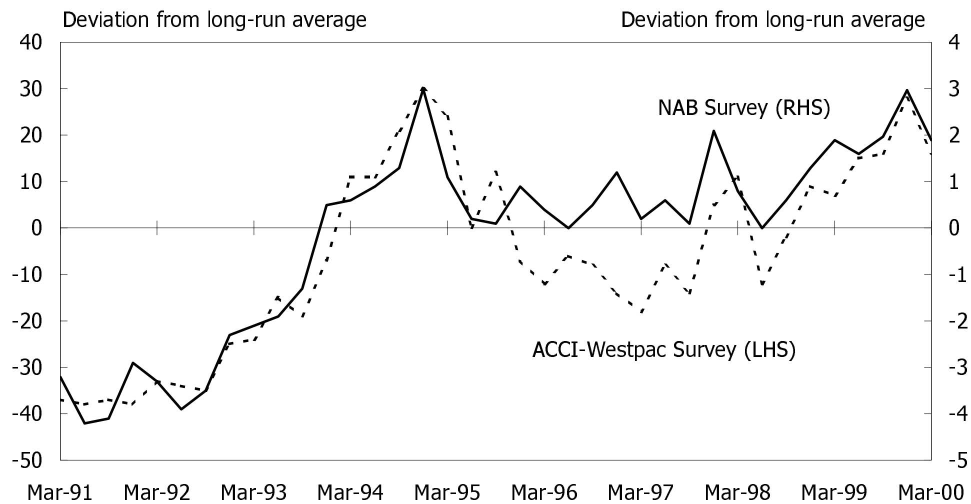
BUSINESS INVESTMENT

The sale and purchase of assets between the public and private sectors can have a significant impact on the published estimates of business investment and public final demand. This has been the case in recent years, as is evident from a comparison of Panels A and B of Table 1. Such asset sales have no impact on aggregate economic activity, but can provide a misleading view of trends in private and public investment. For this reason the following discussion of business investment abstracts from the purchase of second-hand public sector assets by the private sector.

Strong growth of around 6 per cent in new business investment is expected in 2000-01, following two years of slower growth (of 4.8 per cent in 1998-99 and around 3 per cent in 1999-2000). The favourable overall outlook for investment reflects supportive fundamentals: corporate profitability and balance sheets are healthy; measures of capacity utilisation are at high levels; and world growth and domestic demand are forecast to remain solid.

The forecast strength in overall business investment in 2000-01, however, masks significant differences between the components of business investment. New plant and equipment investment is expected to grow by a strong 9 per cent in 2000-01, reflecting: strengthening world activity and export demand; rising world commodity prices; pent up demand for plant and equipment (following two years of subdued growth); rising capacity utilisation (see Chart 6); and lower plant and equipment prices following the introduction of *The New Tax System*. The forecast for strong growth in plant and equipment investment in 2000-01 is broadly consistent with firms' surveyed investment intentions from the Australian Bureau of Statistics' (ABS) capital expenditure survey. That said, the recent softening in business confidence might suggest a slightly less rapid recovery in plant and equipment investment.

Chart 6: Survey Measures of Capacity Utilisation



Source: ACCI-Westpac Survey of Industrial Trends and National Australia Bank Quarterly Business Survey.

In contrast to the positive outlook for plant and equipment investment, investment in buildings and structures is expected to decline by 6 per cent in 2000-01, following an estimated decline of around 12 per cent in 1999-2000. Continued falls in non-residential building approvals and engineering construction commencements, and continued falls in the amount of work in the pipeline all point to a further decline in non-residential construction investment in 2000-01. Nevertheless, both building activity and engineering construction are likely to improve over the course of the year, with there being potential for further growth in investment in pipelines, power generation and telecommunications. Prospects also remain relatively favourable for investment in factories and other business premises.

The decline in non-residential construction in 1999-2000 and 2000-01 follows five years of strong growth in this sector, which carried it to an historically high level as a share of GDP. This growth was driven in part by construction associated with the Olympics as well as other infrastructure projects and a period of rapid investment growth in the mining sector. Even with the decline in 1999-2000 and that in prospect in 2000-01, activity in this sector will remain close to its historical average as a share of GDP in 2000-01.

The risks around the outlook for non-residential construction investment in 2000-01 seem evenly balanced. On the one hand, some leading indicators of activity in this sector may point to a larger than expected decline. On the other hand, strengthening world economic growth and rising commodity prices may flow more quickly than expected into stronger investment in the resources sector, although this seems more likely to impact in 2001-02 given the usual lags involved.

Investment in intangible fixed assets (that is, computer software, mineral exploration rights and artistic originals) is expected to continue to grow strongly in 2000-01, although at a slower rate than in 1999-2000. The outlook for intangible fixed assets is dominated by strong growth in investment in software which now comprises around 10 per cent of total new business investment. Some easing in growth in software investment is expected in 2000-01, following the completion of Y2K and the substantial completion of GST related work in 1999-2000.

INVENTORIES

Private non-farm inventories are estimated to subtract a quarter of a percentage point from growth in 1999-2000, following rapid inventory accumulation in 1998-99 that appears to have returned the stocks-to-sales ratio to desired levels.

In 2000-01, inventories are expected to move broadly in line with sales growth, with the overall rate of inventory accumulation forecast to be similar to that in 1999-2000. As a result, private non-farm stocks are expected to make a zero contribution to GDP growth in 2000-01.

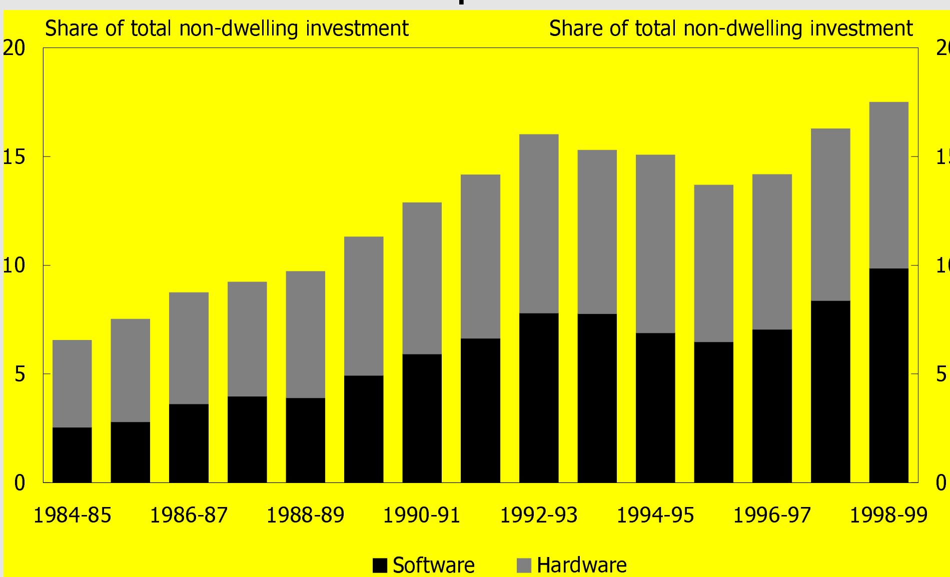
Farm and public authority inventories are expected to subtract a quarter of a percentage point from growth in 2000-01, largely reflecting a run down in public authority stocks in the September quarter 2000, as the cumulative increase in inventories resulting from transactions by the Sydney Organising Committee for the Olympic Games (SOCOG) is unwound (see Box 3).

Box 2: Investment in Information Technology

Economic reform has transformed Australia into a more open economy, which has created a favourable environment for increased entrepreneurship and innovation and, importantly, the diffusion of new technology. Indeed, there is likely to be a fundamental interplay between economic reform and the uptake of new technology, which has helped to underpin the structural improvement in productivity over the current economic expansion.

One indicator of the rapid uptake of new technology by Australian businesses is the rapid growth in investment in computer hardware and software. This rapid growth in information technology investment has seen investment in computer hardware and software increase from 6½ per cent of total non-dwelling investment in 1984-85 to around 17½ per cent in 1998-99 (see Chart 7).

Chart 7: Investment in Computer Hardware and Software[(a)]



(a) Share of total non-dwelling investment, current prices.
Source: ABS Cat. No. 5204.0 and unpublished ABS data.

PUBLIC FINAL DEMAND

In 2000-01, growth in real public expenditure is anticipated to slow to around 2½ per cent in headline terms, and to around 2 per cent after adjusting for second-hand asset sales, following two years of strong growth. The slowing in public final demand is principally due to slower growth in real Commonwealth consumption, in part reflecting a levelling out of expenditure related to the peacekeeping mission in East Timor, outweighing an anticipated increase in consumption growth at the State/local level.

Investment at the State/local level is also expected to be weaker in 2000-01, after a period of strong growth, in part related to the Olympics.

NET EXPORTS AND THE CURRENT ACCOUNT BALANCE

Net exports are expected to make a large contribution to GDP growth (¾ of a percentage point) in 2000-01, the first positive contribution since the East Asian financial crisis. This reflects stronger activity in the world economy, some moderation in domestic demand growth and a temporary boost from the Olympics (see Box 3). More generally, a lower average exchange rate in 2000-01 compared with 1999-2000 should support net exports by providing a boost to Australia's competitiveness. The implementation of tax reform will also enhance competitiveness.

In 2000-01, export volume growth is expected to be around 7 per cent, following an estimated 9 per cent growth in 1999-2000. This is a significant improvement on the weak export volume growth in 1998-99 of around 2 per cent, reflecting the pick-up in growth among Australia's trading partners. Such an outcome would return export volume growth to around trend following two years of below trend growth.

Export volume growth in 2000-01 is expected to be underpinned by strong growth in exports of services and elaborately transformed manufactures (ETMs). Services exports will be given a significant boost from the Olympics in 2000-01, particularly in the September quarter 2000, with further strength coming from increased tourist arrivals from East Asia. The volume of ETM exports — abstracting from the export of an ANZAC frigate in 1999-2000 — is expected to grow at around (pre-East Asian financial crisis) trend rates in both 1999-2000 and 2000-01. This reflects stronger world economic activity, in particular the recovery in demand from East Asian economies, as well as the recovery in New Zealand.

More moderate increases are expected in rural and non-rural commodity export volumes. The assumption of normal seasonal conditions in 2000-01 points to more moderate growth in rural commodity export volumes, following strong growth in 1999-2000. Resource exports are expected to grow solidly in 2000-01, a little below the growth rate in 1999-2000, but well above the flat outcome in 1998-99. The continued pick-up in the volume of resource exports primarily reflects additional supply capacity coming on stream, coupled with stronger growth in traditional export markets in East Asia. However, given the lead times usually associated with developing new resource projects, the recovery in commodity prices is expected to have only a moderate impact on resource export volumes in 2000-01.

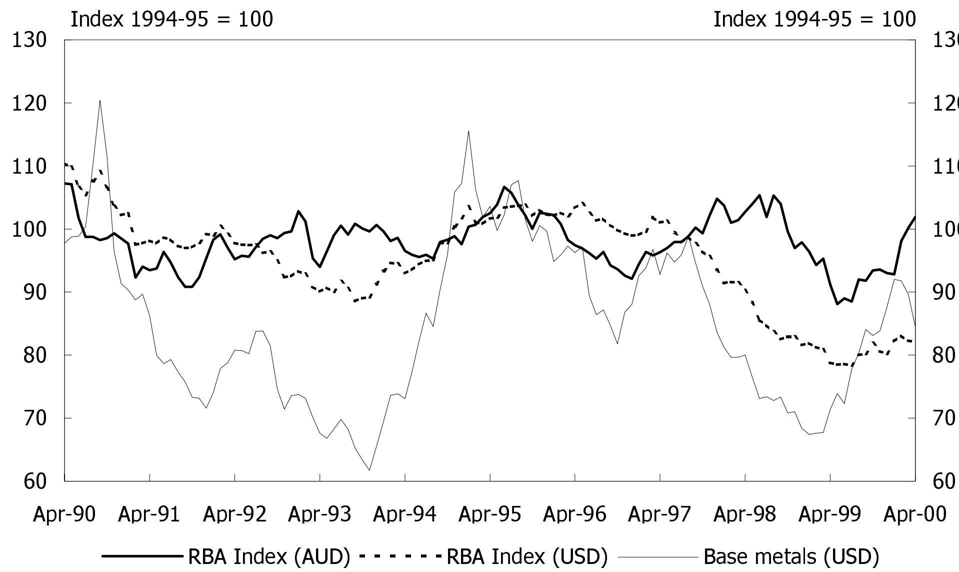
Import volume growth in 2000-01 is expected to moderate to around 4 per cent, from an estimated 10 per cent in 1999-2000, in response to more moderate growth in domestic demand than in recent years and a significant fall in one-off imports (comprising, among other things, non-monetary gold and aircraft). Import volume growth in 2000-01 will also be affected by higher import prices, reflecting a pick-up in world producer prices and the lower exchange rate. However, experience over the past decade or so indicates that the relationship between world producer prices, the exchange rate and domestic retail prices of imported items is imprecise and difficult to predict. Competitive pressures, both at home and abroad, can have a strong influence on the outcome.

Following a significant decline of around 5.2 per cent in 1998-99, the terms of trade is expected to increase by around 3½ per cent in 1999-2000 and a further ¼ per cent in 2000-01, but to remain below its mid-1997 level, prior to the onset of the downturn in Asia. This partly reflects the fact that, although firm growth in world GDP is expected, the *level* of world GDP is expected to remain below its trend path, following the below-trend growth of recent years. The fall in the terms of trade in through-the-year terms in 2000-01 largely reflects markets effectively bringing forward increases in prices for some of our major commodity exports into 1999-2000, while the adjustment in import prices in response to the strengthening world economy will impact more in 2000-01.

In US dollar terms, commodity prices — as measured by the Reserve Bank of Australia (RBA) commodity price index — have improved moderately through 1999-2000, after reaching a thirteen-year low in July 1999. Although the improving world economy should continue to have a positive influence on commodity prices in 2000-01, this is expected to be largely offset by increasing world supply of several of Australia's key commodities. As a result, US dollar commodity prices are expected to remain well below their pre-East Asian financial crisis levels over the forecast period.

On the other hand, in Australian dollar terms, aggregate commodity prices are expected to average slightly above pre-East Asian financial crisis levels in 2000-01, reflecting the assumption of a lower average exchange rate than in 1999-2000 (see Chart 8).

Chart 8: Reserve Bank Commodity Price Index(a)

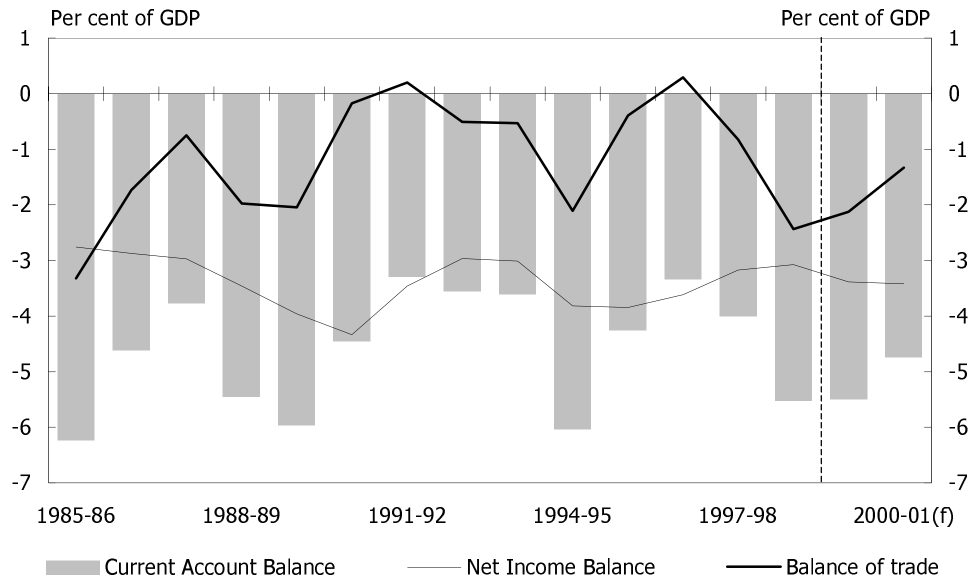


(a) The RBA commodity price index is based on the prices of 17 major commodities exported by Australia. Oil is not included in the series.
Source: Reserve Bank of Australia.

Significant increases in base metal prices have underpinned the moderate increase in US dollar commodity prices in 1999-2000. In US dollar terms, base metals prices have increased strongly through 1999-2000 in response to stronger global industrial production along with supply restrictions (see Chart 8). However, it should be noted that base metal prices comprise only 15 per cent of the RBA commodity price index. Looking ahead, base metal prices are expected to consolidate somewhat in 2000-01, as continued improvement in demand is broadly offset by increased supply. While a similar trend is evident for mineral fuels (namely crude oil, liquefied natural gas and petroleum products), the impact on the terms of trade is largely offset by crude oil imports.

For many other key commodities, increasing world supplies are offsetting stronger world demand. In particular, the outcome of recent negotiations for coking and steaming coal is for further falls in US dollar prices, on top of the very significant falls in the previous year. Further, while prices are improving for some key rural commodities (such as wool and beef), global overproduction (driven by the very high level of agricultural subsidies in developed countries) and high stock levels are depressing some rural commodity prices.

Chart 9: Contributions to the Current Account Deficit



Source: ABS Cat. Nos. 5302.0 and 5206.0, and Treasury.

The net income deficit (NID) has been relatively stable as a percentage of GDP since the onset of the East Asian financial crisis. In part this has reflected the decline in world interest rates. However, recent increases in world interest rates point to a small increase in the NID as a percentage of GDP over the forecast period.

The CAD is forecast to decline relative to GDP to 4¾ per cent (or $31½ billion) in 2000-01, compared with around 5½ per cent in the previous two years. Without the boost to services exports in 2000-01 from the Olympics the CAD would be expected to be closer to 5 per cent of GDP.

The overall increase in the CAD since 1996-97 primarily reflects a fall in the balance of trade (Chart 9), coming from weak net exports and weaker terms of trade during the East Asian financial crisis. The expected decline in the CAD in 2000-01 reflects a partial reversal of these factors. In keeping with past experience, however, considerable volatility is likely from quarter to quarter.

Box 3: The Economic Impact of the Sydney Olympics

The staging of the Olympic and Paralympic Games in Sydney later this year will have a significant impact on the economy, particularly in the September quarter 2000. In addition, construction activity associated with the Games and expenditure by SOCOG has had an ongoing impact on economic activity over recent years.

Direct Olympics related construction (that is, venues at Homebush Bay and elsewhere, the athletes' village and associated transport infrastructure, such as the rail link and station at Olympic Park and roads at Homebush Bay) is estimated to have totalled around $3.3 billion since 1991-92 (with about two thirds funded by the public sector). In addition to construction activity directly linked to the Games, there has also been some additional construction activity in related areas (for example, the building of hotels and some transport infrastructure), although this is difficult to quantify. The peak year for Olympics related construction is likely to have been 1998-99.

The Olympics are expected to have a significant impact on services exports and overall economic growth in the September quarter 2000. The sale of international broadcast rights, worth around $1 billion, will be recorded as a service export in the September quarter 2000. The sale of Olympic tickets to foreign tourists will also be recorded as a service export during the period of the games, regardless of when the tickets were actually purchased. In addition, other expenditures by foreign tourists, athletes and media attending the games will provide a significant boost to services exports in the first half of 2000-01, with the majority of the impact in the September quarter, although at least some will flow into the December quarter 2000. Overall, the Olympics are expected to add around $1¾ billion to services exports in 2000-01, with a fall in the CAD of around 1 per cent of GDP in the September quarter 2000.

The Olympics are expected to have only a small impact on household consumption growth in year-average terms, as expenditure by Australian residents on Olympics related tourism should be largely offset by a decline in domestic tourism to other destinations and some crowding out of other spending. However, as Olympic ticket sales will be recorded in household consumption in the September quarter 2000, regardless of when the tickets were actually purchased, consumption in that quarter will be higher than it otherwise would have been.

Only partly offsetting these positive impacts on growth will be a run-down of public authority inventories in the September quarter 2000. The value of SOCOG's output less revenues received from sponsorship and consumer products has been recorded as an increase in inventories in the run-up to the Games, with these inventories then unwound in the September quarter.

On balance, the Olympics of themselves are estimated to add around 1 percentage point to GDP growth in the September quarter 2000.

Box 3: The Economic Impact of the Sydney Olympics (continued)

The Olympic Co-ordination Authority (OCA) has estimated that around 35,000 people have worked on Olympic construction sites since work commenced at Homebush Bay in 1991-92. However, the net additional increase in employment is likely to have been somewhat less than this, as some of these workers would have found employment on other sites, or in other industries, in the absence of the Games.

At this stage it is not clear whether the two-week period of the Olympics will see a strong rise in measured employment. In any event, the direct impact on employment during the period of the Olympics is likely to be temporary in nature.

SOCOG is seeking around 40,000 volunteers for the period of the Olympics and 10,000 for the Paralympics. While unpaid volunteers are not typically classified as employed by the ABS in its Labour Force Survey, the provision of uniforms, food and drink and transport, as well as the opportunity to witness Olympic events raises the possibility that volunteers will in fact receive benefits in kind and could therefore be classified by the ABS as employed. SOCOG expects contractors to employ an additional 65,000 people (providing security, catering and cleaning services, for example).

The impact of these (short-term) requirements on measured employment are uncertain and will depend on the ABS's classification of volunteer workers and the extent to which positions are filled by persons already employed, as opposed to those classified as unemployed or not in the labour force. The ABS has also advised that it will conduct the September Labour Force Survey one week earlier than usual in New South Wales, which will put the 'reference week' two weeks prior to the commencement of the Games.

The Olympics should also have a longer-term impact on employment in tourism and related industries, reflecting their promotional impact.

LABOUR MARKET

Employment is expected to grow by a robust 2¼ per cent in 2000-01, following two years of above trend jobs growth. The unemployment rate is expected to maintain a downward trend, reaching around 6¼ per cent by the June quarter 2001.

This outlook follows estimated employment growth of 2¾ per cent in 1999-2000, significantly above the 2.2 per cent growth achieved in 1998-99. During the first half of 1999-2000, employment growth averaged around 22,000 per month, but has since moderated to around 19,000 per month. The major job advertisement and vacancy series all point to employment continuing to grow at a solid rate in the months ahead, albeit a little less rapidly than over the past year.

Ongoing employment growth and further reductions in unemployment are likely to encourage increased labour force participation over the period ahead, with the participation rate expected to edge up slightly to around 63½ per cent by the June quarter 2001.

Despite recent increased labour force participation, strong employment growth has seen the unemployment rate fall to around its lowest level in a decade. Although some regional disparities exist, capital and non-capital city regions have experienced similar growth in employment and declines in unemployment rates over the past few years (see Box 4).

Volatility in the participation rate remains a key uncertainty around the unemployment rate forecasts, and hence the extent of tightness in the labour market in the period ahead. While forecast firm growth in employment should act to encourage greater labour force participation, demographic factors are likely to weigh against the 'encouraged worker' effect to some extent. The negative impact on the participation rate of the ageing of the population will increase as a growing proportion of the working age population gradually move into age cohorts where labour force participation is lower. This effect raises the possibility that the participation rate and unemployment rate could both be lower than forecast towards the end of the forecast period. On the other hand, a stronger than forecast encouraged worker effect cannot be ruled out. It is also possible that recent falls in housing affordability could encourage some second income earners back into the labour market, boosting the participation rate.

Some cyclical moderation in labour productivity growth from the very rapid pace in recent years is expected in 1999-2000 and 2000-01, with productivity growth (on a heads basis) forecast to be around 1½ per cent in both years (increasing to 1¾ per cent through the year to the June quarter 2001). This follows the exceptionally strong productivity growth in 1997-98 and 1998-99, which in part reflected businesses' uncertainty about the economic outlook (due to the East Asian financial crisis), resulting in slower employment growth than otherwise and hence higher labour productivity growth.

As noted in last year's Statement 3, there has been an upturn in productivity growth evident in the current economic expansion and it is likely that the economy can sustain labour productivity growth averaging around 1½ to 2 per cent per annum over the medium term, although with some short-term volatility of a cyclical nature around these average outcomes. This is supported by recent International Monetary Fund staff research[1] which concludes that structural reforms have raised Australia's sustainable productivity growth, thereby enhancing the growth potential of the economy.

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1 *Australia: Selected Issues and Statistical Appendix*, Series: IMF Staff Country Report No. 00/24, 6 March 2000.

In recent years, there has been a diversity of experience across industries in terms of labour productivity. The strongest performing industries have been two which traditionally have been dominated by public enterprises, namely communication services and electricity, gas and water supply (utilities). These sectors have undergone substantial reform, through corporatisation and privatisation, and enterprise bargaining has become the predominant form of wage negotiation. The strongest productivity growth in the private sector has also been in those industries dominated by enterprise bargaining — mining, finance and insurance and manufacturing.

WAGES

Wages growth continued at a moderate pace in 1999-2000, notwithstanding strong employment growth and a falling unemployment rate. Enterprise bargaining outcomes have declined and there is little evidence pointing to a significant increase in wage pressures.

On a national accounts basis, average earnings growth is expected to increase from an estimated 3 per cent in 1999-2000 to 4¼ per cent in 2000-01. The increase in the superannuation guarantee charge on 1 July 2000 accounts for part of the stronger forecast, while the remainder can be attributed to a gradual tightening of labour market conditions over the next year and the increase in wages flowing from the recent 'Living Wage Case' decision of the Australian Industrial Relations Commission.

In some sectors, large wage increases, shorter working weeks and more restrictive work practices are being sought or have been achieved. While these pressure points are an important ongoing issue for the wages outlook, these negotiations have affected relatively few employees to date, and institutional changes and competitive pressures should limit the spread between sectors.

A key uncertainty around the forecast for wages growth in 2000-01 is the potential impact of declining unemployment on the availability of skilled labour. Skill shortages have been apparent for some time in selected sectors and regions. However, these have not increased significantly over the past year and, indeed, may be abating in some sectors. While additional pressures may develop, there is little evidence to date to indicate that skill shortages will become sufficiently widespread in the year ahead to generate excessive wages growth across the economy.

While changes to indirect tax arrangements under *The New Tax System* will have an impact on prices, there is no rationale for higher wages to 'compensate' for these price effects, given the significant personal income tax cuts and increased social security payments contained in the tax reform package. There is neither evidence of widespread inclusion of GST related clauses in new enterprise agreements, nor that the implementation of tax reform will have a significant impact on wage negotiations. These issues are discussed more fully in Statement 3.

Box 4: Recent Developments in Regional Labour Markets

In aggregate, regional Australia has benefited from the economic expansion of the 1990s through increased employment and lower unemployment. However, as in the capital cities, the experience has been diverse, with some regional areas experiencing high unemployment rates, while others have unemployment rates well below the national average.

Chart 10 shows that, but for the two years between mid-1995 and mid-1997, employment growth in non-capital city labour markets has matched that in capital cities. The unemployment rate in capital cities has been around 1 percentage point lower than non-capital city regions over much of the period (Chart 11). Over the past three years the fall in non-capital city unemployment has closely matched the fall for capital cities.

There are some broad patterns in the disparities in employment growth and unemployment rates between regions. Non-capital city regions reliant on traditional industries such as mining, agriculture and electricity generation have had slow employment growth and continue to experience high rates of unemployment. Agricultural areas specialising in horticulture or viticulture, as well as tourist and coastal regions of Australia, have experienced strong employment growth and significant declines in their unemployment rates.

Chart 10: Employment Index[(a)(b)]

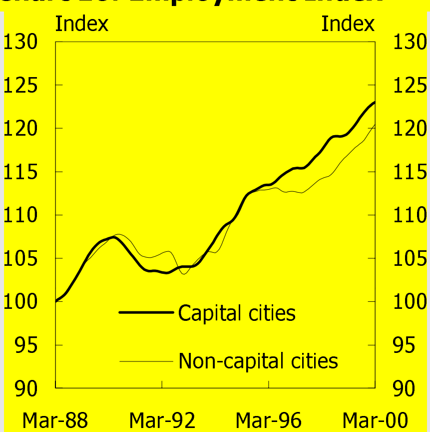
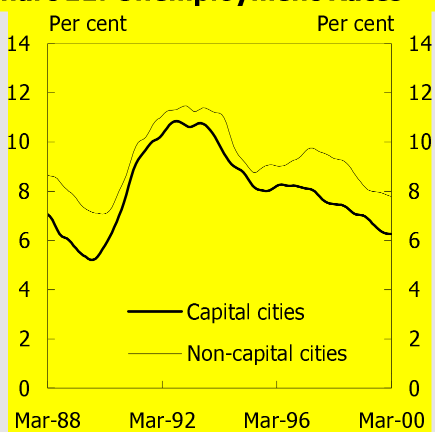


Chart 11: Unemployment Rates[(a)(b)]



(a) Trend data.
(b) *Capital cities* includes the six state capitals and the Australian Capital Territory. The balance (including Darwin) is classified as *non-capital cities*.

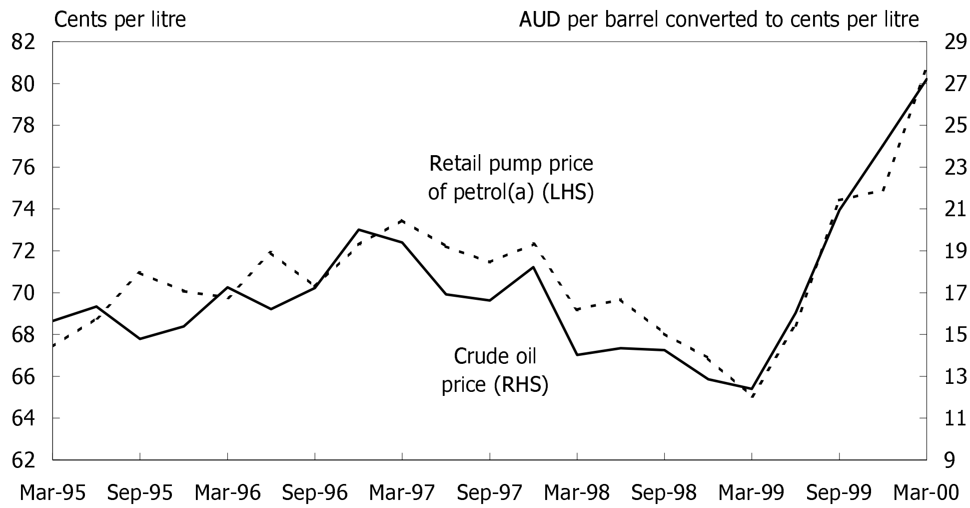
Source: ABS Cat. No. 6291.0.

PRICES

In 1999-2000, inflation is estimated to be around 2½ per cent in year-average terms, although it is likely to be around 3 per cent through the year to the June quarter 2000 due to the temporary effect of international oil price fluctuations. This follows very low inflation outcomes over the previous three years.

The increase in inflation in 1999-2000 reflects several factors. As noted above, the sharp rise in world oil prices during 1999 and the early part of 2000 has been passed through to petrol prices (see Chart 12), which has increased the CPI by almost a full percentage point through the year to the March quarter 2000.

Chart 12: Oil and Petrol Prices



(a) Weighted average retail pump price of unleaded petrol in the eight capital cities.
Source: ABS Cat. Nos. 6401.0 and 6403.0, Datastream and Treasury.

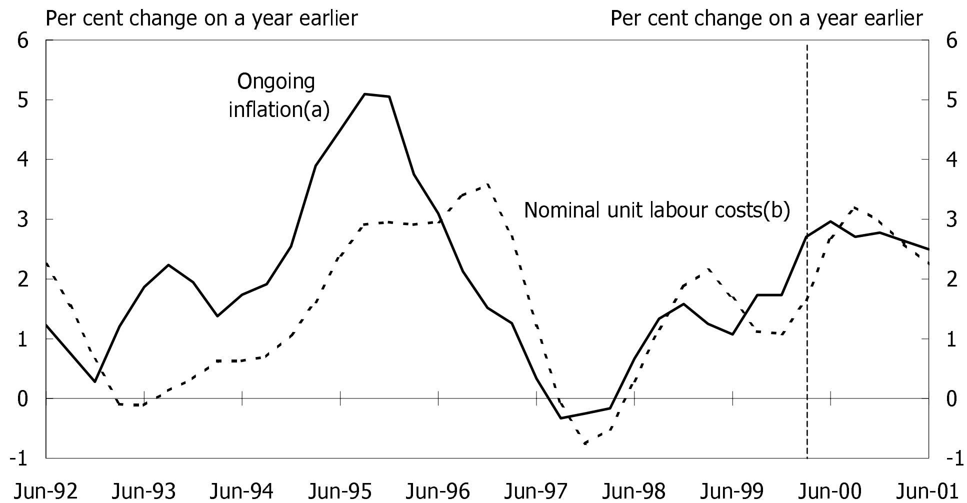
At the same time, gradual increases in other world commodity prices following the sharp decline during the East Asian financial crisis are putting some upward pressure on production costs at home and abroad. Recent rises in prices of project homes in response to very strong activity in that sector ahead of the changes to indirect tax arrangements under *The New Tax System* have also contributed to the increase in the CPI in 1999-2000.

Changes associated with *The New Tax System* have also made a small direct contribution to the increase in the CPI in 1999-2000. The move to per-stick taxation of cigarettes has added almost a quarter of a percentage point to the through-the-year increase in the CPI, only partly offset by the reduction in WST on a range of items from 32 per cent to 22 per cent on 29 July 1999.

Leaving aside the direct effects of *The New Tax System* on consumer prices, ongoing inflation is expected to be around 2¾ per cent in year-average terms in 2000-01 and around 2½ per cent through the year to the June quarter 2001. The estimate for ongoing inflation in 2000-01 includes some allowance for the impact on consumer prices of a lower exchange rate which is assumed would prevail in 2000-01 in the absence of *The New Tax System*. This is because, without the beneficial impact of *The New Tax System* on business costs, Australia's exporting and import-competing industries would be less internationally competitive.

The outlook for ongoing inflation also takes into account the expected modest step-up in wages growth in 2000-01 and an expected easing in productivity growth from the very rapid pace of recent years, which will see nominal unit labour costs rise a little over the period ahead (see Chart 13). That said, the low inflation outlook in 2000-01 will continue to be supported by the structural improvement in Australia's productivity performance over recent years.

Chart 13: Ongoing Inflation and Nominal Unit Labour Costs



(a) Excludes the impact of *The New Tax System* on prices.
(b) Trend measure.
Source: ABS Cat. Nos. 6401.0 and 5206.0, and Treasury.

The stronger world economy, higher world prices for some commodities and the decline in the Australian dollar since the start of the year could also add some upward pressure to import prices. While the earlier decline in the exchange rate, during the East Asian financial crisis, did not result in higher retail prices for imported items, some of the global deflationary forces that contributed to that outcome are likely to have waned over the intervening period, reflecting the recovery in Asian economies and a return to around trend rates of growth in the world economy. On the other hand, with world oil prices now falling, the impact of higher petrol prices on the CPI in 1999-2000 is expected to be partly reversed in 2000-01. Underlying cost and price pressures in the residential construction sector are also expected to moderate to some extent in 2000-01 as activity in that sector declines.

The changes to indirect tax arrangements under *The New Tax System* are estimated to increase the CPI by around 2¾ per cent through the year to the June quarter 2001. The main effects will occur in the September quarter 2000 as the impact of the GST on retail prices is only partially offset by the direct impact of the removal of WST on final consumer items. While estimating quarterly outcomes is inherently difficult, the overall increase in the CPI in the September quarter could be of the order of 4½ per cent, of which a little over 3¾ per cent would reflect one-off price changes associated with indirect tax reform.

In subsequent quarters, increases in the CPI will be smaller than would otherwise have been the case, as the removal of embedded WST and lower business costs put downward pressure on retail prices.

Taking together the estimate of ongoing inflation and the impact of *The New Tax System* on prices, the CPI is forecast to rise by around 5¾ per cent in year-average terms in 2000-01 and 5¼ per cent through the year to the June quarter 2001.

These estimates are based on an expectation that, with income tax cuts boosting take-home pay and more than compensating households for the impact of indirect tax reform on prices, there will be no flow-on of the increased indirect taxes into wage costs.

The overall impact of *The New Tax System* on the CPI will be less than the impact in 2000-01. Further measures will be introduced in 2001, 2002 and 2005 that will reduce the overall CPI impact of the package, including the removal of Financial Institutions Duty and Bank Account Debits taxes and the phasing-in of input tax credits for motor vehicles.

Statement 3 contains more detailed information on the expected CPI impact of *The New Tax System*.

Part IV: Uncertainties

The outlook for inflation in 2000-01 will depend heavily on whether prospective solid productivity growth and moderate wage outcomes are achieved as the unemployment rate falls further, and on whether the economy begins to face significant capacity constraints more generally as it enters a tenth year of economic expansion. There is evidence of some labour market tightness in particular sectors and regions, although there is little clear sign of a general increase in wage pressures. While the structural rate of unemployment in Australia is difficult to estimate with any degree of certainty, it is likely to have fallen during the 1990s as the labour market has responded to a range of reforms.

The risk that wage pressures will begin to build will increase if the unemployment rate falls rapidly or if overall activity is appreciably stronger than forecast. While there is currently little evidence to suggest that wage bargainers are attempting to seek a 'second layer' of compensation for price effects associated with indirect tax reform (that is, on top of the substantial income tax cuts and increases in social security payments), ensuring wages outcomes do not build in this 'over-compensation' will be important in sustaining low inflation and strong growth (see Statement 3).

The impact of the recent decline in the exchange rate on consumer prices also poses some uncertainty to the outlook for ongoing inflation. While rises in 'over-the-docks' import prices had little impact on retail prices of imported items during the East Asian financial crisis, the recovery in the global economy and the reversal of some of the global deflationary forces since then raises the possibility that changes in import prices could be reflected in consumer prices more quickly over the period ahead. The impact of exchange rate movements on final retail prices of imported items also depends, importantly, on how long any particular level of the exchange rate is sustained.

There is also some uncertainty surrounding the profile of activity in the latter part of 1999-2000 and the first half of 2000-01. The introduction of *The New Tax System* is expected to result in a net bring-forward of household consumption and dwelling investment into 1999-2000 that will more than offset a net deferral of business investment into 2000-01. However, the magnitudes of these bring-forwards and deferrals are uncertain. A stronger than expected net bring-forward of activity prior to the introduction of the GST on 1 July 2000 may see growth in 1999-2000 stronger than forecast, at the expense of weaker growth in 2000-01. It will, however, be difficult to untangle GST induced bring-forwards and deferrals from ongoing demand and output growth, which will make assessing underlying trends in the economy particularly difficult over the next few quarters. The Sydney Olympics will also add some uncertainty to the profile of demand and output in the second half of calendar 2000.

The recent softness in retail sales and measures of consumer confidence also suggest that the expected bring-forward of consumption in the latter months of 1999-2000 could coincide with some moderation in 'underlying' growth in household consumption relative to the last couple of years.

The outlook for business investment, particularly non-residential construction, is also uncertain. While the forecasts incorporate significant falls in non-residential construction in both 1999-2000 and 2000-01, some forward indicators of activity in this sector point to much larger falls. On the other hand, the impact of a strengthening world economy on non-residential construction (particularly mining related construction) is difficult to assess and it is possible that activity might recover more quickly than anticipated in 2000-01.

While world growth is expected to strengthen further in 2000, there are uncertainties surrounding the outlook, particularly in 2001. The pattern of growth over the forecast period is projected to alter — with the US easing and Japan and Europe strengthening — and there is some risk that the adjustment could be sharper than expected and have broader effects. This could arise, for example, if inflationary pressures were stronger than anticipated, particularly in the US, and to a lesser extent Europe, necessitating strong macroeconomic policy responses. Alternatively, strong productivity growth could sustain high rates of growth in the US for a longer period.

The recovery in Japan continues to be fragile and significant uncertainty remains around the outlook for 2001. The strength and sustainability of the recoveries in the East Asian economies depends on the timely and effective implementation of structural reforms, particularly in the financial and corporate sectors, as well as the world outlook. While the outlook for Russia and most of the emerging economies of Latin America has improved, vulnerabilities remain and it is important that continued steps are taken to lessen the impacts of such risks, such as by improving budgetary positions and public governance.

STATEMENT 3: MAINTAINING LOW INFLATION AND STRONG GROWTH

Contents

Statement 3: Maintaining Low Inflation and Strong Growth

Part I: Introduction

Australia is entering the new millennium with the introduction of a modern taxation system which will sustain the economy's longer-term growth potential. *The New Tax System* will provide more robust taxing arrangements for both Commonwealth and State Governments. It will lead to more efficient investment decisions throughout the economy, with significantly reduced business costs; and Australians will keep a higher proportion of their before-tax earnings, providing greater incentives to work and save.

As with all significant advances, there will be an adjustment process but this will quickly give way to visible lasting benefits.

There will be a one-off increase in consumer prices when *The New Tax System* is introduced. This price effect will not endanger the combination of strong growth and low inflation that has been achieved over the last few years. Competition should ensure that price adjustments associated with *The New Tax System* do not re-ignite inflation; and there will be no need for employees to seek higher wages because the generous compensation package will boost their real after-tax incomes.

The New Tax System is being introduced at a time of strong competition and dynamic markets. These have not come about by accident. Rather, they are the result of deliberate policy action, pursued at both the macro and microeconomic levels. Credible medium-term monetary and fiscal policy frameworks have provided the stable and supportive investment climate to ensure that Australian businesses take full advantage of the wide range of structural reforms that have been pursued.

Increased competition and more dynamic markets have contributed to lifting the medium-term potential growth rate of the Australian economy to around 3½ to 4 per cent per annum. This means that the rate of growth that the Australian economy can sustain without producing significant inflationary pressures is now above the average rates of growth achieved during the past three decades.

The benefits of sustained strong economic growth are already evident with the unemployment rate around the lowest in almost a decade. If this strong growth is to be sustained, the current macroeconomic policy framework and the ongoing structural reform agenda must be maintained, including the implementation of *The New Tax System*. In these circumstances, there would be the opportunity to drive the unemployment rate much lower still, potentially to its lowest level for more than a quarter of a century.

Part II: The Benefits of Tax Reform

The implementation of *The New Tax System* is a major reform that will bring both more robust government finances and substantial efficiency gains throughout the economy. The main features of *The New Tax System* are the abolition of a range of inefficient indirect taxes and the introduction of a goods and services tax (GST), significant personal income tax cuts, reforms to social security benefits and reforms to Commonwealth-State financial relations.

Narrowly Based Inefficient Indirect Taxes Replaced with a Broadly Based GST

A GST will be introduced from 1 July 2000 to replace the Wholesale Sales Tax (WST) and a range of inefficient State taxes, such as accommodation taxes (on 1 July 2000), Financial Institutions Duty (FID) and stamp duties on marketable securities (on 1 July 2001) and debits tax (by 1 July 2005, subject to a review by the Ministerial Council for Commonwealth State Financial Relations). The Ministerial Council will also review the need for retention of a range of other business stamp duties by 2005.

Cost Reductions for Producers

The removal of the existing inefficient indirect taxes will significantly reduce business costs. This is because these taxes become embedded in the cost structures of business (see Box 1), imposing a hidden burden on Australian exporters and import competing businesses in particular. Over half of the existing WST is paid as tax on inputs used by businesses. These embedded taxes also cascade, as the tax paid by businesses becomes embedded in the price on which WST subsequently becomes payable further down the chain. The existing tax system discriminates against manufactured goods, while favouring service industries on which WST is not payable.

Less Distorted Relative Prices Increase Allocative Efficiency

In contrast to WST, the GST is not a cascading tax. GST registered businesses at each stage of the production chain receive a credit for the GST paid on inputs at earlier stages of production. The effect is that the GST imposes a uniform 10 per cent effective tax rate on taxable supplies to final consumers. This effective tax rate does not vary according to the production chain involved and applies to taxable supplies of both goods and services.

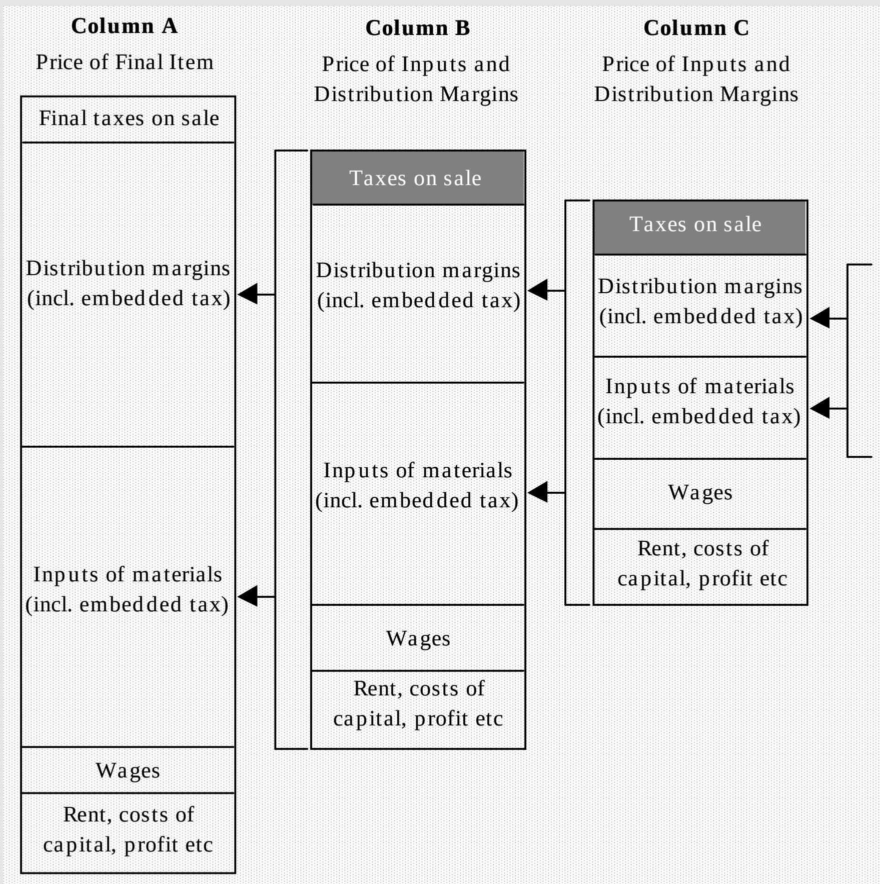
Providing the States with a More Secure and Growing Revenue Source

The introduction of *The New Tax System* provides for the transfer of all GST revenues to the States and Territories, affording them a stable and growing source of revenue. Access to the GST revenues will allow the States and Territories to abolish a range of narrowly based indirect taxes that impede economic growth. It will also remove their reliance on financial assistance grants and revenue replacement payments from the Commonwealth.

Box 1: Embedded Taxes

The final prices of all goods and services (commodities) can be split into production costs (such as wages and the cost of materials), distribution margins (such as transport costs and wholesale and retail margins), capital costs (such as rent, interest and a profit margin) and indirect taxes (Column A).

However, the distribution margins and cost of materials, along with some capital costs, may include an indirect tax component (Column B). The industries in Column B may also have paid indirect taxes on their inputs or their distribution margins and so on (Column C,…). Since all of these 'hidden' taxes (denoted by the shaded boxes) are embedded in the final price of the item shown in Column A they are appropriately described as 'embedded'.



The prices of most goods and services contain at least some element of embedded taxes. Under *The New Tax System*, the WST and several other cascading taxes will be abolished. This will reduce the cost of producing these items, regardless of whether the final item is currently taxed or not. Competition, along with Australian Competition and Consumer Commission (ACCC) monitoring (discussed in Part III), will ensure that these savings are passed on to consumers.

GST revenue will be distributed to the States and Territories according to horizontal fiscal equalisation principles. These principles take into account differences in the capacities of the States and Territories to raise revenue and in their expenditure requirements to ensure that all jurisdictions have a broadly equal capacity to provide an average standard of government services (see Budget Paper No. 3).

Lower Effective Marginal Tax Rates and Improved Work Incentives

Reductions in personal income tax, increases in family assistance and assistance for low income and older Australians will ensure that low and middle income people, in particular, will keep a higher proportion of their before-tax earnings, providing greater rewards and incentives to work and save. These changes will see significant reductions in effective marginal tax rates faced by many low and middle income families, which have been a disincentive to workforce participation.

Lower Income Tax Compliance Costs

The New Tax System replaces all existing income tax collection and reporting systems, including Pay As You Earn (PAYE), prescribed payment system (PPS), reportable payments system (RPS), provisional tax and company instalments, with one new, comprehensive Pay As You Go (PAYG) system.

It will be a flexible system with taxpayer obligations transparent and easily managed as a by-product of other business activities. In this way, paying income tax and collecting other taxes will become simpler and less costly.

Under PAYG, both individuals and companies will pay tax on their business income at the same time. PAYG will make it possible for business to make one net payment, or to claim one net refund, quarterly and will abolish provisional tax and the uplift factor.

Individuals who now pay provisional tax will benefit from these changes in many cases since, unlike provisional tax, PAYG instalments will be paid after income has been earned and will be based on actual income. Companies will pay tax earlier than now, but a deferral of company instalments due for the 1999-2000 year after PAYG commences will assist companies to adjust to the new arrangements.

The Government has also introduced the Australian Business Number (ABN) as a single business identifier. The ABN will facilitate the introduction of a single tax compliance statement and streamline business interaction between taxpayers and the Commonwealth.

Benefits Enhanced by Business Tax Reform

The New Tax System reforms will be enhanced by the improvements to business tax arrangements that were announced as part of *The New Business Tax System*. Key elements of *The New Business Tax System* are a lower rate of company tax (reduced from 36 per cent to 30 per cent over two years) and reduced capital gains tax. *The New Business Tax System* will provide Australia with an internationally competitive business tax regime.

Part III: Competition and Indirect Tax Reform

The New Tax System is being introduced into a highly competitive environment. This environment will be fundamental to ensuring that the full benefits of *The New Tax System* flow throughout the economy and that the combination of strong growth and low inflation is maintained.

PRICES AND COMPETITIVE MARKETS

The Australian economy is reaping the rewards of a broad agenda of structural reforms. A common goal of many of these reforms is increased competition and improved market dynamism (see Box 2). As a consequence, competition in the Australian economy is now much stronger than it has been at any time in the post-war period.

One characteristic of a competitive market is that purchasers can readily choose between a range of sellers to find the best combination of quality and price. In such a market, the most successful sellers are those who best judge market conditions when setting their prices. Those who set excessive prices are forced to pull their prices into line or risk losing business. Competition drives dynamism because the speed of change in offering alternatives to the customer is of fundamental importance. The competitive nature of markets for most goods and services in Australia today means that vigorous, dynamic competition is now the driving force behind market prices.

Competitive markets have a range of other benefits. On the supply side, producers wishing to increase their profitability are forced to focus on alternatives to charging higher prices. For example, they may seek to reduce their costs, find more efficient and innovative production methods or pursue new markets. Australian businesses are proving that they can respond to competition by continuously improving their performance in all of these ways.

Demand side factors have also added to competitive pressures in Australian markets. For example, firms that have improved their marketing techniques have made it easier for consumers to compare quality and price, thus making markets even more competitive. Increased consumer awareness and 'shopping around' have played an important part in the transformation of the Australian economy to one characterised by highly competitive markets. This trend will continue as new technologies, such as the internet and e-commerce, make consumers better informed and further reduce the effective distance between consumers and potential suppliers.

As well as these direct benefits, competition improves the efficiency of the use of resources, including the allocation of those resources across sectors. (See Box 2 for more details.)

Box 2: Reforms Promoting Competition and Market Dynamism

A wide range of economic reforms has transformed the Australian economy. These reforms have increased competition and helped to create more efficient and dynamic markets. They have also helped to increase the capacity of the Australian economy to respond to new opportunities and challenges.

The New Tax System is part of this ongoing reform agenda and will deliver significant efficiency benefits to the marketplace by replacing a range of narrowly based indirect taxes with a broadly based GST. This will reduce the distortion of production and consumption choices by differing tax treatments.

Other significant reforms are catalogued below.

- Tariffs on imports, often with rates of more that 50 per cent, formerly provided protection to local producers by restraining competition. For most goods, tariffs have now been reduced to 5 per cent or less. This has increased competitive pressure from imports, to the benefit of consumers.

- National Competition Policy (NCP) has extended pro-competitive laws to all businesses, and reformed regulations that unnecessarily restricted competition. NCP has also introduced competition to the provision of services traditionally provided through public monopolies. Arrangements to provide access to essential infrastructure (public or private) have been established where this will assist competition in related markets. In this way, competition in traditional public and (so-called) natural monopolies is reducing business costs, and bringing benefits to consumers and producers alike.

- The corporatisation of government-owned businesses has subjected them to commercial disciplines. In many cases, government-owned businesses have also been privatised, thus bringing the capital market disciplines (including the threat of takeover) of private ownership and private sector management expertise.

- Reform of financial markets has facilitated the flow of financial resources for investment in new and expanding businesses, fostering a more efficient and competitive business environment. Increased competition has also delivered benefits to households via reduced interest margins and the introduction of innovative new financial services and products.

- Corporate law economic reforms have reduced regulatory burdens on business while enhancing investor protection and the corporate governance framework so fundamental to the workings of a modern economy.

- Enterprise bargaining has replaced the centralised setting of wages and conditions of employment. As employers operate in more competitive markets, wage rises must be underpinned by productivity rises.

Box 2: Reforms Promoting Competition and Market Dynamism (continued)

The increased competition and more dynamic markets resulting from these reforms are benefiting consumers, exporters and other businesses.

- They have contributed to lower inflation by reducing the prices paid by consumers and by constraining business costs.

- Since they allow resources to flow to activities where they produce the most value, competitive markets have helped to lift the productivity of the Australian economy so that it now compares more than favourably with other Organisation for Economic Co-operation and Development (OECD) countries. Australian productivity growth lagged well behind the OECD average up to the 1980s, but has exceeded the OECD average over the 1990s. The lift in productivity growth has, in turn, brought the benefits of higher real incomes and greater job opportunities for the whole Australian community.

- By encouraging innovative thinking and facilitating the free flow of resources, greater competition has been the driving force behind increased entrepreneurship, innovation and the introduction of new technologies. Businesses are encouraged to take up the opportunities presented by microeconomic reform by continually seeking efficiencies, product improvements and new markets.

- By enhancing the scope for business to seek and exploit new opportunities, more competitive markets have also made the economy more resilient to developments in the world economy.

The direct impact of increased competition on prices is most easily seen in those sectors where significant structural reforms have taken place, such as telecommunications and electricity. The marked impact that increased competition has had on prices in these industries is noted in Box 3.

Box 3: Examples of Increased Competition Affecting Prices

The effect of increased competition on prices is evident in the key sectors of telecommunications and electricity.

- The Australian telecommunications market was further liberalised in 1997 and there are now no restrictions on the number of carriers. There are currently 38 licensed carriers in the market, where there was formerly a monopoly. Some provide a full suite of telecommunications services. Others provide specialised services to niche markets. This increase in competition has allowed users to choose the company and services most suited to their individual needs. The clearest evidence of benefit is in price reductions for national long distance and international calls. For example, the price of a 15 minute peak call from Melbourne to Brisbane has fallen from $6.27 in June 1997 to $2.40 in April 2000 and the price of a 15 minute off-peak call to the United States has fallen from $13.77 in June 1997 to $2.70 in April 2000.[1] More recently, increased competition has led to reductions in the price of local calls.

- In the electricity industry, Governments have corporatised — and in some cases privatised — their electricity assets and have divided the generation, transmission and distribution / retail functions into separate businesses. This has led to an increase in the number of competing entities and retailers in the market and a broadening of the ownership of these entities. The National Electricity Market has been established in Queensland, New South Wales, the Australian Capital Territory, Victoria and South Australia to foster inter-state trade and increased competition in the electricity industry. These reforms have benefited electricity users through lower prices. For example, residential consumers have received average savings of around $45 on their annual electricity bill, compared with 1993-94 prices. Commercial customers have received average savings of around $1,940 on their annual electricity bill, compared with 1990-91 prices.[2]

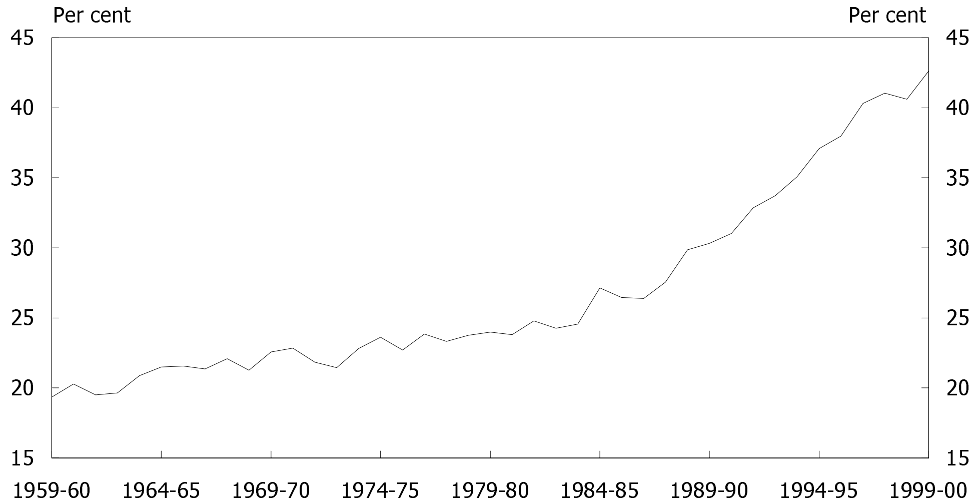
Significantly, the benefits of competition in these industries extend beyond the immediate consumers of these services. Telecommunications and electricity are essential inputs to many other sectors. Price reductions in these services constitute a reduction in the costs of other businesses, enhancing their competitiveness. These cost reductions in turn cascade through to other businesses and final consumers.

1 Communications Research Unit (Department of Communications, Information Technology and the Arts) and Phonechoice website (www.phonechoice.com.au).

2 Treasury estimates based on Electricity Supply Association of Australia *Electricity Australia* (various issues).

A broader indicator of the degree of competition in the tradable sector of the Australian economy is the ratio of gross trade (imports plus exports) to GDP, which provides a measure of trade intensity. Chart 1 highlights the increase in competition that has occurred since the mid-1980s. During the 25 years to 1984, trade intensity rose only slowly from close to 20 per cent of GDP to around 25 per cent. In contrast, the increase in trade intensity over the past 15 years has been much greater, as can be seen in the steeper trend over this period in Chart 1.

Chart 1: Trade Intensity[(a)]



(a) Trade intensity is exports plus imports relative to GDP.
Source: ABS Cat. No. 5206.0 and Treasury.

THE INTERACTION OF TAX REFORM AND COMPETITION

As noted above, the highly competitive environment in which *The New Tax System* is being introduced will put pressure on excessive prices and maximise the benefits to consumers.

The indirect tax changes associated with the introduction of *The New Tax System* mean that most individual prices will change. The price impact will vary from item to item, with some prices rising, some falling and some unchanged. These relative price changes must occur to bring about the more efficient allocation of resources flowing from the more neutral (less distorting) indirect tax system.

The ACCC has been monitoring the early stages of *The New Tax System* implementation. So far, the ACCC has monitored the reduction in WST on a range of goods from 32 per cent to 22 per cent on 29 July 1999 and the cigarette excise changes on 1 November 1999. The ACCC has reported that both the actual decline in prices to consumers, following the reduction in WST, and the increase in cigarette prices compared favourably with their prior calculations. Extrapolating from this experience provides the basis for confidence that price rises will not be excessive and that cost reductions will flow through as the remaining elements of *The New Tax System* take effect.

A further example is provided by the recent behaviour of car prices. The replacement of the existing WST on cars with the GST means that new car prices will be significantly lower than otherwise under *The New Tax System*. Although the tax changes have not yet occurred, competition has meant that car prices have already fallen considerably in anticipation of *The New Tax System*.

These examples suggest that the highly competitive environment will resolve most concerns about price exploitation and also prevent businesses trying to use the tax changes as an excuse to raise prices or rebuild margins. Firms that have been under pressure to squeeze their margins or seek cost reductions due to competition before the introduction of the GST will continue to face the same competitive pressures under *The New Tax System*.

While competition will be fundamental to limiting price rises in the transition to *The New Tax System*, the ACCC will monitor price changes to provide a safety net against excessive price increases. The ACCC has been given strong powers under the *Trade Practices Act 1974* to monitor prices and prevent price exploitation during *The New Tax System* transition period. There are substantial penalties if profiteering is proven.

The ACCC has already undertaken extensive price surveys across metropolitan and regional Australia to ensure that businesses do not unreasonably raise prices in anticipation of the GST implementation date. It expects to continue this extensive survey activity throughout the transitional period, which expires on 1 July 2002.

Part IV: Tax Cuts and Compensation Measures

The New Tax System contains measures that negate the overall price effects of indirect tax reform on people's incomes. The income package comprises three distinct elements: reductions in personal income tax; increases in family assistance; and assistance for low income and older Australians. The measures are estimated to cost $17 billion in a full year, an amount equivalent to 20 per cent of the Commonwealth's individual income tax collections in the year prior to tax reform.

These measures more than compensate for price effects as they ensure that disposable incomes will increase by more than the likely increase in prices implied by the changes to the indirect tax arrangements. The generous nature of the measures means that there is no justification for employees to seek higher wages because of the introduction of *The New Tax System*. This supports the assessment that the change in Australia's tax arrangements will not re-ignite inflationary pressures.

When assessing the adequacy of these measures, it is important to focus on 1999-2000 and 2000-01 as a whole, rather than just the CPI outcome for the September quarter 2000 in isolation. As set out in Part V below, the impact of the revised indirect tax arrangements on prices will not be felt evenly through 2000-01. The increase in the CPI in the September quarter 2000 will be followed by several quarters where prices will increase by less than would otherwise have been the case. This means that any attempt to assess the adequacy of the compensation package against the increase in the CPI in the September quarter alone, will necessarily be misleading.

PERSONAL INCOME TAX MARGINAL STATUTORY RATES

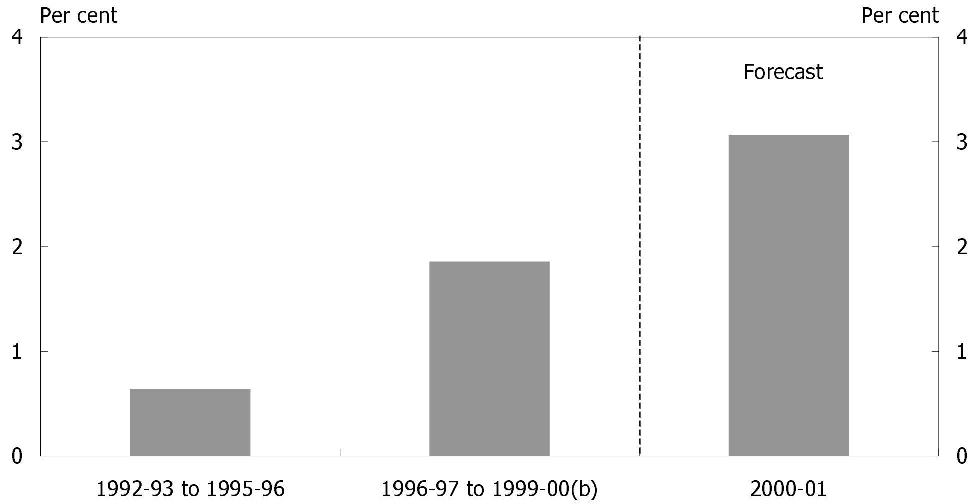
Commencing from 1 July 2000, reductions in personal tax will be delivered through an increase in the tax-free threshold and reductions in marginal tax rates at a cost of $12 billion per year. The existing and new tax scales are set out in Table 1.

Table 1: Income Tax Scales

Current Scale		New Scale	
Taxable Income	Tax Rate (%)	Taxable Income	Tax Rate (%)
0 - 5,400	0	0 - 6,000	0
5,401 - 20,700	20	6,001 - 20,000	17
20,701 - 38,000	34	20,001 - 50,000	30
38,001-50,000	43	50,001 - 60,000	42
50,000+	47	60,000+	47

An indication of the extent to which the reductions in personal tax will increase take-home pay is shown in Chart 2. The chart shows the annual increase in average wages after adjusting for changes in personal tax rates and the effect of *The New Tax System* on prices in 2000-01. Average real after-tax wages are estimated to increase by around 3 per cent in 2000-01, compared with an average increase of a little below 2 per cent per annum over the previous four years. The estimate for 2000-01 reflects modest growth in real wages (adjusted for ongoing inflation), supplemented by a net reduction in tax flowing from *The New Tax System* of around 2½ percentage points.

Chart 2: Annual Growth in Real After-tax Average Wages[(a)]



(a) Real average after-tax wages are defined as average earnings (national accounts basis) adjusted using statutory income tax rates (including the Medicare levy) divided by the CPI.
(b) Includes forecasts for the March and June quarters 2000.
Source: Treasury.

FAMILIES

Changes to family assistance under *The New Tax System* will greatly advantage families by increasing rates of assistance, addressing 'poverty traps' and simplifying the number of available benefits. Over 2 million families will benefit from increased assistance of $2.4 billion a year, from 2000-01.

The private health insurance initiative came into effect on 1 January 1999 and provides Australians who are members of private health funds with a 30 per cent benefit on the cost of their health insurance contributions — as either a rebate on tax, a direct payment, or as an up-front premium reduction. In 2000-01 the cost of this measure is expected to be around $1.9 billion.

PENSIONERS AND ALLOWEES

As part of *The New Tax System*, the maximum rates of all allowances and pensions will be increased by 4 per cent from 1 July 2000. For pensioners, the 4 per cent increase will be paid as a pension supplement on top of the base pension. The base pension will continue to be underpinned by the Government's legislative commitment to maintain the single rate of pension of at least 25 per cent of Male Total Average Weekly Earnings.

The 4 per cent increase to pensions and allowances is comprised of an advance of 2 per cent for future indexation adjustments, and a real increase of 2 per cent above what the pension would have otherwise been with normal indexation. This arrangement will ensure that allowees and pensioners will be 2 per cent better off than they otherwise would have been, regardless of the effect of indirect tax reform on prices.

Other associated allowances, such as the pharmaceutical allowance and the mobility allowance, will also increase by 4 per cent from 1 July 2000. The maximum rate of rent assistance will increase by 7 per cent. The income test-free areas for allowances and pensions will increase by 2½ per cent, as will the pension asset test-free areas.

The pension withdrawal rate with respect to income will be reduced from 50 per cent to 40 per cent.

The Pensioner Rebate (and the Low Income Aged Persons Rebate) will be increased by a further $250 a year for single age pensioners and $175 a year for each of an age pensioner couple, above the amounts which ensure that full-rate pensioners are freed from income tax.

The combined cost of these measures is around $2½ billion a year.

Many senior Australians will also benefit from one-off savings bonuses that are designed to help maintain the value of their savings, following the introduction of the GST. The value of the bonuses is expected to be around $1½ billion.

Box 4: The Impact of Compensation

Table 2 below, shows for single low to middle income earners the tax cut to be introduced on 1 July 2000 and the consequent change in disposable income. As outlined in the table, the increase in disposable income for these groups exceeds the expected first year impact on prices of *The New Tax System* of 2¾ per cent and is significantly higher than the long run impact of 1¾ per cent.

Table 2: Tax Cuts

Income	Tax Cut $	Change in Disp. Income %
$20,000	540	3.2
$25,000	642	3.2
$30,000	842	3.6
$35,000	1,042	3.9
$40,000	1,422	4.8

Table 3 below, provides an indication of the impact of tax reform measures on disposable income for a number of representative income units. The table shows that the increases in income more than offset the expected first year impact on prices of *The New Tax System* of 2¾ per cent and are significantly greater than the longer run impact of 1¾ per cent. While demonstrating that each of these groups gain from tax reform, the table highlights the significant gains that accrue, in particular, to single income families. Pensioners and allowees will receive a one-off increase in benefits of 4 per cent on 1 July 2000, in addition to twice yearly indexation.

Table 3: Tax Cuts and Other Benefits — Households

Household	Tax Cut/Benefits $	Change in Disp. Income %
Single person, AWE, $42,244(a)	1,714	5.6
Single income family, $30,000(b)	3,802	13.3
Dual income family, $65,000(c)	2,634	5.1
Dual income family, $65,000(d)	2,182	4.2
Single age pensioner	388	4.0 (e)
Age pensioner couple	647	4.0 (e)

(a) Annual equivalent of ABS Trend AWE, Persons, Total Earnings, Full-time Adult, March quarter 2000 of $810.20 per week (ABS Cat. 6301.0).
(b) One child under 5, one child aged between 5 and 12.
(c) Income split of 67:33, 2 children both over 5.
(d) Income split of 50:50, 2 children both over 5.
(e) This shows the compensation to be provided consequent on the introduction of *The New Tax System*. This will ensure that pensioners and allowees will be 2 per cent better off than they would otherwise have been. In addition to this one-off compensation, pensions and allowances will also be increased on the normal indexation days in September 2000 and March 2001.

Part V: The Timing of the Price Changes

As noted previously, the highly competitive nature of the Australian economy, combined with the generous compensation arrangements integral to the tax reform package, lead to the conclusion that price changes due to indirect tax reform should be one-off in nature, and hence not feed into ongoing inflation. It is this conclusion that underlies the assumptions and expectations of the timing effects of the price changes discussed below.[3]

SHORT RUN PRICE ESTIMATES

As noted in Statement 2, 'ongoing' inflation (that is, leaving aside the one-off impact of indirect tax reform on prices) is expected to be within the 2-3 per cent target band in 2000-01. In other words, the indirect tax changes are being implemented at a time when the outlook for ongoing inflation remains favourable.

The price changes associated with *The New Tax System* will not all occur on 1 July 2000, when the GST is introduced and the WST is abolished. For example, some parts of the overall package have already been implemented. The government's 30 per cent rebate on private health insurance was introduced on 1 January 1999, the rate of WST on a range of goods was cut from 32 per cent to 22 per cent from 29 July 1999 and the new cigarette excise arrangements took effect from 1 November 1999. Other elements of *The New Tax System* will not come into effect until 2001, 2002 and 2005.

Nor will changes in retail prices necessarily occur at the time that the relevant indirect tax rates change. For example, there is some evidence that motor vehicle prices have already been affected, ahead of the introduction of the new tax arrangements. There has also been very strong activity in the housing sector ahead of the changes to the indirect tax arrangements that has seen prices of new project homes increase.

Taking these factors into account, the changes to indirect tax arrangements are estimated to increase the CPI by around 2¾ per cent during the year to the June quarter 2001. The impact on the CPI will become smaller over subsequent years as later elements of the package take effect.

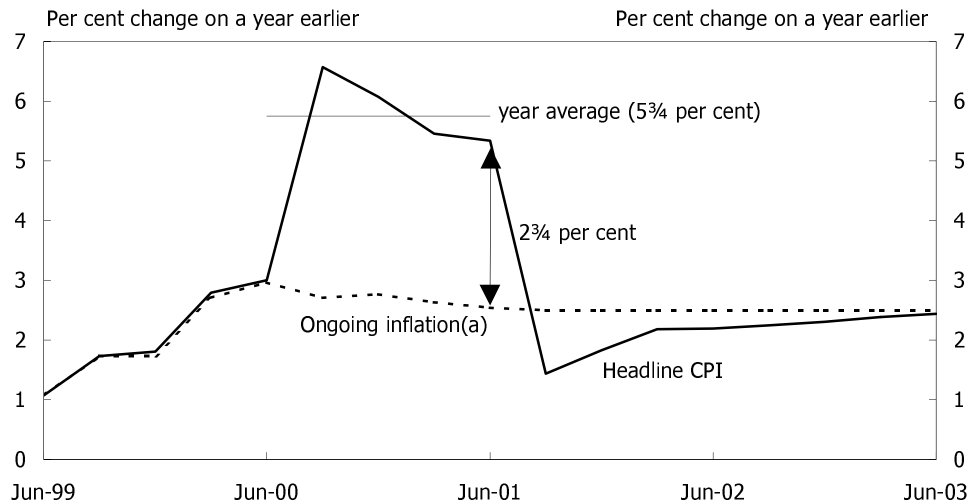
The impact of the revised indirect tax arrangements on prices will not be felt evenly through 2000-01. The main impact will occur in the September quarter 2000 (see Chart 3), because the immediate impact of the GST on retail prices will only be partially offset by the removal of WST on final consumption items. While estimating quarterly outcomes is inherently difficult, the overall increase in the CPI in the September quarter could be of the order of 4½ per cent, of which a little over

3 These estimates are based on detailed modelling involving assumptions regarding margins, flow through, etc. As such, the estimates cannot be improved after the event and hence will not be changed.

3¾ per cent would be the result of one-off price changes associated with indirect tax reform.

In the following couple of quarters, CPI increases will be smaller than would otherwise have been the case, as the removal of embedded WST and lower business costs (including from lower transport costs) restrain price increases at the retail level. While the exact timing effects may be complicated since competitive forces may result in businesses anticipating cost savings in their underlying cost structures, it is likely that CPI increases will be very low in the December quarter 2000 and the March quarter 2001.

Chart 3: Forecasts and Projections of the Impact of *The New Tax System*



(a) Excludes the impact of *The New Tax System* on prices.
Source: ABS Cat. No. 6401.0 and Treasury.

This pattern of price increases underlies the forecast that the CPI will rise by 5¾ per cent in year-average terms in 2000-01 and by 5¼ per cent through the year to the June quarter 2001. This through-the-year increase comprises ongoing inflation of around 2½ per cent and a one-off increase, due to the first year impact of the changed indirect tax arrangements, of around 2¾ per cent.

By the September quarter 2001, the through-the-year increase in the CPI is expected to fall to around 1½ per cent, somewhat below the 'ongoing' inflation rate.

LONG RUN PRICE ESTIMATES

The longer-term impact of *The New Tax System* on the CPI will be less than the impact in 2000-01. This is because other parts of *The New Tax System* package that will reduce the overall CPI impact (such as the phased introduction of input tax credits for motor vehicles and the abolition of various State taxes), will be introduced in 2001, 2002 and 2005. In the longer term, the overall effect of *The New Tax System* measures on the CPI is likely to be around 2¼ per cent, or around 1¾ per cent if tobacco is excluded.

In the original announcement of *A New Tax System*, the impact on the CPI given prominence was an increase of 1.9 per cent. Since that figure was first published, there have been changes to both the package itself and how the CPI is measured.

The original 1.9 per cent rise referred to the cumulative impact of the package on the CPI through the first two years to 2001-02 and excluded the impact of the reforms on tobacco. Tobacco was excluded since the increase in tobacco excises reflects public health considerations, rather than indirect tax reform *per se.*

Over time, the impact of *A New Tax System* on the CPI was expected to fall below 1.9 per cent as businesses gained access to full input credits on their motor vehicle purchases, reducing business costs and hence ultimately consumer prices. As a result, the original long-run estimate of the CPI impact from *A New Tax System* was 1¾ per cent.

Since the original announcement, the package has been amended to make basic food GST-*free*, thus reducing the CPI impact. However, this change will be partly offset by increased business compliance costs associated with changes to the package and the changes to diesel fuel credit arrangements. The basic food exemption and other changes together are expected to subtract about ½ percentage point from the cumulative CPI impact of the package. This would imply a cumulative CPI impact of around 1¼ per cent over the long run.

Another, more technical, factor that has affected the original estimate of the impact of indirect tax reform on the CPI is a change in how the Australian Bureau of Statistics measures the CPI. The change in the treatment of the First Home Owners Scheme, together with other changes made in calculating the CPI for the 13th series (as compared to the 12th series), will add around ½ percentage point to the measured impact of *The New Tax System*.

Consequently, the long-run impact of tax reform on the CPI (excluding tobacco) remains around 1¾ per cent.

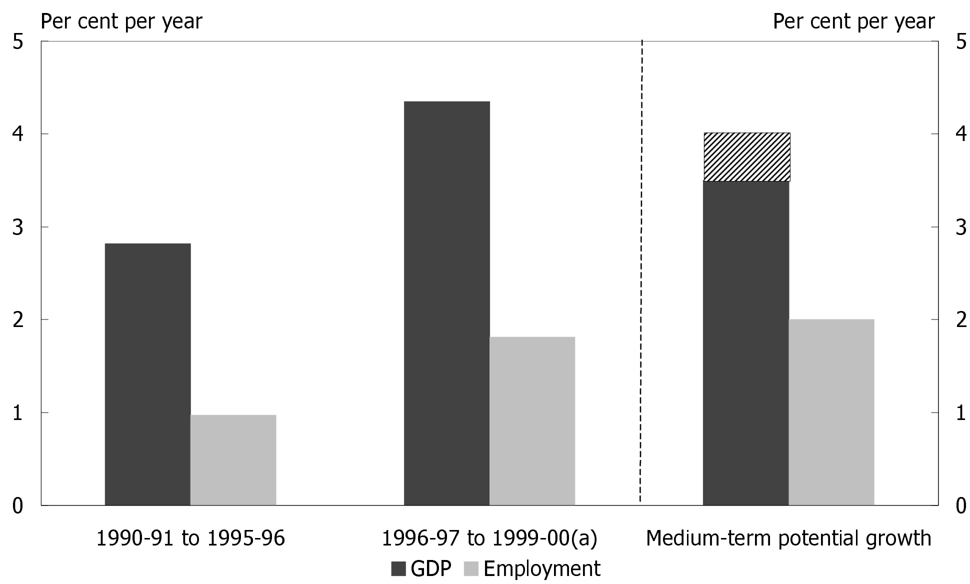
Part VI: Prolonging the Expansion

With ongoing inflation remaining at low levels, Australia has the opportunity to prolong the current economic expansion and push unemployment to around its lowest rate in over a quarter of a century.

Grasping this opportunity will require maintaining the Government's economic policy framework and ongoing reform agenda. Implementation of *The New Tax System* is an important input to this outcome.

Australia's economic policy framework is motivated by the objective of achieving a sustained increase in our growth rate, which would in turn allow higher incomes, stronger employment growth and lower unemployment. This framework should facilitate — not hinder — the sharing of these economic benefits across society in a sustainable manner. The economic reforms that have been implemented, and are underway, have lifted Australia's potential growth to 3½ to 4 per cent. As such, we have the prospect of sustained strong economic and employment growth (see Chart 4), which will lead to further inroads into unemployment.

Chart 4: Prolonging Growth and Increasing Employment



(a) Includes forecasts for the March and June quarters 2000.
Source: Treasury.

In previous decades, Australian economic performance has been periodically constrained by the emergence of macroeconomic imbalances, such as debilitating inflation and unsustainable current account deficits, following periods of strong economic growth, and despite unemployment remaining high. On occasions, macroeconomic policy settings allowed, or even contributed to, the emergence of excess demand pressures. In other cases, these imbalances may have resulted from the behaviour of participants in the private economy — such as through excessive wage claims.

Structural deficiencies meant that the economy did not have the flexibility and dynamism to prevent those imbalances emerging or to allow the economy to grow at its full potential. The subsequent policy tightening required to address the particular imbalance contributed to a downturn in economic growth and a ratcheting up of structural unemployment. For example, the monetary policy tightening utilised to address the impact of strong domestic demand on the current account deficit in the late 1980s resulted in negative economic growth in 1990-91 and sharply higher unemployment.

The economic policy framework now has clear objectives set in a medium-term context and aimed at lifting the growth potential of the economy. Fiscal and monetary policies are directed at keeping economic growth at a strong but sustainable rate, with a stable environment for saving and investing. Structural reform policies are directed at raising the economy's growth capacity over time and reducing the rate of unemployment that can be achieved without threatening inflation. (See *1999-2000 Budget Paper No. 1*, Statement 3 for details.)

While structural reform can provide the *potential* for the economy to achieve higher sustainable growth rates and for unemployment to fall further, achieving the economy's full potential over coming years will depend on avoiding the short-term imbalances and subsequent policy responses that have ended past expansions. For example, it is crucial that excessive wages growth be avoided. This was a key factor in the development of imbalances during the mid-1970s and early 1980s that led to a tightening of monetary policy, truncating economic expansion and halting the process of reducing unemployment.

Structural reforms are reducing the risk that inappropriate aggregate wage increases will play a leading role in ending the current economic expansion. In particular, reforms to workplace relations have placed greater emphasis on negotiating employment arrangements at the enterprise level, and contributed to improved productivity and relatively stable real unit labour costs.

- These changes have also reduced the likelihood that wage outcomes achieved in former 'leading wage' sectors will be transmitted to the rest of the economy.

- The more competitive business environment that exists today has greatly reduced the opportunity for firms to pass on higher labour costs to the consumer.

As discussed in Statement 2, wages growth is expected to remain moderate during 2000-01, despite some pick-up, and the unemployment rate is expected to fall further.

As the unemployment rate declines, labour market pressures may exert a larger influence over wage outcomes than in recent years. However, there have been shortages of skilled labour in some areas, including information technology and telecommunications and selected skilled trades, for some time without aggravating aggregate wages outcomes. While labour pressures may intensify in some sectors and regions, there appears to be little evidence to suggest that there will be a deterioration in the availability of labour over the forecast period that could generate excessive wages growth across the economy.

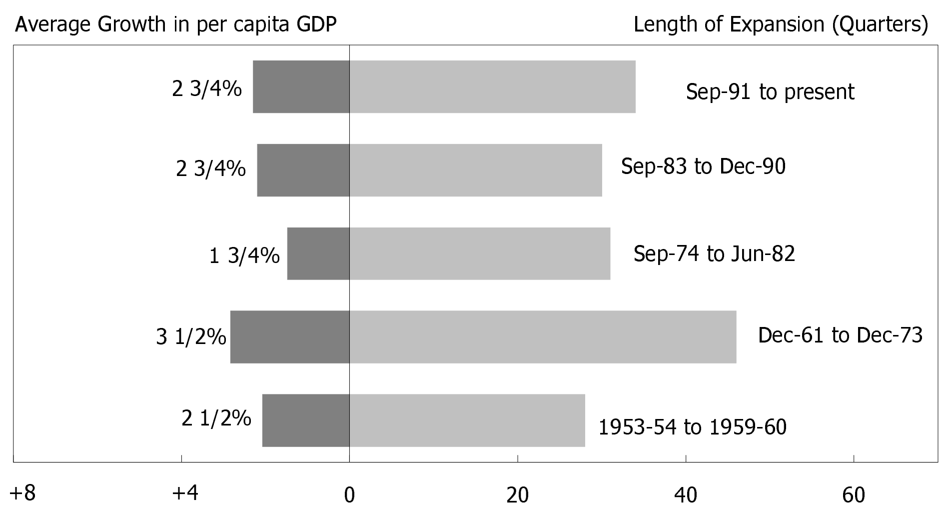
There is no justification for employees to seek higher wage outcomes in response to the indirect tax changes as the personal income tax cuts provided in the tax package more than offset the price effects of the changed indirect tax arrangements (see discussion in Part IV). There is little evidence to suggest that the introduction of the indirect tax changes will have a significant impact on wage negotiations, although there may well be instances where employees seek to highlight these issues.

While some prominence has been given to enterprise agreements that include clauses related to the introduction of the indirect tax changes — such as the Toyota certified agreement — these clauses do not appear to be widespread. Only around 4 per cent of employees covered by enterprise agreements signed in 1999 appear to have GST-related clauses.

On the basis of the outlook for wages, and the assessment of risks surrounding that outlook, wages growth is not expected to endanger the current economic expansion.

If a policy response were required to address excessive wages growth, it would threaten the continuation of one of the longest and strongest periods of robust economic growth in post-war Australia, as shown in Chart 5. This in turn would undermine the significant fall in the unemployment rate achieved in recent years, and could once again lead to a ratcheting up of unemployment.

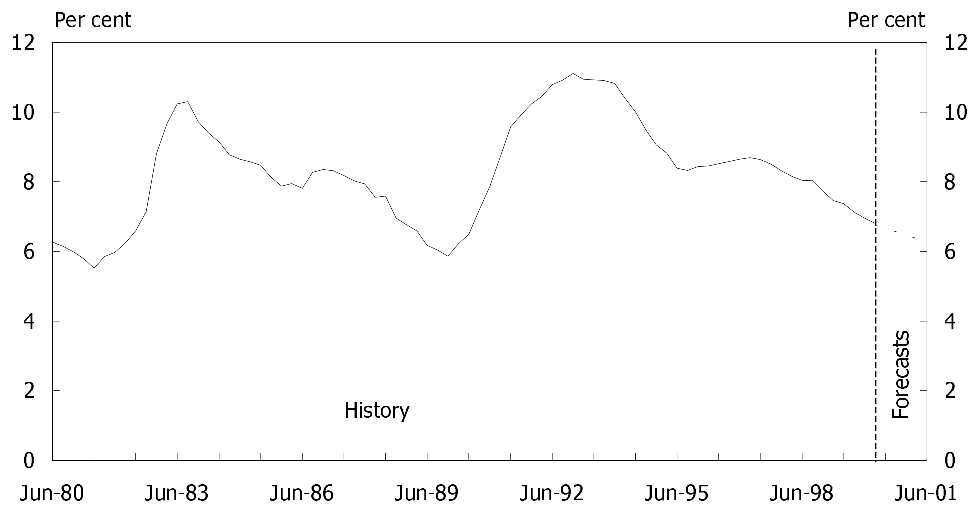
Chart 5: Prolonging the Expansion



Source: Treasury.

Chart 6 indicates that unemployment has tended to increase rapidly during economic downturns and decline much more slowly during periods of economic growth. Provided the current macroeconomic policy framework and the ongoing structural reform agenda are sustained, including the implementation of *The New Tax System*, the continuation of the current economic expansion could be expected to offer a unique opportunity — some years hence — to again achieve and sustain an unemployment rate not seen in Australia for at least a quarter of a century.

Chart 6: The Unemployment Rate



Source: ABS Cat. No. 6202.0 and Treasury.

If the current expansion were prematurely ended by policy being needed to respond to excessive wages growth, this exciting prospect would be put at risk. It is important that participants in the economy understand the significant potential costs of unwarranted wage outcomes.

There is much at stake for Australia over the next few years. The current economic environment, including strong competition and an enhanced productivity performance, provides the potential for a significant improvement in the well being of all Australians through continuing strong and sustainable economic growth and reductions in unemployment. The introduction of *The New Tax System* is an important element in coming to this conclusion.

STATEMENT 4: FINANCIAL OUTLOOK

Contents

STATEMENT 4: FINANCIAL OUTLOOK

Part I: Overview

The budget financial statements included in this statement have been prepared on an accrual basis in accordance with applicable Australian Accounting Standards, including Australian Accounting Standard No. 31 *Financial Reporting by Governments* (AAS31) except as identified in Note 1 to Budget Statement 4.

OPERATING RESULT

The Commonwealth's operating result before extraordinary items is expected to remain in surplus in 2000-01. The estimated operating result for 2000-01 is a surplus of $5.0 billion.

Table 1: Commonwealth General Government Operating Result

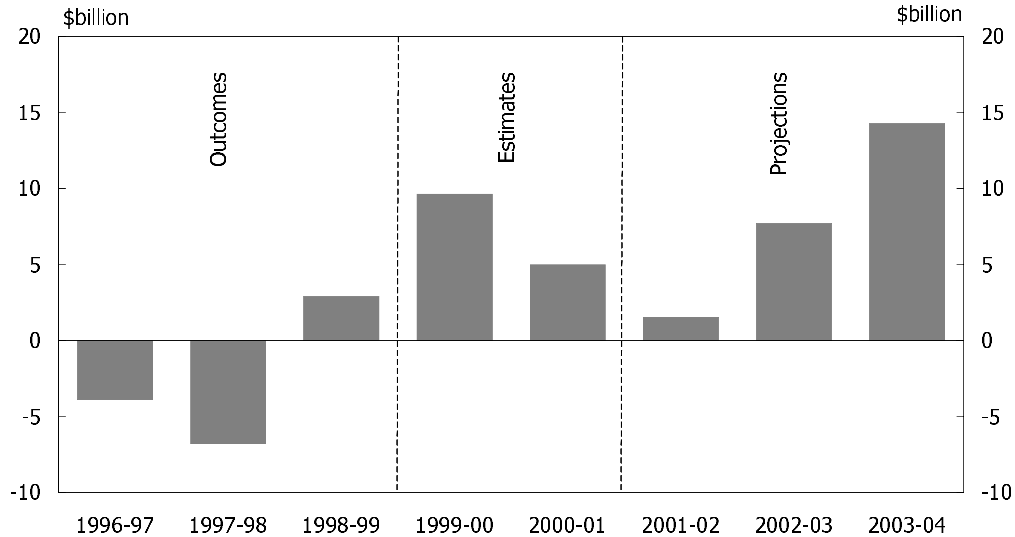
	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Revenue					
Total taxation	151284	144255	148487	157205	168531
Total non-taxation	16748	14462	12758	13926	14813
Total revenue	**168032**	**158718**	**161246**	**171131**	**183344**
Expenses	**158392**	**153732**	**159728**	**163424**	**169061**
Operating result	**9640**	**4985**	**1517**	**7707**	**14283**
Extraordinary items	11999	0	14731	14731	0
Operating result after extraordinary items(a)	**21639**	**4985**	**16249**	**22438**	**14283**

(a) Consistent with Australian Accounting Standard AAS 1 *Statement of Financial Performance*. Only disclosure of operating results after extraordinary items is provided. The notion of 'abnormals' no longer exists.

The change in operating result from 1999-2000 to 2000-01 is mainly driven by changes resulting from the implementation of *The New Tax System*, dividends, interest and asset sales. Total revenue will decrease in 2000-01 by around $9.3 billion. Overall, expenses will decrease in 2000-01 by $4.7 billion.

Further details on revenues and expenses are provided in Statement 5 and Statement 6 respectively.

Chart 1: Commonwealth General Government Operating Result



The Operating Surplus and Sustainable Commonwealth Finances

The expected operating surplus of the general government sector in each of the forward years improves the net assets position in the balance sheet.

The operating result excludes extraordinary items. The major extraordinary items over the forward estimates period relate to the Government's asset sales programme, particularly the planned sell-down of its investment in Telstra. This contributes significantly to the operating result after extraordinary items and further improves the net assets position of the general government sector.

NET ASSETS

The consolidated financial position of the General Government Sector is expected to improve markedly over the Budget and forward years.

Table 2: Summary of Commonwealth General Government Balance Sheet

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Assets					
Financial assets	68075	56364	58004	55642	48822
Non-financial assets	55227	55432	56091	56651	57504
Total assets	**123302**	**111796**	**114095**	**112293**	**106326**
Liabilities					
Debt	88210	70999	56679	32193	11451
Provisions and payables	90623	91452	91736	91763	92082
Liabilities	**178833**	**162451**	**148415**	**123955**	**103533**
Net assets	**-55532**	**-50655**	**-34319**	**-11663**	**2793**
Total equity	**-55532**	**-50655**	**-34319**	**-11663**	**2793**

In 2000-01, the Government is budgeting for an increase in net assets of $4.9 billion or 8.8 per cent relative to the expected outcome for 1999-2000. This improvement will reduce the excess of liabilities over assets to $50.7 billion by 30 June 2001.

The Commonwealth is budgeting for a further significant improvement in its net assets position over the forward years. By 30 June 2004, it is expected that net assets will significantly improve, moving by $58.3 billion to a positive net asset position of $2.8 billion.

The main drivers of the expected improvement in the net asset position are continued strong operating surpluses and the asset sales programme.

Assets

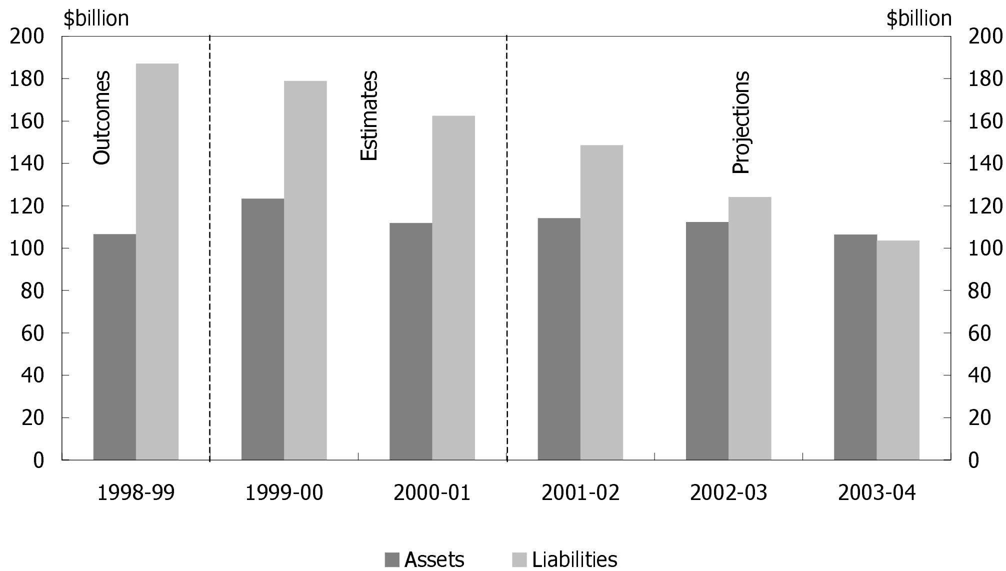
The Commonwealth's total asset position is expected to decrease in 2000-01[1]. A forecast modest growth in non-financial assets (0.4 per cent) will be more than offset by a 7.2 per cent reduction in receivables. This fall in receivables predominately reflects the collection of Telstra sale proceeds in early 1999-2000, which is partially offset by an

1 For 2000-01 and the forward years, transactions relating to government securities and financial assets acquired for debt management purposes have been netted in the government securities category in the balance sheet. This netting treatment has not been applied in 1999-2000. This causes an apparent fall in Commonwealth financial assets between 1999-2000 and 2000-01.

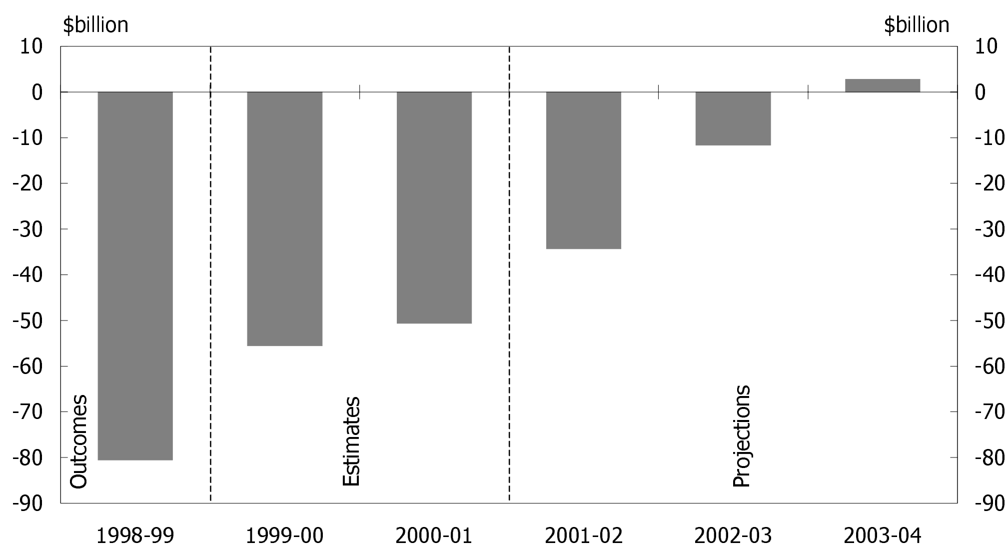
increase in taxation receivables associated with the introduction of the new Pay As You Go (PAYG) tax system.

Chart 2: Summary of Commonwealth General Government Balance Sheet Aggregates

Panel A: Assets and Liabilities



Panel B: Net Assets



Liabilities

The main components of the Commonwealth's liabilities are government securities and employee provisions, predominantly superannuation.

CASH FLOWS

The Summary of Commonwealth General Government Cash Flows in Table 3 shows that net cash from operating activities generates positive cash flows in the Budget and the forward years. After applying cash toward investing activities (including acquisition of property, plant and equipment), there will be an overall positive cash inflow of $20.7 billion in 2003-04. This is predominantly applied to debt reduction.

Table 3: Summary of Commonwealth General Government Cash Flows

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Total operating cash received	163367	151726	161902	171504	182353
Total operating cash used	153277	148781	154956	158675	163886
Net cash from operating activities	**10091**	**2945**	**6945**	**12829**	**18467**
Total investing cash received	12274	19933	11781	17352	7311
Total investing cash used	15259	5773	5115	5518	5103
Net cash from investing activities	**-2984**	**14160**	**6666**	**11834**	**2209**
Total financing cash received	203	0	0	0	0
Total financing cash used	8002	17214	14332	24512	20751
Net cash to/from financing activities	**-7798**	**-17214**	**-14332**	**-24512**	**-20751**
Net increase/decrease in cash held	**-692**	**-109**	**-720**	**152**	**-76**

Note: Net increase/decrease in cash held represents movements in cash and bank overdraft.

Part II: Primary Financial Statements

Table 4: Statement of Revenues and Expenses for the Commonwealth General Government Sector

	Note	Estimates		Projections		
		1999-00	2000-01	2001-02	2002-03	2003-04
		$m	$m	$m	$m	$m
Revenues						
Taxation						
Income tax	3	112617	112781	116471	123753	133594
Indirect tax	4	33468	26168	26462	27786	29121
Fringe Benefits tax		3340	3650	3860	3990	4120
Other taxes		1859	1656	1694	1677	1696
Total taxation revenue		**151284**	**144255**	**148487**	**157205**	**168531**
Non-taxation						
Sales of goods and services		2748	2681	2823	2821	2852
Interest and dividends	5	9624	5642	6962	8166	9092
Net foreign exchange gains		0	0	0	0	0
Net gains from sales of assets		1333	2805	53	69	41
Other sources of non-tax revenue	6	3043	3335	2920	2870	2828
Total non-tax revenue		**16748**	**14462**	**12758**	**13926**	**14813**
Total revenue		**168032**	**158718**	**161246**	**171131**	**183344**
Expenses						
Goods and services						
Employees	7	16121	15856	15591	15638	15879
Suppliers	8	13335	14095	13597	13159	13330
Depreciation and amortisation	9	2533	2823	3160	3475	3654
Net write down of assets		1056	1008	1035	1078	1129
Net foreign exchange losses		397	3	0	0	0
Net losses from the sale of assets		51	4	1	1	1
Other goods and services expenses		4759	5005	5243	5530	5895
Total goods and services		**38253**	**38795**	**38628**	**38880**	**39888**
Subsidies benefits and grants						
Personal benefits		60942	69313	71830	76304	80678
Subsidies		5382	7000	7614	8001	8247
Grants	10	45212	29713	33421	31836	32056
Total subsidies benefits and grants		**111536**	**106026**	**112866**	**116141**	**120981**
Interest and other financing costs		8604	8911	8234	8404	8192
Total interest and other		**8604**	**8911**	**8234**	**8404**	**8192**
Total expenses		**158392**	**153732**	**159728**	**163424**	**169061**
Operating result		**9640**	**4985**	**1517**	**7707**	**14283**
Extraordinary Items		11999	0	14731	14731	0
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(a) Consistent with Australian Accounting Standard AAS 1 *Statement of Financial Performance* only disclosure of operating results after extraordinary items is provided. The notion of 'abnormals' no longer exists.

Table 5: Balance Sheet for the Commonwealth General Government Sector

	Note	Estimates		Projections		
		1999-00	2000-01	2001-02	2002-03	2003-04
		$m	$m	$m	$m	$m
Assets						
Financial assets						
Cash		885	775	67	244	202
Receivables		29327	27226	31021	29814	22787
Investments	14	37203	27816	26296	24863	25028
Accrued revenue		526	408	472	551	636
Other financial assets		134	139	148	169	169
Total financial assets		**68075**	**56364**	**58004**	**55642**	**48822**
Non-financial assets	11					
Land and buildings		15914	14927	14516	14332	14419
Infrastructure		34258	35319	35955	36566	36704
Intangibles		831	942	1009	908	841
Inventories		2818	2818	3023	3169	3574
Other non-financial assets		1407	1426	1588	1677	1967
Total non-financial assets		**55227**	**55432**	**56091**	**56651**	**57504**
Total assets		**123302**	**111796**	**114095**	**112293**	**106326**
Liabilities						
Debt						
Government securities	14	78947	61902	48152	24042	3778
Loans		5966	6076	6104	6000	5912
Leases		340	231	144	121	106
Deposits		9	9	9	9	9
Overdrafts		2	2	13	39	72
Other debt		2946	2779	2256	1981	1573
Total debt		**88210**	**70999**	**56679**	**32193**	**11451**
Provisions and payables						
Employees	12	76781	77322	77386	77242	77298
Suppliers		1256	1230	1179	1169	1216
Personal benefits payable		1999	2212	2376	2507	2646
Subsidies payable		257	225	193	159	124
Grants payable	13	6771	7074	7354	7425	7468
Other provisions and payables		3559	3389	3249	3260	3330
Total provisions and payables		**90623**	**91452**	**91736**	**91763**	**92082**
Total liabilities		**178833**	**162451**	**148415**	**123955**	**103533**
Net assets		**-55532**	**-50655**	**-34319**	**-11663**	**2793**
Equity						
Accumulated results		-86385	-81375	-63189	-39080	-24787
Reserves		30854	30720	28869	27418	27580
Capital		0	0	0	0	0
Total equity		**-55532**	**-50655**	**-34319**	**-11663**	**2793**

Table 6: Statement of Cash Flows for the Commonwealth General Government Sector

	Note	Estimates		Projections		
		1999-00	2000-01	2001-02	2002-03	2003-04
		$m	$m	$m	$m	$m
Operating activities						
Cash received						
Taxes	15	149023	139593	149649	158253	168183
Sales of goods and services		2933	2769	2903	2854	2876
Interest		2957	3454	3992	5367	6774
Dividends		5920	2939	2867	2680	2194
Other		2535	2971	2491	2350	2326
Total operating cash received		**163367**	**151726**	**161902**	**171504**	**182353**
Cash used						
Payments to employees		15595	15315	15528	15781	15823
Payments to suppliers		13310	13858	13352	13006	13218
Subsidies paid		5238	7032	7647	8035	8282
Personal benefits		60473	69119	71671	76166	80534
Grant payments		45008	29410	33141	31765	32012
Interest and other financing costs		9125	8979	8255	8404	8134
Other		4528	5068	5363	5518	5883
Total operating cash used		**153277**	**148781**	**154956**	**158675**	**163886**
Net cash from operating activities		**10091**	**2945**	**6945**	**12829**	**18467**
Investing activities						
Cash received						
Proceeds from asset sales program		10051	6292	9800	16600	6800
Proceeds from sales of property, plant and equipment and intangibles		2223	4321	785	752	511
Net loans, advances and HECS		0	0	1196	0	0
Other net investing cash received		0	9320	0	0	0
Total investing cash received		**12274**	**19933**	**11781**	**17352**	**7311**
Cash used						
Purchase of property, plant and equipment and intangibles		4393	4884	4592	4567	4596
Net loans, advances and HECS		441	889	0	417	63
Other net investing cash paid	14	10424	0	523	534	443
Total investing cash used		**15259**	**5773**	**5115**	**5518**	**5103**
Net cash from investing activities		**-2984**	**14160**	**6666**	**11834**	**2209**
Financing activities						
Cash received						
Other		203	0	0	0	0
Net cash received from currency issues		0	0	0	0	0
Total financing cash received		**203**	**0**	**0**	**0**	**0**
Cash used						
Net repayments of borrowings	14	8002	16935	13722	24214	20353
Other		0	280	610	298	399
Total financing cash used		**8002**	**17214**	**14332**	**24512**	**20751**
Net cash from financing activities		**-7798**	**-17214**	**-14332**	**-24512**	**-20751**
Net increase/decrease in cash held		**-692**	**-109**	**-720**	**152**	**-76**

Note: Net increase/decrease in cash held represents movements in cash and bank overdraft.

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

Note 1: External reporting standards

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

The financial statements included in this budget statement have been prepared on an accrual basis in accordance with applicable Australian accounting standards, including Australian Accounting Standard 31 *Financial Reporting by Governments* (AAS31). AAS31 is the relevant accounting standard for financial reporting by governments.

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

The accounting policies in this budget document are generally consistent with the accounting policies in AAS31. While the scope for financial reporting recommended in AAS31 is the whole of government (that is, the Commonwealth public sector), in accordance with the *Charter of Budget Honesty Act 1998*, the budget presentation of financial estimates covers the General Government Sector only.

In relation to taxation revenue, AAS31 suggests revenue be recognised at the time the income (or economic activity) giving rise to a tax liability occurs, where this can be measured *reliably*. At this stage, the Commonwealth does not consider its taxation revenues can be reliably measured on this basis for budget reporting purposes. Taxation revenue in the budget is therefore recognised at the time a taxpayer makes a self-assessment or when a tax assessment is raised by the Australian Taxation Office (ATO) or the Australian Customs Service (ACS).

The Commonwealth collects a number of taxes on an agency basis for the States and Territories, principally 'safety net' surcharge collections until 1 July 2000 (which replaced business franchise fees), mirror taxes on Commonwealth places and, from 1 July 2000, the goods and services tax. The revenue from these taxes is passed to State and Territory Governments (with an adjustment for administration costs in the case of safety net revenue and mirror taxes). Estimates of taxes collected by the Commonwealth and passed to State and Territory Governments are provided in Note 4.

In regard to GST revenue, AAS31 and other relevant accounting standards would suggest the gross amount of GST be included in the Commonwealth's Financial Statements. However, the clear policy intent of the *Intergovernmental Agreement on the*

Reform of Commonwealth-State Financial Relations (the IGA) is that the GST is a State tax collected by the Commonwealth in an agency capacity. Therefore, accrued GST revenues and associated payments to the States and Territories are not recorded in the Budget financial statements.

In addition, non-accounting standard classifications have been used in different sections of the Budget. 'Outcomes' is a Commonwealth classification framework that indicates the results, impacts or consequences of agencies activities. Functional classifications used in some tables are based on standards maintained by the ABS, but have been extended in some cases to provide greater detail.

Note 2: Reconciliation of Cash

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Operating result (revenues less expenses)	**9640**	**4985**	**1517**	**7707**	**14283**
less **Revenues not providing cash**					
Foreign exchange gains	0	0	0	0	0
Gains from asset sales programme	0	0	0	0	0
Gains from sale of assets	1333	2804	52	68	40
Other	116	324	206	241	274
Total revenues not providing cash	**1449**	**3128**	**258**	**309**	**315**
plus **Expenses not requiring cash**					
Increase/(Decrease) in employee entitlements	1507	541	63	-144	56
Depreciation/amortisation expense	2533	2823	3160	3475	3654
Provision for bad and doubtful debts	103	160	137	135	128
Provision for dimunition in value of assets	0	0	0	0	0
Losses from asset sales programme	0	0	0	0	0
Losses from sale of assets	45	4	1	1	1
Foreign exchange losses	397	3	0	0	0
Other	14	2	2	2	3
Total expenses not requiring cash	**4599**	**3532**	**3363**	**3468**	**3842**
plus **Cash provided by working capital items**					
Decrease in inventories	0	0	0	0	0
Decrease in receivables	0	0	1880	1702	336
Decrease in other financial assets	0	113	0	0	0
Decrease in other non-financial assets	79	36	0	10	8
Increase in benefits subsidies and grants payable	697	484	411	169	147
Increase in suppliers' liabilities	0	0	0	0	47
Increase in other provisions and payables	0	91	363	338	608
Total cash provided by working capital items	**775**	**724**	**2655**	**2219**	**1146**
less **Cash used by working capital items**					
Increase in inventories	184	1	205	145	405
Increase in receivables	2152	3143	0	0	0
Increase in other financial assets	38	0	74	100	84
Decrease in other non-financial assets	0	0	2	0	0
Decrease in other provisions and payables	992	0	0	0	0
Decrease in suppliers' liabilities	108	26	51	10	0
Total cash used by working capital items	**3475**	**3169**	**332**	**256**	**490**
equals Net cash from/(to) operating activities	10091	2945	6945	12829	18467
Net cash from/(to) investing activities	-2984	14160	6666	11834	2209
Net cash from operating activities and investment	**7106**	**17105**	**13612**	**24663**	**20676**
Net cash from/(to) financing activities	-7798	-17214	-14332	-24512	-20751
equals Net (decrease)/increase in cash	**-692**	**-109**	**-720**	**152**	**-76**

Note: Net (decrease)/increase in cash held represents movements in cash and bank overdraft.

Note 3: Income Tax

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Income tax					
Individuals -					
Gross PAYG withholding	79884	72504	77702	83909	90234
Gross Other individuals	13518	12789	15343	15287	18050
less: Refunds	10890	11170	10840	11563	12512
Total individuals	82512	74123	82205	87633	95772
Companies	23666	30857	27660	29445	30978
Superannuation funds	3893	5175	4010	4279	4553
Other withholding tax	1411	1346	1386	1446	1481
Petroleum resource rent tax	1135	1280	1210	950	810
Total income tax	**112617**	**112781**	**116471**	**123753**	**133594**

Note 4: Indirect Tax

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Excise duty	19946	20057	20807	21595	22372
Of which revenue replacement	*5749*	*278*	*0*	*0*	*0*
Less transfer to States and Territories in relation to revenue replacement	5744	278	0	0	0
Excise duty revenue	**14202**	**19779**	**20807**	**21595**	**22372**
Customs duty	3939	4417	4822	5313	5846
Of which revenue replacement	*170*	*4*	*0*	*0*	*0*
Less transfer to States and Territories in relation to revenue replacement	169	4	0	0	0
Customs duty revenue	**3770**	**4413**	**4822**	**5313**	**5846**
Other indirect taxes	16551	2058	833	877	903
Of which revenue replacement	*1057*	*82*	*0*	*0*	*0*
Less transfers to States and Territories in relation to revenue replacement	1054	82	0	0	0
Other indirect tax revenue	**15497**	**1976**	**833**	**877**	**903**
GST revenue	0	24053	28029	29083	30737
Less transfers to States and Territories in relation to GST revenue	0	24053	28029	29083	30737
GST revenue	**0**	**0**	**0**	**0**	**0**
Mirror taxes	171	169	174	181	190
Less transfers to States and Territories in relation to mirror revenue	171	169	174	181	190
Mirror tax revenue	**0**	**0**	**0**	**0**	**0**
Indirect tax revenue	**33468**	**26168**	**26462**	**27786**	**29121**

Note 5: Interest and Dividends

	Estimates		Projections		
	1999-00	2000-01	2001-02	2002-03	2003-04
	$m	$m	$m	$m	$m
Interest					
Interest from other governments					
State and Territory debt	177	97	59	51	45
Housing agreements	191	188	185	181	178
Total interest from other governments	**368**	**285**	**244**	**232**	**222**
Interest from other sources					
Swap interest	1943	2348	2530	2692	2738
Advances	39	44	49	53	53
Deposits	11	1	2	3	0
Bills receivable	5	6	6	6	6
Bank deposits	242	225	234	245	239
Other	418	470	1033	2255	3640
Total interest from other sources	**2660**	**3094**	**3852**	**5254**	**6676**
Total interest	**3028**	**3378**	**4096**	**5486**	**6898**
Dividends					
Dividends from associated entities	6571	2197	2810	2610	2143
Other dividends	25	66	56	69	51
Total dividends	**6596**	**2263**	**2867**	**2680**	**2194**
Total interest and dividends	**9624**	**5642**	**6962**	**8166**	**9092**

Note 6: Other Sources of Non-taxation Revenue

	Estimates		Projections		
	1999-00	2000-01	2001-02	2002-03	2003-04
	$m	$m	$m	$m	$m
Industry contributions	73	53	53	47	49
Indexation of HECS receivable and AUSTUDY loans	103	325	208	212	198
International Monetary Fund related revenue	78	83	83	83	83
Other	2789	2875	2576	2528	2498
Total other sources of non-taxation revenue	**3043**	**3335**	**2920**	**2870**	**2828**

Note 7: Employee Expenses

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Salaries and wages(a)	8875	8871	8784	8822	9002
Leave and other entitlements	265	308	318	316	321
Separations and redundancies	85	61	19	19	18
Workers compensation premiums	162	178	191	203	203
Other including Superannuation	6734	6438	6279	6279	6335
Total employee expenses	**16121**	**15856**	**15591**	**15638**	**15879**

(a) Salaries and wages do not include superannuation.

Note 8: Suppliers' Expenses

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Supply of goods and services	10459	11084	10715	10272	10462
Operating lease rental expenses	829	803	841	838	841
Other	2046	2208	2041	2049	2027
Total suppliers	**13335**	**14095**	**13597**	**13159**	**13330**

Note 9: Depreciation and Amortisation

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Depreciation					
Specialist military equipment	1172	1511	1776	2010	2133
Buildings	443	393	378	376	376
Other infrastructure, plant and equipment	733	707	766	825	890
Total depreciation	**2347**	**2611**	**2919**	**3211**	**3399**
Total amortisation	**186**	**212**	**241**	**263**	**255**
Total depreciation and amortisation	**2533**	**2823**	**3160**	**3475**	**3654**

Note 10: Grants

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
State and Territory governments	35443	19919	23173	22250	22423
Non-profit organisations	1015	1031	1064	1085	1111
Overseas	241	492	553	242	230
Private sector	577	537	704	412	416
Local governments	231	125	122	128	133
Other	7706	7609	7805	7718	7743
Total grants	**45212**	**29713**	**33421**	**31836**	**32056**

Note 11: Other Non-financial Assets

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Land and Buildings					
Land	3926	3633	3440	3335	3354
Buildings	11989	11294	11076	10997	11065
Total Land and Buildings	**15914**	**14927**	**14516**	**14332**	**14419**
Infrastructure					
Specialist Military Equipment	25752	26736	27211	27691	27782
Other	8506	8583	8745	8875	8922
Total Infrastructure	**34258**	**35319**	**35955**	**36566**	**36704**
Intangibles					
Computer software	600	667	639	562	530
Other	230	275	370	346	311
Total Intangibles	**831**	**942**	**1009**	**908**	**841**
Inventories	2818	2818	3023	3169	3574
Total Inventories	**2818**	**2818**	**3023**	**3169**	**3574**
Other non-financial assets					
Prepayments	1335	1302	1305	1296	1288
Other	71	124	283	381	679
Total other non-financial assets	**1407**	**1426**	**1588**	**1677**	**1967**
Total non-financial assets	**55227**	**55432**	**56091**	**56651**	**57504**

Note 12: Employee Liabilities

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Superannuation	71350	71929	71970	71804	71822
Leave and other entitlements	2986	2965	2989	3013	3025
Accrued salaries and wages	224	219	235	254	260
Workers compensation claims	1085	1033	987	942	905
Separations and redundancies	41	44	41	42	42
Workers compensation premiums	0	0	0	0	0
Other	1094	1133	1163	1187	1246
Total employee entitlements	**76781**	**77322**	**77386**	**77242**	**77298**

Note 13: Grants Payable

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
State and Territory governments	2265	2407	2595	2782	2958
Non-profit organisations	28	28	5	5	5
Private sector	4	3	3	0	0
Overseas	1112	1121	1172	926	696
Local governments	1	1	1	2	2
Other	3361	3514	3578	3711	3808
Total grants payable	**6771**	**7074**	**7354**	**7425**	**7468**

Note 14: Government Securities

For 2000-01 and the forward years transactions relating to government securities and financial assets acquired for debt management purposes have been netted in the balance sheet and cash flows. In the balance sheet, the financial assets — investments category excludes financial assets acquired for debt management purposes, while the debt — government securities category is shown net of financial assets acquired for debt management purposes. Likewise, in the statement of cash flows, the investing activities — cash used — other category excludes cash used to acquire financial assets for debt management purposes while the financing activities — cash used — net repayment of borrowings category includes cash used to acquire financial assets for debt management purposes.

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

This netting treatment has not been applied in 1999-2000.

Note 15: Taxes

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Total taxes	156403	164178	177852	187518	199110
Less payments to States and Territories in relation to revenue replacement	6968	363	0	0	0
Less payments to States and Territories in relation to GST revenue	0	24053	28029	29083	30737
Less payments to States and Territories in relation to mirror tax revenue	412	169	174	181	190
Taxes	**149023**	**139593**	**149649**	**158253**	**168183**

Appendix B: Sensitivity of Financial Aggregates to Economic Developments

Table B1 provides a guide to the sensitivity of the forward estimates of expenses and revenue to variations in economic parameters in 2000-01. It is important to recognise that such guides provide only a 'rule of thumb' indication of the impact on the budget of changes in prices, wages and other parameters.

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

	2000-01	2001-02	2002-03	2003-04
	$m	$m	$m	$m
Expenses				
Prices	240	600	600	600
Wages	60	290	330	345
Unemployment benefit recipients	270	260	250	240
Safety net adjustment	90	190	290	380
Revenue				
Prices	100	220	230	230
Wages	1070	1140	1220	1310
Employment	700	750	800	860
Private final demand	270	280	300	310

EXPENSES

On the expenses side, the sensitivity analysis of the estimates considers the following changes to four broad groups of parameters:

- prices — all price deflators are assumed to change by one percentage point at the start of the September quarter 2000, with wage deflators left unchanged;
- wages — all wage and salary rates are assumed to change by one percentage point from the beginning of the September quarter 2000, with price deflators left unchanged;
- unemployment benefit recipients (includes Newstart Allowance and unemployed Youth Allowance recipients) — the total number of recipients is assumed to change by 5 per cent from the beginning of the September quarter 2000; and
- Safety Net Adjustment — the Safety Net Adjustment (SNA) determined by the Australian Industrial Relations Commission (AIRC) is assumed to change by $2 per week in each of the budget and forward years from the beginning of the financial year. The SNA is used in the calculation of Wage Costs Indexes used in the indexation of a range of Commonwealth expenses.

For expenses, an increase in any of the above parameters will lead to an increase in expenses, and similarly, a decrease in any of the parameters will lead to a reduction in expenses.

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

In addition, about $40 billion of expenses, comprising agency departmental expenses, other Commonwealth Own Purpose Expenses and Specific Purpose Payments to the States of a departmental expense nature, are indexed to weighted averages of movements in inflation and the Safety Net Adjustment (SNA) determined by the AIRC.

The number of unemployment benefit recipients, and therefore the total spending on benefits, are affected by economic growth and employment growth. However, the relationship between GDP growth and unemployment benefit recipients is highly variable and difficult to quantify. For this reason, Table B1 only includes the impact of changes in the number of unemployment benefit recipients (that is, Newstart Allowance and unemployed Youth Allowance recipients) on the estimates.

The profile of the prices sensitivity has changed when compared to previous years' analysis due to an increase in the scope of the analysis. This year, a greater number of expense items have been included in the analysis, with the affect of increasing the total reported sensitivity of a change in the price deflators.

REVENUE

The assumptions underlying the sensitivity of the revenue estimates to changes in prices and wages are similar to those used for expenses. In each case, the analysis presents the estimated effects of a change in one economic variable only, and does not attempt to capture the linkages between economic variables that characterise changes in the economy more broadly.

The revenue effects of changes in employment and private final demand show the effect of the following assumptions:

- employment — the level of employment is assumed to change by one percentage point from the beginning of the September quarter 2000, with no change in the composition of demand; and

- private final demand (consumption plus investment) — the level of private final demand is assumed to change by one percentage point from the beginning of the September quarter 2000, with no change in the composition of demand.

For the purposes of this analysis:

- changes in prices affect revenue primarily through changes in excise revenue;
- changes in wages and employment feed through into tax revenue largely through increases in PAYG Withholding tax collections; and
- changes in private final demand affect revenue predominantly through changes in excise and customs collections.

An increase in any of the parameters considered will lead to an increase in revenue, and a decrease in any of the parameters will lead to a reduction in revenue.

Appendix C: Statement of Risks

INTRODUCTION

The forward estimates of revenue and expenses in the 2000-01 Budget incorporate assumptions and judgements based on information available at the time of publication. A range of factors may influence the actual budget outcome in future years. The *Charter of Budget Honesty Act 1998* requires these to be disclosed in a Statement of Risks in each Economic and Fiscal Outlook Report. The purpose of this disclosure is to increase the transparency of the fiscal projections.

Events which could affect fiscal outcomes include:

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

Economic and Other Parameters

Some degree of uncertainty is attached to budget time and forward estimates for both revenues and expenses. For example, past experience indicates that the actual revenue outcome could vary from the initial estimate by about 2¼ per cent on average for the budget year.

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

Differences in non-economic (programme-specific) parameter forecasts and outcomes have been biased towards an understatement of expenses in recent years. This year, considerable effort has been made to reduce the extent of this bias. Programme specific parameters are assumptions underpinning some particular programme estimates, for example client numbers and / or average rates payable on family payments, family tax payments and disability support pension programmes. The Contingency Reserve contains an allowance for conservative bias.

Fiscal Risks

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

Specific sources of fiscal risk include:

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

Some fiscal risks are reflected in the Contingency Reserve and are therefore included in the aggregate expenses figuring. The Contingency Reserve is an allowance included in aggregate expenses to reflect anticipated events, which cannot be assigned to individual programmes at budget time. These items are also not included in the Statement of Risks.

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

Contingent Liabilities

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

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

The Commonwealth's major exposure to contingent liabilities arises out of legislation providing guarantees over certain liabilities of Commonwealth controlled financial institutions (that is, the Reserve Bank of Australia (RBA) and the Export Finance and Insurance Corporation) and the now fully privatised Commonwealth Bank of Australia. Other substantial non-loan guarantees include guaranteed payments from Telstra Corporation Ltd to the Telstra Superannuation Scheme.

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

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

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

Details of Fiscal Risks and Contingent Liabilities

Fiscal risks and contingent liabilities with a possible impact on the forward estimates greater than $20 million in any one year, or $40 million over the forward estimates period, are listed below. Information on fiscal risks takes account of decisions of Parliament and other developments up to the close of parliamentary business on 30 April 2000. In general, information on contingent liabilities is based on information provided by departments and agencies and is current to 31 March 2000 (or a later date as indicated where that information is available). However in some cases, earlier dates are used and noted in the relevant section.

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

FISCAL RISKS — REVENUE

Revenue forecasts, like all forecasts, are subject to a margin of error. Over the previous ten years, the average absolute error in the forecast of revenue in the budget year has been in the order of 2¼ per cent.

The average forecast error, measured relative to the tax base being forecast, is higher for some components of the tax base. This is particularly evident for the 'Company' and 'Other Individuals' tax bases, partly reflecting the reaction of these payers to tax changes, and the way capital losses or gains are realised so as to minimise tax payments.

An implication of the degree of uncertainty surrounding the revenue forecasts is that, while many of the forecasts are reported to the nearest million dollars for budget accounting purposes, they should not be interpreted as implying an equivalent level of forecast precision.

The various risks influencing the accuracy of the revenue forecasts are outlined below.

Tax Reform

The New Business Tax System

The Government announced in September and November 1999 its response to the *Review of Business Taxation* (RBT). A number of measures have been passed through the Parliament. Others are currently before the Parliament, and the balance of the Government's package will be introduced in coming months. The revenue consequences of the measures have been incorporated into the Budget. There will be some risk to the Budget should remaining legislation not be passed.

General risks

The forward estimates of revenue are subject to a number of general pressures that can result in risks to revenue collections. These general pressures include: tax minimisation and avoidance, including the exploitation of tax expenditures; financial innovation; developments in communications technology and workplace arrangements; and court decisions. These pressures may result in a shift in the composition of revenue collected from the various tax bases and/or a change in the size of the tax base. The revenue forecasts make what is believed to be an appropriate allowance for these factors, given the data available.

Tax minimisation and avoidance involves the use of provisions and 'loopholes' in the tax law which were not intended by policymakers. In the absence of closing these off, the revenue base will shrink relative to that projected in the forward estimates. The Government is committed to addressing these problems by way of a fundamental tax reform programme that has, as one of its aims, the formation of a simpler and fairer tax system. At the same time, the Government will continue to take legislative action to close off such schemes as they are identified. In addition, the Australian Taxation Office (ATO) will continue to undertake extensive compliance enforcement work, including pursuing matters through the courts, to maintain the integrity of the tax system.

Financial innovation has increased dramatically during the past two decades. Consequently, uncertainty has arisen over the application of existing laws to new and often complex financial arrangements. Also, the scope for tax minimisation and avoidance through the application of financial engineering has expanded. An Issues Paper on the taxation of financial arrangements was released by Treasury and the ATO in December 1996 and the subject was also considered by the RBT. Consultations have continued between officials and taxpayers.

Developments in **communications technology**, such as the Internet, also raise a general risk to the forward estimates of revenue. Such developments may allow the purchase or sale of an increasing number of goods and services, including the provision of labour services, in a way which could render traditional tax collection mechanisms unworkable, posing a major challenge for tax system design. The Organisation for Economic Cooperation and Development (OECD) is developing a taxation framework to apply to electronic commerce which will include 'place of taxation' rules for consumption taxes and measures to strengthen international cooperation in tax administration and collection. Australia is contributing actively to this work. The ATO has sought to raise awareness of the issue in its publication *Tax and the Internet*.

Developments in workplace arrangements may also affect taxation collections. Australia's tax system is characterised by a progressive system of personal income tax rates, combined with a flat company tax rate. Typically, the top marginal tax rate has been higher than the company tax rate. The divergence between the rates of personal and company tax provides an opportunity for some individual taxpayers, who would otherwise be subject to higher rates of personal income tax, to derive income through a corporate structure to take advantage of features of the corporate tax regime (for example, the lower company tax rate). The Government has introduced legislation to ensure that income earned through the provision of personal services is treated as the income of the individual who provided the personal services for taxation purposes.

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

Tax expenditures are often at risk of being exploited in an unexpected manner, which can also have a significant effect on the forward estimates of revenue. The Government receives a steady stream of calls for new tax expenditures to be granted. As a general proposition, the granting of further tax expenditures will lead to the downward adjustment of the forward estimates of revenue. Equally, the winding back of existing tax expenditures will generally require the upward adjustment of the forward estimates of revenue. Following a review of existing tax expenditures, first announced in the 1996-97 Budget, the Government has decided to undertake periodic monitoring and evaluation of all tax expenditures through normal budget processes to ensure they deliver Government assistance in an effective manner.

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

Specific risks

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

The Government has announced a number of measures to date that have already been factored into the forward estimates of revenue but are yet to be passed by Parliament. Should the passage of legislation relating to these measures be delayed, amended or rejected, the forward estimates would need to be adjusted.

Review of the general tariff rate

Under the 1994 Bogor Declaration, Asia-Pacific Economic Cooperation members committed to 'free and open' trade and investment in the region by 2010 for developed economies and 2020 for industrialising economies. As part of Australia's Individual Action Plan the general tariff rate (currently at five per cent) is being reviewed by the Productivity Commission, which is scheduled to hand down its report in July 2000.

Sale of telecommunications spectrum licences

The Commonwealth has announced the release of telecommunications spectrum licences for sale. The estimates of the proceeds from the sale of spectrum licences are based on current market information and the expected schedule of auctions. However, the actual amount realised will depend on market conditions and competitive dynamics at the time of each sale. In addition, the timing of receipt of auction proceeds is dependent on procedural requirements being met.

FISCAL RISKS — EXPENSES

Attorney-General's

Native title costs

The Commonwealth has offered to assist the States and Territories in meeting compensation costs associated with native title. The amounts that might be paid by the Commonwealth will depend on the terms of financial assistance agreements currently being negotiated with the States and the level of compensation liabilities arising from actions by the States. Those liabilities cannot be quantified due to uncertainty about the number and effect of compensable acts, both in the past and in the future, and the valuation of native title affected by those acts. Similarly, liabilities cannot be quantified in relation to acts by the Commonwealth for which it may be directly liable. The Commonwealth has also offered to assist the States with the costs of bodies performing native title functions under State legislation. The extent of this assistance will depend on the existence of such bodies, the timing of their recognition and the extent of their use.

Defence

Litigation cases in train

The Department of Defence is involved in several cases covering a wide range of litigation where either the cases have not been heard or damages and costs have not been awarded. The litigation involves Common Law liability and claims before the Human Rights and Equal Opportunity Commission. Litigation also involves claims relating to HMAS Stalwart, HMAS Voyager, HMAS Melbourne, asbestos litigation, and alleged defective administration by the Department. In total, there are about 574 claims with a value of around $99 million.

Finance and Administration

Member Choice and Commonwealth Superannuation Arrangements

New superannuation arrangements for Commonwealth employees have been provided for in the budget and forward estimates although the arrangements are subject to the passage of legislation currently before the Parliament. These new arrangements provided for, from 1 July 1999, the closure of the Public Sector Superannuation Scheme (PSS) to new employees and would have allowed new employees, from that date, to join a complying superannuation fund or retirement savings account (RSA) offered by their employer. The arrangements also provide for existing Commonwealth Superannuation Scheme (CSS) and PSS members to choose to join another fund or RSA on or after 1 July 2000. On 9 June 1999, the Minister for Finance and Administration announced the deferral of the start date for the new arrangements. Subject to the Government's decision for a new start date, Budget estimates have assumed a start date of 1 July 2001 for both new and existing employees.

Department of Finance and Administration Litigation

The Department of Finance and Administration is involved in litigation where two counter-claims for damages have been lodged against the Commonwealth. The counter-claim by one group of defendants claims damages of $4.3 billion against the Commonwealth although the basis for this amount is yet to be provided. The other counter-claim has not specified any particular amount of damages.

Telstra Corporation Limited — notional account surplus

The employer payments made by Telstra for its past and present employees who are members of the Commonwealth Superannuation Scheme are in excess of the payments required to fund past and future liabilities for these members. The adequacy of these payments is tracked through an actuarial assessment of Telstra's notional account. A review of Telstra's notional account was completed in 1998-99. The total surplus was determined at $1,428 million as at the valuation date of 30 June 1997. This surplus will be paid to the Telstra Superannuation Scheme either in instalments or as a lump sum. An actuarial 'desk top' estimate of the movement in the notional account surplus since the valuation date of the last review indicates an increase in the surplus of $400 million.

Australia Post — notional account surplus

The employer payments made by Australia Post for its past and present employees who are members of the Commonwealth Superannuation Scheme are in excess of the payments required to fund past and future liabilities for these members. The adequacy of these payments is tracked through an actuarial assessment of Australia Post's notional account. A review of Australia Post's notional account was completed earlier this financial year. The total surplus was determined at $1,166 million as at the valuation date of 30 June 1998. This surplus will be paid to the Australia Post Superannuation Scheme either in instalments or as a lump sum. An actuarial 'desk top' estimate of the movement in the notional account surplus since the valuation date of the last review indicates an increase in the surplus of $300 million.

Asset Sales — Telstra

The Budget estimates include the effect of the sale of the Commonwealth's 50.1 per cent shareholding in Telstra, noting that the level of proceeds will depend, inter alia, on the prevailing levels of world equity markets at the time of the sale. Revenue from the sale could be placed at risk if legislation authorising the sale is not passed by the Parliament. The Government has committed to retaining its shareholding in Telstra unless and until the independent telecommunications service inquiry certifies that service levels are adequate.

National Disaster Relief Arrangements

Payments are made to State Governments under specific criteria relating to costs incurred by the State Governments following natural disasters. An amount has been included in the estimates for future payments. However, the actual level of payments under this scheme would depend on the incidence and severity of natural disasters.

Health and Aged Care

Australian Health Care Agreements

The Commonwealth and all States and Territories have signed Australian Health Care Agreements (AHCAs) for the five years to 2002-03 that incorporate a risk-sharing arrangement in case of changes in the private health insurance participation rate. Under this formula, Commonwealth grants to the States and Territories will be increased by $82 million a year from 1999-2000 for each percentage point decrease below the December 1998 level. This is based on current estimates of movements in population, price indexation, and assuming that those leaving private health insurance have the same age / sex profile as those remaining. While the Agreements provide for grants to be decreased in the event of increases in the participation rate above a certain point, the Government has made a commitment to the States to negotiate a variation to the Agreements, to ensure that none of the States will be worse off as the result of a rise in the private health insurance participation rate.

Major new listings — Pharmaceutical Benefits Scheme and Medicare Benefits Scheme

From time to time new items are added to or removed from the Medicare Benefits Scheme and Pharmaceutical Benefits Scheme schedules following independent assessments of cost-effectiveness. Major new developments in medicines or medical procedures could result in increases in expenses that exceed the provision in the forward estimates. Similarly, significant shifts in usage patterns, which may occur for particular drugs or groups of drugs from time to time, could result in increases in expenses that exceed the provision in the forward estimates. It is not possible to quantify the fiscal risk arising from such potential developments.

Litigation cases in train

The Department of Health and Aged Care is presently involved in about 40 cases that could result in a financial liability for the Commonwealth. These cases cover a wide range of litigation, where either the cases have not been heard or damages have yet to be awarded. The litigation now involves Creutzfeldt-Jacob disease, Acquired Immune Deficiency Syndrome (AIDS), Hepatitis C, defective products, personal injuries, the Department as an employer, and a variety of other claims against the Commonwealth. It is not possible to quantify the fiscal risk arising from potential developments.

Immunisation funding mechanism

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

Industry, Science and Resources

Repayment of Snowy Mountains Hydro-Electric Scheme debt

The expected corporatisation of the Scheme in 2000 will involve the refinancing and early repayment of debt to the Commonwealth. The estimated market value of the debt is in the order of $900 million. Detailed arrangements are to be finalised between the Commonwealth, New South Wales and Victorian Governments as shareholders in the new company. Electricity prices and the financial markets will influence the timing and amount of payments at the time of corporatisation.

Prime Minister and Cabinet

Hindmarsh Island Bridge damages claim

Developers of a marina associated with the proposed Hindmarsh Island Bridge have brought a substantial damages claim against the Commonwealth and other parties who were involved in the decision to ban construction of the bridge. The plaintiffs are claiming damages of $20 million.

Transport and Regional Services

Maritime industry reform

On 18 August 1998 the Commonwealth provided a guarantee to cover borrowings made by the Maritime Industry Finance Company (MIFCo) to finance redundancy related payments in the stevedoring and maritime industries. MIFCo's borrowing facility, negotiated with its bankers, was $220 million, of which approximately $193 million has been drawn down as at 31 March 2000. The *Stevedoring Levy (Collection) Act 1998* has been amended to increase the expenditure cap in the legislation from $250 million to $300 million.

Treasury

General revenue assistance to the States and Territories

Under the terms of the *Inter-governmental Agreement on the Reform of Commonwealth-State Financial Relations* all Goods and Services Tax (GST) revenue is to be paid to the States and Territories. The inter-governmental agreement also requires the Commonwealth to provide transitional assistance to the States to offset any revenue shortfalls resulting from the implementation of the reforms to the taxation system. This transitional assistance will ensure that no State budget will be worse off as a result of the reforms to Commonwealth-State financial arrangements and will take the form of both one-year interest-free loans and grants to the States in 2000-01 and quarterly grants in subsequent years. As a consequence of these arrangements, a shortfall in estimated GST revenue over the forward estimates period may result in increased expenses in the form of increased grants to the States and Territories.

International Monetary Fund (IMF) assistance to Thailand, Indonesia and the Republic of Korea

In response to instability in regional financial markets and economies, Australia offered in 1997-98 to provide bilateral financing in support of IMF programmes in Thailand, Indonesia and the Republic of Korea. In the case of Thailand, this has taken the form of a currency swap between the Reserve Bank of Australia (RBA) and the Bank of Thailand for $US1 billion, which is available to be drawn down over a three-year period. In the event of default, the ability of the RBA to maintain the dividend stream projected in the forward estimates may be affected.

Financial assistance to Papua New Guinea (PNG)

The Commonwealth has offered financial assistance to PNG in support of its efforts to reengage with the International Monetary Fund (IMF) and the World Bank. On 22 December 1999, Australia provided a 90 day currency swap between the RBA and the Bank of Papua New Guinea (BPNG) for the Australian dollar equivalent of $US80 million, subject to one roll-over effected on 21 March 2000. This swap provides short-term bridging finance until longer-term finance becomes available in support of an IMF Stand-By Arrangement (SBA). In the event of default, the ability of the RBA to maintain the dividend stream projected in the forward estimates may be affected. The IMF Board approved a SBA on 29 March 2000 and the Government has indicated to PNG that it will consider providing a longer-term government-to-government loan (under the International Monetary Agreements Act — IMAA). This loan would help meet PNG's external financing needs and would be provided in tranches, over 1999-2000 and 2000-01, on terms that more than cover the Commonwealth's cost of funding, with a first call on the proceeds used to repay the swap between the RBA and BPNG.

CONTINGENT LIABILITIES — QUANTIFIABLE

Communications, Information Technology and the Arts

Australian Broadcasting Corporation (ABC)

The Commonwealth has guaranteed loans by the ABC. The principal amount covered by the guarantee as at 31 March 2000 was $143 million. From 1 July 2000, the Commonwealth is to provide loan funds to the ABC which will enable the Corporation to finance its planned building works in Ultimo, NSW, as well as refinance existing market debt over the forward estimates period. By 30 June 2001, it is expected that the quantum of debt guaranteed by the Commonwealth will decrease to $43 million. (See Budget Paper 2 *Loan Facility to the Australian Broadcasting Corporation* in the Communication, Information Technology and the Arts portfolio.)

Special Broadcasting Service Corporation (SBS)

The Commonwealth has guaranteed loans taken out by the SBS. The principal amount covered by the guarantee as at 31 March 2000 was $39 million. These loans were used to pay for the refurbishment and enhancement of the Service's premises at Artarmon in Sydney.

Telstra Corporation Limited — superannuation guarantee

Telstra Corporation Limited has agreed to make additional employer contributions to the Telstra Superannuation Scheme. The Commonwealth has guaranteed any outstanding additional employer contributions in the event that Telstra becomes insolvent. The net present value of the contingent liability in respect of the guaranteed stream of payments for the Scheme as at 30 June 1999 was $1 billion.

Art Indemnity Australia

The amount indemnified for artworks on loan to galleries participating in exhibitions under the Scheme is $143 million as at 31 March 2000. This figure will vary as participating exhibitions commence and cease, and as exchange rates fluctuate (as indemnities are often fixed in terms of foreign currency amounts).

Defence

Military Compensation

Contingent liabilities exist in relation to military compensation claims to the value of some $28 million. This amount relates to outstanding claims for non-economic loss as a consequence of the Federal Court decision in *Schlenert v the Australian and Overseas Telephone Corporation 1995.*

Education, Training and Youth Affairs

Commonwealth loan guarantees — Group Training

The Minister for Education, Training and Youth Affairs is authorised to issue Commonwealth guarantees on a limited number of loans made to Commonwealth-endorsed Group Training companies. These loans provide access to additional working capital required to expand the number of apprentices and trainees that may be employed through Group Training companies. The maximum guarantee of each loan is $175,000, with the total value of all guarantees capped at $30 million. As at 6 March 2000, one Commonwealth Loan Guarantee was issued by the Commonwealth for $175,000.

Finance and Administration

Australian Defence Industries Limited (ADI) — warranty of sale

On completion of the sale of ADI Limited on 29 November 1999 the Commonwealth provided warranties relating to the accuracy of representations to the purchaser regarding a number of matters. Breaches of Commonwealth warranties are subject to limit of liability of $25 million for warranty claims arising from the Sale Agreement, except in relation to breaches of warranty relating solely to Commonwealth contracts or claims where the limit is $50 million. The time limit for the warranty claims is 12 months from sale completion.

ComLand Limited

Bank borrowings by ComLand Limited are explicitly guaranteed by the Commonwealth up to a limit of $60 million, comprising $50 million for principal and $10 million for accrued interest and other costs.

Sale of Australian River Company Limited (formerly ANL Limited)

Australian River Company Limited (ARCo) and the Commonwealth completed the sale of the business units of the former ANL Limited. The Liner Shipping business was sold to ANL Container Line Pty Ltd, a subsidiary of Compagnie Generale Maritime SA. The sale terms provide for contingent liabilities related to warranties and indemnities that are limited by the terms of the contract. The terms of the Sale Deed limit the Commonwealth's liabilities. Warranty claims are limited according to a minimum and aggregate claim, a time frame for claims within 21 months from December 1998 and with claims capped at purchase price.

Sale of Australian River Company Limited — indemnities for pre-sale tax liabilities and workers' compensation

The sale of ARCo's subsidiary Quality Container Management to the Owens Group was completed on 21 December 1998. The sale contract contains Commonwealth indemnities for pre-sale tax liabilities and workers' compensation claims. Maximum liability is limited to purchase price. The warranties expire 18 months after the sale completion date of 21 December 1998.

Sale of Australian River Company Limited — indemnities relating to sale of Bulk Trades division

The core business assets of the Bulk Trades division were sold to Auscan Self Unloaders Pty Ltd, a subsidiary of Canadian Steamship Lines Inc, on 3 May 1999. The Sale Deed provided for certain contingent liabilities that relate to warranties and indemnities. The warranties were limited by amount (maximum of $340,000 and minimum of $100,000) with an expiry period of 24 months after sale. The sale terms included an indemnity in relation to a possible change in tax treatment of the River Yarra ship lease. The Commonwealth guarantee for the River Yarra ship also continues and was partly offset by a guarantee from the parent company of the purchaser.

Foreign Affairs and Trade

Export Finance and Insurance Corporation (EFIC)

The Commonwealth guarantees the due payments by EFIC of money that is, or may at any time become, payable by EFIC to any body other than the Commonwealth. As at 31 March 2000, the Commonwealth's total contingent liability was $7,577 million, comprising EFIC's balance sheet liabilities ($1,092 million), contracts of insurance and guarantees ($3,305 million) and national interest account liabilities ($3,180 million).

Industry Science and Resources

Australian Industry Development Corporation (AIDC)

As at 31 March 2000, the Corporation's contingent liabilities were $175 million in respect of guarantees and credit risk facilities. The Corporation's other guaranteed borrowings totalled $1.75 billion as at 31 March 2000. These have been offset by holdings in Commonwealth Government securities and certain hedging instruments, all of which are fully guaranteed by Warburg Dillon Read (formerly known as UBS Australia Ltd).

Australian Industry Development Corporation (AIDC) — Australian Submarine Corporation

The Commonwealth, through the Australian Industry Development Corporation (AIDC), holds a 48 per cent interest in the Australia Submarine Corporation Pty. Ltd. (ASC). ASC is building six Collins Class Submarines for the Department of Defence. On 16 December 1998, at the request of the Corporation, the Commonwealth issued a guarantee for $27 million to back AIDC's pro rata shareholder obligations. The guarantee regarded the timely delivery of the Collins Class Submarines by ASC to Defence. A similar pro rata guarantee was arranged by the other major shareholder, issued by its bank. The AIDC guarantee was $13 million as at 31 March 2000 and will terminate in full on 31 December 2001, subject to delivery of the final submarine.

Snowy Mountains Hydro-Electric Authority (SMHEA)

The *Snowy Mountains Hydro-Electric Power Act 1949* provides that borrowings by SMHEA may be guaranteed by the Commonwealth. The Authority has issued inscribed stock at a discount to finance capital works of the Scheme. The borrowings are subject to explicit Commonwealth guarantees. As at 31 March 2000, the face value of guaranteed borrowings was $182 million with the net amount the unamortised discount on the issue of inscribed stock being $109 million.

Department of Industry, Science and Resources – Loan to Australian Leather Holdings and Howe and Co

The Commonwealth has agreed to a deed whereby the Commonwealth's right to recover loans totalling $39 million to Australian Leather Holdings Limited and Howe and Co Pty Ltd takes second priority to a first mortgage financier.

Treasury

Guarantees under the Commonwealth Bank Sale Act 1995

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

Commonwealth Development Bank. The guarantee for the CBA relates to both on and off-balance sheet liabilities. Of the existing contingent liability, 34 per cent involves off-balance sheet liabilities. As at 30 June 1999 (the latest available figures), the balance of the guarantee was $94,125 million, a reduction of $5,621 million on the previous year.

The guarantee for CBOSC covers the due payments of any amount that is payable to or from the Fund, by CBOSC or by the Bank, in respect of a person who was a member, retired member or beneficiary of the Fund immediately before 19 July 1996. Total accrued benefits at 30 June 1999 have been valued at $3,753 million following an actuarial review. The outstanding value subject to the guarantee is estimated to be $3,722 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 $273 million as at 30 June 1999.

Reserve Bank of Australia 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 (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 8 March 2000, Notes on Issue totalled $24,756 million. In total, the guarantee for the Reserve Bank was $42,376 million as at 8 March 2000.

Uncalled capital subscriptions — international financial institutions

The liability relates to the value of the uncalled portion of the Commonwealth's shares at 31 December 1999 in the International Bank for Reconstruction and Development ($US2,770 million — estimated value $A4,236 million using 31 December 1999 exchange rates), the Asian Development Bank ($US2,615 million — estimated value $A4,000 million), the European Bank for Reconstruction and Development (EBRD) ($US82 million — estimated value $A125 million), and the Multilateral Investment Guarantee Agency (MIGA) ($US15 million — estimated value $A23 million). Australia will subscribe to General Capital Increases for both the EBRD and MIGA in 2000-01. When this occurs, the uncalled capital portion of the subscriptions will increase by $US98 million for the EBRD and by $US12 million for MIGA (with estimated values of $A150 million and $A18 million respectively using the 31 December 1999 exchange rate). This would not affect the fiscal balance or the underlying cash balance as the transactions involved are considered to be financing transactions.

International Monetary Fund (IMF) allocation of Special Drawing Rights (SDRs)

IMF Members are currently considering a special one-time allocation of SDRs under the proposed Fourth Amendment to the IMF's Articles of Agreement. The proposed amendment will be in force for all IMF members as at the date at which the IMF certifies that three-fifths of IMF members (109 members), having eighty-five per cent of the total votes, have accepted the proposed Fourth Amendment. The Joint Standing Committee on Treaties has recommended that Australia take binding treaty action to approve the proposed amendment. If the proposed amendment is approved by the required majority of IMF members and Australia accepts the SDR allocation, the Commonwealth would receive approximately SDR213 million or $A448 million, based on the $A/SDR exchange rate on 31 December 1999. This would not affect the fiscal balance or the underlying cash balance as the transactions involved are considered to be financing transactions.

CONTINGENT LIABILITIES — UNQUANTIFIABLE

Defence

HMAS Melbourne compensation

The decision in the *Mewett v Commonwealth* case may set a precedent for up to 954 crewmen of HMAS Melbourne, in relation to the Voyager incident. About 121 claims have been lodged to date, of which 113 are current claims. There are six identified dependent claims still active and there is a possibility of further potential dependent claims, although there is no basis for quantifying further claims.

Finance and Administration

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

Under the *Superannuation Act 1976* (for the 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 interest rate on invested funds. Thus far, the Commonwealth has not had to make a payment in relation to this guarantee.

Commonwealth civilian superannuation liability

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

ComLand Limited — land remediation

The Commonwealth has indemnified the ComLand Group in the event that the Group incurs certain land remediation expenses where the need for such remediation was not identified when the land was transferred to ComLand.

Employment National Limited (EN) — board members' indemnity

Indemnities by the Commonwealth have been provided to EN board members to protect against civil claims relating to their employment and conduct as directors. These indemnities are unquantifiable and no expiry date has been set.

Employment National Limited (EN) — letter of comfort arrangements

To protect the Government's investment in EN during the company's current restructuring, a letter of comfort has been provided to the company by the Commonwealth indicating continuing financial support for the company. The Commonwealth's exposure under this letter of comfort arrangements is unquantifiable.

Indemnities for the Reserve Bank of Australia (RBA) and private sector banks

Under contractual arrangements for transactional banking services entered into by agencies covered by the *Financial Management and Accountability Act 1997*, the Commonwealth has indemnified the RBA and private sector banks against loss and damage arising out of acts or omissions by the Commonwealth, including by error, fraud, negligence or transactions made without the authority of the Commonwealth.

Australian River Company Limited — guarantee of banking facilities

The Commonwealth guarantees ARCo's banking facilities, including overdraft facilities and bulk vessel financing transactions. This will continue until the finalisation of residual issues associated with the sale of the company's businesses.

Australian River Company Limited — directors' indemnities

The Commonwealth has indemnified ARCo Board members and management, in the event ARCo ceased to exist, against civil claims relating to employment and conduct as directors and management of ARCo and subsidiary companies. Liability is subject to the terms of the indemnities.

Australian Defence Industries Limited — officers and directors' indemnities

Under the sale agreements for ADI, the Commonwealth has indemnified the directors, officers and employees for claims and legal costs associated with assistance related to the sale of the Commonwealth's shares in the company. The Commonwealth has also agreed to be responsible for the payment of the amount of any excess in respect of any claim under the policy where ADI Limited is unable to pay the excess post-sale.

Australian Defence Industries Limited — indemnities relating to unregistered documents

On completion of the sale of ADI Limited on 29 November 1999 the Commonwealth provided indemnities to the purchaser and ADI for any loss or damage arising from certain documents not being registered, granted, and consented.

Partial sale of Telstra Corporation — second tranche

Certain indemnities have been provided to Telstra, its directors, certain Telstra executives, employees and other parties connected with the sale. Telstra directors are indemnified against liabilities arising by reason of acts or omissions in connection with the offer.

Indemnities relating to other asset sales

Indemnities have been given in respect of a range of other asset sales. Details of these indemnities have been provided in previous Budget and *Mid-year Economic and Fiscal Outlook* (MYEFO) papers, for example see pages 4-38 to 4-40 in the 1999-2000 Budget Paper No. 1.

Health and Aged Care

Commonwealth Serum Laboratories (CSL) Limited

CSL Limited is indemnified against claims made by persons who contract specified infections from specified products and against employees contracting asbestos-related injuries. CSL Limited has unlimited cover for most events that occurred before the sale of CSL Limited 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.

Industry Science and Resources

Australian Industry Development Corporation (AIDC) — Australian Submarine Corporation

Following the Government's request on 5 April 2000, the AIDC issued a notice (that is, to exercise its 'pre-emptive rights') to Kockums Pacific Pty Ltd in respect of its 49 per cent shareholding in the ASC. This notice does not commit the AIDC to talking up the ownership of the shares.

Prime Minister and Cabinet

Separation of Aboriginal children from their families in the Northern Territory

Earlier laws, policies and practices led to the separation of many Aboriginal and Torres Strait Islander children from their families. About 2,100 claims for damages are underway against the Commonwealth in relation to alleged forced separations in the Northern Territory. There are two cases being considered by the Federal Court, in which damages of between $550,000 and $650,000 are being claimed by each of the applicants. The Commonwealth has not admitted liability in the cases and, if liability is established, the amount of damages awarded by the court will not necessarily equate with the amount claimed.

Transport

Maritime Industry Finance Company Limited — board members' indemnity

Indemnities for MIFCo board members have been provided to protect against civil claims relating to employment and conduct as directors of MIFCo. These indemnities are unquantifiable and no expiry date has been set.

Stevedoring Industry Finance Committee

The Stevedoring Industry Finance Committee (SIFC) faces an uncertain number of claims for asbestos related damage. These claims were inherited from the Australian Stevedoring Industry Authority. Costs that may arise from these claims cannot be determined and are therefore unquantifiable. The number of claims likely to be made in the future is also unknown.

Australian Maritime Safety Authority (AMSA) — insurance claims

AMSA is subject to a professional negligence claim seeking unspecified damages arising from a search and rescue incident involving the loss of one life. The flotation device manufacturer is a second defendant. The claim is being defended, although it is not possible to estimate the amounts of any eventual payments that may result. The insurer has indemnified AMSA, although AMSA will be liable for any policy excess.

Australian Maritime Safety Authority (AMSA) — incident costs

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

Australian National Railways Commission (AN) — transfer of liabilities

As a result of the wind-up of the Australian National Railways Commission, all associated contracts, assets and liabilities become the responsibility of the Commonwealth. At this stage, it is not possible to quantify liabilities as they involve uncertain legal processes and ex-employee claims.

National codes of practice for railways — Industry Advisory Committee

Under an Inter-Governmental Agreement on Rail Operational Uniformity, an advisory committee has been formed to provide advice to the Australian Rail Operations Unit on all aspects of the development and implementation of uniform operational codes for the defined interstate rail network. The Commonwealth indemnifies members of the Advisory Committee as if they were Commonwealth employees. It is not possible to quantify liability risk.

Tripartite Deed relating to the sale of Core Regulated Airports

Tripartite Deeds apply to the 12 Core Regulated Airports (Sydney, Melbourne, Brisbane, Perth, Canberra, Coolangatta, Townsville, Adelaide, Hobart, Launceston, Darwin and Alice Springs). The Tripartite Deeds between the Commonwealth, airport lessees and lessees' financiers provide for the Commonwealth to usurp control as airport operator in defined circumstances. The Deeds also provide protection to secured financiers where a lease termination event occurs.

The potential liability of the Commonwealth would vary considerably with the specific factors leading to a lease termination. If the Commonwealth entered into possession of an airport site it could seek to recover its costs from a number of sources, including airport revenues, the Airport lessee company and potentially, from the financiers themselves.

Where the Commonwealth takes action to terminate the Airport Lease, secured financiers can recover their loans from funds obtained by the Commonwealth from reselling the airport lease. If not resold, the Commonwealth and the financiers are to obtain a valuation of the airport lease that will set the basis for a repayment of financiers' loans by the Commonwealth.

Federal Airports Corporation (FAC) transfer of liabilities to the Commonwealth

On 24 September 1998 the Commonwealth assumed responsibility for all remaining assets, liabilities and contracts of the FAC on the wind-up of the Corporation. All of the known liabilities have been settled, however there is a risk that undisclosed liabilities remain.

The Commonwealth assumed responsibility on 1 July 1998 for a contingent liability of the corporation which relates to debtors of the FAC who are challenging the validity of network charges made under the *Federal Airports Corporation Act 1986*. If the network charging approach is found to be invalid, this raises the prospect of further claims from other airport users who have previously paid network-based charges to the Corporation. There is no basis for quantifying potential claims.

National Capital Authority (NCA)

The National Capital Authority is currently exposed to several claims, the financial risk of which is unquantifiable pending their resolution. There are two personal injury claims relating to its Land Management Function, one relating to contract disputes and a defamation action.

Treasury

Changes in value of cross currency swaps and foreign currency denominated debt

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

STATEMENT 5: REVENUE

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STATEMENT 5: REVENUE

Part I: Overview

Revenue estimates for the period from 1999-2000 to 2003-04 are provided in Table 1.[1] Relative to the *1999-2000 Mid-Year Economic and Fiscal Outlook* (MYEFO), estimated total revenue has increased in each year of the forward estimates period.

Table 1: Summary of Commonwealth General Government Revenue[(a)]

	1999-00		2000-01	2001-02	2002-03	2003-04
	Budget(b)	Revised	Estimate	Projection	Projection	Projection
Total tax revenue ($b)	146.9	151.3	144.3	148.5	157.2	168.5
Real growth on previous year (%)	*na*	*na*	*-7.2*	*0.5*	*3.4*	*4.6*
Per cent of GDP	23.4	24.1	21.6	21.0	20.9	21.2
Non-tax revenue ($b)	16.0	16.7	14.5	12.8	13.9	14.8
Real growth on previous year (%)	*na*	*na*	*-16.0*	*-13.8*	*6.6*	*3.8*
Per cent of GDP	2.5	2.7	2.2	1.8	1.9	1.9
Total revenue ($b)	**162.8**	**168.0**	**158.7**	**161.2**	**171.1**	**183.3**
Real growth on previous year (%)	*na*	*na*	*-8.1*	*-0.8*	*3.6*	*4.6*
Per cent of GDP	25.9	26.8	23.7	22.8	22.8	23.0

(a) Tax revenue estimates from 2000-01 onwards are affected by the introduction of *The New Tax System*.

(b) As published in the 1999-2000 MYEFO. Includes the Diesel Fuel Rebate Scheme (DFRS) as an offset to revenue. All other estimates reflect the reclassification of the DFRS from an offset to revenue to an expense (around $1.6 billion in 1999-2000).

Over the period from 1999-2000 to 2003-04, total revenue as a percentage of GDP is expected to:

- decline from 26.8 per cent of GDP in 1999-2000 to 23.7 per cent in 2000-01 and to 22.8 per cent in 2001-02; and

- remain at around 23 per cent of GDP in 2002-03 and 2003-04.

The sizeable reduction in Commonwealth general government revenue in 2000-01 relative to 1999-2000 is due to the introduction of *The New Tax System*. This includes significant reductions in personal income tax and the abolition of the Wholesale Sales Tax (WST) from 1 July 2000. These changes are accompanied by a significant reduction in expenses, particularly the abolition of Financial Assistance Grants to the States and Territories, following the introduction of the Goods and Services Tax (GST, which is passed in full to the States).

1 Unless otherwise specified, all estimates in this Statement are on an Australian Accounting Standard (AAS31) consistent basis.

Table 2 reconciles this Budget's revenue estimates with those at the time of the MYEFO and at the 1999-2000 Budget in terms of policy decisions, and economic parameter and other variations.

Table 2: Reconciliation of Revenue Estimates

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m
Revenue at 1999-2000 Budget	**162828**	**150494**	**153759**	**163065**
Changes from 1999-2000 Budget to MYEFO				
Effect of policy decisions	-28	3051	1222	2388
Effect of economic parameter and other variations	-341	354	3134	3127
Total variations	-369	3405	4356	5515
Revenue at 1999-2000 MYEFO	**162459**	**153899**	**158115**	**168580**
Changes from MYEFO to 2000-01 Budget				
Effect of policy decisions	1	-1390	-427	-392
Effect of economic parameter and other variations(a)	5572	6208	3557	2943
Total variations	5573	4819	3131	2551
Revenue at 2000-01 Budget	**168032**	**158718**	**161246**	**171131**
Memorandum item:				
Reclassification of DFRS to an expense	1560	1992	2179	2304

(a) Includes the reclassification of the DFRS from an offset to revenue, to an expense.

Policy decisions since MYEFO reduce estimated revenue in the budget and forward years. However, this is more than offset by the effect of stronger forecast economic activity in 1999-2000 and 2000-01, and stronger taxation collections in 1999-2000 relative to expectations at MYEFO. Major revenue measures since MYEFO include:

- a decision not to proceed with the temporary Defence — East Timor levy, with an estimated cost to revenue of $900 million in 2000-01; and

- setting excise rates for beer on conservative assumptions so as to ensure the retail price of a carton of regular full strength beer need not increase by any more than 1.9 per cent, with an additional cost against the forward estimates of $460 million.

A full list of revenue measures introduced since the 1999-2000 Budget is provided in Appendix B to this Statement. In addition, all measures since MYEFO are described in full in *Budget Paper No. 2 — Budget Measures 2000-01.*

In 1999-2000, estimated revenue has been revised up by around $5½ billion since MYEFO. This is driven principally by:

- stronger than anticipated company tax collections, lower than expected tax refunds for individuals, and the effect of higher world crude oil prices on Petroleum Resource Rent Tax (PRRT) collections;

- substantially higher than expected proceeds achieved from the March 2000 auction of telecommunications spectrum licences;[2] and

- a reclassification of the Diesel Fuel Rebate Scheme (DFRS) from an offset to revenue to an expense. This reclassification increases revenue by around $1½ billion in 1999-2000 with an equivalent increase in expenses.

In 2000-01, estimated revenue has been revised upwards by almost $5 billion since MYEFO. The major factors contributing to this overall increase are:

- a $2 billion increase in total revenue arising from the reclassification of the DFRS;

- a positive revision to expected PRRT revenue of around $½ billion due to higher world crude oil prices and domestic oil production relative to expectations at MYEFO;

- the effect of weaker than expected payments of taxation refunds in 1999-2000 flowing through to 2000-01; and

- a substantial increase in the anticipated net gain from the sale of telecommunications spectrum licences in 2000-01,[3] partly offset by lower dividend revenue.

A further influence on the higher revenue estimates in 2000-01 and the forward years is a re-evaluation of the expected distribution of the Family Tax Benefit (FTB) package between revenue and expenses. Recent survey data suggest that more families than previously expected will claim the FTB as a cash payment rather than through the taxation system. As a result, estimated taxation revenue has been revised upwards by almost $1 billion in 2000-01 and more than $½ billion in the forward years. These increases in revenue are accompanied by increases in expenses.

The positive revisions to total revenue since MYEFO in the forward years (2001-02 to 2002-03) largely reflect the reclassification of the DFRS and revisions to the expected distribution of FTB payments between revenue and expenses (noted above).

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2 Consistent with Australian accounting standards, a net gain from the sale of telecommunications spectrum licences is reported as revenue. In particular, the $1.3 billion received from the March 2000 auction of telecommunications spectrum licences was greater than anticipated at MYEFO.

3 The Australian Communications Authority has scheduled several major auctions of telecommunications spectrum licences in 2000-01. This includes an auction of spectrum licences to be used for so-called 'third-generation' mobile communications applications.

Part II: Budget Estimates of Revenue

Table 3 compares revenue estimates for 2000-01 with the estimates for 1999-2000.

Table 3: Commonwealth General Government Revenue Estimates

	1999-00	2000-01	Change on 1999-00	
	Estimate $m	Estimate $m	$m	%
Taxation revenue				
Income tax				
Individuals -				
Gross PAYG withholding(a)(b)	75694	68109	-7585	-10.0
Gross other individuals(c)	12808	12024	-784	-6.1
Medicare levy	4350	4580	230	5.3
less: Refunds	10340	10590	250	2.4
Total individuals	82512	74123	-8389	-10.2
Companies	23666	30857	7191	30.4
Superannuation funds(d)	3893	5175	1282	32.9
Other withholding tax(b)	1411	1346	-65	-4.6
Petroleum resource rent tax	1135	1280	145	12.8
Total income tax	**112617**	**112781**	**164**	**0.1**
Indirect tax				
Excise duty -				
Petroleum products and crude oil(e)	11419	12968	1550	13.6
Other excise(e)	2783	6810	4027	144.7
Total excise duty	14202	19779	5577	39.3
Customs duty(e)	3770	4413	643	17.1
Other indirect taxes(e)(f)	15497	1976	-13520	-87.2
Total indirect tax	**33468**	**26168**	**-7300**	**-21.8**
Fringe benefits tax(g)	3340	3650	310	9.3
Other taxes	1859	1656	-203	-10.9
Total tax revenue	**151284**	**144255**	**-7029**	**-4.6**
Non-tax revenue	16748	14462	-2286	-13.6
Total revenue	**168032**	**158718**	**-9315**	**-5.5**

(a) The Pay As You Go (PAYG) system will be introduced generally from 1 July 2000. The 1999-2000 estimate includes all Pay As You Earn (PAYE) and Prescribed Payments System (PPS) revenue. The 2000-01 estimate includes revenue from taxpayers who are currently subject to PAYE withholding arrangements, or who are currently in the PPS and will be subject to PAYG Withholding arrangements from 1 July 2000.

(b) Amounts withheld for failure to quote a Tax File Number (TFN) or an Australian Business Number (ABN) are included in Other Withholding tax (which replaces the former Withholding tax category).

(c) The 2000-01 estimate includes individuals making PAYG Instalment payments.

(d) Includes the superannuation contributions surcharge.

(e) Excludes surcharge revenue raised by the Commonwealth on an agency basis and paid to the States and Territories as Revenue Replacement Payments (RRPs). RRPs will be abolished in 2000-01 under *The New Tax System* (see *Budget Paper No.3* for more information).

(f) This item includes Wholesale Sales Tax (WST, to be abolished from 1 July 2000), Wine Equalisation Tax (WET) and Luxury Car Tax (LCT).

(g) Excludes Fringe Benefits Tax (FBT) collected from Commonwealth government agencies (around $300 million in 1999-2000 and around $330 million in 2000-01).

In 2000-01, taxation revenue is expected to decrease by 4.6 per cent and total revenue is expected to decrease by 5.5 per cent.

As noted in Part I of this Statement, the reduction in taxation revenue in 2000-01 reflects the introduction of *The New Tax System*, including personal income tax cuts and the abolition of WST from 1 July 2000. Abstracting from these tax cuts, taxation revenue is expected to continue to grow broadly in line with overall growth in the Australian economy.

The introduction of *The New Tax System* has a substantial influence on almost all taxation revenue categories. This makes it difficult to directly compare estimates for 2000-01 with the corresponding estimates for 1999-2000. Nevertheless, notable movements in taxation revenue heads include:

- a 10 per cent reduction in the new Gross Pay As You Go (PAYG) Withholding category (which is primarily comprised of current Pay As You Earn (PAYE) revenue). This mainly reflects the impact of personal income tax cuts to the order of $12 billion from 1 July 2000, partially offset by increases in employment and in wages adding to income tax collections;

- a 30 per cent increase in company tax revenue, as a result of strong company income growth and the introduction of the PAYG system, which effectively brings some company tax assessments forward into 2000-01. (Superannuation funds tax also increases significantly as a result of a bring-forward of revenue with the introduction of the new PAYG arrangements.);

- substantial increases in excise and customs revenue, reflecting the Commonwealth's partial retention from 1 July 2000 of taxes equivalent to those previously collected by the Commonwealth for the States and Territories on an agency basis;[4] and

- an 87 per cent reduction in other indirect taxes, reflecting the abolition of the WST from 1 July 2000.

The budget revenue estimates are strongly influenced by the forecast growth and composition of economic activity. The 2000-01 revenue estimates are based on the following major economic parameter assumptions:

- growth in nominal GDP of around 6½ per cent;

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4 Since August 1997, the Commonwealth has levied, on behalf of the States, excise surcharges on tobacco and petroleum products (these surcharges are levied as customs duties on imported products). The Commonwealth has also levied a surcharge on the WST rate applying to beer and spirits. These surcharges — which are classified as State taxes — were introduced after the High Court held that tobacco business franchise fees imposed by the States were invalid under section 90 of the Constitution. However, following the introduction of *The New Tax System*, revenue from excises and the WET will be retained by the Commonwealth and will be classified as Commonwealth taxes.

- average earnings (national accounts basis, excluding Superannuation Guarantee Charge) growth of around 3¾ per cent;
- growth in wage and salary employment of around 2½ per cent; and
- growth in 1999-2000 company income of around 9¼ per cent.

TAXATION REVENUE

Individuals Income Tax

Table 4 provides estimates for 1999-2000 and 2000-01 for income tax categories applying to individuals.

Table 4: Individuals Income Tax

	1999-00	2000-01	Change on 1999-00
	Estimate $m	Estimate $m	%
Revenue excluding Medicare levy			
Gross PAYG withholding(a)	75694	68109	-10.0
Gross other individuals(b)	12808	12024	-6.1
less: Refunds	10340	10590	2.4
Total	**78162**	**69543**	**-11.0**
Medicare levy revenue			
Gross PAYG withholding(a)	4190	4395	4.9
Gross other individuals(b)	710	765	7.7
less: Refunds	550	580	5.5
Total	**4350**	**4580**	**5.3**
Total individuals	**82512**	**74123**	**-10.2**

(a) The PAYG system will be introduced generally from 1 July 2000. The 1999-2000 estimate includes all PAYE and PPS revenue. The 2000-01 estimate includes revenue from taxpayers who are currently subject to PAYE withholding arrangements, or who are currently in the PPS and will be subject to PAYG Withholding arrangements from 1 July 2000. It does not include amounts withheld for failure to quote a TFN or ABN.
(b) The 2000-01 estimate includes individuals making PAYG Instalment payments.

Gross Pay As You Go Withholding

Gross PAYG Withholding includes all taxes withheld from payments under the PAYG system (other than amounts withheld because no Tax File Number (TFN) or Australian Business Number (ABN) has been quoted). The bulk of Gross PAYG Withholding revenue will arise from the payment of salary and wages to employees.

From 1 July 2000, the current PAYE system will be replaced by PAYG, as will the Prescribed Payments System (PPS) and Reportable Payments System (RPS).

Under the PAYG system, individuals currently in the PPS who qualify for an ABN can choose to enter into voluntary withholding arrangements. Tax withheld from such individuals (estimated to be around $800 million in 2000-01) will be recorded under Gross PAYG Withholding.

The remaining tax that would have been collected under PPS will now be collected through the PAYG Instalment system or as payments on assessment. These payments (estimated to be around $1.9 billion in 2000-01) will generally be recorded under the Gross Other Individuals head of revenue.

Gross PAYG Withholding revenue (excluding the Medicare levy) is expected to fall by 10 per cent in 2000-01, despite ongoing strength in wage and salary employment. This fall reflects the impact of substantial personal income tax cuts associated with the introduction of *The New Tax System*.

Gross Other Individuals

The Gross Other Individuals category consists of income tax paid by individuals other than that collected through the PAYG Withholding system. It comprises:

- PAYG instalments (from individuals); and
- debit assessments on income tax returns (that is, where tax credits are insufficient to meet the tax assessed on income).

Taxpayers in this category derive their income from salaries and wages, business, primary production, investments and capital gains.

Most ‘Other Individuals’ revenue will be collected through the PAYG Instalment system from 1 July 2000. Individuals who are registered for the GST and individuals with tax liabilities over $8,000 will generally make quarterly payments based on actual income in the most recent quarter. Individuals who are not registered for the GST with liabilities of less than $8,000 have the choice of making quarterly payments or an annual payment in April.

A significant benefit for individuals who currently pay provisional tax is the abolition of the ‘uplift factor’. Provisional tax instalments are currently based on the previous year’s liability plus an uplift factor. Under the PAYG system, individuals will make payments on the basis of actual income or trading conditions in the most recent quarter. Those making an annual payment may also choose to base their payment solely on last year’s income, without applying an uplift factor.

The expected fall in Gross Other Individuals revenue of 6 per cent in 2000-01 reflects the substantial personal income tax cuts associated with the introduction of *The New Tax System*.

Medicare Levy

Revenue from the Medicare levy in 2000-01 is expected to rise by 5 per cent, mainly reflecting growth in the taxable income base of individuals.

Individuals Income Tax Refunds

A final assessment of the tax liabilities of individual taxpayers is made on the basis of returns lodged after the end of a financial year. Refunds are made where tax credits exceed the final assessment. Where tax credits are insufficient to meet the final tax liability, taxpayers make an additional payment, which is recorded under the Gross Other Individuals income tax category.

Refunds to individuals are expected to grow by only 2 per cent in 2000-01, despite strong growth in income tax collected from individuals during 1999-2000. This relatively weak growth in refunds is largely explained by the abolition of the savings rebate from 1998-99 (which has a lagged effect on refunds). The rebate applied to 1998-99 tax returns and therefore significantly increased refunds in 1999-2000. Its removal will slow refunds growth from 1999-2000 to 2000-01.

Company and Other Income Tax

Table 5 provides estimates for 1999-2000 and 2000-01 for company and other income tax categories.

Table 5: Company and Other Income Tax

	1999-00	2000-01	Change on 1999-00
	Estimate $m	Estimate $m	%
Companies	23666	30857	30.4
Superannuation funds(a)	3893	5175	32.9
Other withholding tax			
Resident(b)	190	145	-23.7
Non-resident -			
Interest	560	600	7.1
Dividend	320	225	-29.7
Royalty	340	375	10.3
Mining	1	1	0.0
Total other withholding tax	1411	1346	-4.6
Petroleum resource rent tax	1135	1280	12.8
Total	**30105**	**38658**	**28.4**

(a) Includes the superannuation contributions surcharge.

(b) Includes business-to-business transactions where an ABN is not quoted by the supplier from 1 July 2000.

Company Income Tax

Company tax revenue is recognised as accruing to the Commonwealth when a taxation liability arises, either through assessment by the Australian Taxation Office (ATO) or through self-assessment by the corporate taxpayer.

As part of *The New Business Tax System*, the general tax rate for companies will fall from 36 per cent to 34 per cent for the 2000-01 income year, with concessional rates applying to certain income of life insurance companies, registered organisations, pooled development funds, small credit unions and offshore banking units. This rate will fall to 30 per cent in the 2001-02 income year.

From the 2000-01 income year, the new company tax payment arrangements under the PAYG system will bring payments of company tax forward relative to the current arrangements.

Under the current system, the first tax payment relating to a year of economic activity for medium and large companies is typically made 8 to 11 months after the year has started. However, under the PAYG system, this lag will be reduced to just 4 months. As a result, there is an overlap of company tax payments in 2000-01 from two consecutive income years.

As a transitional arrangement, some of the liabilities arising from the overlap of the new and existing payment arrangements can be deferred by companies and paid over the following 2½ to 5 years. In accrual terms, the full amount is recorded as revenue in 2000-01. In cash terms, the amount is spread over several years from 2000-01.

In addition to strong forecast company income growth of around 9¼ per cent in 1999-2000, the transitional impact of the new PAYG system explains most of the anticipated 30 per cent growth in company tax revenue in 2000-01.

Superannuation Funds Tax

Superannuation funds are generally taxed at a concessional rate of 15 per cent in relation to investment income and certain contributions received. Superannuation funds tax is recognised as accruing to the Commonwealth on a similar basis to companies, with payments made according to the schedule that applies to company income tax.

Superannuation funds tax revenue is expected to grow by 33 per cent in 2000-01. A large part of this growth is a result of the introduction of the new PAYG system, which (consistent with the arrangements for company tax) effectively brings forward some taxation liabilities from superannuation funds. The scheduled increase in the superannuation guarantee from 7 per cent to 8 per cent in 2000-01 will also boost tax levied on contributions. Furthermore, the addition of fringe benefits to group certificates from 2000-01 is expected to increase revenue from the superannuation surcharge that applies to contributions from higher income earners.

Other Withholding Tax

Other Withholding tax is levied on:

- income payments to residents who, when making an investment, do not supply the investment body with a TFN;

- business-to-business transactions where an ABN is not quoted by the supplier from 1 July 2000;

- certain interest, dividend and royalty payments to non-residents; and

- payments made to Aboriginal groups for the use of Aboriginal land for mineral exploration and mining.

Total Other Withholding tax revenue is expected to decline in 2000-01 by 5 per cent. This decline largely reflects the impact of some large one-off dividend and resident withholding payments in 1999-2000 that are not expected to be repeated in 2000-01.

Petroleum Resource Rent Tax (PRRT)

Under the Commonwealth's *Petroleum (Submerged Lands) Act 1967,* PRRT applies to offshore areas other than the North West Shelf production licence areas and associated exploration permit areas, which are subject to excise and royalty arrangements. PRRT is levied at the rate of 40 per cent of taxable profit from a petroleum project.

PRRT is expected to increase by 13 per cent in 2000-01. This reflects the impact of recent growth in world oil prices and an anticipated increase in domestic oil production in 2000-01.

Indirect Tax

Table 6 provides estimates for 1999-2000 and 2000-01 for the various categories of indirect taxation.

Table 6: Indirect Tax[(a)]

	1999-00	2000-01	Change on 1999-00
	Estimate $m	Estimate $m	%
Excise duty			
Petroleum products -			
Unleaded petrol	5044	5993	18.8
Leaded petrol	1445	1354	-6.3
Diesel	4614	5232	13.4
Other(b)	100	130	29.9
Total petroleum products	11204	12709	13.4
Crude oil	215	259	20.5
Other excise -			
Beer	892	1441	61.6
Potable spirits	152	245	61.7
Tobacco products	1740	5124	194.5
Total other excise	2783	6810	144.7
Total excise	14202	19779	39.3
Customs duty(c)	3770	4413	17.1
Other indirect taxes			
Wholesale sales tax(d)	15497	1267	-91.8
Wine equalisation tax	-	549	na
Luxury car tax	-	160	na
Total other indirect taxes	15497	1976	-87.2
Total	**33468**	**26168**	**-21.8**

(a) Excludes surcharge revenue raised by the Commonwealth on an agency basis and paid to the States and Territories as RRPs. RRPs will be abolished from 2000-01 as part of *The New Tax System*. Also excludes GST revenue collected by the Commonwealth from 1 July 2000 and passed in full to the States and Territories. This revenue amounts to $24.1 billion in 2000-01.

(b) Includes aviation gasoline, aviation turbine fuel, fuel oil, heating oil and kerosene, and refunds/drawbacks relating to petroleum products excise.

(c) Customs duty includes duties imposed on imported petroleum products, tobacco, beer and spirits, which is akin to excise duty on these items.

(d) WST is to be abolished from 1 July 2000. The 2000-01 estimate reflects the liability for some transactions occurring in the last months of 1999-2000.

Excise Duty

There are several major categories of excise revenue. They include petroleum products excise, crude oil excise, tobacco excise, and excise on certain alcoholic beverages.

Petroleum products excise includes excise on motor spirit (petrol), diesel fuel, aviation gasoline, aviation turbine fuel, fuel oil, heating oil and kerosene. It is imposed at specific rates per litre of product.

Excise revenues from *unleaded petrol* and *diesel* are expected to increase by 19 per cent and 13 per cent respectively in 2000-01. In part, this reflects continued growth in demand and continued substitution of unleaded petrol for leaded petrol. Further, these increases reflect the fact that excise revenue currently collected on behalf of the States will, as part of *The New Tax System*, be retained as Commonwealth revenue from 1 July 2000. At present this excise is classified as a State tax and is not shown as Commonwealth revenue. From 1 July it becomes a Commonwealth tax as part of the changes flowing from the introduction of GST, which constitutes a State revenue base. The growth in revenue from these excises is moderated by a reduction in excise rates from 1 July 2000. This reduction is necessary to ensure that petrol and diesel prices need not rise as a result of the introduction of the GST.

Excise revenue from *leaded petrol* is expected to decline by 6 per cent in 2000-01. This forecast reduction reflects a continuing decline in the number of vehicles that use leaded petrol exclusively, and a reduction in the excise rate applying from 1 July 2000. The extent of the decline is, however, moderated by the Commonwealth's retention from 1 July 2000 of excise revenue on leaded petrol that is currently collected on behalf of the States.

Crude oil excise includes excise collected from: offshore fields in the North West Shelf production licence areas that are not subject to PRRT; and onshore fields and coastal waters.

- Crude oil excise revenue is anticipated to increase by 21 per cent in 2000-01. This is primarily due to an anticipated increase in domestic production.

Other excise is derived from beer, potable spirits and tobacco products. It is imposed:

- according to the new 'per stick' regime applying to cigarettes and tobacco products, based on a combination of per stick and weight-based excise rates;
- on the alcohol content of beer; and
- on the alcohol content of other products such as spirits and certain ready to drink products. Wine is exempt from excise.

Other excise revenue is expected to increase by 145 per cent in 2000-01, largely reflecting the retention by the Commonwealth of tobacco excise currently collected on behalf of the States (an estimated $3.1 billion in 2000-01). This excise is classified as a Commonwealth tax for the same reason as petrol — that is, in return for the States receiving all revenue from GST collected by the Commonwealth on their behalf. In addition, the excise rates on most alcoholic beverages will be increased from 1 July 2000 to offset the removal of WST on beer and spirits (currently 37 per cent).

Excise Indexation

The rates of duty for excisable commodities (with the exception of crude oil) are adjusted each August and February in line with half-yearly CPI movements. If the change in the CPI is negative, the excise rate is not reduced but instead the decline is carried forward to offset the next positive CPI movement.

All revenue from the excise duty on aviation gasoline and aviation turbine fuel contributes to the funding of aviation programmes. In addition to the impact of indexation described above, the rates of excise and customs duty applying to aviation fuels are adjusted, as necessary, depending on the funding requirements of those programmes (see Part I of *Budget Paper No. 2, Budget Measures 2000-01*).

Existing excise rates are shown in Table 7.

Table 7: Excise Rates

Commodity	Rates applying from 1 August 1999 $	Rates applying from 1 February 2000 $
Petroleum (per litre) -		
Leaded petrol(a)	0.37465	0.38027
Unleaded petrol(a)	0.35254	0.35783
Diesel (gross)(a)	0.35254	0.35783
Aviation gasoline	0.02718	0.02759
Aviation turbine fuel	0.02718	0.02759
Fuel oil	0.07316	0.07426
Heating oil	0.07316	0.07426
Kerosene	0.07316	0.07426
Beer (per litre of alcohol over 1.15 per cent)	16.15	16.39
Potable spirits (per litre of alcohol) -		
Brandy	32.10	32.58
General rate for other spirits	37.58	38.14
Cigarettes (per stick)(b)	0.18872	0.19155
Tobacco products (per kg)(b)	235.90	239.44

(a) These rates refer to the Commonwealth component of excise.
(b) The per-stick arrangements commenced on 1 November 1999.

Customs Duty

Customs duties are imposed either as a percentage of the value of imported goods or on a fixed rate basis (for example, dollars per litre). Around 63 per cent of total imports by value enter Australia duty free. Most dutiable goods — excluding passenger motor vehicles and textiles, clothing and footwear — currently attract a general tariff rate of

5 per cent. The Productivity Commission will report on its review of the general tariff rate in July 2000.

The 17 per cent increase in forecast Customs duty revenue in 2000-01 largely reflects an increase, from 1 July 2000, in the customs duty rates applying to imported alcoholic beverages. This increase in customs duty is necessary to offset the removal of WST on beer and spirits (currently 37 per cent). It mirrors an equivalent increase in excise on domestically produced beer and spirits.

Other Indirect Taxes

WST is imposed on a range of goods destined for consumption in Australia and is levied at the last wholesale or import point on the wholesale sales value of taxable goods. From 1 July 2000, WST will be abolished as part of *The New Tax System*.

Consistent with the tax liability method of revenue recognition, the 2000-01 WST estimate reflects the final liability of WST remitters to the ATO.

In the absence of the two specific indirect tax measures outlined below, the abolition of WST would have meant that the price of certain goods would have fallen more than was intended by general indirect tax reform. Hence from 1 July 2000, grape wine, wine products, fruit and vegetable wine, cider, perry, mead and sake will become subject to a Wine Equalisation Tax (WET), which replaces the difference between the current 41 per cent WST rate on these products and the GST. The WET is to be levied at a rate of 29 per cent, with tax being paid on the value of the goods at the last wholesale sale, or equivalent value.

Similarly, a new Luxury Car Tax (LCT) of 25 per cent will be introduced from 1 July 2000. The LCT will apply to the GST exclusive price of a car above the LCT threshold (the threshold is $55,134 in 1999-2000). This will ensure that, when the higher WST rate of 45 per cent is removed from luxury cars and the GST is introduced, the price of luxury cars will fall by about the same amount as other cars.

Fringe Benefits Tax and Other Taxes

Fringe Benefits Tax

Fringe Benefits Tax (FBT) applies to a range of benefits provided by employers to their employees or associates of their employees. FBT revenue is expected to rise by 9 per cent in 2000-01, partly due to the effect of solid remuneration growth. FBT revenue is also expected to be boosted in 2000-01 by the modification of the FBT gross-up rate (to ensure neutrality of treatment between fringe benefits and cash salary following the introduction of the GST) from 1 July 2000.

Table 8 shows estimates for 1999-2000 and 2000-01 for the various categories of other taxes.

Table 8: Other Taxes

	1999-00	2000-01	Change on 1999-00
	Estimate $m	Estimate $m	%
Wool tax	90	82	-9.7
Agricultural production taxes - domestic	439	431	-1.8
Agricultural production taxes - export	74	73	-0.9
Levies, other than agricultural	50	50	0.0
Broadcasting licence fees	304	287	-5.6
Other(a)	903	734	-18.6
Total	**1859**	**1656**	**-10.9**

(a) Includes all other tax revenue collected by Commonwealth agencies.

Total revenue from Other Taxes is forecast to decline in 2000-01 by 11 per cent. Agricultural production taxes, non-agricultural levies and broadcasting licence fees are forecast to remain broadly unchanged. Wool tax revenue is estimated to fall in 2000-01 by around 10 per cent.

The remaining category of Other taxes includes the Coalmining Long Service Leave Levy, Child Support fees and fines, passport and consular fees, offshore petroleum royalties and a range of levies administered by the Department of Transport and Regional Services including Aircraft Noise, Stevedoring and Marine Navigation levies.

The forecast reduction of 19 per cent in the 'Other' category of Other Taxes is largely due to reduced estimates of offshore petroleum royalties collected by the Department of Industry, Science and Resources. These royalties are collected by the Commonwealth and shared with the Western Australian Government. These estimates are projected to decline in 2000-01, largely due to a projected decrease in production of petroleum products (other than crude oil) from the North-West Shelf.

NON-TAXATION REVENUE

Table 9 provides estimates for 1999-2000 and 2000-01 of the various categories of non-taxation revenue.

Table 9: Non-taxation Revenue

	1999-00	2000-01	Change on 1999-00
	Estimate $m	Estimate $m	%
Sales of goods and services	2748	2681	-2.5
Interest			
Interest from other governments	368	285	-22.6
Interest from other sources(a)	2660	3094	16.3
Total interest	3028	3378	11.6
Dividends			
Dividends from associated entities	6571	2197	-66.6
Dividends from other sources	25	66	164.5
Total dividends	6596	2263	-65.7
Other non-tax revenue(b)	4376	6140	40.3
Total	**16748**	**14462**	**-13.6**

(a) Includes interest revenue from swaps (around $1.9 billion in 1999-2000 and around $2.3 billion in 2000-01).

(b) Includes all other non-tax revenue collected by Commonwealth agencies.

Interest

Interest from Other Governments

This category mainly consists of revenue from the States and Territories on General Purpose and Specific Purpose Borrowings.

The Commonwealth receives interest payments from the States in respect of borrowings made on behalf of the States under the State Governments' Loan Council Programme and from the Northern Territory in respect of advances made under similar general purpose capital assistance arrangements. Payments relating to these advances are made, in turn, by the Commonwealth to bond holders.

Interest from the States on General Purpose borrowings is declining as a result of the June 1990 Loan Council decision that the States and Territories make additional payments to the Commonwealth each year, to facilitate the redemption of all maturing Commonwealth securities issued on their behalf. The reduction in interest revenue from the States and Territories is matched by a reduction in public debt interest expenses.

The Commonwealth also receives interest on Specific Purpose Borrowings to the States, including on advances made under the Commonwealth-State Housing

Agreements, States (Works and Housing) Assistance Acts, Northern Territory Housing Advances and by the Australian Capital Territory on debts assumed upon self-government. Interest from the States on Specific Purpose Borrowings will be lower in 2000-01 compared with 1999-2000, reflecting the repayment of debt by the States in 1999-2000.

Interest from Other Sources

This item includes interest income on Commonwealth cash balances and on other financial assets, including swap transactions entered into as a part of the Commonwealth's debt management strategy managed by the Australian Office of Financial Management (AOFM). These are expected to increase in 2000-01, largely due to increases in interest rates and increased swap activity.

Dividends

The main sources of dividends are the Commonwealth's Government Business Enterprises (GBEs) and the Reserve Bank of Australia (RBA).

Dividends are anticipated to decline by 66 per cent in 2000-01, mainly due to lower dividend payments from some GBEs and a lower dividend from the RBA. Dividend payments from the RBA can be volatile as they are sensitive to movements in interest rates and the exchange rate.

The Royal Australian Mint also provides dividend revenue to the Commonwealth. This includes seigniorage from circulating coin production, royalties from numismatic coin sales and annual dividends from profits the Mint makes as the manufacturer of these products.

Other Sources of Non-tax Revenue

Other non-tax revenue is expected to increase by 40 per cent in 2000-01. This mainly reflects:

- the reimbursement by the United Nations (UN) of some of the costs incurred by the Australian Defence Forces in East Timor as part of the UN deployment;

- increased revenue from outstanding Higher Education Contribution Scheme (HECS) debts owed to the Commonwealth; and

- an increase in net gains from the sale of non-financial assets, primarily as a result of anticipated proceeds from the sale of telecommunications spectrum licences by the Commonwealth in 2000-01.

Appendix A: Forward Estimates of Revenue

Forward estimates of the major categories of revenue, for the period from 2000-01 to 2003-04 are provided in Table A1.

Table A1: Forward Estimates of Revenue

	2000-01		2001-02		2002-03		2003-04	
	Estimate $m	Change on 1999-00 %	Estimate $m	Change on 2000-01 %	Estimate $m	Change on 2001-02 %	Estimate $m	Change on 2002-03 %
Individuals tax	74123	-10.2	82205	10.9	87633	6.6	95772	9.3
Per cent of GDP	*11.1*		*11.6*		*11.7*		*12.0*	
Other income tax	38658	28.4	34266	-11.4	36120	5.4	37822	4.7
Per cent of GDP	*5.8*		*4.8*		*4.8*		*4.7*	
Total income tax	112781	0.1	116471	3.3	123753	6.3	133594	8.0
Per cent of GDP	*16.9*		*16.4*		*16.5*		*16.8*	
Indirect tax(a)	26168	-21.8	26462	1.1	27786	5.0	29121	4.8
Per cent of GDP	*3.9*		*3.7*		*3.7*		*3.7*	
Total tax(b)	144255	-4.6	148487	2.9	157205	5.9	168531	7.2
Per cent of GDP	*21.6*		*21.0*		*20.9*		*21.2*	
Non-tax revenue	14462	-13.6	12758	-11.8	13926	9.2	14813	6.4
Per cent of GDP	*2.2*		*1.8*		*1.9*		*1.9*	
Total revenue	**158718**	**-5.5**	**161246**	**1.6**	**171131**	**6.1**	**183344**	**7.1**
Per cent of GDP	*23.7*		*22.8*		*22.8*		*23.0*	

(a) Excludes the DFRS offset to revenue (which has been reclassified as an expense).
(b) Includes FBT and Other Taxes.

The forward estimates of revenue have been prepared on the conventional assumption of no change in current policy. Therefore, the forward estimates of revenue primarily reflect projected growth in economic parameters and policy measures contained in this and previous budgets, including those associated with *The New Tax System* and *The New Business Tax System*.

Taxation revenue generally moves in line with economic activity during periods of steady economic growth (as depicted by the economic projections in this Budget), but tends to swing more sharply during periods of economic contraction and rapid expansion (and more sharply than nominal GDP growth). The forward revenue estimates are also susceptible to changes in the extent of tax minimisation and avoidance action by taxpayers.

Total revenue is expected to:

- decrease in 2000-01 by 5.5 per cent from 1999-2000, due largely to the impact of measures associated with *The New Tax System*; and
- remain at around 23 per cent of GDP in the forward years.

Individuals tax falls in 2000-01 due to the introduction of lower personal income tax rates in that year. Other income tax rises sharply in 2000-01 before falling in 2001-02. This largely reflects the effective bring-forward of revenue that occurs with the introduction of the new PAYG Instalment arrangements for companies and superannuation funds in 2000-01.

Indirect tax falls sharply in 2000-01 as a result of the abolition of WST following the introduction of *The New Tax System*. The effect of this abolition is partially offset by the Commonwealth's retention, from 1 July 2000, of indirect taxes previously collected on an agency basis for the States (see Footnote 4 on page 5-7).

Non-tax revenue is expected to:

- decrease from 2000-01 to 2001-02, largely due to lower expected net gains from the sale of non-financial assets in 2001-02; and

- increase in 2002-03 and 2003-04 as the result of increased interest earned on investment activities and swap transactions undertaken by the AOFM in the management of the Commonwealth's debt.

In 2002-03 and 2003-04, total revenue is expected to grow broadly in line with nominal GDP.

Appendix B: Revenue Measures

Table B1 provides a summary of the revenue measures introduced since MYEFO. A full description of all 2000-01 Budget revenue measures can be found in Part I of *Budget Paper No. 2 — Budget Measures 2000-01*.

Table B1: Revenue Measures since the 1999-2000 MYEFO[(a)(b)]

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Attorney-General's				
Customs tariff changes	-	-	-	-
South Pacific and Regional Free Trade Agreement - Textiles, Clothing and Footwear Scheme	-0.1	-0.1	-0.1	-0.1
Portfolio total	**-0.1**	**-0.1**	**-0.1**	**-0.1**
Communications, Information Technology and the Arts				
Apply a charge to telecommunications end users to offset the cost of administration of a number pool of local rate and freephone numbers	0.1	0.4	0.4	0.4
Increase in annual carrier licence fees	0.5	2.8	1.6	1.4
Regional Equalisation Plan for digital television - licence fee rebates	-22.6	-22.6	-26.9	-27.1
Portfolio total	**-22.0**	**-19.4**	**-24.9**	**-25.3**
Education, Training and Youth Affairs				
Education Services for Overseas Students - increased registration fees for providers	1.0	1.0	1.0	1.0
Portfolio total	**1.0**	**1.0**	**1.0**	**1.0**
Foreign Affairs and Trade				
Increase in Consular notarial fees	1.1	1.1	1.1	1.1
Portfolio total	**1.1**	**1.1**	**1.1**	**1.1**
Immigration and Multicultural Affairs				
Future directions for the Overseas Student Visa Programme	2.6	4.6	6.8	7.1
Increased permanent migrant intake	6.4	2.8	3.2	3.2
Introduction of new entry requirements for aged parent migrants	12.5	89.7	26.3	26.9
Response to the Review of Illegal Workers in Australia	11.2	18.9	19.9	20.9
Portfolio total	**32.7**	**116.0**	**56.2**	**58.1**
Transport and Regional Services				
Extension of the application of the *Aircraft Noise Levy Collection Act (1995)* to Adelaide Airport	4.1	6.3	6.6	6.9
National Parking Regime at leased federal airports	1.5	1.6	1.7	1.8
Portfolio total	**5.6**	**7.9**	**8.3**	**8.7**

Table B1: Revenue Measures since the 1999-2000 MYEFO(a)(b) (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Treasury				
Income tax				
Apportionment of deductions for donations to Environmental and Heritage Organisations	*	*	*	*
Capital gains tax treatment of assets disposed of by trusts	*	*	*	*
Change to the fringe benefits tax capping measure applying to public benevolent institutions and non-profit employers	-130.0	-130.0	-135.0	-140.0
Changes to the non-commercial losses measure	-20.0	-80.0	-70.0	-60.0
Changes to the tightening of the 13-month rule for advanced expenditure under tax shelters	-30.0	-	-	-
Deductibility of certain gifts	*	*	*	*
Extension of refund of excess imputation credits to charities	-	-50.0	-50.0	-50.0
Increasing the Medicare levy low income thresholds	-20.0	-10.0	-10.0	-10.0
Removal of Defence - East Timor levy	-900.0	45.0	-	-
Removal of income tax exemption for non-resident sporting clubs and associations and sportspersons	*	*	*	*
Simplification of the inter-entity loss multiplication measure	*	*	*	*
Simplification of *The New Business Tax System* integrity measures	*	*	*	*
Transitional arrangements for the alienation of personal services income measure	-190.0	-190.0	-60.0	-
Indirect tax				
Adjustment of alcohol excise rates	-150.0	-150.0	-140.0	-140.0
Airport regulation cost recovery	0.9	0.9	0.9	0.9
Product stewardship arrangements for waste oil	24.7	24.5	24.2	24.0
Stockpiling of alcoholic beverages	-	-	-	-
Non-tax revenue				
Postal services regulation cost recovery	1.0	1.0	1.0	1.0
Transfer of responsibility for unclaimed moneys from the States and Territories to the Commonwealth	5.5	5.5	5.5	5.5
Portfolio total	**-1407.9**	**-533.1**	**-433.4**	**-368.6**
Total impact of revenue measures(c)	**-1389.6**	**-426.6**	**-391.8**	**-325.1**

* The nature of the measure is such that a reliable estimate cannot be provided.
(a) Revenue is on a AAS31 basis.
(b) A minus sign before an estimate indicates a reduction in revenue, no sign before an estimate indicates a gain to revenue.
(c) Measures may not add due to rounding.

Table B2: Revenue Measures up to the 1999-2000 MYEFO[(a)(b)(c)]

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
DEMOCRATS AMENDMENTS - TAX REFORM				
Treasury				
Income tax				
Reduced personal income tax cuts for income earners above $50,000	1110.0	1234.0	1435.0	1655.0
Indirect tax				
Incentive for switch to lower sulphur diesels	-	-	18.0	44.0
Change of Diesel Fuel Rebate Scheme (DFRS) arrangements for rail excise and off-road diesel	333.1	322.0	317.0	313.0
Supporting renewable remote power generation	66.0	66.0	66.0	66.0
Non-tax revenue				
Additional payments from the States and Territories for GST administration	60.0	60.0	60.0	60.0
Total Democrats Amendments - Tax Reform	**1569.1**	**1682.0**	**1896.0**	**2138.0**
Other Revenue Measures up to MYEFO				
Attorney-General's				
Removal of nuisance tariffs	-12.1	-12.9	-13.8	-14.7
Reinstatement of some tariffs on non-medical and non-scientific equipment	0.8	0.9	0.9	0.9
Portfolio total	**-11.3**	**-12.0**	**-12.9**	**-13.8**
Defence				
United Nations reimbursements for East Timor assistance	114.0	106.0	76.0	76.0
Portfolio total	**114.0**	**106.0**	**76.0**	**76.0**
Environment and Heritage				
Sale of Halogen to the United States for essential use	6.0	-	-	-
Portfolio total	**6.0**	**-**	**-**	**-**
Immigration and Multicultural Affairs				
Extension of regulation of the migration advice industry	1.7	1.8	1.3	-
Portfolio total	**1.7**	**1.8**	**1.3**	**-**
Treasury				
Income tax				
Defence - East Timor levy	900.0	-45.0	-	-
Deductibility of certain gifts	*	*	*	*
Immediate tax deductibility for GST-related expenditure	-175.0	75.0	75.0	15.0
Establishment of the Australian Rural Partnerships Foundation	-5.0	-5.0	-3.0	-1.2

Table B2: Revenue Measures up to the 1999-2000 MYEFO[a][b][c] (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Treasury (continued)				
Tax exemption on business re-establishment grants made from the Cyclones Elaine and Vance Trust Fund	-	-	-	-
Fringe benefits reporting - exclusion of certain benefits provided to Australian Defence Force personnel	-10.0	-10.0	-10.0	-10.0
Dairy industry adjustment package	-1.0	-1.0	-1.0	-1.0
Double taxation agreements	*	*	*	*
The New Business Tax System				
Reduction in the company tax rate	-1260.0	-3480.0	-3135.0	-3090.0
Implementing a unified entity tax system	*	*	*	*
Deferred implementation of unified entity tax system to trusts	-140.0	-445.0	5.0	-
Early refunds of imputation credits	-	-190.0	-	-10.0
Removing the intercorporate dividend rebate on unfranked distributions	35.0	-70.0	-120.0	-155.0
Introduction of a common start date for the commencement of tax reform measures applying to life insurers	-180.0	-	40.0	-
Transitional taxation of fees on life insurance policies	-110.0	-110.0	-110.0	-90.0
Taxation of funeral bonds, scholarship plans and income bonds offered by Friendly Societies	*	*	*	*
Delayed commencement of life policyholder reform	-30.0	-30.0	-	-
Consolidation - losses of acquired companies	-	-190.0	-380.0	-390.0
Consolidation - value shifting and loss duplication in groups	-	-	75.0	80.0
Rollover relief for entity restructuring	*	*	*	*
Removal of accelerated depreciation	1050.0	2260.0	2300.0	2610.0
Removal of balancing charge offset	400.0	360.0	170.0	80.0
Pooling of low-value depreciable assets	30.0	410.0	40.0	-80.0
Allow write-off for indefeasible rights of use	-51.0	-37.0	-36.0	-30.0
Effective life depreciation for the mining, quarrying and resources industries	-	-	15.0	25.0
Cash accounting for small business	-	-220.0	-320.0	-
Simplified depreciation arrangements for small business	-	-60.0	-220.0	-230.0
Small business exemption from accelerated depreciation, balancing charge offset and low-value pooling measures	-219.0	-474.0	257.0	88.0
Reform of CGT for individuals	210.0	230.0	210.0	180.0
Reform of CGT for superannuation and related funds	-70.0	-50.0	-70.0	-60.0
Reform of CGT for other entities	10.0	40.0	50.0	60.0
CGT rollover relief for scrip-for-scrip acquisitions	2.0	-19.0	-5.0	11.0

Table B2: Revenue Measures up to the 1999-2000 MYEFO[a][b][c] (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Treasury (continued)				
Allowance for CGT arbitrage activities(d)	-20.0	-50.0	-100.0	-150.0
Improving incentives for venture capital investment	*	*	*	*
Providing a new small business 15-year CGT exemption and streamlining of the existing small business provisions	*	*	*	*
Addressing lease assignments	15.0	45.0	55.0	70.0
Interim value shifting and loss duplication measures	60.0	42.0	-	-
Repeal of excess deduction rules for mining operations	30.0	40.0	35.0	35.0
Prevent duplication of unrealised losses	65.0	90.0	85.0	95.0
Remove defects in the continuity of ownership test	35.0	35.0	35.0	40.0
Disposal of loss assets within majority-owned groups	60.0	50.0	15.0	10.0
Prevent inter-entity loss multiplication	15.0	20.0	25.0	20.0
Value shifting measures outside groups	-	-	140.0	150.0
Tightening the 13-month rule for advance expenditure	220.0	325.0	260.0	275.0
Tightening the 13-month rule for advance expenditure under tax shelters	70.0	100.0	90.0	90.0
Treatment of losses from non-commercial activities	50.0	310.0	240.0	200.0
Alienation of personal services income	380.0	480.0	495.0	515.0
Amending dividend streaming and franking credit trading rules	*	*	*	*
Imputation credits for foreign dividend withholding tax	-	-	-340.0	-190.0
Thin capitalisation provisions	-	50.0	480.0	390.0
Gains on the disposal of interposed non-resident entities	-	-	40.0	50.0
Foreign income account	*	*	*	*
Consistent treatment of resident entities deriving foreign source income	*	*	*	*
Simplifying and strengthening the rules for foreign trusts	*	*	*	*
Foreign expatriates and residents departing Australia	*	*	*	*
Extending the scope of involuntary disposals	*	*	*	*
Recognition of blackhole expenditures	-	-30.0	-65.0	-85.0
High level reform to tax design and other measures	-	-57.0	-45.0	-125.0
Growth dividend(d)	50.0	100.0	200.0	300.0

Table B2: Revenue Measures up to the 1999-2000 MYEFO[a][b][c] (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Treasury (continued)				
Indirect tax				
Application of excise on alcoholic cooking essences	5.1	5.3	5.5	5.7
Sales tax concession for taxis for the disabled	*	*	*	*
Fringe benefit tax				
Extension of FBT exemption for remote area housing to all employers	-15.0	-15.0	-15.0	-15.0
Adoption of dual gross-up formula for FBT	-35.0	-35.0	-35.0	-35.0
Portfolio total	**1371.1**	**-555.7**	**427.5**	**647.5**
Total impact of other revenue measures up to MYEFO	**1481.5**	**-459.9**	**491.9**	**709.7**
Memorandum items:				
Total Democrats Amendments - Tax Reform	1569.1	1682.0	1896.0	2138.0
Total impact of other revenue measures up to MYEFO	1481.5	-459.9	491.9	709.7
Total revenue measures up to MYEFO(e)	**3050.6**	**1222.1**	**2387.9**	**2847.7**

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

(a) Revenue is on a AAS31 basis.

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

(c) These estimates are as published in MYEFO. Descriptions of the measures are provided in MYEFO.

(d) Consistent with MYEFO, the *Allowance for CGT arbitrage activities* and *Growth dividend* are not strictly policy decisions, but have been included in the Summary table to show the overall fiscal impact of *The New Business Tax System*.

(e) Measures may not add due to rounding.

Appendix C: Tax Expenditures

This appendix provides a brief overview of the effect on revenue of the concessional taxation treatment of specific groups and / or activities. Consistent with data published in previous Tax Expenditures Statements (TES), all the data contained in this appendix have been compiled on a cash basis.

Individuals and businesses derive financial benefits from various tax concessions. These concessions are usually delivered by tax exemptions, deductions, rebates or reduced rates. They can either reduce or delay the collection of tax revenue. The Government can use taxation concessions to allocate resources to different activities in much the same way that it can use direct expenditure programmes. For this reason, and noting their direct impact on the fiscal balance, these tax concessions are generally called 'tax expenditures'.

Table C1 provides estimates for the period from 1996-97 to 2003-04 of aggregate tax expenditures. These estimates are based on data compiled for the *1997-98 Tax Expenditures Statement* published in July 1999.

The New Tax System and *The New Business Tax System* involve significant reforms to both expenses and revenues — some of which will impact on the costings of tax expenditures. The treatment of *The New Tax System* in the figures in Table C1 is as follows:

- Those measures that do not fundamentally alter the way in which a tax is assessed, and therefore do not affect the benchmarks against which a tax expenditure is costed (see Attachment A of the 1997-98 TES), include the impact of *The New Tax System* in their estimates / projections. For example, any tax expenditures relating to personal income will take into account the new personal income tax rates which, under *The New Tax System*, come into effect from July 2000.

- The impact of *The New Tax System* measures that fundamentally alter the way in which a tax is assessed, and which therefore require an alteration to the benchmark, such as changes to the taxation regime applying to trusts, have not been included in the tax expenditure costings below.

Tax expenditures based on revised benchmarks for *The New Tax System* and *The New Business Tax System* are due to be released in the *1999-2000 Tax Expenditures Statement* later this year.

Table C1: Aggregate Tax Expenditures 1996-97 to 2003-04

Year	Retirement and other employment termination benefits $m	Other Tax Expenditures(a) $m	Total $m	Tax Expenditures as a proportion of GDP (%)
1996-97	9160	10129	19289	3.6
1997-98	9110	10371	19481	3.4
1998-99	9440	11737	21177	3.6
1999-00 (est)	9900	12474	22374	3.6
2000-01 (est)	8745	10925	19670	2.9
2001-02 (proj)	8855	10139	18994	2.7
2002-03 (proj)	9265	10502	19767	2.6
2003-04 (proj)	9824	11135	20959	2.6

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

In analysing the data presented in Table C1, there are a number of considerations that must be kept in mind.

- These figures will understate the total cost to revenue of tax expenditures. The TES does not provide a comprehensive listing of all tax expenditures, and some of those that are identified have not been costed due to a lack of data.

- Tax expenditures in the form of delayed tax payments (such as depreciation allowances, which merely defer tax revenue collections to a later date), have been excluded from the estimates of aggregate tax expenditures.

- Changes over time in methodology and available data used for calculating the cost of particular expenditures means that there can be quite large revisions to tax expenditure estimates. Therefore, particular tax expenditure estimates may not be strictly comparable from year to year.

- Forward projections for the outyears can be subject to considerable uncertainty. Caution should be exercised when trying to draw conclusions on longer-term trends.

- Individual expenditures can have further methodological issues. For example, see Appendix B of *1997-98 Tax Expenditures Statement*, which discusses methodological issues in relation to Retirement and Other Employment Termination Benefits.

Appendix D: Revenue Statistics

Table D1: Commonwealth Revenue (cash basis)[(a)]

	1989-90 $m	1990-91 $m	1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m	1999-00(b) $m	2000-01(b) $m
Tax revenue												
Income tax												
Individuals -												
Gross PAYE	41322	41704	41388	43035	44451	48078	53302	57401	62116	67367	72330	67737
Gross other individuals	9958	10932	8865	7905	8217	8971	9538	11110	11499	12423	12544	12044
Gross PPS(c)	1912	1693	1563	1589	1781	2049	2059	2110	2384	2644	2960	0
Medicare levy(d)	2545	2480	2385	2415	2870	3030	3350	4150	3760	4100	4350	4580
less: Refunds	5672	6546	7516	7433	6743	7481	7835	8318	8935	9805	10340	10590
Total individuals	50065	50263	46685	47511	50575	54647	60414	66453	70822	76728	81844	73771
Companies	12926	14166	13419	13071	12700	15588	18252	19173	19406	20734	22560	26900
Superannuation funds	376	1053	1139	1522	1191	1913	1634	2595	3093	3916	3810	4465
Withholding tax	915	901	941	764	877	903	1349	1080	1137	1220	1411	1346
Petroleum resource rent tax	42	293	876	1389	1072	865	791	1308	907	419	1135	1280
Fringe benefits tax	1168	1262	1327	1344	1417	2740	3031	3163	3168	3289	3340	3650
Total income tax	65493	67938	64387	65602	67833	76656	85470	93773	98534	106306	114100	111412
Indirect tax												
Wholesale sales tax	10132	9365	9113	9252	10414	11624	12955	13308	14085	15162	15447	2137
Excise duty -												
Crude oil and LPG	1232	1354	64	116	62	27	13	9	16	31	215	259
Petroleum products(e)	6416	6642	7093	7200	8499	9406	10224	10543	10895	10974	11204	12709
Other excise duty	2239	2364	2324	2361	2253	2567	2612	2739	2663	2614	2783	6810
Total excise duty	9888	10360	9482	9677	10814	12001	12849	13291	13574	13619	14202	19779
Customs duty	3954	3319	3299	3331	3226	3474	3124	3289	3637	3634	3770	4413
Total indirect tax	23974	23044	21893	22260	24455	27099	28928	29888	31296	32415	33418	26329

Table D1: Commonwealth Revenue (cash basis)[(a)] (continued)

	1989-90 $m	1990-91 $m	1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m	1999-00(b) $m	2000-01(b) $m
Tax revenue (cont.)												
Other taxes, fees and fines	1876	2243	1690	1572	1736	1933	1988	2154	2390	2383	1504	1852
Total tax revenue	**91343**	**93225**	**87970**	**89434**	**94024**	**105687**	**116386**	**125815**	**132219**	**141104**	**149023**	**139593**
Non-tax revenue												
Interest received	3473	3309	2976	2477	2051	1790	1403	1126	1139	682	2957	3454
Dividends and other	1178	1558	2563	3150	4671	2952	3899	4089	3610	4659	11388	8679
Total non-tax revenue	**4651**	**4867**	**5539**	**5627**	**6722**	**4743**	**5302**	**5216**	**4749**	**5341**	**14345**	**12133**
Total revenue	**95995**	**98093**	**93509**	**95062**	**100747**	**110430**	**121688**	**131031**	**136968**	**146444**	**163367**	**151726**

(a) Figures up to and including 1998-99 are on a Budget Sector basis. Figures for 1999-2000 onwards are on a General Government sector basis.

(b) Estimates for 1999-2000 onwards are derived using AAS31 cash flow data from the Commonwealth's accrual accounting system. As a result, the categories 'Interest Received' and 'Dividends and Other' now include items that were netted off in previous budgets. For example, Interest Received now includes receipts from swaps (around $1.9 billion in 1999-2000 and around $2.3 billion in 2000-01) and Dividends and Other now includes 'Sales of goods and services' (around $2.9 billion in 1999-2000 and $2.8 billion in 2000-01) and 'Other sources of non-taxation revenue'.

(c) PPS denotes Prescribed Payments System (which is replaced by the new PAYG system from 2000-01 onwards).

(d) The Medicare levy was increased from 1.5 to 1.7 per cent for the period from 1 July 1996 to 30 June 1997 to fund the guns buy-back scheme.

(e) Excludes the DFRS offset to revenue, which has been reclassified as an expense.

Table D2: Major Categories of Revenue as a Proportion of Gross Domestic Product (cash basis)[(a)]

	Taxation Revenue															Non-Taxation Revenue			
	Income Tax								Other Taxation Revenue										
	Individuals								Excises										
	Gross PAYE %	Gross Other %	Gross PPS %	Total (b) %	Companies %	Super Funds %	FBT %	Total (c) %	Petroleum Products (d) %	Other (e) %	Total Excises %	Sales Tax %	Customs Duty %	Total Other Tax (f) %	Total Tax Revenue %	Interest %	Dividends and Other %	Total Non-Tax Revenue %	Total Revenue %
1989-90	11.4	2.7	0.5	13.0	3.4	0.1	0.3	17.0	2.0	0.6	2.6	2.6	1.0	6.7	23.8	0.9	0.3	1.2	25.0
1990-91	11.1	2.9	0.4	12.7	3.6	0.3	0.3	17.1	2.0	0.6	2.6	2.4	0.8	6.4	23.5	0.8	0.4	1.2	24.7
1991-92	10.8	2.3	0.4	11.5	3.3	0.3	0.3	15.8	1.8	0.6	2.3	2.2	0.8	5.8	21.7	0.7	0.6	1.4	23.0
1992-93	10.6	1.9	0.4	11.1	3.1	0.4	0.3	15.4	1.7	0.6	2.3	2.2	0.8	5.6	20.9	0.6	0.7	1.3	22.2
1993-94	10.5	1.9	0.4	11.2	2.8	0.3	0.3	15.1	1.9	0.5	2.4	2.3	0.7	5.8	20.9	0.5	1.0	1.5	22.4
1994-95	10.7	2.0	0.5	11.5	3.3	0.4	0.6	16.2	2.0	0.5	2.5	2.4	0.7	6.1	22.3	0.4	0.6	1.0	23.3
1995-96	11.1	2.0	0.4	11.9	3.6	0.3	0.6	16.8	2.0	0.5	2.5	2.5	0.6	6.1	22.9	0.3	0.8	1.0	23.9
1996-97	11.5	2.2	0.4	12.5	3.6	0.5	0.6	17.6	2.0	0.5	2.5	2.5	0.6	6.0	23.6	0.2	0.8	1.0	24.6
1997-98	11.6	2.1	0.4	12.5	3.4	0.5	0.6	17.4	1.9	0.5	2.4	2.5	0.6	6.0	23.4	0.2	0.6	0.8	24.2
1998-99	12.0	2.2	0.5	12.9	3.5	0.7	0.6	17.9	1.9	0.4	2.3	2.6	0.6	5.9	23.8	0.1	0.8	0.9	24.7
1999-00(g)	12.2	2.1	0.5	13.0	3.6	0.6	0.5	18.2	1.8	0.4	2.3	2.5	0.6	5.6	23.7	0.5	1.8	2.3	26.0
2000-01(g)	10.8	1.9	0.0	11.0	4.0	0.7	0.5	16.7	1.9	1.0	3.0	0.3	0.7	4.2	20.9	0.5	1.3	1.8	22.7

(a) All estimates expressed as a proportion of GDP use the current budget GDP series.
(b) The total for the individuals category also includes Medicare levy collections and refunds.
(c) The total for the income tax category also includes refunds, Medicare levy collections, PRRT and withholding tax.
(d) Petroleum products excise includes crude oil and LPG excise, but excludes the DFRS offset to revenue, which has been reclassified as an expense.
(e) The ‘Other’ category comprises excise from beer, potable spirits and tobacco.
(f) As well as excises, sales tax and customs duty, ‘Other Taxation Revenue’ includes other taxes, fees and fines.
(g) Estimates for 1999-2000 and 2000-01 are derived using cash flow data from the Commonwealth’s accrual accounting system. Note that the categories ‘Interest’ and ‘Dividends and Other’ include significant new items that were netted off in previous budgets (for further information, refer to footnote (b) in table D1 of this Statement).

Table D3: Major Categories of Revenue as a Proportion of Total Revenue (cash basis)

	Taxation Revenue															Non-Taxation Revenue		
	Income Tax								Other Taxation Revenue									
	Individuals								Excises									
	Gross PAYE %	Gross Other %	Gross PPS %	Total (a) %	Companies %	Super Funds %	FBT %	Total (b) %	Petroleum Products (c) %	Other (d) %	Total Excises %	Sales Tax %	Customs Duty %	Total Other Tax (e) %	Total Tax Revenue %	Interest %	Dividends and Other %	Total Non-Tax Revenue %
1989-90	45.5	10.8	2.0	52.2	13.5	0.4	1.2	68.2	8.0	2.3	10.3	10.6	4.1	26.9	95.2	3.6	1.2	4.8
1990-91	44.8	11.6	1.7	51.2	14.4	1.1	1.3	69.3	8.2	2.4	10.6	9.5	3.4	25.8	95.0	3.4	1.6	5.0
1991-92	46.8	9.8	1.7	49.9	14.4	1.2	1.4	68.9	7.7	2.5	10.1	9.7	3.5	25.2	94.1	3.2	2.7	5.9
1992-93	47.7	8.8	1.8	50.0	13.7	1.6	1.4	69.0	7.7	2.5	10.2	9.7	3.5	25.1	94.1	2.6	3.3	5.9
1993-94	46.8	8.6	1.9	50.2	12.6	1.2	1.4	67.3	8.5	2.2	10.7	10.3	3.2	26.0	93.3	2.0	4.6	6.7
1994-95	46.1	8.6	2.0	49.5	14.1	1.7	2.5	69.4	8.5	2.3	10.9	10.5	3.1	26.3	95.7	1.6	2.7	4.3
1995-96	46.4	8.3	1.8	49.6	15.0	1.3	2.5	70.2	8.4	2.1	10.6	10.6	2.6	25.4	95.6	1.2	3.2	4.4
1996-97	46.7	9.0	1.7	50.7	14.6	2.0	2.4	71.6	8.1	2.1	10.1	10.2	2.5	24.5	96.0	0.9	3.1	4.0
1997-98	48.0	8.8	1.8	51.7	14.2	2.3	2.3	71.9	8.0	1.9	9.9	10.3	2.7	24.6	96.5	0.8	2.6	3.5
1998-99	48.6	8.9	1.9	52.4	14.2	2.7	2.2	72.6	7.5	1.8	9.3	10.4	2.5	23.8	96.4	0.5	3.2	3.6
1999-00(f)	46.7	8.1	1.9	50.1	13.8	2.3	2.0	69.8	7.0	1.7	8.7	9.5	2.3	21.4	91.2	1.8	7.0	8.8
2000-01(f)	47.5	8.4	0.0	48.6	17.7	2.9	2.4	73.4	8.5	4.5	13.0	1.4	2.9	18.6	92.0	2.3	5.7	8.0

(a) The total for the individuals category also includes Medicare levy collections and refunds.
(b) The total for the income tax category also includes refunds, Medicare levy collections, PRRT and withholding tax.
(c) Petroleum products excise includes crude oil and LPG excise, but excludes the DFRS offset to revenue, which has been reclassified as an expense.
(d) The 'Other' category comprises excise from beer, potable spirits and tobacco.
(e) As well as excises, sales tax and customs duty, 'Other Taxation Revenue' includes other taxes, fees and fines.
(f) Estimates for 1999-2000 and 2000-01 are derived using cash flow data from the Commonwealth's accrual accounting system. Note that the categories 'Interest' and 'Dividends and Other' include significant new items that were netted off in previous budgets (for further information, refer to footnote (b) in table D1 of this Statement).

STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

Contents

Statement 6: Expenses and Net Capital Investment

Introduction

Statement 6 presents estimates of general government expenses, net capital investment and capital appropriations in 1999-2000, the Budget year and forward years. In last year's budget, capital estimates were presented as a separate statement. Capital information is now presented in this statement in aggregate in Part II and under each portfolio in Part III.

The general government overview sections in Part I and Part II discuss trends in aggregate expenses and capital, with a particular focus on explaining major variations since the 1999-2000 Budget. Expenses are categorised as either departmental or administered expenses. Departmental expenses are those expenses that are within the control of the relevant agency, whereas administered expenses are those expenses agencies administer on behalf of the Government.

Part III discusses expenses and capital movements by portfolio. The emphasis is on analysing major trends in terms of measures and other variations. A general description of each portfolio is also presented.

Tables and Data

The data shown in all tables are prepared on an accrual basis in accordance with applicable Australian Accounting Standards, including Australian Accounting Standard 31 *Financial Reporting by Governments* (AAS31), except as identified in Note 1 to Statement 4.

The tables in Part III show expenses by portfolio for all material agencies. These expenses are at the agency level and have not been consolidated to eliminate transactions between agencies. In this form, the expenses show the consumption of resources by each individual agency.

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

Expenses

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

The general government sector expenses are based on a system of rolling forward estimates consolidated by the Department of Finance and Administration (DOFA), largely from estimates supplied by other agencies. There are 44 material agencies in the general government sector, which comprise more than 99 per cent of the Budget. A full set of estimates is maintained for each of these agencies. The estimates of a large number of very small agencies in the sector are not material from either an accounting or budgeting point of view. These are referred to in the Budget as small agencies, and only limited estimates information is maintained to avoid placing an undue administrative burden on them.

CAPITAL

As owner, the Government is responsible for ensuring that agencies have access to new capital when additional investment is required to deliver outputs efficiently and competitively, having regard to the cost of capital. Agencies, on the other hand, are responsible for the stewardship of the Government's investment, particularly in ensuring that the value of the Government's investment is not diminished over time. Normally this requires that agencies ensure that revenues cover all expenses, including depreciation.

This statement encompasses two concepts of capital — net capital investment and capital appropriations.

Net capital investment reflects the change in the balance sheet value of non-financial assets (property, plant and equipment, for example). Capital investment may be funded by:

- internal funds, which can be comprised of:
  - cash from operations;
  - capital appropriations made by the Government in preceding years; and
  - sales of agency assets; or
- capital appropriations.

A capital appropriation is the means by which the Government provides capital funding to its agencies. Capital appropriations can be used for a variety of purposes, such as investing in financial and non-financial assets, and reducing liabilities. There are several forms of capital appropriation:

- capital appropriations for departmental purposes, being:

  - **equity injections**, which are a direct injection of cash into an agency to fund departmental investments, where the Government earns a return on its investment in the form of a dividend and / or improved performance; or

  - **loans**, where the Government provides cash to an agency to fund departmental investments that is repayable with interest by the agency;

- **administered capital** appropriations, which are for activities administered by agencies in their fiduciary capacity on behalf of the Government and which comprise equity injections, loans or carryovers; and

- as a transitional arrangement for departmental items, **appropriation of previous years carryovers**. Under running cost arrangements prior to the introduction of the Accrual Budgeting Framework, agencies might have received additional funding for appropriations not expended in the previous year. To avoid a distortion of price in future years, it was decided that carryovers of running costs would be made available to agencies in the form of a specifically identified equity injection.

CONTINGENCY RESERVE

The Contingency Reserve is the means of ensuring that the aggregate estimates are robust and based on the best information available at the time of publication. A more detailed discussion of the Contingency Reserve is contained in Part III of this statement.

PORTFOLIO BUDGET STATEMENTS

Further information on material agencies' expenses, capital movements, major outputs, administered items and small agencies may be found in the respective Portfolio Budget Statements.

Part I: Overview of General Government Expenses

Table 1: Estimates of Commonwealth General Government Expenses

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Expenses ($m)	**158392**	**153732**	**159728**	**163424**	**169061**
Real growth on previous year (%)		-5.5	1.5	-0.1	1.0
Per cent of GDP	25.2	23.0	22.5	21.8	21.2

Expenses are estimated to decrease by 5.5 per cent in real terms between 1999-2000 and 2000-01. They are projected to increase by 1.5 per cent in 2001-02, decrease by 0.1 per cent in 2002-03, and increase by 1 per cent in 2003-04.

Major movements within the estimates of expenses include a reduction in expenses for the Treasury portfolio as a result of revised Commonwealth-State financial arrangements introduced as part of *The New Tax System*. Under the new arrangements, Financial Assistance Grants to the States and Territories ($17.3 billion in 1999-2000) have been abolished as a result of the States and Territories receiving all the revenue from the Goods and Services Tax (GST).

This has been partly offset by the following:

- Expenses for the Family and Community Services portfolio have risen in 2000-01, largely due to compensation measures announced as part of *The New Tax System*.

- The increase in the Australian Taxation Office expenses in the Treasury portfolio, between 1999-2000 and 2000-01 is largely due to the introduction of the Diesel and Alternative Fuels Grants Scheme. Expenses are also increased by the introduction of the *Fuels Sales Grants Scheme*, which is estimated at $110 million in 2000-01.

- The Budget introduces an integrated package of measures, the *Regional Health Package — More Doctors, Better Services*, directed at improving access to rural health and aged care services in the short-term, with initiatives to ensure the long-term sustainability of that access, at a cost of $562 million over the coming four years.

Estimates presented in Table 1 above are disaggregated and more fully explained in Part III of this statement, which deals with Commonwealth Expenses and Capital Estimates by portfolio.

RECONCILIATION OF EXPENSES SINCE THE 1999-2000 BUDGET

Table 2: Reconciliation of Commonwealth General Government Expenses Estimates

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m
Expenses at 1999-2000 Budget	**157111**	**143776**	**148357**	**151432**
Changes from 1999-2000 Budget to MYEFO				
Effect of policy decisions(a)	1281	4259	3533	3663
Effect of economic parameter variations				
Unemployment benefits	-395	-362	-294	-304
Prices and wages	161	224	248	335
Interest and exchange rates	-279	-12	0	0
Public debt interest	-429	693	1165	1962
Total economic parameter variations	-943	543	1118	1992
Programme specific parameter variations	719	879	1210	555
Other variations	-1455	216	721	798
Total variations	-397	5897	6582	7008
Expenses at 1999-2000 MYEFO	**156714**	**149673**	**154939**	**158441**
Changes from MYEFO to 2000-01 Budget				
Effect of policy decisions(a)	25	872	832	728
Effect of economic parameter variations				
Unemployment benefits	46	-53	-53	-106
Prices and wages	54	36	63	450
Interest and exchange rates	-180	11	-7	-8
Public debt interest	780	320	87	97
Total economic parameter variations	701	315	90	433
Programme specific parameter variations	-355	282	827	895
Other variations	1308	2591	3039	2929
Total variations	1678	4059	4789	4984
Expenses at 2000-2001 Budget	**158392**	**153732**	**159728**	**163424**

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

Variations in expense estimates from the 1999-2000 Budget to *Mid-Year Economic and Fiscal Outlook 1999-2000* (MYEFO) were discussed in the 1999-2000 MYEFO document. Since MYEFO, however, expenses increase by $1,678 million in 1999-2000 and by $4,059 million in 2000-01. In 2001-02 estimates increase by $4,789 million and, in 2002-03, by $4,984 million.

Policy Decisions

The effect of policy decisions since MYEFO has been to increase estimates in all years — by $25 million in 1999-2000, $872 million in 2000-01, $832 million in 2001-02 and $728 million in 2002-03. These movements are largely due to:

- an additional $562 million over the Budget and forward years for the *Regional Health Package — More Doctors, Better Services*;
- an additional $500 million over the Budget and forward years for the *Fuels Sales Grants Scheme***,** targeted at consumers in remote and non-metropolitan Australia and introduced to reduce the pump price of petrol and diesel in rural and regional areas;
- the *Agriculture — Advancing Australia Package*, which has been continued and enhanced for four years at a total cost of $309 million, with components refocused to facilitate change, while retaining essential elements of social welfare;
- an additional $240 million over four years for the *Stronger Families and Communities Strategy*;
- extra funding of around $240 million over three years for *Fringe Benefits Tax transitional grants for public and not-for-profit hospitals* to ease the transition to changes to the fringe benefits tax (FBT) legislation;
- an additional $135 million over three years for the *Employee Entitlements Support Scheme* to assist people who suffer a loss of employee entitlements due to employer insolvency, backdated to 1 January 2000;
- the *Residential Aged Care Funding Equalisation and Assistance Package* in response to the Productivity Commission's inquiry into nursing home subsidies, in which $148 million over six years to 2005-06 will fund the transition from different payment rates in each State to a uniform national payment for nursing home care;
- the *Continued Australian Police presence in the United Nations Transitional Administration in East Timor* at a cost of $104 million over four years;
- the *Establishment of an Ongoing East Timor Aid Programme*, in which additional funding of $100 million over four years will focus on long-term development and nation building; and
- $97 million for the *Product Stewardship arrangement for Waste Oil*, in which a 5 cent per litre levy will apply to oil and lubricant products from 1 July 2000 as part of the *A New Tax System — Measures for a Better Environment* package to fund payments to operations involved in sustainable recycling and re-use of waste oil.

Parameter and Other Variations

Parameter and other variations since MYEFO have increased expenses by $1,654 million in 1999-2000, $3,188 million in 2000-01, $3,957 million in 2001-02 and $4,256 million in 2002-03. These variations are predominantly due to:

- the impact of the reclassification of the Diesel Fuel Rebate Scheme (DFRS) from a revenue offset to an expense. This follows the agreement with the Australian Democrats to introduce a targeted grants scheme (while retaining a rebate scheme) in place of the tax credit scheme proposed in *A New Tax System*. This reclassification increases revenue by around $1.6 billion in 1999-2000 and $2 billion in 2000-01, with equivalent increases in expenses; and

- a re-evaluation of the expected distribution of *Family Tax Benefit (FTB) Package* between revenue and expenses. Recent survey data suggest that more families than previously expected will claim the FTB as a cash payment rather than through the taxation system, increasing expenses by around $0.6 billion from 2000-01.

Other variations include:

- an increase in estimated grants to balance state budgets in the Budget and the forward years ($70 million in 2000-01, $986 million in 2001-02 and $393 million in 2002-03). These payments ensure that the States are no worse off financially in the years following the introduction of the GST than they would be under the current arrangements;

- a $339 million downward revision over five years from 1999-2000 of expenses related to the East Timor deployment. This has resulted in a hand-back of funds to the budget, reflecting more accurate costings from on the ground experience in East Timor. Estimates of the costs of the deployment have been revised and adjustments made to the funding in all years;

- the effect of a large increase in the forecast number of unauthorised arrivals by boat, which has led to a significant increase in expected detention costs of $118 million in 1999-2000, and is projected to cost $215 million in 2000-01, $200 million in 2001-02 and $205 million in 2002-03; and

- an increase in expenditure on the cardiovascular group of drugs in the Pharmaceutical Benefits Scheme, largely due to higher than expected prescribing rates ($129 million in 1999-2000, $132 million in 2000-01, $140 million in 2001-02 and $150 million in 2002-03). This change is offset, in part, by a decrease in expected client numbers.

Part II: Overview of General Government Net Capital Investment and Capital Appropriations

Table 3: Estimates of Commonwealth General Government Net Capital Investment[(a)]

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Net capital investment ($m)	**795.3**	**205.6**	**658.8**	**559.9**	**853.0**
Real growth on previous year (%)		-74.8	212.9	-17.0	48.7
Per cent of GDP	0.1	0.0	0.1	0.1	0.1
Memorandum item:					
Capital appropriations	**3779.1**	**5126.7**	**3162.6**	**2706.9**	**2291.2**
Real growth on previous year (%)		32.0	-39.7	-16.4	-17.4
Per cent of GDP	0.6	0.8	0.4	0.4	0.3

(a) Net capital investment is defined as the change in the balance sheet value of non-financial assets (for example, property, plant and equipment). There are some significant classification differences between the net capital investment estimates reported in this Statement — which is prepared using accounting standard estimates of non-financial assets — and the GFS estimates used in the calculation of the fiscal balance.

Net capital investment for the general government sector is estimated at $206 million in 2000-01 and $2.1 billion over the forward years.

The contraction in net capital investment in 2000-01 largely reflects property sales in the Department of Defence, the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and DOFA.

Estimates presented in Table 3 are disaggregated and are more fully explained in Part III of this statement, which deals with expenses and net capital investment by portfolio.

RECONCILIATION OF NET CAPITAL INVESTMENT SINCE THE 1999-2000 BUDGET

Table 4: Reconciliation of Estimates of Commonwealth General Government Net Capital Investment[(a)]

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m
Change in non-financial assets at 1999-2000 Budget	**1368**	**900**	**873**	**1004**
Changes between 1999-2000 Budget and MYEFO				
Effect of policy decisions	145	255	110	26
Effect of economic parameter and other variations	-467	-752	-755	-655
Total variations	**-322**	**-498**	**-645**	**-629**
Change in non-financial assets at 1999-2000 MYEFO	**1047**	**403**	**227**	**375**
Changes between MYEFO and 2000-01 Budget				
Effect of policy decisions	35	-197	11	-82
Effect of economic parameter and other variations	-287	0	421	266
Total variations	**-252**	**-197**	**432**	**185**
Change in non-financial assets at 2000-01 Budget	**795**	**206**	**659**	**560**

(a) Net capital investment is defined as the change in non-financial assets. Capital policy decisions as shown above do not include capital measures that fall outside this definition, for example equity injections to reduce an agency's balance sheet liabilities.

Table 4 provides a reconciliation of the 2000-01 Budget, MYEFO and 1999-2000 Budget net capital investment estimates, showing the effect of policy decisions and economic parameter and other variations since the estimates were published in the 1999-2000 Budget.

The variations in capital investment estimates since MYEFO reflect the impact of policy decisions and other changes.

Policy Decisions

The effect of policy decisions has been to increase net capital investments by $35 million in 1999-2000, decrease net capital investment by $197 million in 2000-01, increase net capital investment by $11 million in 2001-02 and decrease net capital investment by $82 million in 2002-03. These movements are largely due to:

- the provision by the Government of additional funding to the Department of Defence of $208 million in 2000-01 for the enhancement of two Collins class submarines and for other key activities, including logistic support and the introduction of new corporate and information management systems;

- the Government providing the Australian Broadcasting Corporation (ABC) and Special Broadcasting Service Corporation (SBS) with capital funding of $37 million and $29 million respectively over four years for *Digital broadcasting — resourcing for digital equipment*;

- the provision of $22 million in the Budget year and $69 million over the Budget and forward years for *Indian Ocean Territories Infrastructure Development Programme*. This supports the Government's objective of bringing the public infrastructure on the Cocos (Keeling) Islands and Christmas Island up to mainland standards;

- the *Establishment of the Administrative Review Tribunal* in the Attorney-General's portfolio. The Government will provide a capital injection of up to $15 million in 2000-01 to make possible the merger of the Administrative Appeals Tribunal, the Social Security Appeals Tribunal, the Refugee Review Tribunal and the Migration Review Tribunal;

- decisions by the Government to provide additional capital funding to the Australian Taxation Office to develop computer software for implementation of the *Business Tax Reform* measures and to develop computer software to deliver the *Fuels Sales Grants Scheme*; and

- property sales in the Department of Defence and the CSIRO totalling $541 million and $107 million respectively over the Budget and forward years.

Parameter and Other Variations

Parameter and other variations since MYEFO have led net capital investment to decrease by $287 million in 1999-2000, remain unchanged in 2000-01, increase by $421 million in 2001-02 and by $266 million in 2002-03. These variations are largely due to:

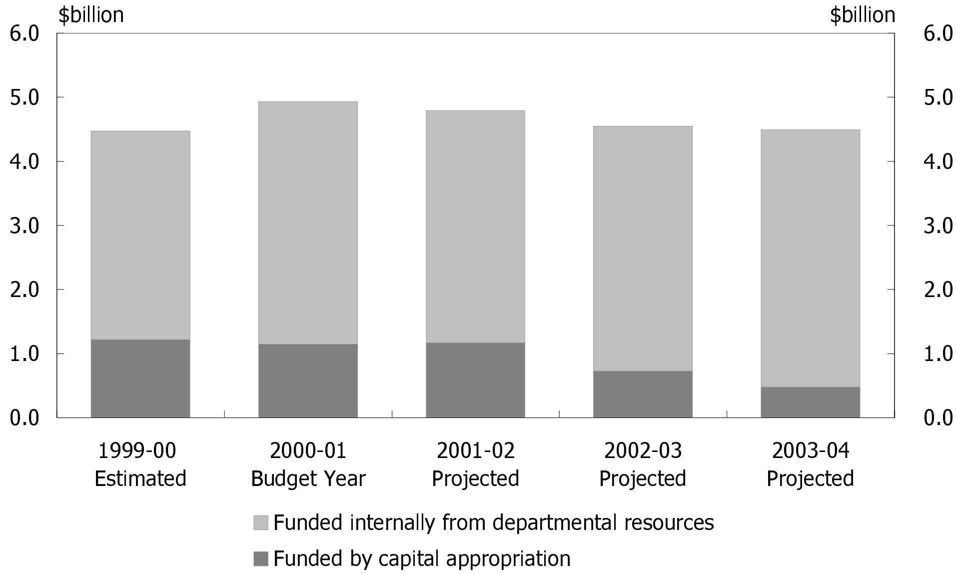
- variations in opening balances following completion of 1998-99 agency audits by the Australian National Audit Office (ANAO). This reduced non-financial assets by $30 million in 1999-2000;

- a decrease of $139 million in 1999-2000, reflecting an increase in disposals of housing stock by the Defence Housing Authority (DHA);

- an increase in the contingency reserve to compensate for an apparent conservative bias in agencies' capital expenditure strategies. With the introduction of accrual budgeting, a number of agencies are still in the process of fully developing their out-year asset replacement strategies; and

- a reallocation between expenses and capital expenditure in Defence, including for Australia's participation in East Timor. The Defence capital budget is financed from within an overall global budget that covers both recurrent and capital requirements. This has resulted in an increase in capital expenditure of $193 million in 1999-2000, a decrease in capital expenditure of $28 million in 2000-01 and increases of $368 million in 2001-02 and $22 million in 2002-03.

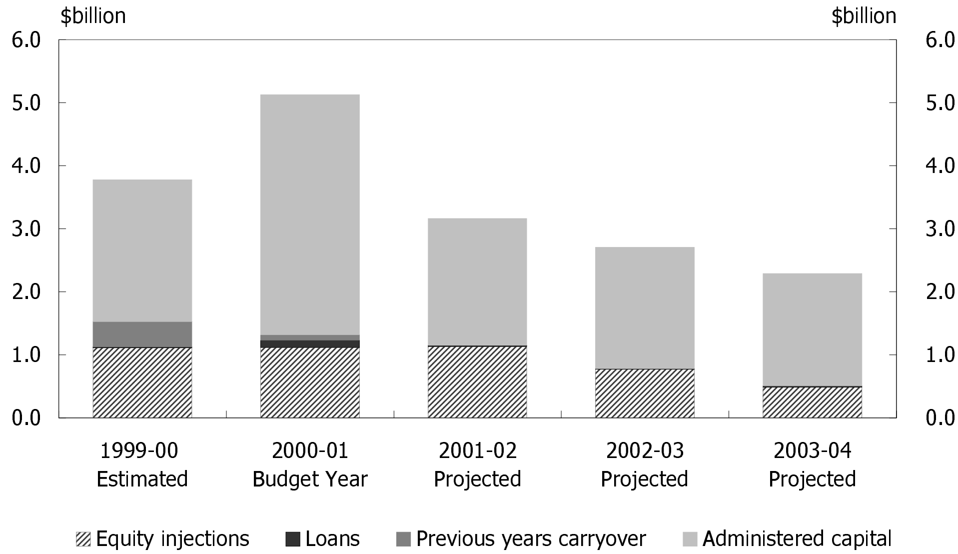
Chart 1: Capital Expenditure in General Government Agencies[(a)]



(a) Capital expenditure is defined as the purchase of non-financial assets exclusive of inventories.

Chart 1 shows that the Commonwealth is moving towards agencies funding a greater proportion of their capital expenditure from internal sources. This reflects the adoption of the accrual budgeting framework, which funds agencies for the full price of their inputs, including for the depreciation of their assets. Accordingly, agencies are now able to budget and fund internally the replacement of capital assets as their useful life comes to an end.

Chart 2: Summary of Capital Appropriations



The Government anticipates making an aggregate capital investment of $5.1 billion in 2000-01 and a total of $13.2 billion over the Budget and forward years.

The large increase in administered capital in 2000-01 relates to the Commonwealth's commitment that the States and Territories will be no worse off under the implementation of *The New Tax System*. The States and Territories will be advanced $1.7 billion in 2000-01, an investment in a financial asset from the Commonwealth's perspective, which will be repayable without interest.

Four agencies account for three-quarters of the capital appropriations over the Budget and forward years:

- the Department of Finance and Administration, at $3.4 billion, predominantly to fund the payment of superannuation liabilities as Commonwealth employees resign or retire;

- the Department of Education, Training and Youth Affairs (DETYA), at $2.4 billion, to fund Higher Education Contribution Scheme (HECS) loans on behalf of students of higher education institutions and ABSTUDY Supplement Loan Scheme;

- the Department of Defence, at $2.3 billion, which is associated with the additional Government contribution to Defence that is required to fund Defence's departmental outcome appropriation to the Government agreed level of global funding; and

- the Treasury, at $1.8 billion, largely being the advance to States and Territories associated with the implementation of *The New Tax System*.

The Government is providing the ABC with a $150 million loan facility to assist in the second stage of its relocation to new premises in Ultimo, New South Wales and to enable the ABC to re-finance, on budget, current commercial debt facilities as they mature.

Part III: Expenses and Net Capital Investment by Portfolio

AGRICULTURE, FISHERIES AND FORESTRY

Table 5: Summary of Expenses and Net Capital Investment[(a)]

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Agriculture, Fisheries and Forestry					
Expenses					
Department of Agriculture, Fisheries and Forestry					
Administered	1043.6	1013.4	1011.4	1032.3	1067.2
Departmental	335.9	309.4	310.9	284.5	289.3
Australian Wool Research and Promotion Organisation					
Departmental	120.1	119.1	120.2	129.7	126.8
Grains Research and Development Corporation					
Departmental	103.8	102.9	99.2	95.9	92.6
Net capital investment					
Department of Agriculture, Fisheries and Forestry	-15.6	-8.1	-2.4	-2.4	-4.7
Australian Wool Research and Promotion Organisation	-6.2	-6.4	-2.6	-2.3	-2.3
Grains Research and Development Corporation	-0.1	-0.1	-0.1	-0.1	-0.1
Memorandum item:					
Capital appropriations	**23.0**	**0.0**	**0.0**	**0.0**	**0.0**

(a) Data in Table 5 relate to material agencies only and due to payments between agencies within the portfolio these numbers should not be added to form a total.

Note: Further information can be obtained from the Portfolio Budget Statement.

Summary of Major Developments in Portfolio Expenses and Net Capital Investment

The portfolio contributes to sustainable, competitive and profitable Australian agricultural, fisheries, food and forestry industries.

Trends in Expenses

Department of Agriculture, Fisheries and Forestry

Total expenses for the Department of Agriculture, Fisheries and Forestry (AFFA) remain relatively constant across the forward estimates.

The small reduction in administered expenses which occurs between 1999-2000 and 2000-01 is primarily due to the final replacement of the Income Equalisation Deposits scheme with the Farm Management Deposits Scheme and a number of other minor reductions to programme expenses.

Administered expenses increase between 2001-02 and 2002-03, largely as a result of the *Agriculture — Advancing Australia Package* being extended for four years at a cost of $309 million. The Package's components have been refocused to facilitate change, improve farm skills and expand market opportunities, while retaining essential elements of social welfare. A new programme to encourage farmers to introduce innovative practices and diversify their production will start in 2000-01.

The reduction in departmental expenses over the Budget and forward years reflects the completion of several successful programmes, including *Regional Forest Agreements, Supermarket to Asia Strategy* and the *Food and Fibre Supply Chain Programme*. Progressive self-regulation within the meat industry will also reduce expenses within the Australian Quarantine and Inspection Service (AQIS).

Australian Wool Research and Promotion Organisation

Expenses for the Australian Wool Research and Promotion Organisation (AWRAP) remain relatively stable over the forward years, with small variations between years reflecting patterns of one-off expenditure by the organisation.

Grains Research and Development Corporation

Expenses for the Grains Research and Development Corporation (GRDC) reduce marginally over the forward year period as current research projects are progressively completed.

Capital Movements

Department of Agriculture, Fisheries and Forestry

The one-off capital appropriation in 1999-2000 is a capital appropriation of previous years carryover.

The decline in net capital investment between 1999-2000 and 2001-02 is due to the progressive outsourcing of information technology functions. From 2001-02 the movement in net capital investment reflects depreciation, pending the development of an asset replacement strategy.

Agriculture, Fisheries and Forestry will purchase special purpose software for AQIS to improve the current border monitoring database systems. This is estimated to amount to $4 million per annum from 2000-01 to 2002-03.

Australian Wool Research and Promotion Organisation

The downward trend in AWRAP's purchases of capital investments over the outyears is mainly due to the reduction in the company's size and subsequent divestment of assets.

Portfolio Overview

The portfolio focuses on industry development strategies, which build stronger and more cooperative relationships along the chain from producer to consumer. To this end, the *Agriculture — Advancing Australia* P*ackage* of programmes encourages self-reliant producers to acquire a strong skills base, as well as a positive attitude to acquiring knowledge and the management of risk.

In the international sphere, the portfolio aims to improve market access, particularly through international trade negotiations and the *Supermarket to Asia* programme. This is underpinned by a national regulatory service, administered by AQIS and the National Office of Animal and Plant Health and Food Safety, which protect the safety and health of Australia's agricultural, fisheries and forestry industries.

To ensure that Australia's natural resources are available for future generations, the portfolio uses research-driven resource management strategies to ensure that the land and water resource base is sustainably managed, including addressing land degradation and salinity issues.

Material agencies under this portfolio are: the Department of Agriculture, Fisheries and Forestry; the Australian Wool Research and Promotion Organisation; and the Grains Research and Development Corporation.

Small agencies under this portfolio are: the Australian Dried Fruits Board; the Australian Fisheries Management Authority; the Australian Horticultural Corporation; the Australian Pork Corporation; the Australian Wine and Brandy Corporation; the Cotton Research and Development Corporation; the Dairy Research and Development Corporation; the Fisheries Research and Development Corporation; the Forest and Wood Products Research and Development Corporation; the Grape and Wine Research and Development Corporation; the Horticultural Research and Development Corporation; the Land and Water Resources Development Corporation; the National Registration Authority for Agricultural & Veterinary Chemicals; the Pig Research and Development Corporation; the Rural Industries Research and Development Corporation; the Sugar Research and Development Corporation; the Tobacco Research and Development Corporation; and the Wheat Export Authority.

Table 6: Summary of Expenses and Net Capital Investment[(a)]

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Attorney-General's					
Expenses					
Attorney-General's Department					
Administered	160.5	239.8	231.4	231.3	241.3
Departmental	235.7	225.4	216.5	209.1	203.8
Australian Customs Service					
Administered	0.3	0.3	0.3	0.3	0.3
Departmental	582.4	626.2	631.3	641.4	649.0
Australian Federal Police					
Administered	8.4	0.0	0.0	0.0	0.0
Departmental	415.8	365.6	345.4	326.7	329.3
Family Court of Australia					
Departmental	122.4	112.7	113.5	115.2	112.6
Net capital investment					
Attorney-General's Department	-4.7	-4.7	2.0	-1.7	-2.3
Australian Customs Service	41.2	11.1	-20.5	-17.3	-11.6
Australian Federal Police	-3.4	-0.8	-4.0	-1.5	-1.5
Family Court	6.0	5.2	-1.0	-1.1	0.0
Memorandum item:					
Capital appropriations	**193.1**	**53.5**	**10.0**	**0.0**	**0.0**

(a) Data in Table 6 relate to material agencies only and due to payments between agencies within the portfolio these numbers should not be added to form a total.

Note: Further information can be obtained from the Portfolio Budget Statement.

Summary of Major Developments in Portfolio Expenses and Net Capital Investment

The portfolio covers a broad range of legal and judicial services that provide advice to the Government and enhance individual rights. It also promotes the maintenance of law and order, including national security and some aspects of customs and border control.

Trends in Expenses

The major changes in portfolio administered expenses relate largely to the Attorney-General's Department. The major developments in portfolio departmental expenses and resourcing arise from new measures to be implemented by law enforcement agencies and the establishment of the Administrative Review Tribunal (ART).

Attorney-General's Department

The Attorney-General's Department brought forward certain grant commitments to 1998-99 from 1999-2000 (grants to family relationship support organisations and grants to community legal centres) that led to a reduction in administered expenses for 1999-2000. Administered expenses have increased in 2000-01 by some $21 million due to new policy and the deferral of certain expenses from 1999-2000.

The Government will provide increased access to legal assistance to people who are unable to afford the cost of private legal services. The Government will also implement changes to the division of funding between the States and Territories to achieve an equitable distribution of legal aid funding. Additional resources of $63 million, including $46 million over four years from this Budget will be made available to State and Territory Legal Aid Commissions to achieve these initiatives.

In addition, the Attorney-General's Department departmental expenses for 2000-01 include new policy measures of some $13 million. Furthermore, the Family Court of Australia will transfer $3.3 million to the Attorney-General's Department as part of the establishment of the Federal Magistrates Service. The decrease in departmental expenses between 1999-2000 and 2000-01 is largely explained by referendum funding and a 1998-99 departmental carryover in 1999-2000.

The Attorney-General's Department is currently conducting a review of the price of its outputs in conjunction with the Department of Finance and Administration.

Australian Customs Service

Departmental expenses for the Australian Customs Service (ACS) have increased as a result of implementing the *Tourist Refund Scheme* and monitoring for compliance with GST requirements by importers and exporters under *The New Tax System*.

In 2000-01, the ACS will enter into a purchaser/provider arrangement with the Australian Taxation Office to fund the ACS for these activities. Under this arrangement, ACS expenses will increase by $43 million in 2000-01 and by a similar amount in future years.

The ACS will also contribute to the package of measures relating to unauthorised arrivals by leasing a charter vessel to transport unauthorised arrivals intercepted at sea or at islands off the mainland.

In addition, the ACS has completed a pricing review that included benchmarking services with similar overseas organisations. These measures are outlined further in *Budget Paper No. 2 — Budget Measures 2000-01*.

Australian Federal Police

In 2000-01, the Government will continue its Australian civilian police presence in East Timor, which has increased from the first detachment of 50 personnel for a 90-day commitment to replacement detachments of up to 80 personnel for a series of 90-day commitments. The civilian police presence will be deployed as part of the United Nations Transitional Administration for East Timor(UNTAET). Additional resources ($25 million in 2000-01, $26 million in 2001-02, $26 million in 2002-03 and $27 million in 2003-04) will be provided to the Australian Federal Police (AFP) for this measure.

In 1999, the Commonwealth agreed to provide equity funding to enable the AFP to extinguish certain accrued employee entitlements under the AFP Adjustments Scheme (AFPAS). Consequently, the AFP's expenses in 1999-2000 decrease from the recognition of future expenses as a result of the cessation of AFPAS, valued at $43 million and included on the basis of actuarial advice. In addition, over the period 1999-2000 to 2001-02, certain one-off expenses relating principally to the AFP Reform Programme and the Sydney Olympics (amounting to around $105 million) will cease to impact on expenses from 2002-03 onwards.

From 2000-01, the Government will address the growth of unauthorised arrivals by boat and reduce expenses on detention and processing. The AFP will contribute to the *Unauthorised Arrivals in Australia* package of measures by undertaking joint investigations of organised people smuggling with the Department of Immigration and Multicultural Affairs (DIMA), establishing an additional overseas liaison officer in Jakarta, and developing a law enforcement cooperation programme between Australia, Indonesia, Malaysia, Thailand and Pakistan.

Family Court of Australia

The decrease in expenses takes account of the transfer of some funding to the new Federal Magistrates Service.

Capital Movements

Australian Federal Police

The decline in capital appropriations largely arise from a wind-down in additional equity funding being provided by the Government to the AFP over a three-year period from 1999-2000. This funding is to enable it to extinguish accumulated liabilities of $105 million under the present AFPAS and the Cessation Payment Scheme.

Australian Customs Service

Capital investment is budgeted to decrease for the ACS during 2001-02 to 2003-04 as it completes the purchase of capital assets required for ongoing programmes such as the *Tough on Drugs* strategy. Further, the marine fleet upgrade replaces a fleet that had already been fully depreciated.

Portfolio Overview

The portfolio covers a broad range of legal and judicial services. These include legal policy; administrative, civil, family and international law; bankruptcy estate administration and regulation; courts and tribunals; legal aid; native title; human rights; criminal law and law enforcement; censorship and the provision of protective services to property and individuals. It also includes national security and some aspects of customs and border control.

The Department and portfolio agencies provide legal policy and services to the Commonwealth, enhance the rights of individuals, and afford the community reasonable access to justice. They promote the implementation of an effective justice system to promote timely adjudication of disputes, as well as the interpretation of the Australian Constitution. They also seek to contribute to the maintenance of law and order, implement effective measures against espionage and subversive activities, and maintain an effective border management policy.

Material agencies under the Attorney-General's portfolio are the Attorney-General's Department; the Australian Customs Service; the Australian Federal Police; and the Family Court of Australia.

Small agencies under the Attorney-General's portfolio are the Administrative Appeals Tribunal; the Australian Institute of Criminology; the Australian Law Reform Commission; the Australian Security Intelligence Organisation; the Australian Transactions Reports and Analysis Centre (AUSTRAC); the Criminology Research Council; the Federal Court of Australia; the High Court of Australia; the Human Rights and Equal Opportunity Commission; the National Crime Authority; the National Native Title Tribunal; the Office of Film and Literature Classification; the Office of Parliamentary Counsel; and the Office of the Commonwealth Director of Public Prosecutions.

COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS

Table 7: Summary of Expenses and Net Capital Investment[a]

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Communications, Information Technology and the Arts					
Expenses					
Department of Communications, Information Technology and the Arts					
Administered	532.0	480.5	496.7	326.7	281.0
Departmental	161.2	158.6	147.2	138.6	139.3
Australian Broadcasting Corporation					
Departmental	661.2	683.0	713.8	735.6	753.0
Special Broadcasting Service Corporation					
Departmental	129.3	131.3	130.5	134.4	131.9
Net capital investment					
Department of Communications, Information Technology and the Arts	81.9	-79.3	0.7	-2.6	-2.7
Australian Broadcasting Corporation	20.5	71.2	61.7	10.4	-18.1
Special Broadcasting Service Corporation	4.4	22.0	5.0	2.6	4.0
Memorandum item:					
Capital appropriations	**86.8**	**166.6**	**59.4**	**76.8**	**43.9**

(a) Data in Table 7 relate to material agencies only and due to payments between agencies within the portfolio these numbers should not be added to form a total.

Note: Further information can be obtained from the Portfolio Budget Statement.

Summary of Major Developments in Portfolio Expenses and Net Capital Investment

The portfolio facilitates a competitive and diverse communications and information technology sector, and encourages the arts and cultural awareness by providing support to various arts organisations.

Trends in Expenses

Department of Communications, Information Technology and the Arts

The downward trend in administered expenses over the forward years mainly reflects the conclusion of three Government programmes: *Telstra Social Bonus* funding; Federation Fund expenditure; and *Networking the Nation*. The Government is providing additional funding for a number of initiatives over the Budget and forward years, including funding for major performing arts.

The downward trend in departmental expenses over the forward years reflects the conclusion of activities and funding associated with the *Telstra Social Bonus* and Centenary of Federation.

Australian Broadcasting Corporation

The upward trend in expenses over the forward years largely reflects increased funding for depreciation of digital broadcasting equipment and price indexation, notably for transmission expenses.

Capital Movements

Department of Communications, Information Technology and the Arts

The increase in the net capital investment for the Department in 1999-2000 and the decrease in 2000-01 reflects the final stages of construction of the National Museum of Australia (NMA). Funding of $128 million has previously been provided to meet the capital cost of the new facility from the Federation Fund. The building will be transferred to the NMA in 2000-01.

Australian Broadcasting Corporation

Net capital investment for the ABC is fluctuating over the forward years due to two major influences. Firstly, the Commonwealth will provide the ABC with an equity injection of $37 million over four years to purchase new digital equipment for digital broadcasts. Secondly, the Government is providing the ABC with a $150 million loan facility to assist in the second stage of its relocation to new premises in Ultimo, New South Wales, and to enable the ABC to re-finance on Budget current commercial debt facilities as they mature.

Special Broadcasting Service Corporation

The movements in net capital investment for SBS over the forward years reflect an equity injection of $29 million over four years to purchase new digital equipment for digital broadcasts.

Portfolio Overview

The Commonwealth recognises the importance of a culturally aware society, as well as competitive and sustainable information technology and telecommunications sectors. The Department of Communications, Information Technology and the Arts is achieving these objectives by encouraging the arts and cultural awareness, providing support to various arts organisations and facilitating a competitive and diverse communications and information technology sector. It is also establishing a secure network to facilitate e-commerce and providing access to government information and services on-line.

The Commonwealth recognises that continuing advances in communications and information technology are fundamentally changing the way Australians live and work. A major objective of the portfolio is to ensure that Australians realise the extraordinary potential of these advances to create jobs and other opportunities.

Major funding and capital initiatives of the portfolio include the Cultural Development Programme and Australia Council initiatives supporting artistic endeavours, and the Federation Fund, which provides infrastructure to support Australia’s centenary of federation. It also supports various telecommunications and information technology initiatives that complement the Networking the Nation programme, which is designed to improve access and the quality of service for all Australians, and broadcasting services through the ABC and SBS.

The material agencies under the portfolio are: the Department of Communications, Information Technology and the Arts; the Australian Broadcasting Corporation; and the Special Broadcasting Service Corporation.

The small agencies under the portfolio are: the Australia Council; the Australian Broadcasting Authority; the Australian Communications Authority; the Australian Film Commission; the Australian Film, Television and Radio School; the Australian National Maritime Museum; the National Archives of Australia; the National Gallery of Australia; the National Library of Australia; and the National Museum of Australia.

DEFENCE

Table 8: Summary of Expenses and Net Capital Investment[a]

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Defence					
Expenses					
Department of Defence					
Administered	1702.6	1760.4	1807.7	1871.4	2026.0
Departmental	11510.3	11803.9	11853.0	12280.8	12746.8
Defence Housing Authority					
Departmental	244.8	261.1	278.7	280.9	275.4
Net capital investment					
Department of Defence	927.1	151.7	518.7	493.2	349.9
Defence Housing Authority	-198.2	-124.7	-142.5	53.7	101.8
Memorandum item:					
Capital appropriations	**765.6**	**752.9**	**698.4**	**526.2**	**335.2**

(a) Data in Table 8 relate to material agencies only and due to payments between agencies within the portfolio these numbers should not be added to form a total. Eliminations for inter-agency transactions within the Defence portfolio are estimated to be around $270 million, reflecting expenses paid to the Defence Housing Authority.

Note: Further information can be obtained from the Portfolio Budget Statement.

Summary of Major Developments in Portfolio Expenses and Net Capital Investment

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

Trends in Expenses

Department of Defence

The Government has maintained base-level defence funding in real terms in 2000-01 and over the forward years. The Department has also been provided with increased funding in the 2000-01 Budget and the forward years to address a number of specific funding priorities. From 1999-2000 to 2000-01 Departmental expenses increase by $293 million.

Significantly, increases in departmental expenses relate to the Australian Defence Force's involvement in East Timor. Another major influence results from funding for expenses being shifted from funding for capital investment. In 2001-02, funding for expenses is increased in part by a reallocation of $500 million from the departmental equity injection in accordance with Defence's global funding arrangements. The increase in administered expenses is primarily related to the annual actuarial reassessment of unfunded military superannuation liability.

The Department of Defence has been provided with supplementary funding for its participation in the UN-sponsored peace enforcement and peacekeeping operations in East Timor from September last year. The *Appropriation (East Timor) Act 1999-2000* provided for funding for the net additional costs associated with the deployment of up to 6,500 personnel in East Timor in support of Australia's leading nation role in International Force in East Timor (INTERFET), which operated under a peace enforcement mandate from the UN. Estimates (exclusive of capital use charge) of the net additional accrual costs of the East Timor deployment have been revised and adjustments made to the funding in all years (revised estimates are: $731 million in 1999-2000; $922 million in 2000-01; $736 million in 2001-02; $669 million in 2002-03 and $675 million in 2003-04).

Australian forces were scaled back to 2,200 personnel earlier this year with the peacekeeping operation now under the auspices of the United Nations Transitional Authority for East Timor (UNTAET). The permanent commitment will be around 1550 troops.

Australia bore the full responsibility for funding its own involvement in INTERFET and also incurred some costs on behalf of other INTERFET contributing nations. With the transition to a UN peacekeeping operation. UN reimbursements to Australia are expected to amount to $372 million over the next four years.

The Department has also been granted additional funding of $20 million in 2000-01 to extend the operational capability of the Reserves through initiatives to enhance the Reservists' role and support their employers.

Certain properties will be leased back as a result of a programme of Defence property sales agreed by Government. Defence will receive rental supplementation in respect of the commercial rental rates charged for some selected properties ($20 million in 2001-02, $21 million in 2002-03 and $21 million in 2003-04).

Military superannuation expense estimates are affected by annual actuarial assessments. The current actuarial assessment of superannuation resulted in increases in estimated superannuation expenses in future years, significantly in 2003-04 ($155 million).

Defence Housing Authority

The increase in expenses over the four years is mainly due to increases in rental payments to private sector property investors associated with the Authority's sale and leaseback programme for housing. There is also an increase in interest expenses associated with increasing debt levels as DHA moves to a more commercial capital structure.

Defence purchases housing services from the DHA which, in line with the 1998 review of DHA, is being restructured on a more commercial basis. The Department of Defence is being supplemented by around $69 million per annum in the 2000-01 Budget for increased costs associated with the adoption of more commercial practices by the DHA. These costs will be budget neutral, as increased dividends and taxes will result from the increased revenues to DHA.

Capital Movements

Department of Defence

The Defence capital budget is financed from within an overall budget for Defence. This global budget covers both recurrent and capital requirements and reflects the Government's commitment to no real change in Defence spending over the period 2000-01 to 2001-02. Total capital expenditure in 2000-01 is expected to be $3.3 billion and includes initiatives to progress the policy of enhancing capabilities across the priority areas of the knowledge edge, defeating air and maritime threats, and strike and land forces.

The capital appropriation represents the additional contribution to Defence by the Commonwealth as owner. Within Defence's global flexibilities, the injection can be used for any purpose that increases the net assets of Defence. The injection is not tied to any specific capital projects.

The Government has agreed to a programme of Defence property sales. Over four years $541 million will be returned to the Budget and Defence will retain $324 million from other sales to help offset budgetary pressures. This is in addition to the usual ongoing asset sales programme undertaken by Defence.

The Government will provide an additional capital appropriation of $208 million in 2000-01 for high-priority projects in Defence. An amount of $128 million is for the enhancement of two Collins Class submarines. The remainder is to be provided for other key activities, such as $40 million for the remediation of Reserve unit equipment that was used in East Timor and $40 million to support the introduction of new corporate and information management systems.

Defence Housing Authority

The initial decreases in net capital investment in years 1999-2000 to 2001-02 are due to the DHA's divestment of properties through a sale and leaseback programme. In the forward years, DHA will increase its stock of directly owned properties in order to meet the expected housing needs of Defence.

Portfolio Overview

Apart from its primary outcomes outlined above, the portfolio also delivers non-combat related services, such as search and rescue, to support the community in times of need. These services are made possible by using the capabilities that have been developed primarily for the defence of Australia.

Material agencies under the portfolio are: the Department of Defence; and the Defence Housing Authority.

EDUCATION, TRAINING AND YOUTH AFFAIRS

Table 9: Summary of Expenses and Net Capital Investment[(a)]

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Education, Training and Youth Affairs					
Expenses					
Department of Education, Training and Youth Affairs					
Administered	10952.1	11331.6	11782.1	12251.9	12737.2
Departmental	218.0	220.1	211.1	220.8	224.6
Net capital investment					
Department of Education, Training and Youth Affairs	-0.4	-0.3	0.8	-0.2	0.4
Memorandum item:					
Capital appropriations	**464.5**	**660.8**	**617.2**	**603.5**	**527.0**

(a) Data in Table 9 relate to material agencies only and due to payments between agencies within the portfolio these numbers should not be added to form a total.

Note: Further information can be obtained from the Portfolio Budget Statement.

Summary of Major Developments in Portfolio Expenses and Net Capital Investment

The Commonwealth is seeking to create a flexible education and training system that is available to all Australians. It aims to provide students with foundation skills by providing funding for general recurrent and capital grants for government and non-government schools. The Government also provides funding to higher education institutions and assists providers in the vocational education and training sector to help individuals achieve relevant skills and learning outcomes for work and life.

Trends in Expenses

Department of Education, Training and Youth Affairs

Total expenses for DETYA in 2000-01 are estimated to be $11.6 billion, an increase of 3.4 per cent on 1999-2000. The main driver of this change is the schools sector.

The Commonwealth's contribution to schools in 2000-01 is estimated to be $5.2 billion, increasing by 7 per cent from $4.8 billion in 1999-2000. This reflects increases in per capita costs and rising enrolments. An amount of $4.4 billion will be provided to government and non-government schools and school systems in the form of general recurrent and capital grants. Additionally, $700 million will be provided for specific programmes targeted at improving participation and educational attainment for Indigenous students and other groups requiring support.

The Commonwealth's contribution to higher education in 2000-01 is estimated to be $4.4 billion. This funding consists of Commonwealth subsidies to capital and recurrent costs through grants to universities. This includes $461 million to higher education research and research training. This maintains real levels of funding.

Estimated total higher education sector income is higher than ever before at over $9 billion. This represents Commonwealth grants, the HECS, State contributions, fees and charges levied by institutions, investment income, as well as income from other sources, including research contracts and consultancies.

The Commonwealth will contribute funding of $1.7 billion to the vocational education and training sector, including funding for youth programmes. This maintains real levels of funding. The bulk of this funding is directed through the Australian National Training Authority (ANTA) (almost $950 million) and funding for New Apprenticeships ($474 million), including New Apprenticeship Centres (NACs).

The Budget sees a number of new measures and endorsement of continued funding for lapsing programmes, each of which contributes positively to achieving the Government's national priorities for the portfolio. These are outlined in *Budget Paper No. 2 — Budget Measures 2000-01*.

Capital Movements

The Commonwealth funds HECS loans on behalf of students of higher education institutions, which are treated for accounting purposes as capital funding. The significant increase in capital appropriations from 1999-2000 to 2000-01 is a result of indexation of the total HECS debt. The gradual decline over the forward years is a result of increasing HECS debt repayments by students, which reduces the level of capital appropriation.

Portfolio Overview

The Commonwealth is seeking to create a flexible education and training system that is available to all Australians.

The Government aims to provide students with foundation skills by funding government and non-government schools. It also provides funding to assist students with special learning needs, including initiatives which introduce literacy and numeracy standards; educate Indigenous students; recognise the needs of students in rural and remote areas; assist students with language backgrounds other than English; and provide special education for students with disabilities. Funding is also available to address issues such as drugs in schools, quality schooling and curriculum development and to increase student participation in the study of targeted languages.

The Government provides funding to higher education institutions in order to support an independent and internationally competitive approach to teaching, research and scholarship. Australians' access to higher education is supported by the Commonwealth's grants to universities.

The Government seeks to assist providers in the vocational education sector by funding New Apprenticeships and contributing to ANTA. The Government also assists the transition of people into the workforce by organising training courses for those without sufficient literacy, numeracy and English language skills, as well as a number of transitional strategies such as career counselling and pathway programmes. In addition, key administered items such as Green Corps and programmes that assist young people with the transition from school to work encourage young Australians to contribute actively to the community.

Material agencies in the portfolio: the Department of Education, Training and Youth Affairs.

Small agencies in the portfolio: the Australian National Training Authority.

Table 10: Summary of Expenses and Net Capital Investment[(a)]

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Employment, Workplace Relations and Small Business					
Expenses					
Department of Employment, Workplace Relations and Small Business					
Administered	1119.7	1356.9	1350.8	1393.1	1378.1
Departmental	370.4	376.7	375.4	380.8	383.5
Comcare					
Departmental	141.4	159.8	173.8	178.0	188.7
Net capital investment					
Department of Employment, Workplace Relations and Small Business	9.3	11.2	-1.8	-1.9	-0.2
Comcare	0.0	0.0	0.0	0.0	0.0
Memorandum item:					
Capital appropriations	**123.9**	**0.0**	**0.0**	**0.0**	**0.0**

(a) Data in Table 10 relate to material agencies only and due to payments between agencies within the portfolio these numbers should not be added to form a total.

Note: Further information can be obtained from the Portfolio Budget Statement.

Summary of Major Developments in Portfolio Expenses and Net Capital Investment

The Employment, Workplace Relations and Small Business portfolio facilitates the efficient and equitable performance of the labour market and the promotion of an improved operating environment for small business. It aims to increase employment growth through initiatives that improve labour market performance, and encourages more flexible and fair workplace relations.

Trends in Expenses

Department of Employment, Workplace Relations and Small Business

Administered expenses are estimated to increase in 2000-01 due to the expansion of targeted employment assistance in support of the most disadvantaged job seekers and the expansion of other labour market programmes.

Budget measures to implement the *Employee Entitlements Support Scheme* and the *Dairy Regional Assistance Programme* have increased the administered expenses in 2000-01, 2001-02 and 2002-03 for the Department of Employment, Workplace Relations and Small Business (DEWRSB).

The increase in expenses for Comcare largely reflects the net movement in outstanding liabilities for workers' compensation claims, calculated by an actuary using factors such as age profiles, claims duration and frequency.

Capital Movements

The one-off capital appropriation in 1999-2000 was for administered and departmental carryovers from 1998-99.

Portfolio Overview

DEWRSB contributes to improved labour market performance and more flexible and fair workplace relations through policy advice, legislation development, programme administration, research and education. The Department is a major purchaser of employment services through Job Network and Centrelink.

The Department also administers a range of employment programmes to support the principle of mutual obligation and to promote employment initiatives at the regional level and for specific target groups, including Indigenous Australians. It plays a major role in developing the Government's workplace relations initiatives, including Australian Workplace Agreements. The Department also administers the International Labour Organisation membership subscription, and financing arrangements under the *Coal Mining Industry (Long Service Leave) Act 1922.*

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

The Department also improves access to government information and services via the Internet.

The Australian Industrial Relations Commission contributes to cooperative workplace relations by maintaining an effective award safety net and maintaining processes that facilitate agreement making. The Commission also provides conciliation and arbitration for employers, employees and their representatives, and ensures that workplace organisations are representative and accountable to members.

The Equal Opportunity for Women in the Workplace Agency implements legislative requirements under the *Equal Opportunity for Women in the Workplace Act 1999*, as well as promoting best practice affirmative action policies.

The National Occupational Health and Safety Commission assists governments to improve the health and safety of work environments.

Comcare and the Safety, Rehabilitation and Compensation Commission deliver occupational health and safety and workers' compensation for Commonwealth employees.

Material agencies under the portfolio are: the Department of Employment, Workplace Relations and Small Business; and Comcare.

Small agencies under the portfolio are: the Australian Industrial Relations Commission and Australian Industrial Registry; the Equal Opportunity for Women in the Workplace Agency; and the National Occupational Health and Safety Commission.

ENVIRONMENT AND HERITAGE

Table 11: Summary of Expenses and Net Capital Investment(a)

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Environment and Heritage					
Expenses					
Department of Environment and Heritage					
Administered	374.3	423.4	386.3	27.7	27.5
Departmental	441.7	460.0	460.6	422.1	416.1
Net capital investment					
Department of Environment and Heritage	-16.5	-7.3	-8.3	-7.1	-8.4
Memorandum item:					
Capital appropriations	**22.4**	**0.0**	**0.0**	**0.0**	**0.0**

(a) Data in Table 11 relate to material agencies only and due to payments between agencies within the portfolio these numbers should not be added to form a total.

Note: Further information can be obtained from the Portfolio Budget Statement.

Summary of Major Developments in Portfolio Expenses and Net Capital Investment

The portfolio serves to protect the environment and heritage, deliver meteorological and related science services to Australia and advance Australia's interests in Antarctica.

Trends in Expenses

The change in administered expenses over the Budget and forward years largely reflects the introduction of the *Product Stewardship Arrangements for Waste Oil* measure ($25 million) and the expenditure profiles of the Natural Heritage Trust (NHT) and the Federation Fund. The NHT has a commitment of $1.5 billion over six years (1996-97 to 2001-02), of which $1.35 billion was provided from the partial sale of Telstra.

The increase in departmental expenses between 1999-2000 and 2000-01 reflects the introduction of the *A New Tax System — Measures for a Better Environment* package ($100 million over the four years 2000-01 to 2003-04). The reduction in expenses after 2001-02 reflects the finalisation of the *Living Cities* and *Oceans Policy* programmes in that year.

The Government is maintaining its commitment to environmental issues by providing $896 million over the four years 2000-01 to 2003-04 from the *A New Tax System — Measures for a Better Environment* package. This funding was appropriated through the *Appropriations (Supplementary Measures) Act (No.2) 1999* on 11 November 1999. The package comprises a range of initiatives, including greenhouse gas abatement, oil recycling, renewable remote power generation and renewable energy programmes.

The Department of the Environment and Heritage (DEH) has completed stage one of a pricing review. This is outlined further in *Budget Paper No. 2 — Budget Measures 2000-01*.

Table 11 does not include expenses for the Australian Greenhouse Office, which is currently a small agency, but will receive funding of $796 million over the period 2000-01 to 2003-04 from the *A New Tax System — Measures for a Better Environment* package and will therefore be shown as a material agency in future budget papers.

Capital Movements

The decrease in net capital investment in 2000-01 largely reflects asset sales by the Commonwealth Bureau of Meteorology (BoM). The fluctuations over the forward years are the result of the Australian Antarctic Division's cyclical asset replacement programme. One-off capital appropriations in 1999-2000 reflect an appropriation of previous years carryovers and an equity injection for the Director of National Parks.

Portfolio Overview

The DEH implements policies and programmes for the protection of the environment. It also directs research on the Antarctic, including the region's role in the global climate system.

The NHT, jointly administered by AFFA, provides a framework to stimulate investment in the natural environment. The Department also administers a number of grant programmes, including the Cultural Heritage Projects Programme, Grants to Voluntary Environment and Heritage Organisations and the Australian Biological Resources Study Participatory Programme.

The Bureau of Meteorology is responsible for the provision of meteorological and related hydrological and oceanographic services.

The Australian Greenhouse Office is the leading Commonwealth agency on greenhouse matters and is responsible for the coordination of domestic climate change policy and managing the delivery of Commonwealth greenhouse programmes.

The National Oceans Office was established as an executive agency within the Department in December 1999. The Office will coordinate implementation of Australia's Ocean Policy and the Regional Marine Plan and will act as the main administrative coordination point between the Commonwealth, States and Territories on oceans policy issues.

The Australian Heritage Commission is responsible for conserving the National Estate, which consists of those places that are part of Australia's natural or cultural environment.

The Director of National Parks administers the Commonwealth National Parks, reserves and conservation zones.

The Great Barrier Reef Marine Park Authority is responsible for the care and development of the Great Barrier Reef Marine Park.

Material agencies under the portfolio: the Department of the Environment and Heritage.

Small agencies under the portfolio are: the Australian Greenhouse Office; the Australian Heritage Commission; the Director of National Parks; the National Oceans Office; and the Great Barrier Reef Marine Park Authority.

FAMILY AND COMMUNITY SERVICES

Table 12: Summary of Expenses and Net Capital Investment[(a)]

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Family and Community Services					
Expenses					
Department of Family and Community Services					
Administered	46784.7	53768.3	54182.2	56333.3	58368.8
Departmental	2057.4	2163.9	2133.6	2098.4	2080.6
Centrelink					
Departmental	1717.0	1753.3	1716.2	1680.1	1655.3
Net capital investment					
Department of Family and Community Services	5.6	0.6	-0.8	9.6	-2.8
Centrelink	-28.3	13.6	20.4	-1.3	-12.5
Memorandum item:					
Capital appropriations	**182.0**	**180.6**	**153.9**	**131.6**	**131.6**

(a) Data in Table 12 relate to material agencies only and due to payments between agencies within the portfolio these numbers should not be added to form a total. Eliminations for inter-agency transaction within the Family and Community Services portfolio are estimated to be $1.7 billion, reflecting expenses paid to Centrelink.

Note: Further information can be obtained from the Portfolio Budget Statement.

Summary of Major Developments in Portfolio Expenses and Net Capital Investment

The Department of Family and Community Services develops policies that address the income support needs of individuals. It also provides family relationship services, welfare housing and financial support and other services for people with disabilities and families with children.

Trends in Expenses

Department of Family and Community Services

The increase in expenses between 1999-2000 and 2003-04 is due to *The New Tax System* compensation in 2000-01, and to indexation and the ageing of the population that, together, increase both the number of clients and the average rates of payment.

The increase in administered expenses in the Department of Family and Community services in 2000-01 is largely due to increases in the rates of Family Assistance paid as a consequence of the introduction of *The New Tax System*.

The Age Pension and the Disability Support Pension are subject to significant growth, both because of the ageing of the population and because of indexation.

Significant growth is also anticipated with payments to sole parents, both because of anticipated increased numbers and because of indexation.

Funding of $15 billion in 2000-01, rising to $16 billion by 2003-04, will be provided in direct financial support for families, children and youth. The financial support is through the Family Assistance, Youth and Student Support, and Child Support programmes.

Funding of $1.4 billion in 2000-01 will be provided to support and strengthen communities. This commitment will be delivered through a combination of services and community-based programmes. Activities include housing, supported accommodation assistance, rural and regionally focused programmes, and emergency relief.

Income support is provided for those requiring it due to age, disability, unemployment and carer responsibilities. Funding of $38 billion in 2000-01, rising to $41 billion by 2003-04, will provide programmes that encourage self-reliance and economic independence for all Australians while maintaining a highly targeted, comprehensive and affordable safety net for those people who are in need of assistance.

Expenses will rise to $60.4 billion in 2003-04, largely because of indexation of pensions and the ageing of the population.

The Department has completed a pricing review that included benchmarking services with similar organisations. This is outlined further in *Budget Paper No. 2 — Budget Measures 2000-01*.

Centrelink

Centrelink is implementing a strategy to increase its efficiency, thereby reducing expenses over the next four years.

Capital Movements

Department of Family and Community Services

The majority of capital appropriations relate to the Student Financial Supplement Scheme, which is administered by the Commonwealth Bank. Funding is required to purchase maturing student loans from the Bank, with the loans being repaid by students in instalments through the taxation system.

Variations in net capital investment relate to timing of capital investments and associated asset replacement strategy.

Centrelink

Centrelink is budgeting for capital expenditure of $98 million in 2000-01, $103 million in 2001-02, $81 million in 2002-03 and $70 million in 2003-04. This expenditure is to fund software and office fit-out required to support Centrelink's ongoing service delivery.

This capital investment will be partly funded by equity injections of $19 million in 2000-01, $8 million in 2001-02, $8 million in both 2002-03 and 2003-04. The Government is providing these equity injections for the implementation of *The New Tax System*, and the *Revised Means Test Treatment of Private Trusts and Private Companies.*

Portfolio Overview

The portfolio comprises a number of agencies and a department. Centrelink is the principal service delivery organisation for income support payments, delivering information, products and services to the Australian community.

The Australian Institute of Family Studies researches factors affecting family stability. It also provides a national information centre on these issues.

The portfolio has several broad objectives. The first is to strengthen families by ensuring that they have access to financial assistance and support, mainly through the Family Assistance, Youth and Student Support and Child Support programmes. It also strives to strengthen communities through access to affordable housing, community support services and assistance to those in need.

The portfolio aims to deliver a combination of services and community-based programmes that encourage partnerships between government, the community and the business sector. Activities include Supported Accommodation Assistance, rural and regionally focused programmes and disaster relief.

The portfolio also provides income support for those requiring it due to age, disability, unemployment and carer responsibilities. It seeks to facilitate participation in the labour force through services that encourage independence and contribution to the community. It provides programmes that encourage self-reliance and economic independence while maintaining a highly targeted and affordable safety net for those who are genuinely in need of assistance.

Material agencies under this portfolio are: the Department of Family and Community Services; and Centrelink.

Small agencies under this portfolio: the Australian Institute of Family Studies.

FINANCE AND ADMINISTRATION

Table 13: Summary of Expenses and Net Capital Investment[a]

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Finance and Administration					
Expenses					
Department of Finance and Administration					
Administered	4148.2	3836.4	3574.9	3492.5	3377.7
Departmental	464.8	323.7	316.9	312.2	309.7
Australian Electoral Commission					
Administered	0.1	0.0	36.4	0.0	0.0
Departmental	160.9	104.2	148.8	96.5	98.3
Office of Asset Sales and IT Outsourcing					
Departmental	32.9	14.8	0.4	0.0	0.0
Net capital investment					
Department of Finance and Administration	-100.9	-295.4	-113.8	-78.8	89.9
Australian Electoral Commission	-2.4	0.0	-5.2	-3.3	-3.3
Office of Asset Sales and IT Outsourcing	-25.2	0.0	0.1	0.0	0.0
Memorandum item:					
Capital appropriations	**878.0**	**918.0**	**851.8**	**846.3**	**828.4**

(a) Data in Table 13 relate to material agencies only and due to payments between agencies within the portfolio these numbers should not be added to form a total.

Note: Further information can be obtained from the Portfolio Budget Statement.

Summary of Major Developments in Portfolio Expenses and Net Capital Investment

The portfolio advises the Government on the management of Commonwealth resources and delivers whole-of-government services to Commonwealth departments and agencies.

The Department of Finance and Administration (DOFA) contributes to the implementation of the Government's reform strategy for the public sector by emphasising improvements to management and introducing government services to competition.

The sales and outsourcing activities of the portfolio help to confine the direct activities of the Commonwealth to those matters that are most appropriate and cost effective, while enhancing industry development, competitiveness and structural efficiency.

Trends in Expenses

Department of Finance and Administration

The reduction in administered expenses under Commonwealth superannuation schemes between 1999-2000 and 2000-01 largely reflects a one-off effect on expenses in

1999-2000 arising from the revaluation of the superannuation liability. Given that the Commonwealth Superannuation Schemes are unfunded, agency employer superannuation contributions are currently returned to the budget. With the expected payment of employer contributions to the private sector superannuation schemes associated with the planned closure of the PSS, this will reduce expenses (and associated revenue) after 2000-01. The estimates assume that the scheme will be closed from 1 July 2001 pending a Government decision on a new closure date.

DOFA's departmental expenses reduce between 1999-2000 and 2000-01. This is largely a result of the sale of a departmental business activity (Removals Australia) and changes in arrangements for the management of Commonwealth property.

Australian Electoral Commission

Trends in departmental expenses for the Australian Electoral Commission (AEC) reflect the cyclical nature of its activities. The peaks in estimates in 1999-2000 and 2001-02 reflect the timing of the referendum held in November 1999 and the normal Federal election cycle.

The estimated administered expenses in 2001-02 represent election funding provided to candidates.

Office of Asset Sales and Information Technology Outsourcing

The peak expenses in 1999-2000 reflect increased activity for a number of sales within the asset sales programme, including the finalisation of the *Telstra 2* sales programme. The decline in expenses reflects the budgeting arrangements whereby Office of Asset Sales and Information Technology Outsourcing funding on the asset sales activity is determined annually.

Capital Movements

Department of Finance and Administration

The movement in net capital investment by DOFA across most years reflects the planned sales of properties from the Commonwealth's estate managed by the department and the fall in the value of vehicles under the DASFleet finance lease.

The capital appropriation primarily funds the pay-out of superannuation liabilities in respect of an individuals own contributions and employer productivity contributions as Commonwealth employees resign or retire. Other capital appropriations are to enable the construction and refurbishment of the Commonwealth's property estate and the provision of capital support to Employment National.

Portfolio Overview

DOFA assists the Commonwealth to achieve sustainable finances through managing the Budget, advising on agency performance, providing shareholder advice to Ministers and advising on strategic budget policy issues. It also delivers whole-of-government services to Commonwealth departments and agencies, including managing Commonwealth property, providing policy advice on Commonwealth superannuation arrangements and administering Comcover (the Commonwealth's Insurable Risk Managed Fund).

The Department facilitates public access to government information in order to allow greater understanding of government activities and better quality of service delivery. The Department also provides advice and services to Ministers and present and former parliamentarians.

AEC also provides Australians with an equitable and independent electoral service by maintaining the Commonwealth electoral roll and providing electoral information programmes. The AEC also provides international electoral assistance.

OASITO arranges the sale of major Commonwealth assets. It also arranges the outsourcing of information technology services for Commonwealth departments and agencies and assists agencies to implement the outsourcing of other activities through competitive tendering and contracting.

Material agencies under the portfolio are: the Department of Finance and Administration; the Australian Electoral Commission; and the Office of Asset Sales and Information Technology Outsourcing.

Small agencies under the portfolio are: the Commonwealth Grants Commission; and the Commonwealth Superannuation Administration (ComSuper).

FOREIGN AFFAIRS AND TRADE

Table 14: Summary of Expenses and Net Capital Investment(a)

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Foreign Affairs and Trade					
Expenses					
Department of Foreign Affairs and Trade					
Administered	120.5	123.5	120.4	118.2	117.8
Departmental	684.2	663.1	667.7	680.7	710.9
Australian Agency for International Development					
Administered	1158.1	1428.7	1503.2	1229.7	1282.5
Departmental	69.4	67.9	68.1	67.2	68.3
Australian Trade Commission					
Administered	154.5	151.5	150.1	0.5	0.0
Departmental	176.2	179.8	182.0	179.2	180.2
Net capital investment					
Department of Foreign Affairs and Trade	-10.3	-8.6	-4.6	-12.6	-13.2
Australian Agency for International Development	0.3	-1.4	-1.4	0.2	0.1
Australian Trade Commission	5.6	-0.6	0.0	0.1	0.0
Memorandum item:					
Capital appropriations	**232.2**	**211.6**	**232.7**	**207.7**	**169.6**

(a) Data in Table 14 relate to material agencies only and due to payments between agencies within the portfolio these numbers should not be added to form a total.

Note: Further information can be obtained from the Portfolio Budget Statement.

Summary of Major Developments in Portfolio Expenses and Net Capital Investment

The portfolio conducts Australia's foreign relations, assists Australians to win export business, generates investment, and provides assistance to developing countries. The portfolio also provides consular and passport services for Australians.

Trends in Expenses

Department of Foreign Affairs and Trade

The Department of Foreign Affairs and Trade's (DFAT) expenses across the forward estimates remain relatively constant, altering in future years largely due to the effect of variations in price and wage indices. DFAT's expenses for its core diplomatic function remain relatively unchanged at approximately $608 million per annum (including $103 million per annum for payments to the UN). Expenses for the consular and passport function will remain relatively constant at approximately $136 million per annum, with the Government allocating additional resources across the forward years to ensure that services do not decline in the face of dramatic increases in demand.

The main movement in DFAT's departmental expenses between 1999-2000 and 2000-01 relates to the return of $20 million to the Budget of foreign exchange supplementation not utilised. Foreign exchange arrangements are currently under review.

The Commonwealth will provide additional resources to maintain the current level of high-quality passport and consular services in the wake of a pricing review undertaken by DFAT and the Department of Finance and Administration. The review found that the demand for consular services is expected to increase significantly in coming years, largely due to increasing numbers of Australians travelling abroad. The number of Australians travelling overseas is estimated to increase by 700,000 over the next four years.

Australia will provide $103 million per annum, an increase of $7 million on 1999-2000, to various organisations under the UN umbrella, such as UN Transitional Administration in East Timor, Comprehensive Nuclear Test Ban Treaty Organisation, UN Educational, Scientific and Cultural Organisation and various UN peacekeeping and observation operations.

AusAID

A high priority in this budget is the foreign policy challenge created by developments in East Timor. In response, the Commonwealth will provide $150 million in aid to East Timor over four years, $100 million of which is additional funding, with the remainder drawn from the existing global aid budget. This assistance will focus on long-term development activities.

AusAID's expenses on the delivery of aid to developing countries in cash terms remain relatively constant across the forward estimates period, however, the accrual statements indicate that expenses will increase by $269 million in 2000-01.

The fluctuations in AusAID's expenses are due to the full expensing of contributions to a range of multi-year agreements in the year the commitments are made, for example, contributions to the World Bank — International Development Association and the Asian Development Fund. While cash payments made to these organisations remain constant, accrual statements will vary substantially between each year.

Australian Trade Commission

Encouraging trade and investment between Australia and foreign countries ($173 million per annum) and providing financial and other assistance to Australian exporters ($150 million per annum) comprise the majority of Austrade's expenses.

Austrade's departmental expenses remain constant over the forward estimates period.

Financial support provided to eligible Australian companies under the Export Market Development Grants Scheme ($150 million per annum) contributes to Australia's trade performance. This programme was previously extended until the 2001-02 financial year. A review of this scheme is currently underway.

Capital Movements

Department of Foreign Affairs and Trade

Currently DFAT has budgeted for negative net capital investment in the budget and forward years, pending the outcome of a review of its medium-term asset replacement strategy. The development of long-term asset replacement strategies is one of the key features of the improvements arising from accrual budgeting.

AusAID

Through a series of capital appropriations, the Government is providing AusAID with a capital injection of approximately $800 million over four years to extinguish liabilities to the Asia Development Fund, the International Development Association (World Bank), the International Fund for Agriculture Development, the Global Environment Fund and the Nauru Treaty.

Portfolio Overview

As well as conducting Australia's foreign relations, the portfolio focuses on several key objectives, notably the implementation of international agreements covering weapons of mass destruction and the advancement of Australian interests on the international environment agenda. It also vigorously pursues policies that enhance global market access and promote international trade liberalisation, notably working with international organisations such as the World Trade Organisation and Asia Pacific Economic Cooperation.

Assistance provided to countries affected by the Asian crisis is helping them to respond to social needs, resume sustained growth and improve their economic and financial management. Substantial development assistance is also provided to Papua New Guinea. Through its contribution to the Bougainville peace and reconstruction process, the portfolio is working for a settlement to the dispute on the island.

The reconstruction in East Timor is also a key focus, as well as the promotion of stability and economic reform in the Pacific Island countries. Australia will also continue to respond to emergency and humanitarian situations.

Material agencies under the portfolio are: the Department of Foreign Affairs and Trade; the Australian Agency for International Development (AusAID); and the Australian Trade Commission (Austrade).

Small agencies under the portfolio are: the Australian Centre for International Agricultural Research; the Australian Secret Intelligence Service, and the Australia-Japan Foundation.

HEALTH AND AGED CARE

Table 15: Summary of Expenses and Net Capital Investment(a)

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Health and Aged Care					
Expenses					
Department of Health and Aged Care					
Administered	23785.3	25586.4	26991.7	28364.7	29741.5
Departmental	712.3	727.0	723.9	720.7	743.3
Health Insurance Commission					
Administered	12161.9	12889.6	13414.3	13969.9	14676.1
Departmental	389.4	383.6	379.4	383.0	387.2
Net capital investment					
Department of Health and Aged Care	-42.8	2.8	-7.2	-6.9	-6.3
Health Insurance Commission	11.5	26.2	9.7	-6.6	2.2
Memorandum item:					
Capital appropriations	**51.2**	**69.4**	**41.5**	**47.6**	**38.5**

(a) Data in Table 15 relate to material agencies only and due to payments between agencies within the portfolio these numbers should not be added to form a total. Eliminations for inter-agency transactions within the Health and Aged Care portfolio are around $12 billion, reflecting grants paid to the Health Insurance Commission.

Note: Further information can be obtained from the Portfolio Budget Statement.

Summary of Major Developments in Portfolio Expenses and Net Capital Investment

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

Trends in Expenses

Department of Health and Aged Care

The expected growth in portfolio expenses from 1999-2000 to 2003-04 reflects the steadily increasing costs of providing access to Medicare, especially for medical benefits, pharmaceutical benefits and hospital funding. Increasing utilisation of services and drugs, a drift to newer and more costly services and drugs, and population growth, mainly drive this growth. Growth also results from Government decisions to increase funding in key areas such as hospital services, regional health and health research.

Of the approximately $6 billion in growth of expenses from 1999-2000 to 2003-04, the main components are Medical Services and Benefits ($2 billion), Hospital Services and Health Care Agreements ($1.5 billion), Pharmaceutical Services and Benefits ($1.1 billion) and Aged Care ($1.2 billion).

For the 2000-01 Budget, the key priority for the Health and Aged Care portfolio is ameliorating the difficulties faced by rural and remote Australians in accessing health and aged care services. The Budget introduces an integrated package of measures, the *Regional Health Package — More Doctors, Better Services*, directed at improving access to rural health and aged care services in the near term, with initiatives to ensure the long-term sustainability of that access, at a cost of $562 million over the coming four years.

In addition, improving access to high quality health and aged care services for all Australians, while ensuring the financial sustainability of the Medicare and Pharmaceutical Benefits Schemes, remains a key portfolio priority. Additional initiatives designed to address quality improvements in health care will also be implemented from 2000-01, and these are outlined in *Budget Paper No. 2 — Budget Measures 2000-01*.

Health Insurance Commission

Trends in expenses for the Health Insurance Commission primarily reflect the flow of medical and pharmaceutical benefits, as described above.

Capital Movements

Department of Health and Aged Care

The Department of Health and Aged Care (DHAC) has planned capital acquisitions for an office fit-out of $14 million in 2000-01 and $11 million in each of the forward years. In addition, the Government will provide DHAC with a loan of $11 million to fund the replacement of corporate information systems.

The decrease in net capital investment in the forward years is due to the outsourcing of the IT function and sale proceeds associated with this programme.

The Government will provide capital appropriations of $168 million over the Budget and forward years to extinguish outstanding liabilities relating to grant payments.

Health Insurance Commission

The increase in the Health Insurance Commission's net capital investment in 2000-01 is the result of the capitalisation of software previously accounted for as work in progress. The level of capital investment remains steady in the forward years taking into consideration amortisation of software.

Portfolio Overview

The portfolio delivers a diverse set of activities, all focused on achieving Health and Aged Care outcomes. These include national leadership and coordination in population health and safety activities, ensuring access, through Medicare, to high quality primary care, medicines, and (in cooperation with the States and Territories) hospital services, implementing measures to encourage the take-up of private health insurance, and providing subsidies for residents of aged care facilities based on their care needs.

In addition, the portfolio develops and supports strategies to improve the quality and effectiveness of health care, ensures a coordinated approach to the delivery of health care in rural and remote locations and funds a range of hearing services to eligible people. Further, funding is provided for primary and specialist health services for Aboriginal and Torres Strait Islander people and for research and training in health, including through funding to the National Health and Medical Research Council.

Material agencies under this portfolio are: the Department of Health and Aged Care; and the Health Insurance Commission.

Small agencies under this portfolio are: the Aged Care Standards and Accreditation Agency; the Australia New Zealand Food Authority; the Australian Institute of Health and Welfare; the Australian Radiation Protection and Nuclear Safety Authority; the Private Health Insurance Administration Council; the Private Health Insurance Ombudsman; and the Professional Services Review Scheme.

Table 16: Summary of Expenses and Net Capital Investment[(a)]

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Immigration and Multicultural Affairs					
Expenses					
Department of Immigration and Multicultural Affairs					
Administered	142.4	141.1	138.2	135.9	137.8
Departmental	631.4	754.3	737.6	768.3	785.5
Net capital investment					
Department of Immigration and Multicultural Affairs	23.1	-7.3	5.0	-1.5	-34.5
Memorandum item:					
Capital appropriations	**29.3**	**75.9**	**0.0**	**0.0**	**0.0**

(a) Data in Table 16 relate to material agencies only and due to payments between agencies within the portfolio these numbers should not be added to form a total.

Note: Further information can be obtained from the Portfolio Budget Statement.

Summary of Major Developments in Portfolio Expenses and Net Capital Investment

The portfolio contributes to Australia's economic, social and international interests through programmes that manage the lawful entry of people into Australia. It also seeks to promote a society that values Australian citizenship, appreciates cultural diversity and enables immigrants to participate equitably.

Trends in Expenses

Department of Immigration and Multicultural Affairs

Increases in expenses from 1999-2000 primarily reflect the costs associated with the significant increase in unauthorised arrivals by boat. In the period June 1999 to March 2000, more than 3,500 unauthorised arrivals by boat entered Australia, compared with a total of 3,100 in the five years to June 1999. Expenses on reception, detention and processing for unauthorised arrivals are estimated to rise by nearly $140 million during 1999-2000. Based on current patterns, total expenses are expected to increase to at least $240 million per annum in later years.

The increased departmental expenses also reflect measures adopted in response to the report prepared by Departmental Secretaries, *Unauthorised Arrivals in Australia*, and the Prime Minister's Coastal Surveillance Taskforce, which provided around $30 million per annum in additional resources to the Department of Immigration and Multicultural Affairs (DIMA) for the extension of the coverage and the intensity of Coastwatch's aerial surveillance and DIMA's offshore compliance activity.

Following a request from the United Nations High Commissioner for Refugees (UNHCR), the Government activated plans on 1 May 1999 to provide temporary safehaven to 4,000 displaced persons from the Kosovo region of the Former Republic of Yugoslavia. The full cost of providing a safehaven to the displaced Kosovars is expected to be almost $100 million, primarily in 1999-2000. Nearly $50 million of these expenses will be incurred in DIMA.

In response to a further request from the UNHCR, the Government also provided a safehaven for nearly 2,000 internally-displaced persons from East Timor. The total cost of providing a safehaven to the East Timorese is expected to be around $40 million, primarily in 1999-2000, with some $20 million of these expenses to be incurred by DIMA.

Estimates of DIMA's departmental expenses from 2000-01 onwards also reflect the Government's decision to amalgamate the Refugee Review Tribunal (RRT) and the Migration Review Tribunal (MRT) within the new Administrative Review Tribunal to be established from February 2001. The expenses for merits review of migration decisions will then be incurred by the Attorney-General's portfolio, with DIMA to be allocated the resources currently provided to the RRT and the MRT for the purchase of review services on a cost-recovery basis.

The administered expenses of the Department are primarily provided for language and settlement services provided to support immigrants in the community. The increases in administered expenses since the 1999-2000 Budget reflect increased expenses expected under the Adult Migrant English Programme and the provision of safe havens to the displaced Kosovars and East Timorese.

Capital Movements

Department of Immigration and Multicultural Affairs

The change in net capital investment in 1999-2000 and 2000-01 primarily reflects the investment required to expand detention facilities in line with the increase in unauthorised arrivals. During 1999-2000, DIMA invested in the establishment of temporary detention facilities at Woomera in South Australia and Curtin in Western Australia. In 2000-01 the Government will provide a $3 million equity injection for the capital costs of establishing a new immigration detention facility in the Darwin region.

DIMA will internally fund around $30 million during 2001-02 and 2002-03 in the continued development of its Integrated Client Service Environment, which aims to replace 10 separate service-orientated computer systems. DIMA's capital replacement strategy for 2003-04 is currently under consideration.

The capital appropriations primarily relate to the provision of resourcing under the workload agreement between DIMA and DOFA. Adjustments to funding arising from workload changes after the preparation of the Additional Estimates bills are appropriated as a capital item in the budget of the following year.

Portfolio Overview

DIMA manages the entry and stay of people in Australia. DIMA is also responsible for the enforcement of immigration law through the prevention, detection and removal of unlawful entrants.

To enable immigrants to participate equitably in Australian society DIMA also provides settlement, translating and interpreting services. In particular, the Adult Migrant English Programme is an integral support element for immigrants and refugees to ensure that they have the capacity to communicate effectively.

DIMA promotes the value of Australian citizenship and cultural diversity through sponsoring activities such as the celebration of the 50th anniversary of Australian citizenship in 1999 and the *Living in Harmony* campaign.

The portfolio also ensures that decisions on the migration and refugee status of applicants are fair and balanced by providing independent merit reviews through the MRT and the RRT. The RRT also contributes to ensuring that Australia meets its obligations under international conventions relating to the status of refugees. These roles will be taken over by the Immigration Review Division of the new ART, which is to be established from February 2001. The resourcing for the merits review of migration decisions will be provided through DIMA for the purchase of review services from the ART.

The portfolio has also coordinated the implementation of the Government's humanitarian offer to provide temporary safehaven to displaced people from Kosovo and East Timor. Operation Safehaven drew upon the resources of agencies within the Defence and Health and Aged Care portfolios and a number of State and Territory Governments.

The material agency in this portfolio is the Department of Immigration and Multicultural Affairs.

Small agencies in the portfolio are: the Migration Review Tribunal and the Refugee Review Tribunal.

INDUSTRY, SCIENCE AND RESOURCES

Table 17: Summary of Expenses and Net Capital Investment[(a)]

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Industry, Science and Resources					
Expenses					
Department of Industry, Science and Resources					
Administered	902.5	778.8	770.2	708.0	628.7
Departmental	248.4	245.6	238.5	241.3	246.9
Australian Nuclear Science and Technology Organisation					
Departmental	111.5	115.3	119.8	123.5	118.5
Australian Sports Commission					
Departmental	117.2	99.3	89.6	93.3	94.2
Australian Tourist Commission					
Departmental	134.3	130.0	131.3	115.9	118.5
Commonwealth Scientific and Industrial Research Organisation					
Departmental	758.8	772.8	797.7	820.7	829.3
Net capital investment					
Department of Industry, Science and Resources	24.5	-2.0	-0.4	1.3	-6.4
Australian Nuclear Science and Technology Organisation	11.8	55.7	80.5	99.0	78.1
Australian Sports Commission	-1.6	-3.6	-3.9	-4.7	-4.7
Australian Tourist Commission	-0.3	-0.3	-1.0	-0.8	-0.6
Commonwealth Scientific and Industrial Research Organisation	-11.4	63.1	25.9	-54.0	0.5
Memorandum item:					
Capital appropriations	**136.6**	**116.6**	**137.1**	**134.1**	**105.1**

(a) Data in Table 17 relate to material agencies only and due to payments between agencies within the portfolio these numbers should not be added to form a total.

Note: Further information can be obtained from the Portfolio Budget Statement.

Summary of Major Developments in Portfolio Expenses and Net Capital Investment

The portfolio develops and administers policies and programmes that aim to benefit Australians and Australian industries. It promotes activities that increase the international competitiveness of industries and develops Australia's innovative, scientific and technological capability. It also encourages excellence in sports performance and participation.

Trends in Expenses

Department of Industry, Science and Resources

Estimated expenses for the Department of Industry Science and Resources (DISR) decline over the Budget and forward years, predominantly due to the effect of recent sharp increases in world oil prices. These rises have resulted in a significant increase in offshore petroleum royalties and consequential payments to the Western Australian Government. For estimates purposes it has been assumed that oil prices will fall back over the forward years. Consequently, estimated payments to Western Australia for their share of the royalties are estimated to be $340 million in 1999-2000, $221 million in 2000-01 and around $180 million in the remaining forward years.

In response to increases in the number and quality of proposals for commercialisation of research and development coming forward under the *Industry Innovation Programme*, expense estimates have been brought forward for assistance provided to small and medium enterprises. Expenses are now in the order of $155 million per annum and are estimated to decline to around $80 million by 2003-04.

Expenditure on other major programmes are expected to increase over the forward years:

- Expenses are estimated to rise sharply over the Budget and forward years in the *Textile Clothing Footwear Strategic Investment Programme*. The Government will provide $680 million to the scheme over its five years, with expenses estimated to be $15 million in 2000-01;

- the Government is providing $292 million over five years to companies participating in the *Pharmaceutical Industry Investment Programme (PIIP)*, which replaced the previous Pharmaceutical Factor F Scheme in 1999-2000. PIIP is estimated to provide over $60 million per annum to participating companies in the forward years; and

- funding for the *Printing Industry Competitiveness Scheme (PICS)* is estimated to increase by $48 million over four years, as part of the Government's $240 million *Book Industry Assistance Plan*.

DISR's departmental expenses are estimated to remain broadly unchanged over the Budget and forward years. An increase of $27 million between 2001-02 and 2003-04 for the *National Biotechnology Strategy* will be partially offset by a reduction in the price of outputs following the pricing review conducted in 1999-2000.

Australian Nuclear Science and Technology Organisation

The expense pattern in the forward years rises slightly. While there are several small influences contributing to this trend, it mainly reflects price rises and the continuation of long-term trends associated with the demand for its services.

Australian Sports Commission

Following a spike in estimated expenditure due to the provision of funding for the Olympic Athletes' Programme, which provides funding to assist elite athletes in their preparations for the 2000 Olympics and Paralympics, expenses are estimated to increase slightly in the outyears.

Australian Tourist Commission

The $15 million reduction in estimated expenses from 2002-03 reflects the cessation of the Australian Tourist Commission's current four-year $42 million marketing and promotions campaign.

Commonwealth Scientific and Industrial Research Organisation

The increase in estimated expenses for the CSIRO is mainly attributable to two factors. To ensure that the sale and leaseback of six properties does not adversely affect the level of research, the Government has agreed to supplement CSIRO's base funding for the cost of the sales, rent and other net ongoing property costs. Additionally, expenses are trending slightly upwards in line with predicted increases in non-appropriation revenue for research and scientific activities.

Capital Movements

Department of Industry, Science and Resources

Capital appropriations to DISR largely reflect the purchase of gas to liquids technology in 1999-2000. Also, 1999-2000 includes a loan to Australian Leather Holdings Pty Ltd ($14 million). The balance of movements is explained by the fluctuations in investments and loans under various administered programmes.

Australian Nuclear Science and Technology Organisation

The increase in net capital investment by the Australian Nuclear Science and Technology Organisation is due to the provision by the Government of a capital appropriation of $326 million over nine years to fund the construction of a replacement research reactor at Lucas Heights.

Commonwealth Scientific and Industrial Research Organisation

In addition to normal investment on research plant and equipment, CSIRO's capital investment will be significantly higher in 2000-01 due to the completion of three major building projects — North Ryde NSW ($30 million), Pinjarra Hills Queensland ($23 million), and Bentley Western Australia ($38 million).

CSIRO's property portfolio and property management was independently reviewed in the context of the Commonwealth's Property Principles. Following the review, sales are expected to return $107 million over the forward estimates period. ($23 million in 2000-01, $31 million in 2001-02 and $54 million in 2002-03).

Portfolio Overview

DISR delivers a range of programmes, including assistance to the pharmaceutical industry, the Technology Diffusion Programme, R&D Start, Cooperative Research Centres, the Innovation Investment Fund and other industrial programmes. The Department also provides scientific business services through the Australian Surveying and Land Information Group and the Australian Government Analytical Laboratories.

The portfolio includes three science research agencies — the Australian Institute of Marine Science, the Australian Nuclear Science and Technology Organisation and the Commonwealth Scientific and Industrial Research Organisation. It also supports a scientific business service agency, the Australian Geological Survey Organisation.

The National Standards Commission promotes the international competitiveness of Australian industry by coordinating a national system of physical measurements.

The Australian Tourist Commission promotes Australia as a holiday destination overseas, while also protecting Australia from adverse impacts of international tourism.

IP Australia seeks to ensure that Australians benefit from intellectual property by granting patents, trademarks and designs.

The Australian Sports Commission develops programmes that deliver a national sports infrastructure, improved participation and excellence in sports performance. The Australian Sports Drug Agency aims to deter athletes from contravening banned doping regulations by conducting drug testing and awareness programmes.

Material agencies under the portfolio are: the Department of Industry, Science and Resources; the Australian Nuclear Science and Technology Organisation; the Australian Sports Commission; the Australian Tourist Commission; and the Commonwealth Scientific and Industrial Research Organisation.

Small agencies under the portfolio are: the Australian Geological Survey Organisation; the Australian Institute of Marine Science; the Australian Sports Drug Agency; IP Australia; and National Standards Commission.

PRIME MINISTER AND CABINET

Table 18: Summary of Expenses and Net Capital Investment[(a)]

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Prime Minister and Cabinet					
Expenses					
Department of Prime Minister and Cabinet					
Administered	21.5	26.3	21.0	19.0	7.8
Departmental	71.4	60.4	61.1	48.1	48.5
Aboriginal and Torres Strait Islander Commission					
Administered	83.8	84.2	85.0	86.3	87.7
Departmental	987.0	1019.7	1074.4	1103.1	1132.7
Net capital investment					
Department of Prime Minister and Cabinet	1.1	-0.2	-0.1	-0.2	-0.2
Aboriginal and Torres Strait Islander Commission	-3.3	-0.9	-0.9	-0.9	0.0
Memorandum item:					
Capital appropriations	**93.8**	**87.4**	**90.2**	**92.1**	**94.4**

(a) Data in Table 18 relate to material agencies only and due to payments between agencies within the portfolio these numbers should not be added to form a total.
Note: Further information can be obtained from the Portfolio Budget Statement.

Summary of Major Developments in Portfolio Expenses and Net Capital Investment

The portfolio produces a range of outputs directed at achieving well-coordinated, efficient and accountable public administration, supported by a values-based Australian Public Service. The portfolio also seeks to achieve equity for Indigenous Australians in cultural, social and economic terms.

Trends in Expenses

Department of Prime Minister and Cabinet

Departmental expenses in the Department of Prime Minister and Cabinet (PM&C) rose in 1999-2000, reflecting the costs relating to the referendum held on 6 November 1999.

In the 2000-01 Budget, the Government has provided $16 million in each of 2000-01 and 2001-02 for the planning and staging of the 2001 Commonwealth Heads of Government Meeting in Brisbane. An amount of $5 million over two years will be allocated to administered expenses for a contribution to the Queensland Government for general security costs.

Administered expenses also reflect resources currently committed to programs managed by the Office of the Status of Women, including the continuation of the successful Partnerships Against Domestic Violence programme. The administered expenses also provide for the expected costs of litigation regarding the Separated Indigenous Children and the Hindmarsh Island Bridge, and the costs of visiting dignitaries.

Aboriginal and Torres Strait Islander Commission

The steady increase in Departmental expenses for the Aboriginal and Torres Strait Islander Commission (ATSIC) primarily reflects funding for the Community Housing and Infrastructure Programme and the Community Development Employment Projects (CDEP) Scheme. In this Budget the Government has provided additional resources to ATSIC to expand the CDEP scheme by 1,425 participant places in addition to the growth of 550 participant places per year provided on an ongoing basis. The participants in the CDEP will also receive compensation under the arrangements included in *The New Tax System*, equivalent to that provided to people in receipt of income support payments through the Family and Community Services portfolio.

The administered expenses of the Commission reflect the ongoing resourcing arrangements for the Indigenous Land Corporation and the Aboriginal Benefits Account.

Capital Movements

The capital funding for ATSIC, highlighted under the memorandum item in Table 5 above, reflects the provision of an annual capital injection by the Government of approximately $90 million for the Indigenous Land Fund. The establishment of the Indigenous Land Fund forms part of the Government's response to decisions by the High Court of Australia relating to native title. The fund will be built up by a series of capital injections to become a self-sustaining capital fund by 30 June 2004. From that time on, the fund is intended to provide an ongoing and secure source of resources to the Indigenous Land Corporation to assist Indigenous people to buy and manage land in a sustainable manner.

Portfolio Overview

Key policy activities for the portfolio during 2000-01 include taxation reform, the negotiation of further Comprehensive Regional Assessments and Regional Forest Agreements and the Sydney 2000 Olympic and Paralympic Games. Issues related to the status of women, and Aboriginal reconciliation and legislative reform on Indigenous issues, including *Aboriginal Land Rights (Northern Territory) Act 1976* and the *Aboriginal and Torres Strait Islander Heritage Protection Act 1984* also remain key priorities.

The portfolio is also responsible for the planning and staging of the 2001 Commonwealth Heads of Government Meeting in Brisbane.

The Department provides economic, social and international policy advice as well as coordination and support services for the Prime Minister, other portfolio Ministers, Cabinet and its Committees.

A range of portfolio bodies, including ATSIC, undertake planning, development and direct delivery of services across a range of activities relating to Aboriginal and Torres Strait Islanders. These are aimed at improving health, education, employment and economic development. A significant proportion of these activities is undertaken in regional and remote Australia.

Material agencies in the portfolio are: the Department of the Prime Minister and Cabinet and the Aboriginal and Torres Strait Islander Commission.

Small agencies in the portfolio are: the Aboriginal and Torres Strait Islander Commercial Development Corporation, Aboriginal Hostels Limited, Australian Institute of Aboriginal and Torres Strait Islander Studies, Australian National Audit Office, Indigenous Land Corporation, Office of National Assessments, Office of the Commonwealth Ombudsman, Office of the Official Secretary to the Governor General, the Public Service and Merit Protection Commission and the Torres Strait Regional Authority.

TRANSPORT AND REGIONAL SERVICES

Table 19: Summary of Expenses and Net Capital Investment[(a)]

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Transport and Regional Services					
Expenses					
Department of Transport and Regional Services					
Administered	2634.3	2642.6	2842.6	2540.6	2486.0
Departmental	178.6	169.1	169.7	163.3	165.6
Civil Aviation Safety Authority					
Departmental	92.3	91.0	86.8	88.8	94.2
Net capital investment					
Department of Transport and Regional Services	13.0	-25.4	-2.5	-11.6	-15.1
Civil Aviation Safety Authority	-1.8	6.5	3.9	2.1	0.2
Memorandum item:					
Capital appropriations	**44.7**	**13.7**	**0.0**	**0.0**	**0.0**

(a) Data in Table 19 relate to material agencies only and due to payments between agencies within the portfolio these numbers should not be added to form a total.

Note: Further information can be obtained from the Portfolio Budget Statement.

Summary of Major Developments in Portfolio Expenses and Net Capital Investment

The portfolio delivers transport and regional services which link the Australian community and contribute to its prosperity, accessibility, environmental sustainability and safety.

Trends in Expenses

Department of Transport and Regional Services

Total expenses are expected to decline slightly in real terms in 2000-01, due largely to one-off expenses in 1999-2000 that were associated with the Maritime Industry Finance Company's funding of redundancies, together with some early payments under the roads programme.

Administered expenses are expected to increase in 2001-02, largely as a result of an increase in final year Federation Fund spending, the Mainland Interstate Rail Track upgrade programme and increased road funding associated with Geelong Road ($100 million over 2001-02 and 2002-03). However, other expenses decline from 2000-01 to 2001-02 by about $51 million, mainly due to the finalisation of the expense associated with the Sydney Airport Noise Amelioration programme.

From 2002-03 there are changes in expenses for Grants to States and Territories. These reflect the culmination of $101 million of Federation Fund projects. The Local

Government Financial Assistance Grants continue, with nominal increases through to 2003-04 due to the maintenance of payments in real (GST excluded) per capita terms. The ongoing CPI estimate (excluding the estimated impact of indirect tax reform) will be used for indexation purposes. Since government agencies, including local government, are able to claim input tax credits they will not pay GST on their purchases and there is no need to increase funding by the GST factor in the CPI to maintain buying power.

New measures include *Year 2002 — Year of the Outback* and *Adelaide Airport Noise Amelioration*. The *Adelaide Airport Noise Amelioration* programme is expected to cost $10 million in 2000-01, $24 million in 2001-02, $24 million in 2002-03, and $6 million in 2003-04. This cost is to be offset over an 11-year period by the extension of the application of the *Aircraft Noise Levy Collection Act (1995)* in 2000-01 to jet aircraft landing at Adelaide Airport.

One-off expenses in 1999-2000 associated with the Maritime Industry Finance Company's funding of redundancies is the main cause of movement of expenses on Sea Transport, with ongoing expenses representing continuation of the Bass Strait schemes. Variability in the rail expenses mainly represents payments for the proposed Darwin Alice Springs railway and the Mainland Interstate Rail Track Upgrade. The decline in Air Transport expenses from $101 million to $8 million over the forward estimates primarily reflects one-off payments for Adelaide Airport and Flinders Island Airport together with the completion of the Sydney Airport Noise Amelioration programme.

Expenses are expected to peak in 2001-02 for Road Transport, Urban and Regional Development and Assistance to other Governments. This is the result of one-off funding for Roads of National Importance such as the Geelong Road, maturing of the Rural Transaction Centre Programme and the completion of the Federation Fund programme.

Civil Aviation Safety Authority

The Civil Aviation Safety Authority's (CASA) expenses are expected to decline due to improved operational efficiencies from restructuring, but increase in 2003-04 due to increased depreciation expenses and work-in-progress associated with capital investment, mainly in information technology.

Capital Movements

Department of Transport and Regional Services

The Department will undertake capital expenditure of $22 million in 2000-01 and $69 million over the next four years for capital works projects on Cocos (Keeling) and Christmas Islands. This supports the Government's objective of bringing public infrastructure in the Indian Ocean Territories up to mainland standards, in line with recommendations in the Commonwealth Grants Commission's December 1999 report on the Indian Ocean Territories. The expenditure will be largely internally funded.

Capital appropriations in 1999-2000 and the Budget year include an appropriation of previous years carryovers, an injection to settle land acquisitions for a possible airport at Badgery's Creek, and final equity payments ($4 million in 2000-01) for the Indian Ocean Territories capital works programme that was instituted in previous years.

The Department is yet to finalise a capital asset replacement strategy which, together with the one-off sale of information technology assets associated with outsourcing will contribute to a decrease in net capital investment in the Budget and forward years.

Civil Aviation Safety Authority

CASA will internally fund non-financial asset purchases of $10 million in 2000-01 and, in total, $30 million over the next four years.

Portfolio Overview

The Department of Transport and Regional Services aims to improve the efficiency of transport facilities, including the development of an effective integrated transport system. In particular, the Department strives to enhance regional and remote communities' access to services. The Department also provides regulatory, investigative and safety services to the community and collects revenue from a number of sources on behalf of the Commonwealth.

CASA is responsible for aviation standards, compliance and promotion.

Material agencies under the portfolio are: the Department of Transport and Regional Services; and the Civil Aviation Safety Authority.

Small agencies under the portfolio are: the National Capital Authority; and the Australian Maritime Safety Authority.

Table 20: Summary of Expenses and Net Capital Investment[(a)]

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Treasury					
Expenses					
Department of the Treasury					
Administered	17993.2	1764.2	4044.3	2588.1	2018.5
Departmental	109.7	101.8	94.8	96.8	99.4
Australian Bureau of Statistics					
Departmental	256.1	280.2	370.6	279.2	269.3
Australian Securities and Investment Commission					
Administered	6.0	23.0	22.0	22.0	19.0
Departmental	144.1	139.9	138.7	138.4	138.6
Australian Taxation Office					
Administered	2347.2	3455.6	3783.3	3970.2	4154.1
Departmental	1700.5	1833.9	1682.7	1636.7	1615.8
Australian Office of Financial Management					
Administered	6545.2	8680.0	7990.9	8146.6	7947.4
Departmental	2.7	5.5	5.7	5.8	5.7
Net capital investment					
Department of the Treasury	4.1	4.5	-2.9	-2.6	-0.5
Australian Bureau of Statistics	-10.1	-5.6	14.9	-12.3	-3.5
Australian Securities and Investment Commission	-5.1	-3.6	-4.7	-4.1	-3.3
Australian Taxation Office	56.7	104.8	12.9	-35.7	-28.7
Australian Office of Financial Management	-0.1	4.0	-0.2	-0.2	-0.2
Memorandum item:					
Capital appropriations	**438.9**	**1799.4**	**59.7**	**35.5**	**13.1**

(a) Data in Table 20 relate to material agencies only and due to payments between agencies within the portfolio these numbers should not be added to form a total.

Note: Further information can be obtained from the Portfolio Budget Statement.

Summary of Major Developments in Portfolio Expenses and Net Capital Investment

The portfolio provides policy advice to the Government with the aim of achieving strong, sustainable economic growth and the improved wellbeing of Australians.

Trends in Expenses

Major developments in portfolio expenses and funding relate to the implementation of the Government's tax reform initiatives, and costs associated with conducting the Commonwealth census in 2001. This increase in expenses is offset by changes in the Commonwealth/State financial relations set out in *The New Tax System* and reductions in public debt interest, reflecting a projected reduction in the Commonwealth's debt.

The increase in expenses between 1999-2000 and 2001-02 in the Treasury portfolio estimates is largely due to the impact of the Government's reforms to the taxation system and Commonwealth-State financial relations.

Treasury

The reduction in expenses is largely due to the changes resulting from *The New Tax System*. Under the revised arrangements the States and Territories will receive all the revenue from the GST in return for the abolition of Financial Assistance Grants to the States and Territories and the removal of a range of State and Territory taxes. GST revenue will not be shown in budgetary terms as an expense to the Commonwealth as it is considered to be a State tax.

The reduction in expenses is partially offset by increases in grants to balance State and Territory budgets as a result of the amendments to the tax reform programme. These included the GST exemption of basic food and some health and education items. The Commonwealth guarantee that the budgetary position of each State and Territory will be no worse off in the initial years following the introduction of the GST is met by providing budget balancing advances and grants to the States and Territories.

In 2000-01, the Government will establish a non-statutory Board of Taxation to continue the consultative arrangements that commenced in the Review of Business Taxation. The Department of the Treasury will be provided with additional funding of $23 million over four years to administer the board.

Australian Bureau of Statistics

Departmental expenses are projected to increase by approximately $100 million in 2001-02 to cover the cost of conducting the 2001 Census. The Australian Bureau of Statistics (ABS) is receiving additional funding of $11 million over three years to implement the Government's decision to provide a Centenary of Federation gift to the nation in the form of named-identified census information, to be made available to the community in 2100.

Australian Securities and Investments Commission

The Australian Securities and Investments Commission's (ASIC) appropriation and expenses have increased by $13 million per annum as a result of the transfer of responsibility for administering unclaimed moneys for non-bank Authorised Deposit-Taking Institutions (ADIs) from the States and Territories and bank ADIs from the Department of the Treasury.

Australian Taxation Office

Expenses for the Australian Taxation Office (ATO) have largely increased between 1999-2000 and 2000-01 because of the establishment of the Diesel and Alternative Fuels Grants Scheme and the DFRS. Expenses also increased as a result of the introduction of the *Fuels Sales Grants Scheme*, estimated to cost $490 million over four years. The ATO has also received additional funding from 2000-01 onwards to implement the *Business*

Tax Reforms programme ($44 million over two years), the changes to GST for food, health and education services made GST free in *The New Tax System (Goods and Services Tax) Act 1999* ($60 million per annum) and the grants schemes outlined above ($250 million over three years).

Expenses also increase in 2000-01 due to the change in the accounting treatment of the DFRS which is currently shown as an offset to revenue rather than an expense. To improve the transparency of the Commonwealth's financial transactions, from 2000-01 funding for the scheme will now be shown as an expense rather than an offset to revenue. This change in accounting treatment will increase the estimates for taxation revenue and expenses by approximately $2 billion per annum.

Australian Office of Financial Management

The increase in appropriation revenue for the Australian Office of Financial Management (AOFM) is due to the change in accounting treatment of cash flows associated with management of the Commonwealth's debt. This will now be reflected in the AOFM's Statement of Revenue and Expenses rather than as a capital injection in the Statement of Assets and Liabilities, which will improve the transparency of the Commonwealth's financial transactions. AOFM interest and other financing expenses are projected to decline over the forward estimates as the Commonwealth retires debt.

Capital Movements

Treasury

The sharp increase in the Treasury's capital appropriations in 2000-01 relates to the Commonwealth's commitment that the State and Territories will be no worse off under the implementation of *The New Tax System*. The States and Territories will be advanced $1.7 billion in 2000-01, which will be repayable without interest.

Australian Taxation Office

The Government is providing capital appropriations to the ATO to develop computer software for implementation of the *Business Tax Reform* measures and the *Fuels Sales Grants Scheme*.

The reduction in net capital investment in 2002-03 and 2003-04 reflects the acceleration of planned capital investment on computer software during 2000-01 to enable the ATO to deliver *A New Tax System — Measures for a Better Environment* and *Business Tax Reform*.

Portfolio Overview

The portfolio includes a number of agencies such as the Royal Australian Mint, the ABS and the ATO. Other bodies monitor and regulate the Australian business community at large. AOFM enhances the Commonwealth's capacity to manage its net debt portfolio.

Material agencies under the portfolio are: the Department of the Treasury; the Australian Bureau of Statistics; the Australian Securities and Investments Commission; the Australian Taxation Office; and the Australian Office of Financial Management.

Small agencies under the portfolio are: the Australian Competition and Consumer Commission; the Australian Prudential Regulation Authority; the Companies and Securities Advisory Committee; the National Competition Council; and the Productivity Commission.

VETERANS' AFFAIRS

Table 21: Summary of Expenses and Net Capital Investment[a]

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Veterans' Affairs					
Expenses					
Department of Veterans' Affairs					
Administered	7406.7	8197.5	8301.1	8611.1	8764.8
Departmental	250.0	254.9	253.4	253.1	257.9
Net capital investment					
Department of Veterans' Affairs	13.2	8.3	2.3	2.3	3.4
Memorandum item:					
Capital appropriations	**8.7**	**10.4**	**5.5**	**4.3**	**4.4**

(a) Data in Table 21 relate to material agencies only and due to payments between agencies within the portfolio these numbers should not be added to form a total.
Note: Further information can be obtained from the Portfolio Budget Statement.

Summary of Major Developments in Portfolio Expenses and Net Capital Investment

The portfolio is responsible for fulfilling Australia's obligations to war veterans and their dependants. It recognises the achievements and sacrifice of those men and women who served Australia and its allies in war, defence and peacekeeping services and ensures that they are acknowledged and commemorated.

Trends in Expenses

Expenses are increasing overall due to the ageing of the veteran population with greater consequent demands on services provided by the Department. The population remains relatively stable as the expected reduction in the number of veterans is offset by an increased number of war widows and widowers.

Expenses have also increased due to the introduction of new measures in the Budget, and with the transfer of responsibility for the administration of the Military Compensation and Rehabilitation Service from the Department of Defence to the Department of Veterans' Affairs (DVA).

The Commonwealth will incur expenses of $255 million in 2000-01 to support veterans, war widows, widowers and other dependants. Estimates include a four per cent increase in pensions and allowances granted through the implementation of *The New Tax System*.

Administered expenses relating to compensation and income support are expected to be $5.3 billion in 2000-01. Expenses are expected to remain reasonably stable over the forward years as the expected reduction in the number of service and disability pensioners is countered by an increased number of war widows and widowers and pension increases.

Administered expenses for health and other care services are estimated to increase from $2.8 billion in 2000-01 to around $3.4 billion in 2003-04, mainly due to the ageing of the veteran population.

Following a *Review of Service Entitlement Anomalies with Respect to South-East Asian Service 1955-75*, the Government will extend repatriation benefits and medals to certain deployments to South-East Asia in the period 1955-75 ($16 million in 2000-01, $36 million in 2001-02, $37 million in 2002-03 and $37 million in 2003-04).

Capital Movements

The Government will provide DVA with a capital injection of $18 million over four years for the *Managing Health Care Information* Initiative. This injection funds the third and final stage of the development of a comprehensive database on veterans' health care. The initiative will deliver improved management of veterans' health expenditure and improved identification of veterans' health requirements, which will lead to a reduction in expenses over the Budget and forward years.

The Government is also providing DVA a further capital injection of $3 million in 2000-01 for the partial alignment of disability and service pension payments with income support payments through the *Change the date of effect for grants and variations to compensation payments* measure.

Portfolio Overview

The portfolio ensures that the needs of war veterans, their war widows and widowers and dependants are identified and the veteran community is well informed of services available to them. It provides access to appropriate compensation and income support, health and other care services in recognition of the effects of war service.

Responsibility for the administration of the Military Compensation and Rehabilitation Service, which deals with the claims and rehabilitation services for current and former members of the Australian Defence Force who have been injured in the course of their service, has been transferred to DVA. Funding for the administration of this scheme will be transferred from the Department of Defence.

The Australian War Memorial (AWM) helps Australians to remember, interpret and understand the Australian experience of war and its enduring impact on Australian society. The AWM also maintains war graves in Australia and overseas.

Material agencies under the portfolio: the Department of Veterans' Affairs.

Small agencies under the portfolio: the Australian War Memorial.

CONTINGENCY RESERVE

Table 22: Summary of Expenses and Net Capital Investment

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Contingency Reserve					
Expenses	-60.4	273.8	1959.9	3596.3	5330.2
Net capital investment	0.0	56.4	209.7	148.2	397.5

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

The major components of the Contingency Reserve for the budget and forward estimates include the following:

- an allowance for the tendency for budget estimates of expenses for existing government policy to be revised upwards in the forward years;
- an allowance for the tendency for estimates of administered expenses for some specific outcomes to be overstated in the budget year;
- commercial-in-confidence and national security-in-confidence items that cannot be disclosed separately;
- minor decisions made late in the budget process; and
- the effect of economic parameter revisions on the budget and forward estimates received late in the process and hence not able to be allocated to individual agencies.

Appendix A: Expenses Statistics

Table A1: Total General Government Expenses by Agency[(a)]

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Agriculture, Fisheries and Forestry					
Department of Agriculture, Fisheries and Forestry	1379	1323	1322	1317	1357
Australian Wool Research and Promotion Organisation	120	119	120	130	127
Grains Research and Development Corporation	104	103	99	96	93
Attorney-General's					
Attorney-General's Department	396	465	448	440	445
Australian Customs Service	583	626	632	642	649
Australian Federal Police	424	366	345	327	329
Family Court of Australia	122	113	114	115	113
Communications, Information Technology and the Arts					
Department of Communications, Information Technology and the Arts	693	639	644	465	420
Australian Broadcasting Corporation	661	683	714	736	753
Special Broadcasting Service Corporation	129	131	131	134	132
Defence					
Department of Defence	13213	13564	13661	14152	14773
Defence Housing Authority	245	261	279	281	275
Education, Training and Youth Affairs					
Department of Education, Training and Youth Affairs	11170	11552	11993	12473	12962
Employment, Workplace Relations and Small Business					
Department of Employment, Workplace Relations and Small Business	1490	1734	1726	1774	1762
Comcare	141	160	174	178	189
Environment and Heritage					
Department of Environment and Heritage	816	883	847	450	444
Family and Community Services					
Department of Family and Community Services	48842	55932	56316	58432	60449
Centrelink	1717	1753	1716	1680	1655

Table A1: Total General Government Expenses by Agency[(a)] (continued)

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Finance and Administration					
Department of Finance and Administration	4613	4160	3892	3805	3687
Australian Electoral Commission	161	104	185	96	98
Office of Asset Sales and IT Outsourcing	33	15	0	0	0
Foreign Affairs and Trade					
Department of Foreign Affairs and Trade	805	787	788	799	829
Australian Agency for International Development	1228	1497	1571	1297	1351
Australian Trade Commission	331	331	332	180	180
Health and Aged Care					
Department of Health and Aged Care	24498	26313	27716	29085	30485
Health Insurance Commission	12551	13273	13794	14353	15063
Immigration and Multicultural Affairs					
Department of Immigration and Multicultural Affairs	774	895	876	904	923
Industry, Science and Resources					
Department of Industry, Science and Resources	1151	1024	1009	949	876
Australian Nuclear Science and Technology Organisation	112	115	120	124	118
Australian Sports Commission	117	99	90	93	94
Australian Tourist Commission	134	130	131	116	118
Commonwealth Scientific and Industrial Research Organisation	759	773	798	821	829
Prime Minister and Cabinet					
Department of Prime Minister and Cabinet	93	87	82	67	56
Aboriginal and Torres Strait Islander Commission	1071	1104	1159	1189	1220
Transport and Regional Services					
Department of Transport and Regional Services	2813	2812	3012	2704	2652
Civil Aviation Safety Authority	92	91	87	89	94
Treasury					
Department of the Treasury	18103	1866	4139	2685	2118
Australian Bureau of Statistics	256	280	371	279	269
Australian Securities and Investment Commission	150	163	161	160	158
Australian Taxation Office	4048	5290	5466	5607	5770
Australian Office of Financial Management	6548	8685	7997	8152	7953

Table A1: Total General Government Expenses by Agency[a] (continued)

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Veterans' Affairs					
Department of Veterans' Affairs	7657	8452	8554	8864	9023
Small Agencies	3404	3584	3529	3541	3544
Whole of Government and Inter-Agency amounts(a)	-15354	-18606	-17410	-16356	-15375
TOTAL EXPENSES	**158392**	**153732**	**159728**	**163424**	**169061**

(a) Estimates of inter-agency transactions are included in the Whole of Government and inter-agency entity. The entry for each portfolio does not include eliminations for inter-agency transactions within that portfolio. The estimated $17.9 billion of eliminations in the Budget year includes around $12 billion in the Health and Aged Care portfolio, reflecting the grants paid to the Health Insurance Commission; $1.7 billion in the Family and Community Services portfolio, reflecting expenses paid to Centrelink; and $270 million in the Defence portfolio, reflecting expenses paid to the Defence Housing Authority (DHA).

Table A2: Total Departmental Expenses by Agency[(a)(b)]

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Agriculture, Fisheries and Forestry					
Department of Agriculture, Fisheries and Forestry	336	309	311	285	289
Australian Wool Research and Promotion Organisation	120	119	120	130	127
Grains Research and Development Corporation	104	103	99	96	93
Attorney-General's					
Attorney-General's Department	236	225	217	209	204
Australian Customs Service	582	626	631	641	649
Australian Federal Police	416	366	345	327	329
Family Court of Australia	122	113	114	115	113
Communications, Information Technology and the Arts					
Department of Communications, Information Technology and the Arts	161	159	147	139	139
Australian Broadcasting Corporation	661	683	714	736	753
Special Broadcasting Service Corporation	129	131	131	134	132
Defence					
Department of Defence	11510	11804	11853	12281	12747
Defence Housing Authority	245	261	279	281	275
Education, Training and Youth Affairs					
Department of Education, Training and Youth Affairs	218	220	211	221	225
Employment, Workplace Relations and Small Business					
Department of Employment, Workplace Relations and Small Business	370	377	375	381	383
Comcare	141	160	174	178	189
Environment and Heritage					
Department of Environment and Heritage	442	460	461	422	416
Family and Community Services					
Department of Family and Community Services	2057	2164	2134	2098	2081
Centrelink	1717	1753	1716	1680	1655

Table A2: Total Departmental Expenses by Agency[(a)(b)] (continued)

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Finance and Administration					
Department of Finance and Administration	465	324	317	312	310
Australian Electoral Commission	161	104	149	96	98
Office of Asset Sales and IT Outsourcing	33	15	0	0	0
Foreign Affairs and Trade					
Department of Foreign Affairs and Trade	684	663	668	681	711
Australian Agency for International Development	69	68	68	67	68
Australian Trade Commission	176	180	182	179	180
Health and Aged Care					
Department of Health and Aged Care	712	727	724	721	743
Health Insurance Commission	389	384	379	383	387
Immigration and Multicultural Affairs					
Department of Immigration and Multicultural Affairs	631	754	738	768	786
Industry, Science and Resources					
Department of Industry, Science and Resources	248	246	238	241	247
Australian Nuclear Science and Technology Organisation	112	115	120	124	118
Australian Sports Commission	117	99	90	93	94
Australian Tourist Commission	134	130	131	116	118
Commonwealth Scientific and Industrial Research Organisation	759	773	798	821	829
Prime Minister and Cabinet					
Department of Prime Minister and Cabinet	71	60	61	48	48
Aboriginal and Torres Strait Islander Commission	987	1020	1074	1103	1133
Transport and Regional Services					
Department of Transport and Regional Services	179	169	170	163	166
Civil Aviation Safety Authority	92	91	87	89	94
Treasury					
Department of the Treasury	110	102	95	97	99
Australian Bureau of Statistics	256	280	371	279	269
Australian Securities and Investment Commission	144	140	139	138	139
Australian Taxation Office	1700	1834	1683	1637	1616
Australian Office of Financial Management	3	6	6	6	6

Table A2: Total Departmental Expenses by Agency[(a)(b)] (continued)

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Veterans' Affairs					
Department of Veterans' Affairs	250	255	253	253	258
Small Agencies	3404	3584	3529	3541	3544
Whole of Government and Inter-Agency amounts(a)	-42	-42	-42	-42	-42
TOTAL DEPARTMENTAL EXPENSES	31415	32112	32057	32268	32819

(a) Estimates of inter-agency transactions are included in Whole of Government and inter-agency amounts.

(b) The difference between the figures in Table A2 above and the figures in Table A1 equals administered expenses by agency.

Table A3: Estimates of Average Staffing Level (ASL) of Agencies in the Commonwealth General Government Sector

	Average Staffing Levels		
	1999-00 Estimate	2000-01 Estimate	Change
Agriculture, Fisheries and Forestry			
Department of Agriculture, Fisheries and Forestry	2881.3	2758.0	-123.3
Australian Dried Fruits Board	1.0	1.0	-
Australian Fisheries Management Authority	101.0	114.0	13.0
Australian Horticultural Corporation	22.0	24.0	2.0
Australian Pork Corporation	55.0	55.0	-
Australian Wine and Brandy Corporation	31.0	35.0	4.0
Australian Wool Research and Promotion Organisation(a)	322.0	322.0	-
Cotton Research and Development Corporation	7.0	7.6	0.6
Dairy Research and Development Corporation	21.0	21.0	-
Fisheries Research and Development Corporation	9.0	9.0	-
Forest and Wood Products Research and Development Corporation	6.0	7.0	1.0
Grains Research and Development Corporation	33.0	35.0	2.0
Grape and Wine Research and Development Corporation	6.0	7.0	1.0
Horticultural Research and Development Corporation	18.4	18.0	-0.4
Land and Water Resources Research and Development Corporation	20.0	25.0	5.0
National Registration Authority for Agricultural and Veterinary Chemicals	112.0	112.0	-
Pig Research and Development Corporation	11.0	12.0	1.0
Rural Industries Research and Development Corporation	16.0	16.0	-
Sugar Research and Development Corporation	7.0	7.0	-
Tobacco Research and Development Corporation	0.5	0.5	-
Wheat Export Authority	6.0	7.0	1.0
Total	3686.2	3593.1	-93.1
Attorney-General's			
Attorney-General's Department	1527.9	1437.1	-90.8
Administrative Appeals Tribunal	161.0	163.0	2.0
Australian Customs Service	3833.0	4354.0	521.0
Australian Federal Police	2888.0	2914.0	26.0
Australian Institute of Criminology	40.0	43.0	3.0
Australian Law Reform Commission	22.0	22.0	-
Australian Secret Intelligence Organisation	537.2	538.8	1.6
Australian Transaction Reports and Analysis Centre (Austrac)	67.0	69.0	2.0
Criminology Research Council	0.5	1.0	0.5
Family Court of Australia	800.0	720.0	-80.0
Federal Court of Australia	310.0	310.0	-
High Court of Australia	83.0	83.0	-
Human Rights and Equal Opportunity Commission	128.0	123.0	-5.0

Table A3: Estimates of Average Staffing Level (ASL) of Agencies in the Commonwealth General Government Sector (continued)

	Average Staffing Levels		
	1999-00 Estimate	2000-01 Estimate	Change
Attorney-General's (continued)			
National Crime Authority	285.0	306.0	21.0
National Native Title Tribunal	226.0	208.0	-18.0
Office of Film and Literature Classification	45.0	50.0	5.0
Office of Parliamentary Counsel	40.0	42.0	2.0
Office of the Director of Public Prosecutions	415.0	415.0	-
Total	11408.6	11798.9	390.3
Communications, Information Technology and the Arts			
Department of Communications, Information Technology and the Arts	949.0	980.0	31.0
Australia Council	120.0	124.0	4.0
Australian Broadcasting Authority	155.0	150.0	-5.0
Australian Broadcasting Corporation	4200.0	4200.0	-
Australian Communications Authority	417.0	438.0	21.0
Australian Film Commission	55.0	54.0	-1.0
Australian Film Television and Radio School	149.0	145.0	-4.0
Australian National Maritime Museum	99.0	102.0	3.0
National Archives of Australia	325.0	325.0	-
National Gallery	220.0	220.0	-
National Library of Australia	450.0	468.0	18.0
National Museum of Australia	125.0	115.0	-10.0
Special Broadcasting Service Corporation	758.0	758.0	-
Total	8022.0	8079.0	57.0
Defence			
Department of Defence	16265.0	15725.0	-540.0
Military Reserves(b)	3746.0	3775.0	29.0
Permanent Military	51018.0	50929.0	-89.0
Defence Housing Authority	290.0	340.0	50.0
Total	71319.0	70769.0	-550.0
Education, Training and Youth Affairs			
Department of Education, Training and Youth Affairs	1360.0	1350.0	-10.0
Australian National Training Authority	107.7	106.0	-1.7
Total	1467.7	1456.0	-11.7
Employment, Workplace Relations and Small Business			
Department of Employment, Workplace Relations and Small Business	2078.4	2056.9	-21.5
Australian Industrial Registry	265.0	243.0	-22.0
Comcare	290.0	290.0	-

Table A3: Estimates of Average Staffing Level (ASL) of Agencies in the Commonwealth General Government Sector (continued)

	Average Staffing Levels		
	1999-00 Estimate	2000-01 Estimate	Change
Employment, Workplace Relations and Small Business (continued)			
National Occupational Health and Safety Commission	136.0	138.0	2.0
Equal Opportunity for Women in the Workplace Agency	21.0	21.0	-
Total	2790.4	2748.9	-41.5
Environment and Heritage			
Department of Environment and Heritage	2635.9	2631.5	-4.4
Australian Greenhouse Office	135.0	165.0	30.0
Australian Heritage Commission	82.4	83.2	0.8
Director of National Parks	261.0	261.0	-
Great Barrier Reef Marine Park Authority	157.0	160.0	3.0
Total	3271.3	3300.7	29.4
Family and Community Services			
Department of Family and Community Services(c)	5592.7	5573.2	-19.5
Australian Institute of Family Studies	35.7	39.1	3.4
Centrelink	20423.0	21254.0	831.0
Total	26051.4	26866.3	814.9
Finance and Administration			
Department of Finance and Administration	766.8	741.1	-25.7
Australian Electoral Commission	814.0	814.0	-
Commonwealth Grants Commission	65.1	65.1	-
Commonwealth Superannuation Administration (ComSuper)	342.0	332.0	-10.0
Office of Asset Sales and IT Outsourcing	52.0	61.0	9.0
Total	2039.9	2013.2	-26.7
Foreign Affairs and Trade			
Department of Foreign Affairs and Trade	3490.0	3388.0	-102.0
AusAid	580.0	580.0	-
Australia-Japan Foundation	6.5	6.5	-
Australian Centre for International Agricultural Research	50.0	52.0	2.0
Australian Trade Commission	1033.0	1042.0	9.0
Total	5159.5	5068.5	-91.0
Health and Aged Care			
Department of Health and Aged Care	2761.0	2615.4	-145.6
Aged Care Standards and Accreditation Agency	140.0	150.0	10.0
Australia New Zealand Food Authority	89.0	88.0	-1.0
Australian Institute of Health and Welfare	74.0	74.0	-
Australian Radiation Protection and Nuclear Safety Agency	118.0	130.0	12.0
Health Insurance Commission	3850.0	3400.0	-450.0

Table A3: Estimates of Average Staffing Level (ASL) of Agencies in the Commonwealth General Government Sector (continued)

	Average Staffing Levels		
	1999-00 Estimate	2000-01 Estimate	Change
Health and Aged Care (continued)			
Private Health Insurance Administration Council	6.5	6.5	-
Private Health Insurance Ombudsman	8.0	7.0	-1.0
Professional Services Review Scheme	17.0	30.0	13.0
Total	7063.5	6500.9	-562.6
Immigration and Multicultural Affairs			
Department of Immigration and Multicultural Affairs	3711.0	3805.0	94.0
Migration Review Tribunal	114.0	74.1	-39.9
Refugee Review Tribunal	186.0	108.5	-77.5
Total	4011.0	3987.6	-23.4
Industry, Science and Resources			
Department of Industry, Science and Resources	1621.0	1609.0	-12.0
Australian Geological Survey Organisation	425.0	426.5	1.5
Australian Institute of Marine Science	159.1	154.9	-4.2
Australian Nuclear Science and Technology Organisation	795.0	791.0	-4.0
Australian Sports Commission	398.8	365.3	-33.5
Australian Sports Drug Agency	46.0	43.0	-3.0
Australian Tourist Commission	203.4	222.0	18.6
Commonwealth Scientific and Industrial Research Organisation	6200.0	6067.0	-133.0
IP Australia	682.0	731.0	49.0
National Standards Commission	32.0	32.0	
Total	10562.3	10441.7	-120.6
Parliament			
Department of the Senate	250.0	250.0	-
Department of the House of Representatives	232.3	240.0	7.7
Department of the Parliamentary Library	178.0	175.0	-3.0
Department of Parliamentary Reporting Staff	280.0	280.0	-
Joint Houses of Parliament	267.4	267.4	-
Total	1207.7	1212.4	4.7
Prime Minister and Cabinet			
Department of Prime Minister and Cabinet	383.0	390.0	7.0
Aboriginal and Torres Strait Islander Commercial Development Corp	13.0	16.0	3.0
Aboriginal and Torres Strait Islander Commission	1250.0	1250.0	-
Aboriginal Hostels Ltd	396.0	400.0	4.0
Australian Institute of Aboriginal and Torres Strait Islander Studies	64.0	62.0	-2.0
Australian National Audit Office	272.0	280.0	8.0
Indigenous Land Corporation	64.0	71.0	7.0
Office of Inspector-General of Intelligence and Security	5.2	4.6	-0.6

Table A3: Estimates of Average Staffing Level (ASL) of Agencies in the Commonwealth General Government Sector (continued)

	Average Staffing Levels		
	1999-00 Estimate	2000-01 Estimate	Change
Prime Minister and Cabinet (continued)			
Office of National Assessments	55.0	62.0	7.0
Office of the Commonwealth Ombudsman	82.0	82.0	-
Office of the Official Secretary to the Governor General	71.9	74.3	2.4
Public Service and Merit Protection Commission	125.0	125.0	-
Torres Strait Regional Authority	31.0	33.0	2.0
Total	2812.1	2849.9	37.8
Transport and Regional Services			
Department of Transport and Regional Services	933.0	965.0	32.0
Australian Maritime Safety Authority	360.0	269.0	-91.0
Civil Aviation Safety Authority	608.0	628.0	20.0
National Capital Authority	63.8	73.2	9.4
Total	1964.8	1935.2	-29.6
Treasury			
Department of the Treasury	500.0	521.0	21.0
Australian Bureau of Statistics	3050.0	3075.0	25.0
Australian Competition and Consumer Commission	372.0	397.0	25.0
Australian Office of Financial Management	20.0	42.0	22.0
Australian Prudential Regulation Authority	397.0	406.0	9.0
Australian Securities and Investment Commission	1270.0	1200.0	-70.0
Australian Taxation Office(d)	15111.0	18355.0	3244.0
Companies and Securities Advisory Committee	3.0	3.0	-
National Competition Council	21.0	22.0	1.0
Productivity Commission	205.0	200.0	-5.0
Total	20949.0	24221.0	3272.0
Veterans' Affairs			
Department of Veterans' Affairs	2442.0	2533.0	91.0
Australian War Memorial	215.0	218.0	3.0
Total	2657.0	2751.0	94.0
Total	186443.4	189593.3	3149.9

(a) AWRAP ASL reflects a large contingent of overseas staff.

(b) The ASL estimate for reserve military forces are based on full time equivalent salaries of reserve personnel.

(c) ASL numbers for Family and Community Services includes the Child Support Agency.

(d) The ATO indicates an increase in ASL of 3244 in 2000-01, which is necessary for the implementation of the Government's tax initiatives under *The New Tax System* and *Business Tax Reform*. This increase will be funded significantly by financial contributions from the States and Territories.

Note: This table includes estimates of ASL provided by general government sector agencies. ASL figures reflect the average number of employees receiving salary or wages over the financial year, with adjustments for casual and part-time staff, to show the full time equivalent. This also includes non-uniformed staff and overseas personnel.

Table A4: Estimates of Commonwealth General Government Expenses by Function and Sub-function

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
General public services					
Legislative and executive affairs	574	480	551	450	440
Financial and fiscal affairs	5339	6601	6781	6811	6973
Foreign economic aid	2110	2338	2412	2147	2230
General research	1496	1557	1561	1571	1579
General services	460	439	446	448	459
Government superannuation benefits	5506	5263	5063	5057	5099
Total General public services	*15486*	*16678*	*16814*	*16484*	*16780*
Defence	*10440*	*10606*	*10657*	*11075*	*11533*
Public order and safety					
Courts and legal services	567	584	578	577	579
Other Public order and safety	620	584	556	534	537
Total Public order and safety	*1187*	*1168*	*1133*	*1112*	*1116*
Education					
Higher education	3808	3932	3988	4057	4123
Vocational and other education	1066	1119	1099	1106	1110
Non-government schools	2968	3209	3462	3734	4031
Government schools	1798	1871	1966	2044	2149
Schools	*4766*	*5080*	*5428*	*5778*	*6181*
Student assistance	637	646	668	700	722
General administration	37	37	36	37	38
School eduation - specific funding	76	100	103	104	104
Total Education	*10390*	*10915*	*11321*	*11783*	*12277*
Health					
Medical services and benefits	9662	10215	10674	11199	11704
Hospital services	1128	1229	1183	1227	1200
Health care agreements	5956	6243	6603	6967	7414
Hospital services and health care agreements	*7084*	*7473*	*7786*	*8194*	*8614*
Pharmaceutical services and benefits	4034	4347	4540	4769	5098
Aboriginal and Torres Strait Islander health	169	189	197	212	220
Health services	491	544	533	554	563
Other health services	611	649	670	710	763
Other health services	*1102*	*1193*	*1203*	*1264*	*1325*
General administration	857	905	950	989	1019
Health assistance to the aged	502	713	780	807	820
Total Health	*23409*	*25035*	*26131*	*27434*	*28800*
Social security and welfare					
Assistance to the aged	19754	23377	23123	24477	25769
Assistance to veterans and dependents	4546	5227	5257	5389	5360
Assistance to people with disabilities	6722	7272	7677	7998	8479
Assistance to families with children	15154	17970	18767	19475	20078
Assistance to the unemployed	5750	5698	5491	5399	5280
Assistance to the sick	87	96	95	99	100
Assistance to the unemployed and the sick	*5837*	*5794*	*5586*	*5499*	*5379*

Table A4: Estimates of Commonwealth General Government Expenses by Function and Sub-function (continued)

	Estimates		Projections		
	1999-00	2000-01	2001-02	2002-03	2003-04
	$m	$m	$m	$m	$m
Social security and welfare (continued)					
Common youth allowance	1978	2211	2301	2403	2455
Other welfare programmes	242	233	217	197	192
Aboriginal advancement nec	1204	1259	1307	1336	1366
General administration	1924	1983	1949	1901	1888
Total Social security and welfare	*57361*	*65327*	*66185*	*68674*	*70966*
Housing and community amenities					
Housing	1178	1333	1100	1294	1198
Urban and regional development	58	65	48	26	26
Environment protection	621	653	810	438	436
Total Housing and community amenities	*1858*	*2050*	*1959*	*1759*	*1661*
Recreation and culture					
Broadcasting	504	514	523	535	541
Arts and cultural heritage	685	694	624	581	582
Sport and recreation	145	135	97	101	102
National estate and parks	151	151	112	104	104
Total Recreation and culture	*1484*	*1493*	*1356*	*1322*	*1329*
Fuel and energy	*48*	*52*	*38*	*36*	*37*
Agriculture, fisheries and forestry					
Wool industry	120	119	120	130	127
Grains industry	105	104	100	97	94
Dairy industry	213	201	270	273	274
Cattle, sheep and pig industry	139	107	99	98	100
Fishing, horticulture and other agriculture	128	129	166	167	169
General assistance not allocated to specific industries	612	481	445	433	431
Rural assistance	149	147	127	130	142
Natural resources development	333	356	351	137	136
General administration	54	49	50	46	46
Total Agriculture, fisheries and forestry	*1852*	*1694*	*1729*	*1510*	*1518*
Mining and mineral resources (other than fuels), manufacturing and construction	*888*	*850*	*947*	*754*	*684*
Transport and communication					
Communication	634	604	689	566	528
Rail transport	103	71	161	1	0
Air transport	194	183	115	117	104
Road transport	878	927	1038	969	882
Sea transport	229	158	158	159	161
Other transport and communication	139	132	132	128	129
Total Transport and communication	*2177*	*2074*	*2294*	*1939*	*1805*

Table A4: Estimates of Commonwealth General Government Expenses by Function and Sub-function (continued)

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Other economic affairs					
Tourism and area promotion	150	138	139	124	126
Vocational and Industry training	467	440	437	438	438
Labour market assistance to job seekers and industry	1604	1806	1808	1887	1878
Industrial relations	109	112	107	102	102
Immigration	574	687	671	699	713
Total Labour and employment affairs	*2754*	*3044*	*3024*	*3127*	*3130*
Other economic affairs nec	529	561	553	546	543
Total Other economic affairs	*3432*	*3743*	*3716*	*3797*	*3799*
Other purposes					
Interest on Commonwealth behalf	9088	8575	7943	8114	7910
Interest on behalf of States and Territories	0	0	0	0	0
Interest received on Commonwealth stock	0	0	0	0	0
Public debt interest	*9088*	*8575*	*7943*	*8114*	*7910*
General revenue assistance - States and Territories	17752	477	730	748	767
General capital assistance - States and Territories	0	0	0	0	0
Debt assistance	-7	50	2	1	0
Local government assistance	1271	1322	1369	1417	1466
Revenue assistance to the States and Territories	135	139	147	151	154
Assistance to other governments	85	1131	3235	1654	1065
General purpose inter-government transactions	*19237*	*3119*	*5481*	*3971*	*3453*
Natural disaster relief	83	64	64	64	64
Contingency reserve	-60	274	1960	3596	5330
Asset sales	33	15	0	0	0
Total Other purposes	*28381*	*12046*	*15448*	*15745*	*16756*
Total Expenses	**158392**	**153732**	**159728**	**163424**	**169061**

Note: Lines in italics within sub functions are subtotals of the indented items above.

Table A5: Estimates of Commonwealth General Government Expenses by Economic Type

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Expenses					
Goods and services					
Employees	16121	15856	15591	15638	15879
Suppliers	13335	14095	13597	13159	13330
Depreciation and amortisation	2533	2823	3160	3475	3654
Net write down of assets	1056	1008	1035	1078	1129
Net foreign exchange losses	397	3	0	0	0
Net losses from the sale of assets	51	4	1	1	1
Other goods and services expenses	4759	5005	5243	5530	5895
Total goods and services	**38253**	**38795**	**38628**	**38880**	**39888**
Subsidies benefits and grants					
Personal benefits	60942	69313	71830	76304	80678
Subsidies	5382	7000	7614	8001	8247
Grants	45212	29713	33421	31836	32056
Total subsidies benefits and grants	**111536**	**106026**	**112866**	**116141**	**120981**
Interest and other					
Interest and other financing costs	8604	8911	8234	8404	8192
Total interest and other	**8604**	**8911**	**8234**	**8404**	**8192**
Total general government expenses	**158392**	**153732**	**159728**	**163424**	**169061**

Appendix B: Expense Measures

Table B1: Expense Measures since the 1999-2000 MYEFO

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Agriculture, Fisheries and Forestry				
Department of Agriculture, Fisheries and Forestry				
AQIS - Maintaining quarantine integrity during East Timor operations	-	-	-	-
AQIS - Maintaining quarantine integrity during the Olympics	1.6	-	-	-
AQIS - Renewal of quarantine resourcing	-	8.5	-	-
Assistance to farmers in central north-east South Australia	1.1	1.0	-	-
Building a national approach to animal and plant health	4.5	6.3	6.2	5.3
Continuation of the Agriculture - Advancing Australia Package	37.8	74.2	90.7	106.7
Exceptional circumstances recovery assistance	0.4	-	-	-
Implementing the National Biotechnology Strategy	0.1	1.2	1.2	1.2
Pricing review of departmental resourcing	-1.0	-2.0	-2.0	-2.0
Portfolio total	**44.4**	**89.2**	**96.1**	**111.2**
Attorney-General's				
Administrative Appeals Tribunal				
Establishment of the Administrative Review Tribunal	-11.2	-27.0	-27.2	-27.4
Attorney-General's Department				
Agreements for the delivery of Commonwealth Legal Aid Services by State and Territory Legal Aid Commissions	2.4	10.4	14.4	18.4
Diversionary programmes for juveniles in the Northern Territory	5.0	5.0	5.0	5.0
Establishment of the Administrative Review Tribunal	10.2	19.2	19.4	19.7
Management of native title litigation involving the Commonwealth	2.0	2.0	2.0	2.0
Microwave video link capacity for law enforcement agencies	3.4	-	-	-
Pricing review of departmental resourcing	-2.0	-2.0	-2.0	-2.0
Protection of the national information infrastructure	0.6	-	-	-
Protective security for Diplomatic and Consular Missions	10.4	-	-	-
Unauthorised Arrivals in Australia - legislative changes to support law enforcement	-	-	-	-
Australian Customs Service				
Pricing review of departmental resourcing	-2.5	-5.0	-5.0	-5.0
Unauthorised Arrivals in Australia - lease a charter vessel to transport unauthorised arrivals intercepted at sea or at islands off the mainland	nfp	nfp	nfp	nfp
Australian Federal Police				
Continued Australian Police presence in the United Nations Transitional Administration in East Timor	25.4	25.9	26.3	26.7
Protection of the national information infrastructure	0.2	-	-	-
Unauthorised Arrivals in Australia - additional resourcing to investigate and detect organised people smuggling	3.9	4.0	4.1	4.1
Australian Security Intelligence Organisation				
Investment in ASIO capabilities(a)	0.5	5.2	5.2	6.6
Protection of the national information infrastructure	0.6	-	-	-

Table B1: Expense Measures since the 1999-2000 MYEFO (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
National Crime Authority				
Targeting of serious and large scale fraud and related crime against the Commonwealth	8.1	8.4	8.8	-
Portfolio total	**57.0**	**46.1**	**50.9**	**48.0**
Communications, Information Technology and the Arts				
Australian Broadcasting Corporation				
Digital Broadcasting - resourcing for digital distribution and transmission	nfp	nfp	nfp	nfp
Australian Communications Authority				
Creating and administering a number pool of local rate and freephone numbers	0.7	0.2	0.2	0.2
Study to examine the feasibility of market based allocation of local rate and freephone numbers	0.6	-	-	-
Universal service obligation contestability arrangements	1.8	1.0	1.0	1.0
Department of Communications, Information Technology and the Arts				
Centenary of Federation - public awareness campaign	3.2	-	-	-
Continuation of resourcing for the Australian Film Finance Corporation	-	50.0	50.0	50.0
Continuation of resourcing for the National Office of the Information Economy	-	-	-	-
Regional Communications Partnership Fund	-	-	-	-
Regional Equalisation Plan for digital television - taxable grants	-	-	0.3	0.3
Increased funding for major performing arts - response to the Major Performing Arts Inquiry	6.8	9.4	10.0	7.9
National Archives of Australia				
Papers of former Prime Ministers	-	-	-	-
Special Broadcasting Service Corporation				
Additional resources for the Special Broadcasting Service Corporation for programme acquisition	2.0	2.7	3.5	-
Digital Broadcasting - resourcing for digital distribution and transmission	nfp	nfp	nfp	nfp
Portfolio total	**15.1**	**63.3**	**65.0**	**59.4**
Defence				
Department of Defence				
Increasing operational availability of Reserves	20.0	-	-	-
Protection of the national information infrastructure	0.6	-	-	-
Review of service entitlements anomalies with respect to South-East Asian service 1955-75	-	-	-	-
Supplementation for commercial rents	-	20.1	20.7	21.3
Supplementation for purchase of Defence Housing Authority services	68.9	68.6	68.4	68.7
Portfolio total	**89.5**	**88.7**	**89.1**	**90.0**

Table B1: Expense Measures since the 1999-2000 MYEFO (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Education, Training and Youth Affairs				
Department of Education, Training and Youth Affairs				
Additional resourcing for the Assistance for Isolated Children Scheme	2.2	4.5	4.8	5.1
Amalgamation of the Advanced English for Migrants Programme with the Literacy and Numeracy Programme	-3.1	-5.6	-5.7	-5.7
Australian Student Traineeship Foundation - funding for work placement coordination and community partnership projects	-	-	-	-
Discovering Democracy Programme	-	-	-	-
Education Services for Overseas Students - strengthening the regulatory framework	1.0	1.0	1.0	1.0
Grant to the Australian - American Education (Fulbright) Foundation	-	-	-	-
Increased funding for the Research Infrastructure Equipment and Facilities Scheme	4.0	4.0	4.1	4.2
Increased permanent migrant intake	1.2	3.6	5.0	6.4
Maintain support for the Jobs Pathway Programme	10.3	-	-	-
New Apprenticeships - Workforce Skills Development Programme	-	-	-	-
Regional Health Package - More Doctors, Better Services	1.8	3.6	5.8	8.1
Strategic Partnerships with Industry - Research and Training Scheme	-	-	-	-
Portfolio total	**17.2**	**11.0**	**14.9**	**19.0**
Employment, Workplace Relations and Small Business				
Department of Employment, Workplace Relations and Small Business				
Business Entry Point Initiative	-	-	-	-
Dairy Regional Assistance Programme	15.0	15.0	15.0	-
Employee Entitlements Support Scheme	55.0	40.0	40.0	-
Retail Grocery Industry Ombudsman Scheme	-	-	-	-
Portfolio total	**70.0**	**55.0**	**55.0**	**-**
Environment and Heritage				
Australian Greenhouse Office				
Establishment of a regulator for the mandatory target for the uptake of renewable energy in power supplies	-0.6	-0.5	-0.4	1.5
Department of the Environment and Heritage				
Interim Sydney Harbour Federation Trust	-	-	-	-
Implementing the National Biotechnology Strategy	-	-	-	-
Pricing review of departmental resourcing	-5.0	-5.0	-5.0	-5.0
Product stewardship arrangements for waste oil	24.7	24.5	24.2	24.0
Portfolio total	**19.1**	**19.0**	**18.8**	**20.5**

Table B1: Expense Measures since the 1999-2000 MYEFO (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Family and Community Services				
Department of Family and Community Services				
Amendments to *A New Tax System (Family Assistance and Related Measures) Bill (2000)*	0.7	0.2	0.2	0.2
Change the date of effect for grants and variations to compensation payments	..	0.1	0.1	0.1
Child Support Package - a lower cap on payer income subject to child support formula assessment	..	..	..	..
Child Support Package - assessment of income for child support parents undertaking overtime/second jobs	0.3	0.7	0.7	0.7
Child Support Package - an increase in the Family Tax Benefit income test deduction for payers with a subsequent family	0.1	5.3	5.7	6.1
Child Support Package - lower formula percentages for payers exercising contact with their children	1.4	16.4	14.5	15.2
Child Support Package - post separation counselling and support for non-resident parents	0.2	0.4	-	-
Compliance Strategy - measures to improve control of incorrect payment and fraud - detection	-14.9	-31.0	-29.2	-31.0
Compliance Strategy - measures to improve control of incorrect payment and fraud - deterrence - publicity campaign to encourage customer compliance	0.7	-6.4	-21.3	-0.5
Compliance Strategy - measures to improve control of incorrect payment and fraud - research and development projects	-12.9	-17.1	-6.7	-0.9
Continuation of payment to voluntary work agencies	1.2	1.6	1.6	1.7
Enhanced integrity of the family migration stream	-0.2	-0.2	-0.2	-0.2
Establishment of the Administrative Review Tribunal	-	-	-	-
Expansion of the Community Development Employment Projects Scheme	-6.9	-14.2	-14.6	-15.0
Extend Double Orphan Pension eligibility	..	..	..	..
Extension of the Retirement Assistance for Farmers Scheme	1.5	1.9	1.9	2.0
Family Assistance Office review mechanism	10.7	3.2	0.1	0.1
Further simplification of the *Social Security Act (1991)*	0.2	-0.2	-1.1	-1.7
Increase in Youth Allowance assets limits for farms and businesses	18.5	36.8	37.7	38.6
Increased permanent migrant intake	2.9	4.7	5.5	8.9
Introduction of a Preparing for Work Activity Agreement for new claimants of unemployment benefits	-25.8	-59.8	-62.2	-64.2
Introduction of new entry requirements for aged parent migrants	0.5	2.7	3.1	1.8
Pay Family Allowance to carers of orphaned children	0.3	0.2	0.3	0.4
Pricing review of departmental resourcing	-8.1	-18.1	-28.6	-36.2
Protection of people affected by the termination of the Social Security Agreement with the United Kingdom	-0.8	-2.8	-4.0	-5.5
Removal of anomaly between ABSTUDY and the social security income test	1.3	0.4	0.4	0.4
Removal of direct deduction rules from partners of compensation recipients	0.3	3.8	4.1	4.3

Table B1: Expense Measures since the 1999-2000 MYEFO (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Family and Community Services (continued)				
Review of service entitlements anomalies with respect to South-East Asian service 1955-75	-12.9	-26.6	-27.2	-27.8
Revised means test treatment of private trusts and private companies	22.2	-37.7	-126.6	-132.6
Stronger Families and Communities Strategy - 'Can Do Community' Initiative	0.8	1.8	1.8	0.8
Stronger Families and Communities Strategy - national communication campaign	3.5	2.5	1.0	1.0
Stronger Families and Communities Strategy - Early Intervention Parenting and Family Relationship Support Initiative	2.6	12.1	14.2	17.2
Stronger Families and Communities Strategy - greater flexibility and choice in child care initiative	4.0	12.0	20.1	29.3
Stronger Families and Communities Strategy - Local Solutions to Local Problems Initiative	1.5	4.8	4.6	4.6
Stronger Families and Communities Strategy - longitudinal study of Australian children	0.2	1.8	0.5	3.6
Stronger Families and Communities Strategy - National Skills Development Programme for volunteers and the International Year of the Volunteer	3.8	6.0	3.0	3.0
Stronger Families and Communities Strategy - Potential Leadership in Local Communities Initiative	3.0	11.7	11.2	11.2
Stronger Families and Communities Strategy - Stronger Families Fund	2.5	7.5	13.0	17.0
The New Tax System - GST Assistance Scheme for low income earners	9.6	-	-	-
Unauthorised Arrivals in Australia - apply the activity test to recipients of Special Benefits	4.0	0.9	-1.9	-2.0
Welfare reform pilots - mature age participation pilot	3.0	0.1	-	-
Welfare reform pilots - tailored assistance for the very long term unemployed pilot	1.4	-	-	-
Welfare reform pilots - workless families assistance pilot	2.4	..	-	-
Portfolio total	**22.8**	**-74.5**	**-178.3**	**-149.3**
Finance and Administration				
Department of Finance and Administration				
Assistance to farmers in central north-east South Australia	-	-	-	-
Mapping of the Australian Antarctic Territory extended Continental Shelf	15.8	11.6	1.4	1.6
Reduction in departmental resourcing	-5.0	-5.0	-5.0	-5.0
Office of Asset Sales and Information Technology Outsourcing				
Continuation of resourcing for OASITO	5.0	-	-	-
Portfolio total	**15.8**	**6.6**	**-3.6**	**-3.4**
Foreign Affairs and Trade				
Australian Agency for International Development				
Australian Youth Ambassadors for Development Programme	-	-	-	-

Table B1: Expense Measures since the 1999-2000 MYEFO (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Foreign Affairs and Trade (continued)				
Debt forgiveness for Heavily Indebted Poor Countries	*	*	*	*
Establishment of an ongoing East Timor Aid Programme	25.0	25.0	25.0	25.0
Extension of the Australia-South Pacific 2000 Programme	-	-	-	-
Grant to the Commonwealth's Trade and Investment Access Facility	-	-	-	-
Increased contribution to the Commonwealth Fund for Technical Cooperation	-	-	-	-
Australian Secret Intelligence Service				
ASIS Capabilities(a)	-	4.9	4.9	4.9
Department of Foreign Affairs and Trade				
Pricing review of departmental resourcing	1.1	1.1	1.1	1.1
Portfolio total	**26.1**	**31.0**	**31.0**	**31.0**
Health and Aged Care				
Australia New Zealand Food Authority				
Food Safety Protection	6.5	6.5	6.5	6.6
Department of Health and Aged Care				
A Better Medication Management System	21.6	15.7	-9.7	-16.0
Consumer and community involvement in influencing health decisions	2.3	2.3	2.3	2.3
Delete nasal sprays from the Pharmaceutical Benefits Scheme	-7.0	-17.6	-18.4	-19.2
Early detection of bowel cancer	1.6	2.0	1.9	1.7
Enhancing the evaluation expertise provided to the Pharmaceutical Benefits Advisory Committee	0.8	0.8	0.8	0.8
Ensuring quality care	2.9	2.8	2.8	3.0
Establishment of an Australian Cord Blood Banking Network	2.2	2.2	2.3	2.3
Fringe Benefits Tax transitional grants for public and not-for-profit hospitals	88.0	80.5	72.0	-
Further reforms to the Hearing Services Programme	-10.9	-4.2	-4.4	-4.5
Health technology quality enhancement	7.8	7.9	-2.2	-60.0
Improved pharmaceutical benefits entitlement monitoring	-5.7	-18.0	-20.7	-22.2
Increased permanent migrant intake	0.7	3.7	7.2	10.7
Introduction of new entry requirements for aged parent migrants	-2.8	-1.7	5.1	7.6
National Alcohol Harm Reduction Strategy	1.0	1.0	1.0	1.0
National Childhood Nutrition Programme	6.5	6.5	-	-
National Depression Initiative	-	-	-	-
National radiotherapy single machine unit trial	1.0	2.9	2.9	2.9
National Strategy for an Ageing Australia	1.5	1.5	1.5	1.5
Nucleic acid testing and other measures to improve the safety of fresh blood products	8.3	7.4	7.9	8.5
Reduction in amounts payable to the Health Insurance Commission for processing Medicare and related benefits	-2.0	-2.0	-2.0	-2.0
Reform of Public Health and Safety Regulatory Arrangements	1.5	-	-	-
Regional Health Package - More Doctors, Better Services	66.2	123.0	161.3	192.5
Residential Aged Care Funding Equalisation and Assistance Package	8.9	27.0	41.4	29.4
Response to findings of the Vietnam Veterans' Health Study	0.7	0.7	0.7	0.7

Table B1: Expense Measures since the 1999-2000 MYEFO (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Health and Aged Care (continued)				
Review of service entitlements anomalies with respect to South-East Asian service 1955-75	-0.8	-1.5	-1.5	-1.5
Revised means test treatment of private trusts and private companies	-	-2.3	-4.8	-5.0
Simpler income testing arrangements for residential aged care fees	1.8	2.2	2.6	3.1
Simplified billing for no or known gaps	4.0	4.1	4.1	4.2
Subsidisation of the accreditation fee for small residential aged care facilities	1.8	1.3	1.3	1.9
Portfolio total	**208.3**	**254.6**	**262.0**	**150.3**
Immigration and Multicultural Affairs				
Department of Immigration and Multicultural Affairs				
Enhanced integrity of the family migration stream	-	-	-	-
Establishment of the Administrative Review Tribunal	9.4	22.7	22.3	22.5
Future directions for the Overseas Student Visa Programme	0.6	1.6	2.4	2.6
Increased permanent migrant intake	3.8	7.0	7.8	8.0
Introduction of new entry requirements for aged parent migrants	1.0	4.1	4.2	2.8
Long term strategy for immigration detention facilities	1.0	1.0	8.7	10.7
Response to the Review of Illegal Workers in Australia	13.1	12.2	11.9	11.8
Revised resourcing arrangements for detention costs	-2.7	-24.5	-25.1	-25.6
Unauthorised Arrivals in Australia - combating people smuggling in transit countries	1.0	1.0	1.0	1.0
Unauthorised Arrivals in Australia - initiatives to address the situation of displaced Afghan and Iraqi refugees	5.0	5.1	5.3	5.4
Unauthorised Arrivals in Australia - offshore resources to support the integrity of migration entry processes	4.6	3.6	3.7	3.7
Unauthorised Arrivals in Australia - pilot programme for targeted reintegration assistance and to support character checking	2.0	-	-	-
Unauthorised Arrivals in Australia - establish a new detention facility at Darwin and close the Curtin facility	-1.5	-5.4	-5.5	-5.6
Unauthorised Arrivals in Australia - resources to expedite offshore processing, information flows and cooperation in relation to humanitarian migration	1.7	1.2	1.2	1.2
Migration Review Tribunal				
Establishment of the Administrative Review Tribunal	-4.3	-10.1	-10.1	-10.2
Pricing review of departmental resourcing - Migration Review Tribunal	-	-	-	-
Refugee Review Tribunal				
Establishment of the Administrative Review Tribunal	-5.6	-13.8	-13.4	-13.5
Pricing review of departmental resourcing - Refugee Review Tribunal	-0.8	-0.7	-1.2	-1.2
Portfolio total	**28.3**	**4.9**	**13.1**	**13.6**

Table B1: Expense Measures since the 1999-2000 MYEFO (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Industry, Science and Resources				
Australian Geological Survey Organisation				
Reallocation of departmental resources	-0.8	-0.8	-0.8	-0.8
Australian Sports Commission				
Building on our sporting achievements	5.0	-	-	-
Australian Sports Drug Agency				
Tough on Drugs in Sport - blood tests as part of our anti-doping programme	-	-	-	-
Commonwealth Scientific and Industrial Research Organisation				
Supplementation for commercial rents and sales costs	-	5.9	8.4	10.7
Department of Industry, Science and Resources				
Continued resourcing for the Science and Technology Awareness Programme	2.8	1.4	-	-
Continued resourcing for the Australian Building Codes Board	1.0	-	-	-
Implementing the National Biotechnology Strategy	-	8.2	9.2	9.2
Pricing review of departmental resourcing	-5.0	-5.0	-5.0	-5.0
Reallocation of funds from the Textile Clothing and Footwear Post 2000 Initiative	-0.5	-0.5	-0.5	-0.5
Reallocation of Technology Diffusion Programme Funds	-4.7	-8.0	-	-
Reallocation of departmental resources	-0.5	-0.6	-0.6	-
South Pacific and Regional Free Trade Agreement - Textiles, Clothing and Footwear Scheme	0.4	0.4	0.4	0.4
Portfolio total	**-2.3**	**1.0**	**11.1**	**14.0**
Prime Minister and Cabinet				
Aboriginal and Torres Strait Islander Commission				
Expansion of the Community Development Employment Projects Scheme	9.2	19.0	19.5	20.0
Department of the Prime Minister and Cabinet				
Commonwealth Heads of Government Meeting - 2001	16.4	16.4	-	-
Office of the Commonwealth Ombudsman				
Systems and desktop replacement for the Office of the Commonwealth Ombudsman	0.2	0.1	0.1	0.1
Torres Strait Regional Authority				
Expansion of the Community Development Employment Projects Scheme	0.5	1.0	1.1	1.1
Portfolio total	**26.3**	**36.6**	**20.7**	**21.2**
Transport and Regional Services				
Department of Transport and Regional Services				
Adelaide Airport noise amelioration	10.3	24.2	23.7	5.5
Beef 2000 Exposition	-	-	-	-
National Parking Regime at leased Federal Airports	0.4	0.5	0.6	0.7

Table B1: Expense Measures since the 1999-2000 MYEFO (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Transport and Regional Services (continued)				
Improvement in services to the Indian Ocean Territories	2.9	2.9	2.9	2.9
Reduction in departmental resourcing	-2.0	-2.0	-2.0	-2.0
Year 2002 - Year of the Outback	-	0.2	0.4	-
Portfolio total	**11.6**	**25.8**	**25.6**	**7.1**
Treasury				
Australian Bureau of Statistics				
Reduction in departmental resourcing	-3.0	-3.0	-3.0	-3.0
Retention of name identified census forms	0.8	5.8	4.0	-
Australian Competition and Consumer Commission				
Airport regulation	0.9	0.9	0.9	0.9
Extend communications regulation	0.9	-	-	-
Provisioning for legal services	10.0	-	-	-
Monitoring of the prices of certain milk products	-	-	-	-
Monitoring tax reform price exploitation	15.5	6.5	-	-
Postal services regulation	1.0	1.0	1.0	1.0
Australian Securities and Investments Commission				
Continuation of managed investments regulation	2.9	-	-	-
Transfer of responsibility for unclaimed moneys from the States and Territories to the Commonwealth	3.3	3.3	3.2	3.2
Australian Taxation Office				
Administration of the Fuels sales grants scheme	9.5	-	-	-
Business tax reform	20.6	22.9	-	-
Fuels sales grants scheme	110.0	120.0	125.0	135.0
Department of the Treasury				
Business tax reform	4.5	5.5	6.5	6.5
Portfolio total	**177.0**	**162.9**	**137.6**	**143.6**
Veterans' Affairs				
Department of Veterans' Affairs				
A Better Medication Management System	0.5	1.0	0.1	0.2
Change the date of effect for grants and variations to compensation payments	0.9	-2.3	-2.5	-2.8
Delete nasal sprays from the Pharmaceutical Benefits Scheme	0.1	0.2	0.2	0.2
Extension of 'Their Service - Our Heritage' Commemorative Programme	5.0	5.0	3.6	3.6
Extension of the Retirement Assistance for Farmers Scheme	0.4	0.3	0.3	0.4
Further simplification of the *Social Security Act (1991)*	0.3	..	-0.2	-0.2
Health technology quality enhancement	-0.8	-1.0	-0.8	-0.8
Improved pharmaceutical benefits entitlement monitoring	..	-0.4	-0.6	-0.7
Managing health care information	-4.2	-8.3	-8.5	-8.7
National radiotherapy single machine unit trial	..	..	..	..
Refurbishment of war cemeteries and Gardens of Remembrance in Australia and overseas	1.1	1.1	1.1	1.1
Removal of anomaly between ABSTUDY and the social security income test	..	..	..	..

Table B1: Expense Measures since the 1999-2000 MYEFO (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Veterans' Affairs (continued)				
Removal of direct deduction rules from partners of compensation recipients	0.2	0.2	0.2	0.2
Residential Aged Care Funding Equalisation and Assistance Package	1.1	3.3	5.1	3.6
Residential Care Development Scheme	6.8	-	-	-
Response to findings of the Vietnam Veterans' Health Study	8.2	7.0	7.2	7.1
Review of service entitlements anomalies with respect to South-East Asian service 1955-75	16.2	36.4	36.9	36.8
Revised means test treatment of private trusts and companies	3.2	-2.6	-8.8	-8.9
Simpler income testing arrangements for residential aged care fees	0.3	0.3	0.3	0.4
Veterans' Home Care	6.4	-29.4	-15.4	-18.9
Portfolio total	**45.5**	**10.8**	**18.4**	**12.7**
Total expense measures(b)	**871.5**	**832.0**	**727.5**	**588.8**

(a) Measures for ASIO and ASIS are listed in the summary table but are not further disclosed in the explanation of measures for security reasons.
(b) Measures may not add due to rounding.

Table B2: Expense Measures up to the 1999-2000 MYEFO

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
DEMOCRATS AMENDMENTS - TAX REFORM				
Environment and Heritage				
Department of the Environment and Heritage				
Compressed Natural Gas and Liquid Petroleum Gas vehicle conversion	15.0	20.0	20.0	20.0
Supporting Photovoltaics Systems	4.0	6.0	9.0	12.0
Supporting the Development and Commercialisation of Renewable Energy	4.0	5.0	7.0	10.0
Supporting Renewable Remote Power Generation	66.0	66.0	66.0	66.0
Greenhouse Gas Abatement Programme	100.0	100.0	100.0	100.0
Diesel National Environment Protection Measure (NEPM)	10.0	10.0	10.0	10.0
Oil Recycling	15.0	15.0	15.0	15.0
Portfolio total	**214.0**	**222.0**	**227.0**	**233.0**
Family and Community Services				
Department of Family and Community Services				
A New Tax System - pension supplement	450.3	441.3	738.3	738.0
A New Tax System - extend family allowance and family tax benefit to families with dependent children aged 16-24 years	54.7	54.8	54.7	50.0
A New Tax System - Aged Persons Savings Bonus and Self Funded Retirees Supplementary Bonus	181.9	0.1	..	..
Additional Resources for Supported Accomodation Assistance Programme	15.0	15.0	15.0	15.0
Portfolio total	**701.9**	**511.2**	**808.0**	**803.0**
Health and Aged Care				
Department of Health and Aged Care				
Childhood Nutrition Programme	-	-	-	-
Industry, Science and Resources				
Department of Industry, Science and Resources				
Book industry assistance plan	60.0	60.0	60.0	60.0
Portfolio total	**60.0**	**60.0**	**60.0**	**60.0**
Transport and Regional Services				
Department of Transport and Regional Services				
Local Government Financial Assistance Grants	911.7	944.9	979.0	979.0
Identified Local Road Grants	404.6	419.3	434.4	434.4
Portfolio total	**1316.3**	**1364.2**	**1413.4**	**1413.4**
Treasury				
Department of the Treasury				
A New Tax System - grants to balance State and Territory budgets	966.5	238.1	336.6	161.9
Australian Taxation Office				
Funding for the Australian Taxation Office to cover the increased cost of administering the Goods and Services Tax (GST)	60.0	60.0	60.0	60.0
Conversion of Diesel Fuel Credit Scheme to Diesel Fuel Grants Scheme	-261.8	-294.0	-314.0	-327.0

Table B2: Expense Measures up to the 1999-2000 MYEFO (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Treasury (continued)				
Maintain current price relativities between Diesel and Compressed Natural Gas (CNG) and other alternative transport fuels	9.0	12.0	18.0	24.0
Portfolio total	**773.7**	**16.1**	**100.6**	**-81.1**
Veterans' Affairs				
Department of Veterans Affairs				
A New Tax System - pension supplement	50.0	49.0	82.0	82.0
Portfolio total	**50.0**	**49.0**	**82.0**	**82.0**
Total Democrats Amendments - Tax Reform	**3115.9**	**2222.5**	**2691.0**	**2510.3**
Other Expense Measures up to MYEFO				
Agriculture, Fisheries and Forestry				
Agriculture, Fisheries and Forestry - Australia				
Commonwealth contribution for trade liberalisation research	-	-	-	-
Assistance to the Australian Lamb Industry	9.5	1.6	-	-
Exceptional circumstances - Batlow Fruit Growers, New South Wales	0.7	-	-	-
Exceptional circumstances - Mallee Region, Victoria	4.7	0.4	-	-
Portfolio total	**14.9**	**2.0**	**-**	**-**
Attorney-General's				
Australian Federal Police				
Revised funding arrangements for the AFP Reform Programme and AFP Adjustments Scheme (AFPAS)	18.0	20.0	-	-
Civilian police for the UN Transitional Administration in East Timor	-	-	-	-
Australian Customs Service				
Enhanced Border Protection	4.0	3.9	3.9	-
Portfolio total	**22.0**	**23.9**	**3.9**	**-**
Communications, Information Technology and the Arts				
Department of Communications, Information Technology and the Arts				
Trials in Innovative Government Electronic Regional Services (TIGERS)	2.0	5.0	-	-
NetAlert	-	1.0	-	-
Networking the Nation Local Government Fund	3.0	15.0	12.0	10.0
Launceston Broadband Project	3.0	3.0	3.0	3.0
Building IT Strengths (BITS)	10.0	56.0	30.0	25.0
Connecting Tasmanian Schools	-	-	-	-
Expanded mobile phone coverage	-	-	-	-
Building Additional Rural Networks (BARN)	10.0	20.0	20.0	10.0
Portfolio total	**28.0**	**100.0**	**65.0**	**48.0**

Table B2: Expense Measures up to the 1999-2000 MYEFO (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Defence				
Department of Defence				
East Timor peace enforcement and peace keeping	810.0	767.0	615.0	615.0
Provision of Safe Haven to displaced Kosovars(c)	-	-	-	-
Provision of Safe Haven to internally displaced persons from East Timor	-	-	-	-
Portfolio total	**810.0**	**767.0**	**615.0**	**615.0**
Education, Training and Youth Affairs				
Department of Education, Training and Youth Affairs				
Youth Pathways Action Plan Taskforce	-	-	-	-
Additional funds for higher education staff salaries	43.3	43.8	44.1	44.8
Tasmanian Environmental Tourism Employment and Training Initiative	3.1	3.1	-	
Grandfathering of benefits for some ABSTUDY students	-	-	-	-
Portfolio total	**46.4**	**46.9**	**44.1**	**44.8**
Environment and Heritage				
Department of the Environment and Heritage				
Additional Funding for Heritage Initiatives	-	-	-	-
Sale of Halon to the United States for essential use	6.0	-	-	-
Great Barrier Reef Marine Park Authority				
Funding to offset the reduction in revenue related to the Environment Management Charge	-	-	-	-
Portfolio total	**6.0**	**-**	**-**	**-**
Family and Community Services				
Department of Family and Community Services				
Pilot programme to provide free pre-marriage education for couples	0.1	-	-	-
Commonwealth State Disability Agreement - additional funding to address unmet need in State provided disability services	50.0	100.0	-	-
Exceptional circumstances - Batlow Fruit Growers, New South Wales	0.1	..	-	-
Exceptional circumstances - Mallee Region, Victoria	0.4	0.1	-	-
Youth Pathways Action Plan Taskforce	-	-	-	-
Flooding in NSW and Queensland 1998 - assistance to farmers suffering significant loss	-	-	-	-
Introduction of a temporary protection visa subclass	0.1	0.1	0.1	0.1
Portfolio total	**50.7**	**100.2**	**0.1**	**0.1**
Finance and Administration				
Department of Finance and Administration				
Flooding in NSW and Queensland 1998 - assistance to farmers suffering significant loss	-	-	-	-
Poultry Farmers - assistance to those directly affected by Newcastle disease	-	-	-	-

Table B2: Expense Measures up to the 1999-2000 MYEFO (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Finance and Administration (continued)				
GST - implementation and monitoring in the Commonwealth government sector	-	-	-	-
Portfolio total	**-**	**-**	**-**	**-**
Foreign Affairs and Trade				
AusAid				
Australia’s contribution to the Heavily Indebted Poor Countries (HIPC) initiative	11.5	11.5	-	-
Aid for East Timor	-	-	-	-
Portfolio total	**11.5**	**11.5**	**-**	**-**
Health and Aged Care				
Department of Health and Aged Care				
General Practice Memorandum of Understanding**	62.1	85.2	98.4	98.4
Aged Care Residential Care Subsidy Principles 1997 - change to definition of 'homeowner' to ensure protection for people with low value homes	0.8	0.8	0.8	0.8
Exceptional circumstances - Batlow Fruit Growers, New South Wales	..	-	-	-
Exceptional circumstances - Mallee Region, Victoria	0.1	-	-	-
Provision of Safe Haven to displaced Kosovars	-	-	-	-
Provision of Safe Haven to internally displaced persons from East Timor	-	-	-	-
Private Health Insurance - Reduction in Medicare payment lag times for simpified billing	-	-	-	
Australia New Zealand Food Authority				
Australia New Zealand Food Authority - additional funding	-	-	-	
Portfolio total	**63.0**	**86.0**	**99.2**	**99.2**
Immigration and Multicultural Affairs				
Department of Immigration and Multicultural Affairs				
Enhanced Border Protection	30.5	31.1	31.7	32.3
Extension of Regulation of the Migration Advice Industry	1.7	1.8	1.3	-
Provision of Safe Haven to displaced Kosovars	-	-	-	-
Provision of Safe Haven to internally displaced persons from East Timor	-	-	-	-
Introduction of a temporary protection visa subclass	-	-	-	-
Portfolio total	**32.2**	**32.9**	**33.0**	**32.3**
Industry, Science and Resources				
Australian Sports Commission				
Women and the Olympics	-	-	-	-
Department of Industry, Science and Resources				
St John's Ambulance - First Aid Services for the Sydney 2000 Games	-	-	-	-
Paralympic torch relay	-	-	-	-
Olympic media unit	0.3	-	-	-

Table B2: Expense Measures up to the 1999-2000 MYEFO (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Industry, Science and Resources				
Schoolchildren attending the Paralympics	-	-	-	-
Upgrade of the Domain International Athletics Centre, Hobart	-	-	-	-
Development of Erythropoietin (EPO) detection test	-	-	-	-
Portfolio total	**0.3**	**-**	**-**	**-**
Transport and Regional Services				
Department of Transport and Regional Services				
Flinders Island Runway	-	-	-	-
Geelong Road	-	60.0	60.0	-
The National Highway and Roads of National Importance Programmes	30.0	30.0	30.0	30.0
Establishment of an Australian Rural Partnerships Foundation	1.0	0.7	0.7	-
Alice Springs to Darwin Rail Link	10.0	30.0	-	-
Portfolio total	**41.0**	**120.7**	**90.7**	**30.0**
Treasury				
Department of the Treasury				
Assistance for cellar door and mail order sales of wine	14.7	15.4	16.1	16.9
Australian Competition and Consumer Commission				
Additional funding for retail price monitoring	-	-	-	-
Portfolio total	**14.7**	**15.4**	**16.1**	**16.9**
Veterans' Affairs				
Department of Veterans Affairs				
General Practice Memorandum of Understanding(d)	2.6	3.8	5.1	5.1
Portfolio total	**2.6**	**3.8**	**5.1**	**5.1**
Total impact of other expense measures up to MYEFO	**1143.3**	**1310.3**	**972.2**	**891.4**
Memorandum item:				
Total Democrats Amendments - Tax Reform	3115.9	2222.5	2691.0	2510.3
Total impact of other expense measures up to MYEFO	1143.3	1310.3	972.2	891.4
Total expense measures up to MYEFO(d)	**4259.2**	**3532.8**	**3663.2**	**3401.7**

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

(a) Expenses on an AAS31 basis.

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

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

(d) This total includes the impact on expenses of the General Practice Memorandum of Understanding which was included in 'other variations' in the contingency reserve at Budget time.

Appendix C: General Government Net Capital Investment and Capital Appropriations

Table C1: Net Capital Investment by Agency[(a)]

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Agriculture, Fisheries and Forestry					
Department of Agriculture, Fisheries and Forestry	-15.6	-8.1	-2.4	-2.4	-4.7
Australian Wool Research and Promotion Organisation	-6.2	-6.4	-2.6	-2.3	-2.3
Grains Research and Development Corporation	-0.1	-0.1	-0.1	-0.1	-0.1
Total	-21.9	-14.6	-5.1	-4.8	-7.1
Attorney-General's					
Attorney-General's Department	-4.7	-4.7	2.0	-1.7	-2.3
Australian Customs Service	41.2	11.1	-20.5	-17.3	-11.6
Australian Federal Police	-3.4	-0.8	-4.0	-1.5	-1.5
Family Court of Australia	6.0	5.2	-1.0	-1.1	0.0
Total	39.2	10.7	-23.5	-21.6	-15.4
Communications, Information Technology and the Arts					
Department of Communications, Information Technology and the Arts	81.9	-79.3	0.7	-2.6	-2.7
Australian Broadcasting Corporation	20.5	71.2	61.7	10.4	-18.1
Special Broadcasting Service Corporation	4.4	22.0	5.0	2.6	4.0
Total	106.7	14.0	67.4	10.5	-16.8
Defence					
Department of Defence	927.1	151.7	518.7	493.2	349.9
Defence Housing Authority	-198.2	-124.7	-142.5	53.7	101.8
Total	728.8	27.0	376.1	546.9	451.7
Education, Training and Youth Affairs					
Department of Education, Training and Youth Affairs	-0.4	-0.3	0.8	-0.2	0.4
Total	-0.4	-0.3	0.8	-0.2	0.4
Employment, Workplace Relations and Small Business					
Department of Employment, Workplace Relations and Small Business	9.3	11.2	-1.8	-1.9	-0.2
Comcare	0.0	0.0	0.0	0.0	0.0
Total	9.3	11.2	-1.8	-1.9	-0.2
Environment and Heritage					
Department of Environment and Heritage	-16.5	-7.3	-8.3	-7.1	-8.4
Total	-16.5	-7.3	-8.3	-7.1	-8.4

Table C1: Net Capital Investment by Agency[(a)] (continued)

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Family and Community Services					
Department of Family and Community Services	5.6	0.6	-0.8	9.6	-2.8
Centrelink	-28.3	13.6	20.4	-1.3	-12.5
Total	-22.8	14.1	19.6	8.3	-15.3
Finance and Administration					
Department of Finance and Administration	-100.9	-295.4	-113.8	-78.8	89.9
Australian Electoral Commission	-2.4	0.0	-5.2	-3.3	-3.3
Office of Asset Sales and IT Outsourcing	-25.2	0.0	0.1	0.0	0.0
Total	-128.5	-295.3	-118.9	-82.2	86.6
Foreign Affairs and Trade					
Department of Foreign Affairs and Trade	-10.3	-8.6	-4.6	-12.6	-13.2
Australian Agency for International Development	0.3	-1.4	-1.4	0.2	0.1
Australian Trade Commission	5.6	-0.6	0.0	0.1	0.0
Total	-4.5	-10.6	-6.0	-12.3	-13.0
Health and Aged Care					
Department of Health and Aged Care	-42.8	2.8	-7.2	-6.9	-6.3
Health Insurance Commission	11.5	26.2	9.7	-6.6	2.2
Total	-31.3	28.9	2.5	-13.5	-4.1
Immigration and Multicultural Affairs					
Department of Immigration and Multicultural Affairs	23.1	-7.3	5.0	-1.5	-34.5
Total	23.1	-7.3	5.0	-1.5	-34.5
Industry, Science and Resources					
Department of Industry, Science and Resources	24.5	-2.0	-0.4	1.3	-6.4
Australian Nuclear Science and Technology Organisation	11.8	55.7	80.5	99.0	78.1
Australian Sports Commission	-1.6	-3.6	-3.9	-4.7	-4.7
Australian Tourist Commission	-0.3	-0.3	-1.0	-0.8	-0.6
Commonwealth Scientific and Industrial Research Organisation	-11.4	63.1	25.9	-54.0	0.5
Total	23.0	112.8	101.1	40.8	66.9
Prime Minister and Cabinet					
Department of Prime Minister and Cabinet	1.1	-0.2	-0.1	-0.2	-0.2
Aboriginal and Torres Strait Islander Commission	-3.3	-0.9	-0.9	-0.9	0.0
Total	-2.3	-1.2	-1.0	-1.2	-0.2
Transport and Regional Services					
Department of Transport and Regional Services	13.0	-25.4	-2.5	-11.6	-15.1
Civil Aviation Safety Authority	-1.8	6.5	3.9	2.1	0.2
Total	11.2	-18.9	1.4	-9.4	-14.9

Table C1: Net Capital Investment by Agency[(a)] (continued)

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Treasury					
Department of the Treasury	4.1	4.5	-2.9	-2.6	-0.5
Australian Bureau of Statistics	-10.1	-5.6	14.9	-12.3	-3.5
Australian Securities and Investment Commission	-5.1	-3.6	-4.7	-4.1	-3.3
Australian Taxation Office	56.7	104.8	12.9	-35.7	-28.7
Australian Office of Financial Management	-0.1	4.0	-0.2	-0.2	-0.2
Total	45.5	104.1	20.1	-54.8	-36.1
Veterans' Affairs					
Department of Veterans' Affairs	13.2	8.3	2.3	2.3	3.4
Total	13.2	8.3	2.3	2.3	3.4
Small agencies	23.4	21.0	17.3	13.4	12.5
Whole of Government and Inter-Agency amounts(a)	0.0	209.0	209.7	148.2	397.5
Total net capital investment	**795.3**	**205.6**	**658.8**	**559.9**	**853.0**

(a) Estimates of inter-agency transactions are included in Whole of Government and inter-agency amounts.

Table C2: Capital Appropriations by Portfolio[(a)]

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Agriculture, Fisheries and Forestry					
Department of Agriculture, Fisheries and Forestry	23.0	0.0	0.0	0.0	0.0
Australian Wool Research and Promotion Organisation	0.0	0.0	0.0	0.0	0.0
Grains Research and Development Corporation	0.0	0.0	0.0	0.0	0.0
Agriculture, Fisheries and Forestry Portfolio	23.0	0.0	0.0	0.0	0.0
Attorney-General's					
Attorney-General's Department	39.4	15.0	0.0	0.0	0.0
Australian Customs Service	65.8	2.4	0.0	0.0	0.0
Australian Federal Police	85.2	36.1	10.0	0.0	0.0
Family Court of Australia	2.8	0.0	0.0	0.0	0.0
Attorney-General's Portfolio	193.1	53.5	10.0	0.0	0.0
Communications, Information Technology and the Arts					
Department of Communications, Information Technology and the Arts	44.5	1.8	1.1	0.1	0.1
Australian Broadcasting Corporation	33.2	141.3	50.3	68.8	37.0
Special Broadcasting Service Corporation	9.1	23.4	8.0	8.0	6.8
Communications, Information Technology and the Arts Portfolio	86.8	166.6	59.4	76.8	43.9
Defence					
Department of Defence	765.6	752.9	698.4	526.2	335.2
Defence Housing Authority	0.0	0.0	0.0	0.0	0.0
Defence Portfolio	765.6	752.9	698.4	526.2	335.2
Education, Training and Youth Affairs					
Department of Education, Training and Youth Affairs	464.5	660.8	617.2	603.5	527.0
Education, Training and Youth Affairs Portfolio	464.5	660.8	617.2	603.5	527.0
Employment, Workplace Relations and Small Business					
Department of Employment, Workplace Relations and Small Business	123.8	0.0	0.0	0.0	0.0
Comcare	0.1	0.0	0.0	0.0	0.0
Employment, Workplace Relations and Small Business Portfolio	123.9	0.0	0.0	0.0	0.0
Environment and Heritage					
Department of Environment and Heritage	22.4	0.0	0.0	0.0	0.0
Environment and Heritage Portfolio	22.4	0.0	0.0	0.0	0.0

Table C2: Capital Appropriations by Portfolio[(a)] (continued)

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Family and Community Services					
Department of Family and Community Services	155.8	160.3	145.8	123.7	123.7
Centrelink	26.2	20.3	8.1	7.9	7.9
Family and Community Services Portfolio	182.0	180.6	153.9	131.6	131.6
Finance and Administration					
Department of Finance and Administration	863.3	918.0	851.8	846.3	828.4
Australian Electoral Commission	4.0	0.0	0.0	0.0	0.0
Office of Asset Sales and IT Outsourcing	10.7	0.0	0.0	0.0	0.0
Finance and Administration Portfolio	878.0	918.0	851.8	846.3	828.4
Foreign Affairs and Trade					
Department of Foreign Affairs and Trade	22.3	0.0	0.0	0.1	0.0
Australian Agency for International Development	209.8	211.5	232.7	207.5	169.6
Australian Trade Commission	0.2	0.0	0.0	0.1	0.0
Foreign Affairs and Trade Portfolio	232.2	211.6	232.7	207.7	169.6
Health and Aged Care					
Department of Health and Aged Care	51.2	69.4	41.5	47.6	38.5
Health Insurance Commission	0.0	0.0	0.0	0.0	0.0
Health and Aged Care Portfolio	51.2	69.4	41.5	47.6	38.5
Immigration and Multicultural Affairs					
Department of Immigration and Multicultural Affairs	29.3	75.9	0.0	0.0	0.0
Immigration and Multicultural Affairs Portfolio	29.3	75.9	0.0	0.0	0.0
Industry, Science and Resources					
Department of Industry, Science and Resources	133.6	63.5	66.4	44.8	29.4
Australian Nuclear Science and Technology Organisation	3.0	53.1	70.7	89.3	75.8
Australian Sports Commission	0.0	0.0	0.0	0.0	0.0
Australian Tourist Commission	0.0	0.0	0.0	0.0	0.0
Commonwealth Scientific and Industrial Research Organisation	0.0	0.0	0.0	0.0	0.0
Industry, Science and Resources Portfolio	136.6	116.6	137.1	134.1	105.1
Prime Minister and Cabinet					
Department of Prime Minister and Cabinet	8.1	0.0	0.0	0.0	0.0
Aboriginal and Torres Strait Islander Commission	85.6	87.4	90.2	92.1	94.4
Prime Minister and Cabinet Portfolio	93.8	87.4	90.2	92.1	94.4
Transport and Regional Services					
Department of Transport and Regional Services	44.7	7.7	0.0	0.0	0.0
Civil Aviation Safety Authority	0.0	6.0	0.0	0.0	0.0
Transport and Regional Services Portfolio	44.7	13.7	0.0	0.0	0.0

Table C2: Capital Appropriations by Portfolio(a) (continued)

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Treasury					
Department of the Treasury	314.1	1732.4	16.8	13.1	13.1
Australian Bureau of Statistics	11.3	0.0	0.0	0.0	0.0
Australian Securities and Investment Commission	0.0	0.0	0.0	0.0	0.0
Australian Taxation Office	113.6	62.9	42.9	22.5	0.0
Australian Office of Financial Management	0.0	4.1	0.0	0.0	0.0
Treasury Portfolio	438.9	1799.4	59.7	35.5	13.1
Veterans' Affairs					
Department of Veterans' Affairs	8.7	10.4	5.5	4.3	4.4
Veterans' Affairs	8.7	10.4	5.5	4.3	4.4
Small agencies	0.0	0.0	0.0	0.0	0.0
Whole of Government and Inter-Agency amounts(a)	4.5	10.1	205.2	1.2	0.0
Total	**3779.1**	**5126.7**	**3162.6**	**2706.9**	**2291.2**

(a) Estimates of inter-agency transactions are included in Whole of Government and inter-agency amounts.

Appendix D: Net Capital Investment Measures

Table D1: Net Capital Investment Measures since the 1999-2000 MYEFO

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Agriculture, Fisheries and Forestry				
Department of Agriculture, Fisheries and Forestry				
Creation of a new Horticultural Service Company	-	-	-	-
Portfolio total	**-**	**-**	**-**	**-**
Attorney-General's				
Attorney-General's Department				
Establishment of the Administrative Review Tribunal	-	-	-	-
Australian Federal Police				
Microwave video link capacity for law enforcement agencies	1.1	-	-	-
Australian Security Intelligence Organisation				
Investment in ASIO capabilities(a)	-	2.9	2.0	2.2
Microwave video link capacity for law enforcement agencies	0.2	-	-	-
Portfolio total	**1.3**	**2.9**	**2.0**	**2.2**
Communications, Information Technology and the Arts				
Australian Broadcasting Corporation				
Digital broadcasting - resourcing for digital equipment	20.0	7.9	2.5	-4.4
Loan facility to the Australian Broadcasting Corporation	-	-	-	-
Special Broadcasting Service Corporation				
Digital broadcasting - resourcing for digital equipment	18.3	2.2	1.5	3.8
Portfolio total	**38.3**	**10.1**	**4.0**	**-0.6**
Defence				
Department of Defence				
Achievement of improved submarine capability	128.0	-	-	-
Additional resourcing for logistic support and corporate management systems	80.0	-4.0	-4.0	-4.0
Sale of Defence property	-480.2	-7.9	-50.0	-2.5
Portfolio total	**-272.2**	**-11.9**	**-54.0**	**-6.5**
Family and Community Services				
Centrelink				
Family Assistance Office review mechanism	1.1	-0.1	-0.1	-0.1
Revised means test treatment of private trusts and private companies	4.0	-	-	-
Portfolio total	**5.1**	-0.1	-0.1	-0.1

Table D1: Net Capital Investment Measures since the 1999-2000 MYEFO (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Finance and Administration				
Department of Finance and Administration				
Future of Employment National	-	-	-	-
Portfolio total	**-**	**-**	**-**	**-**
Immigration and Multicultural Affairs				
Department of Immigration and Multicultural Affairs				
Response to the Review of Illegal Workers in Australia	0.5	-0.1	-0.1	-0.1
Unauthorised Arrivals in Australia - establish a new detention facility at Darwin and close the Curtin facility	2.8	-0.2	-0.2	-0.2
Portfolio total	**3.4**	**-0.3**	**-0.3**	**-0.3**
Industry, Science and Resources				
Commonwealth Scientific and Industrial Research Organisation				
CSIRO Property Review - proceeds from sales	-23.0	-31.0	-53.0	-
Department of Industry, Science and Resources				
Support for the development of Gas to Liquids Technology	-	-	-	-
Portfolio total	**-23.0**	**-31.0**	**-53.0**	-
Prime Minister and Cabinet				
Office of the Commonwealth Ombudsman				
Systems and desktop replacement for the Office of the Commonwealth Ombudsman	0.2	-0.1	-0.1	-0.1
Portfolio total	**0.2**	**-0.1**	**-0.1**	**-0.1**
Transport and Regional Services				
Department of Transport and Regional Services				
Indian Ocean Territories Infrastructure Development Programme	21.9	15.7	15.7	15.7
Portfolio total	**21.9**	**15.7**	**15.7**	**15.7**
Treasury				
Australian Taxation Office				
Administration of the Fuels sales grants scheme	1.7	-	-	-
Business tax reform	17.2	21.1	-	-
Department of the Treasury				
Australia's policy towards Papua New Guinea	-	-	-	-
Capital payment to the European Bank for Reconstruction and Development	-	-	-	-
Capital payment to the Multilateral Investment Guarantee Agency	-	-	-	-
Portfolio total	**18.9**	**21.1**	-	-

Table D1: Net Capital Investment Measures since the 1999-2000 MYEFO (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Veterans' Affairs				
Australian War Memorial				
Bradbury Aircraft Hall exhibition fit-out	1.0	-	-	-
Department of Veterans' Affairs				
Change the date of effect for grants and variations to compensation payments	2.9	-	-	-
Managing health care information	5.1	4.5	4.3	4.4
Portfolio total	**9.0**	**4.5**	**4.3**	**4.4**
Total capital measures(b)	**-197.1**	**11.0**	**-81.6**	**14.7**

(a) Measures for ASIO and ASIS are listed in the summary table but are not further disclosed in the explanation of measures for security reasons.
(b) Measures may not add due to rounding.

Table D2: Net Capital Investment Measures up to the 1999-2000 MYEFO

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Attorney-General's				
Australian Customs Service				
Enhanced Border Protection	-0.8	-0.8	-0.8	-
Portfolio total	**-0.8**	**-0.8**	**-0.8**	**-**
Environment and Heritage				
National Parks and Wildlife				
Equity injection for Kakadu and Uluru Kata-Tjuta National	-	-	-	-
Portfolio total	-	-	-	-
Immigration and Multicultural Affairs				
Department of Immigration and Multicultural Affairs				
Enhanced Border Protection	-0.3	-0.3	-0.3	-0.3
Portfolio total	**-0.3**	**-0.3**	**-0.3**	**-0.3**
Defence				
Department of Defence				
East Timor peace enforcement and peace keeping	256.0	111.0	27.0	27.0
Portfolio total	**256.0**	**111.0**	**27.0**	**27.0**
Total capital measures	**254.9**	**109.9**	**25.9**	**26.7**

STATEMENT 7: BUDGET FUNDING

Contents

STATEMENT 7: BUDGET FUNDING

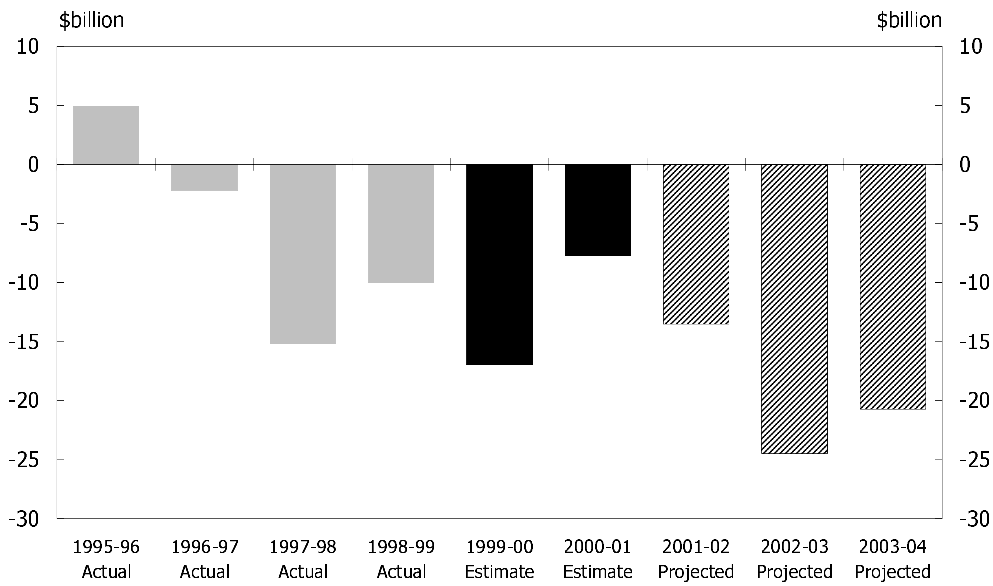
NET FUNDING REQUIREMENT

Commonwealth general government net debt is expected to be reduced by $8.9 billion in 2000-01. This represents a continuation of the net debt reduction which commenced in 1996 under the Coalition Government. From 1996-97 and including the estimate for 2000-01 net debt reduction will total $49.1 billion. Trends in Commonwealth general government net debt are discussed in Statement 1.

The negative net funding requirement — an estimated $7.8 billion in 2000-01 — is the funds the Commonwealth has over and above what is required to meet its budget obligations. Where the government is able to fully fund all its requirements without recourse to borrowing, the net funding requirement is shown as 'negative'. Surplus funds are therefore available to reduce debt.

Chart 1 depicts the net funding requirement in recent years and that projected for each year to 2003-04. The net funding requirement is projected to remain negative for each of the out-years. This means the Commonwealth is not expected to undertake any net borrowing through this period and will be able to continue to reduce net debt. The last year the Commonwealth had a positive funding requirement, and needed to borrow funds from the capital markets, was 1995-96.

Chart 1: Net Funding Requirement



The reduction in net debt will continue to be managed in line with the objective of maintaining the viability of the Commonwealth Government securities market and its supporting infrastructure. Maintenance of a liquid and efficient Commonwealth yield curve offers a number of important advantages, including supporting the continued growth and development of domestic capital markets. This objective is also consistent with the Government's commitment to the further development of Australia as a centre for global financial services.

FUNDING PROGRAMME

In line with this objective, and consistent with ongoing net debt reduction, a modest gross issuance programme is planned for the year ahead. The programme is primarily designed to maintain the length and efficiency of the yield curve and build and maintain liquidity in key benchmark stocks.

A new benchmark Treasury Bond with a 2013 maturity is expected to be issued prior to the end of the current financial year. This new benchmark will assist in maintaining the length of the yield curve and will ensure, in the longer term, a smooth progression of available stocks to move into the ten year bond futures contract. Gross new Treasury Bond issuance is expected to be around $3 billion to $4 billion in 2000-01 with a significant portion of the issuance being targetted at the new benchmark stock.

No further issuance of Treasury Indexed Bonds is planned for the remainder of the current financial year. A continuing modest indexed bond issue programme is envisaged for 2000-01. Treasury Notes will continue to be issued primarily to fund within-year mismatches in expenditure and receipts.

Further details as to issuance and net debt reduction strategies will be announced later in the year.

STATEMENT 8: THE PUBLIC SECTOR

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STATEMENT 8: THE PUBLIC SECTOR

Part I: Introduction

This statement examines trends in the finances of both the Commonwealth and State/local levels of government, providing a broader context in which to consider developments in the Commonwealth's budget.

The information in this statement is presented in line with the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) reporting framework for the public sector. Data are presented both by level of government and institutional sector. Level of government refers to the distinction between the Commonwealth and State/local governments, together referred to as 'consolidated government'[1]. Institutional sector distinguishes between the general government sector and the public non-financial corporations (PNFC) sector within each main level of government.

- The general government sector, through government departments and agencies, provides public services which are mainly non-market in nature, and for the collective consumption of the community, or involve the transfer or redistribution of income. These services are largely financed through taxes and other compulsory levies, although user charging and external funding have increased in recent years.
- The PNFC sector comprises bodies which provide goods and services that are mainly market, non-regulatory and non-financial in nature, financed predominantly through sales to the consumers of these goods and services. In general, PNFCs are legally distinguishable from the governments which own them.

Together the general government sector and the PNFC sector comprise the non-financial public sector, which is the focus of this statement. The GFS coverage of the public sector also includes public financial corporations (PFCs).

From 2000 onwards, the ABS is compiling GFS data on an accrual accounting rather than a cash accounting basis. The new GFS framework reflects the principles contained in the international standards set out in the United Nations' (UN) *A System of National Accounts, 1993* (SNA93), and in the International Monetary Fund's (IMF) *A Manual on Government Finance Statistics* (currently under revision). The first presentation by the ABS of public finance statistics on an accrual accounting basis was in the April 2000 issue of *Government Financial Estimates, Australia* for 1999-2000 (Cat. No. 5501.0).

The key difference between cash and accrual accounting is one of timing: cash accounting records a transaction when cash is exchanged, whereas accrual accounting records the outcome of the transaction when economic value is exchanged. As a result,

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1 Consolidated government encompasses the Commonwealth and State/local sectors, and also the multi-jurisdictional sector which comprises universities.

GFS accrual recording covers some financial items of significant size which are not included in cash-based statistics because they do not have an associated cash flow. These include increases in a government's unfunded superannuation liability and provisions for the depreciation of its capital assets.

The *Accrual Uniform Presentation Framework* (UPF), agreed to by the Australian Loan Council in March of this year, outlines the common fiscal information, consistent with the accrual GFS standards, that Commonwealth, State and Territory governments have agreed to include in their budget reports. Under this agreement, jurisdictions have until the 2002-03 budget year to fully implement reporting on an Accrual UPF basis. It is expected that most, but not all, jurisdictions will implement the Accrual UPF with the 2000-01 budget cycle. During this transition process Statement 8 will report both cash and accrual key budget aggregates. *Budget Paper No. 3* contains more information on the development of the new UPF.

The Commonwealth revenue, outlays and expenses measures included in Statement 8 (except in Appendix C) differ from ABS GFS measures in treating goods and services tax (GST) collections by the Australian Taxation Office (ATO) as State tax revenue rather than Commonwealth tax revenue paid to the States as grants. This approach reflects the clear policy intent of the *Intergovernmental Agreement on Commonwealth-State Financial Relations* (the IGA), which is that the GST is a State tax collected by the Commonwealth in an agency capacity. The Commonwealth has no discretion as to the expenditure of GST collections, with all revenue passed to the States. Nevertheless, because the GST is levied by the Commonwealth for constitutional reasons, the ABS, on a technical view, regards it as Commonwealth revenue. The Commonwealth Accrual UPF tables presented in Appendix C are therefore presented on a basis that is consistent with the ABS GFS standards, including the classification of GST revenue.

Part II of this Statement looks at recent trends in Commonwealth and State/local accrual measures, including expenses, revenue and fiscal balance. Part III reviews trends in Commonwealth and State/local cash measures, such as outlays, revenue and cash surplus, on a basis consistent with the cash ABS GFS. Part IV considers public sector liabilities, including net debt and net worth.

Appendix A of this statement outlines the size and structure of the non-financial public sector, including the relative contributions of the Commonwealth and State/local governments. Appendix B provides Commonwealth and State/local historical cash data on revenue, outlays, surpluses, net interest outlays and net debt. Appendix C presents accrual GFS estimates at the Commonwealth level, consistent with the UPF, and Appendix D provides time series data for the Commonwealth general government sector.

Part II: General Government Fiscal Balance

This part looks at recent accrual data for the Commonwealth and State/local non-financial public sectors, including medium term projections for the Commonwealth. The concepts contained in this part are outlined by the ABS in their *Accruals-based Government Finance Statistics* information paper (Cat. No. 5517.0).

FISCAL BALANCE

Fiscal balance, or GFS net lending, represents the gap between government savings and investment. It measures a government's net call on other sectors of the economy, and so corresponds to government's contribution to the current account deficit (CAD). Fiscal balance is the major accrual measure used by the Commonwealth to assess the impact of fiscal policy on the national economy. A fiscal surplus indicates that a government is saving more than enough to finance all of its investment spending and is therefore not contributing directly to the CAD.

Fiscal balance includes net capital expenditure, but not the use of capital (depreciation). Because it includes the full amount of investment by a government in a particular period, the fiscal balance is a good measure of the impact of a government's budget on the economy in a given period. For more information on the derivation of fiscal balance refer to the Commonwealth's information paper *Fiscal Policy under Accrual Accounting*, released April 1999.

With some jurisdictions yet to move to accrual GFS reporting, fiscal balance data for all Australian governments are currently only available on a general government sector basis. Table 1 shows general government revenue, expenses and fiscal balance by level of government.

Commonwealth revenue and expenses estimates in Table 1 are net of GST revenue, and show a decline in 2000-01 with the introduction of *The New Tax System*. The Commonwealth fiscal balance is expected to fall to 0.8 per cent of GDP in 2000-01, with continuing fiscal surpluses projected across the forecast period.

Preliminary ABS figures suggest that the State/local general government sector may move to a negative fiscal balance in 1999-2000, with revenue declining by more than expenses over the year.

Table 1: General Government Expenses, Revenue and Fiscal Balance by Level of Government (per cent of GDP)[a]

	Commonwealth				State/Local				Consolidated(b)			
	GFS Revenue (c)	GFS Expenses (c)	Net Operating Balance(d)	Fiscal Balance (f)	GFS Revenue	GFS Expenses	Net Operating Balance(d)	Fiscal Balance (f)	GFS Revenue	GFS Expenses	Net Operating Balance(d)	Fiscal Balance (f)
1998-99(e)	25.6	24.7	0.9	0.7	17.5	16.6	0.9	0.4	37.8	35.9	1.9	1.0
1999-00(e)	26.2	24.7	1.5	1.5	16.2	15.9	0.3	-0.3	37.3	35.4	1.9	1.2
2000-01(e)	**23.0**	**22.5**	**0.5**	**0.8**	**na**	**na**	**na**	**na**	**na**	**na**	**na**	**na**
2001-02(p)	22.4	22.1	0.3	0.2	na	na	na	na	na	na	na	na
2002-03(p)	22.4	21.3	1.1	1.0	na	na	na	na	na	na	na	na
2003-04(p)	22.7	20.8	1.9	1.7	na	na	na	na	na	na	na	na

(a) State/local data are sourced from the ABS *1999-2000 Government Financial Estimates* publication (ABS Cat. No. 5501.0). Commonwealth and Consolidated data are Treasury estimates, utilising information contained in the ABS Government Financial Estimates (GFE).
(b) Consolidated government includes Commonwealth and State/local governments, and universities.
(c) Commonwealth revenue and expenses estimates are net of GST collections.
(d) Net operating balance equals GFS revenue less GFS expenses.
(f) Fiscal balance equals net operating balance less net acquisition of non-financial assets.
(e) Estimates.
(p) Projections.
na Data not available.

Part III: Non-financial Public Sector Cash Surplus

This part reviews trends in Commonwealth and State/local cash measures, such as outlays, revenue and cash surplus. The concepts contained in this part are in line with those used by the ABS in calculating cash GFS data, as detailed in the 1994 edition of *Government Finance Statistics: Concepts, Sources and Methods* (Cat. No. 5514.0).

CASH SURPLUS

The cash balance provides a useful indication of a government's need to call on financial markets to meet its budget obligations. Under a cash GFS framework, a government's surplus is calculated as revenue less outlays, adjusted for net increase in provisions. The cash surplus is also recorded under an accrual GFS framework, in the cash flow statement.

Following recent changes to the Australian National Accounts standards, the general government surplus measures in this statement, from 1998-99 onwards, incorporate payments by the Commonwealth general government sector in respect of accumulated PNFC superannuation liabilities. Payments prior to 1998-99 do not incorporate these payments.

The cash surplus is conceptually equivalent under a cash and an accrual framework. However, due to methodological and data-source changes associated with the move to an accrual accounting framework, the surplus figures contained in the cash flow statement are not directly comparable with the surplus measures obtained under the cash GFS. Time series data which encompasses surpluses derived under both cash and accrual accounting should therefore be used with caution.

In this part, cash GFS data are used where available, based on information published in the ABS *1997-98 Government Finance Statistics* (Cat. No. 5512.0), and on jurisdictions' 1998-99 budget outcomes documentation and 1999-2000 Mid Year Reports. For those jurisdictions which have moved to accrual budget reporting, cash surplus data from their cash flow statements are used. In these cases, cash revenues are proxied by receipts from operating activities and sales of non-financial assets, and outlays by payments for operating activities and purchases of non-financial assets.

NON-FINANCIAL PUBLIC SECTOR

The Commonwealth government exerts the major influence on non-financial public sector balances in Australia, largely through its substantial general government sector. The PNFC sector has a smaller effect on the total and tends to be more important at the State/local level, where most PNFCs are concentrated.

Chart 1 shows movements in the consolidated non-financial public sector surplus as a share of GDP, and the relative contributions of the general government and PNFC sectors. Chart 1 illustrates that the non-financial public sector was generally in a deficit position in the late 1980s and across most of the 1990s, apart from a small surplus in 1988-89. The deficit peaked at 4.3 per cent of GDP in 1992-93 before declining to 0.1 per cent in 1996-97. This succession of deficits added significantly to the government's net lending requirements, and hence to Australia's CAD.

However, Chart 1 shows that the non-financial public sector moved into a surplus position in 1997-98. The deficit in 1998-99 is the result of one-off increases in state funding of superannuation liabilities, with further surpluses projected in the period to 2002-03. This improvement largely reflects the fiscal consolidation measures adopted by the Commonwealth.

Chart 1 also shows the declining contribution of PNFCs to the non-financial public sector surplus, in line with the increasing privatisation of government businesses since the late 1980s. The PNFC sector is expected to contribute only modestly to non-financial public sector balances over the projection period.

Chart 1: Consolidated Non-financial Public Sector Cash Surplus by Sector

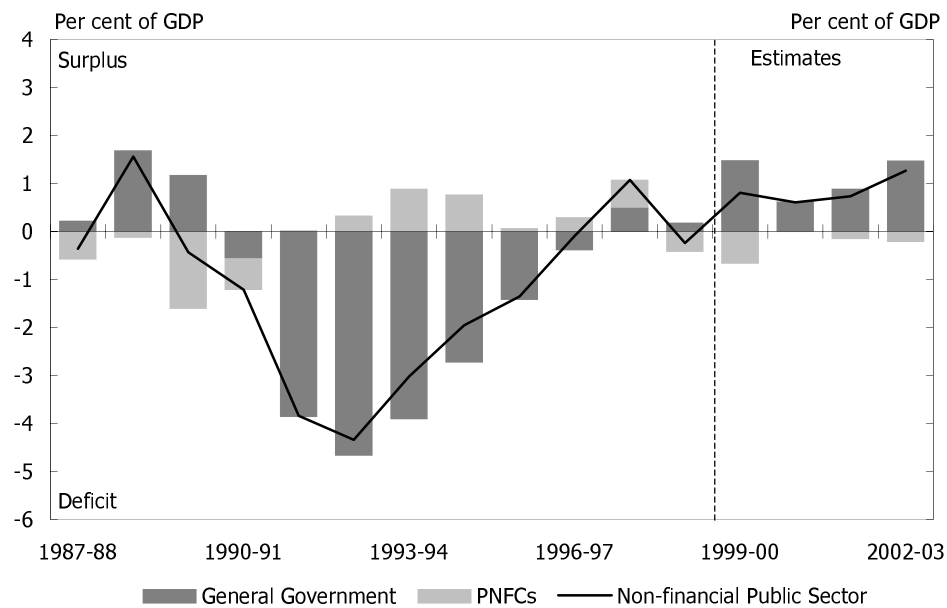
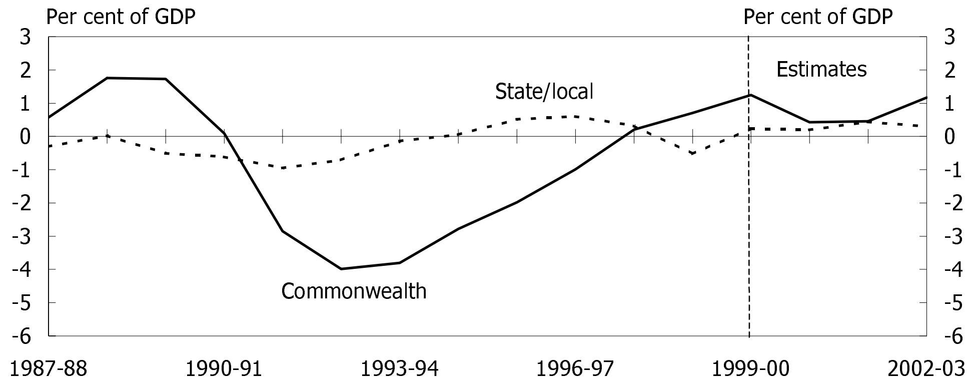


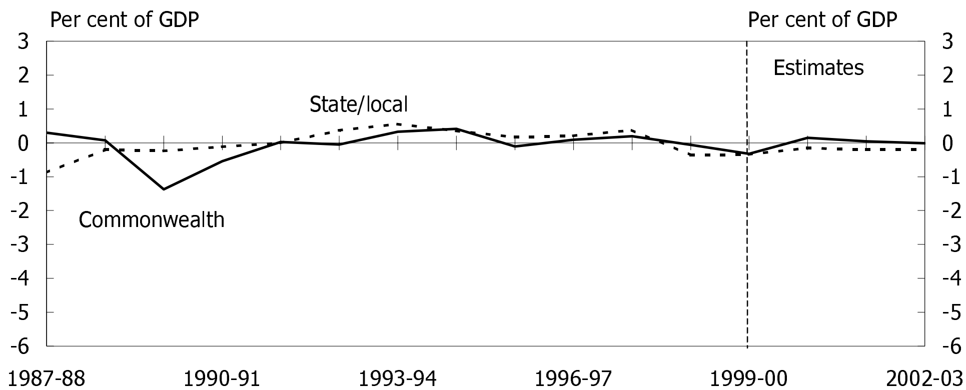
Chart 2 disaggregates, by level of government, the surpluses presented in Chart 1. It shows the large contribution of past Commonwealth general government cash deficits to the non-financial public sector cash deficit. It also illustrates the improvement in the Commonwealth general government sector balance since 1992-93.

Chart 2: Cash Surplus by Sector and Level of Government

A: General Government



B: Public Non-financial Corporations



C: Non-financial Public Sector

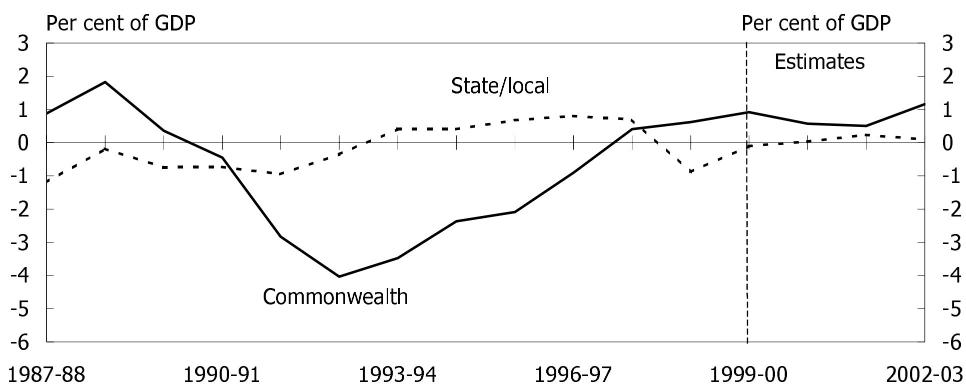


Chart 2 shows the consolidated PNFC sector is close to balance, and likely to remain so over the forecast period. The State/local general government sector fell into deficit in 1998-99, primarily because of several jurisdictions taking steps to fund previously unfunded superannuation liabilities in this year, but is expected to return to small surpluses in the next few years. The Commonwealth general government sector is the biggest contributor to the expected consolidated non-financial public sector surplus of 0.8 per cent of GDP in 1999-2000, increasing to 1.3 per cent of GDP in 2002-03.

GENERAL GOVERNMENT SECTOR

The general government sector is the appropriate primary focus for an assessment of the impact of the public sector on the national economy. It accounts for over 90 per cent of non-financial public sector revenues and outlays and is the sector through which the national government may seek to affect the level of private sector activity. The increased commercial orientation of the PNFC sector means that it operates more like the private sector. Its contribution to public sector balances in the past decade has been minor.

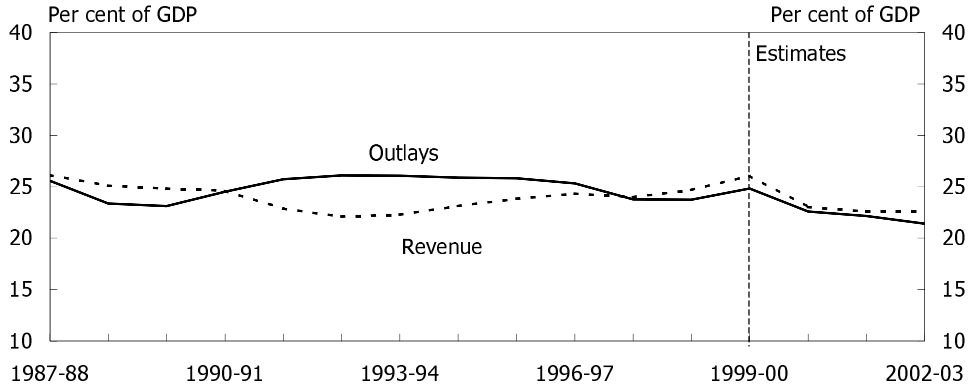
Chart 3 shows trends in general government cash outlays and revenue at the Commonwealth and State/local levels. Panel A shows the countercylical relationship between the Commonwealth's outlays and cash revenues. Generally, during economic downturns, such as in the early 1990s, outlays on transfer payments rise and taxation revenues fall, with the reverse happening during periods of strong economic growth. However, during the cyclical upturn in the first half of the 1990s, Commonwealth outlays were maintained at a high level of GDP while the low inflation environment depressed the growth in revenue receipts, resulting in significant deficits.

As shown in Panel A of Chart 2, the Commonwealth general government sector is expected to move from a cash deficit of 4.0 per cent of GDP in 1992–93 to a cash surplus of 1.2 per cent of GDP in 1999-2000, with continuing surpluses out to 2002-03. Commonwealth outlays and revenue estimates in Chart 3 are net of GST revenue, and show a decline in 2000-01 with the introduction of *The New Tax System*.

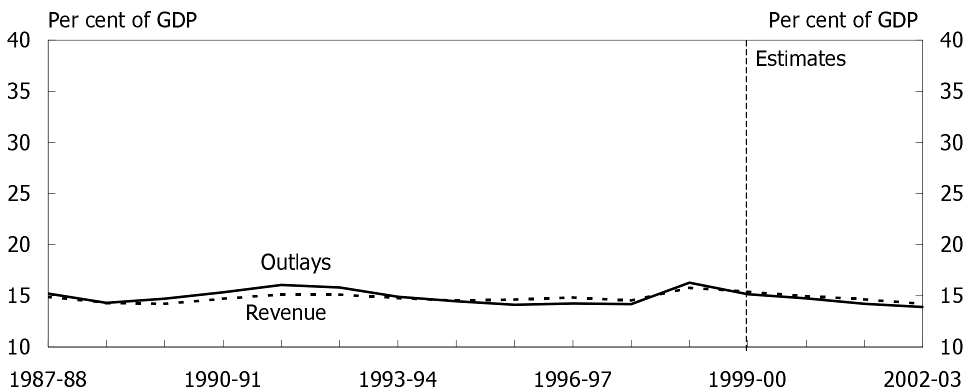
State/local revenue and outlays are less sensitive to the economic cycle than Commonwealth finances. Panel A of Chart 2 shows the sustained improvement in the State/local general government balances achieved over the period 1991-92 to 1996-97, from a deficit of 1.0 per cent of GDP to a cash surplus of 0.6 per cent of GDP. As shown in Panel B of Chart 3, this improvement has largely reflected outlays restraint, helped by lower debt servicing charges, with State/local revenue broadly stable as a share of GDP.

Chart 3: General Government Revenue and Cash Outlays by Level of Government

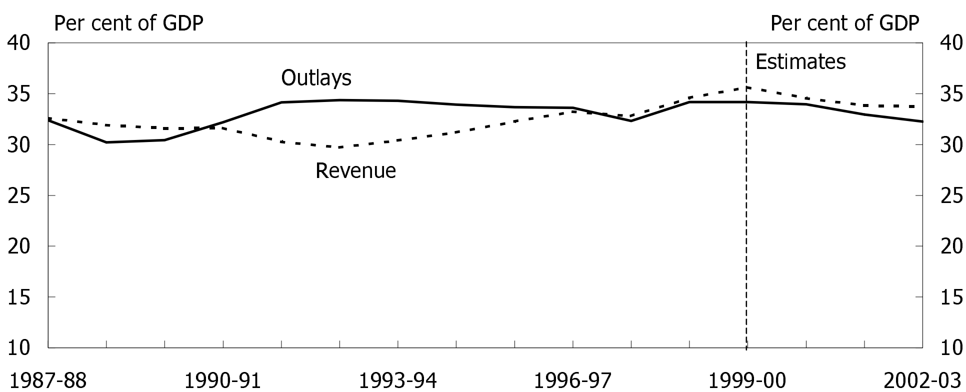
A: Commonwealth



B: State/local



C: Consolidated General Government[(a)]



(a) Consolidated government includes Commonwealth and State/local governments, and universities.

However, in 1998-99 the State / local general government sector cash balance reversed its recent series of small surpluses and moved to a deficit of 0.5 per cent of GDP. This sharp turnaround in 1998-99 reflected the allocation by New South Wales (NSW) and Victoria of an additional $3.3 billion and $2.6 billion, respectively, to meeting their unfunded superannuation liabilities. These augmented superannuation contributions increased the States' levels of current expenditure (and thus decreased their budget surpluses for the year) by a corresponding amount. Without these one-off superannuation payments, the State / local general government cash balance for 1998-99 would have been a surplus of around 0.5 per cent of GDP.

Small State / local general government cash surpluses are expected to continue over the projection period. As shown in Panel B of Chart 3, outlays are projected to decline as a share of GDP. This is due mainly to restraint in current outlays resulting from improvements in public sector efficiency and interest savings associated with declining net debt.

All States and Territories have in place medium-term fiscal strategies aimed at improving their fiscal positions over the medium term. These are discussed further in *Budget Paper No. 3 — Federal Financial Relations.* While there remain significant fiscal and economic disparities between the States, any movement towards increased State / local general government cash surpluses will reinforce the positive effect of fiscal consolidation at the Commonwealth level, contributing to a lower CAD.

PUBLIC NON-FINANCIAL CORPORATIONS

The PNFC sector is an important provider of economic infrastructure and contributes significant revenue to general government, mainly in the form of dividends (as discussed in Part IV). Whereas the Commonwealth dominates the general government sector, State / local government activity is more significant within the PNFC sector. State / local PNFC outlays are around 60 per cent greater than Commonwealth PNFC outlays. This reflects State responsibility for infrastructure and service provision in areas such as electricity, gas and water and public transport.

During the 1980s, the PNFC sector engaged in high levels of capital accumulation (particularly the publicly-owned power providers), with associated growth in debt levels and interest costs. This added significantly to public sector deficits over this period. However, since the late 1980s, with the introduction of corporatisation and privatisation policies, the PNFC sector has recorded a series of small cash surpluses. There has been greater emphasis on PNFC operating efficiency, profitability and market orientation, often as a precursor to privatisation, and governments have re-evaluated the appropriateness of continued public ownership of many business enterprises.

PNFC privatisations over the last decade have occurred in two main sectors — electricity and gas (for example Victoria's electricity assets), and transport and communications (for example Qantas and the partial sale of Telstra). Proceeds of asset sales have been used largely to reduce, or contain the growth of, government net debt, resulting in ongoing savings in public debt interest.

As shown in Chart 1, the PNFC sector has maintained a cash surplus position through much of the 1990s. Following small cash deficits, as a share of GDP, in 1998-99 and 1999-2000, projections indicate that the sector will run a series of small deficits over the remainder of the outlook period.

The 1998-99 PNFC sector cash deficit of 0.4 per cent of GDP was substantially attributable to the privatisation of the gas industry in the Victorian PNFC sector in 1998-99, proceeds from which went to the general government sector to retire debt and reduce the state's unfunded superannuation liability. This effectively created a once-off increase in the sector's expenses, pushing up the deficit.

The 0.7 per cent PNFC cash deficit in 1999-2000 is partly the result of a special dividend payment by Telstra, which pushed the Commonwealth's PNFC sector into deficit for the year.

Part IV: Non-financial Public Sector Liabilities

NON-FINANCIAL PUBLIC SECTOR LIABILITIES

This part examines trends in non-financial public sector net debt, net worth and net interest and dividend flows.

TRENDS IN NON-FINANCIAL PUBLIC SECTOR NET DEBT

The concept of net debt is the same under cash and accrual-based financial reporting. Net debt comprises the stock of selected gross financial liabilities less financial assets. The stock of net debt is a common measure used to help judge the overall strength of a jurisdiction's fiscal position. High levels of net debt impose a call on future revenue flows to service that debt.

The net debt measure is limited in that it does not include accrued employee liabilities or outstanding claims associated with insurance type activities, which can be substantial. In addition, net debt does not provide information on whether this debt has been incurred to finance fixed asset accumulation or current expenditure. This additional information is important in gauging the strength of a government's fiscal position as well as issues of the sustainability of fiscal policy.

Despite these limitations, net debt still provides useful information for examining the soundness of a government's fiscal position.

In this part, net debt data prior to 1994-95 are sourced from the ABS 1998 *Public Sector Financial Assets and Liabilities* publication (ABS Cat. No. 5513.0), and data from 1994-95 to 1997-98 are from the ABS 1999-2000 *Government Financial Estimates* publication (ABS Cat. No. 5501.0). Net debt numbers after 1997-98 are derived from jurisdictions' 1998-99 budget outcomes documentation, and 1999-2000 mid year reports.

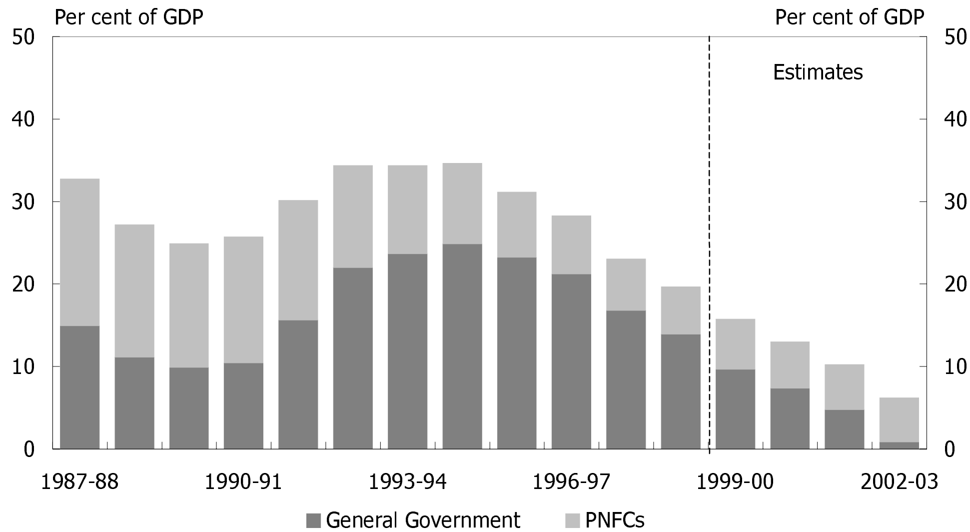
Chart 4 shows non-financial public sector net debt as a percentage of GDP, and the contribution of the general government and PNFC sectors, since the late 1980s.

Charts 1 and 4 together indicate the broad relationship between deficits and net debt levels.

Chart 4 shows the increase in general government net debt as a share of GDP following the last recession. This increase reflected the financing of Commonwealth cash budget deficits that continued into the cyclical upturn. Also evident from Chart 4 is the decline in PNFC sector net debt as a share of GDP since the late 1980s, reflecting lower levels of capital expenditure, improved efficiency and privatisations. This decline moderated the increase in non-financial public sector net debt as a share of GDP in the first half of the 1990s.

The subsequent improvement in total net debt mainly reflects lower net borrowing requirements for the Commonwealth and the application of privatisation proceeds to debt retirement at both the Commonwealth and State / local levels.

Chart 4: Consolidated Government Non-financial Public Sector Net Debt by Sector (as at end of financial year)



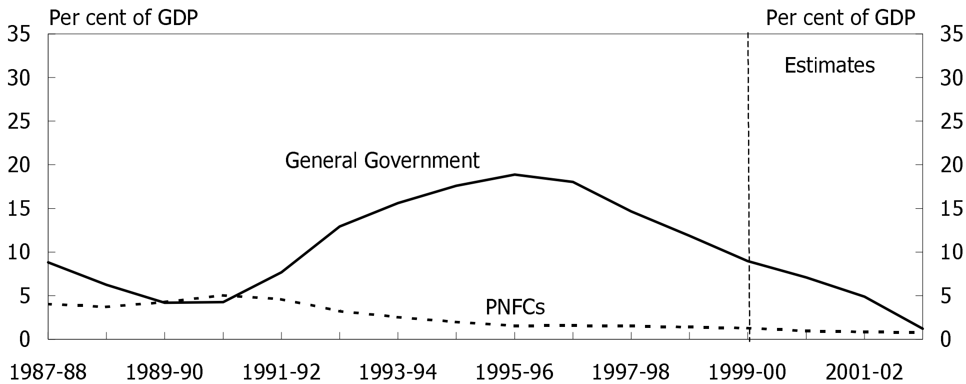
General government net debt as a share of GDP is expected to decline further over the projection period. PNFC sector net debt as a share of GDP is projected to decline slowly, in line with the expected pattern of small PNFC sector cash surpluses. Consolidated non-financial public sector net debt is projected to be only 6.2 per cent of GDP in 2002-03, compared with the most recent peak of 34.7 per cent in 1994-95.

Chart 5 shows trends in net debt by sector and level of government. Most Commonwealth net debt is owned by the general government sector whereas more than half of State / local net debt is owned by the PNFC sector.

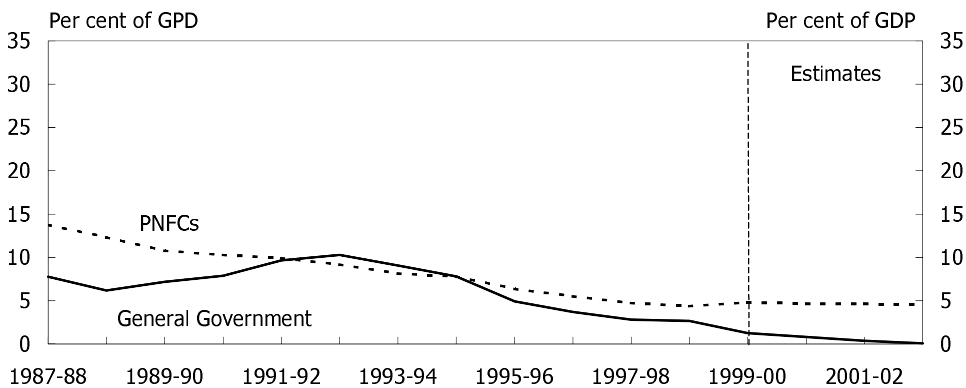
As shown in Panel A of Chart 5 Commonwealth general government net debt as a share of GDP grew from low levels in the late 1980s to a peak of 18.9 per cent in 1995-96, with large increases in the first half of the 1990s.

Chart 5: Non-financial Public Sector Net Debt by Level of Government and Sector (outstanding stock as at end of financial year)

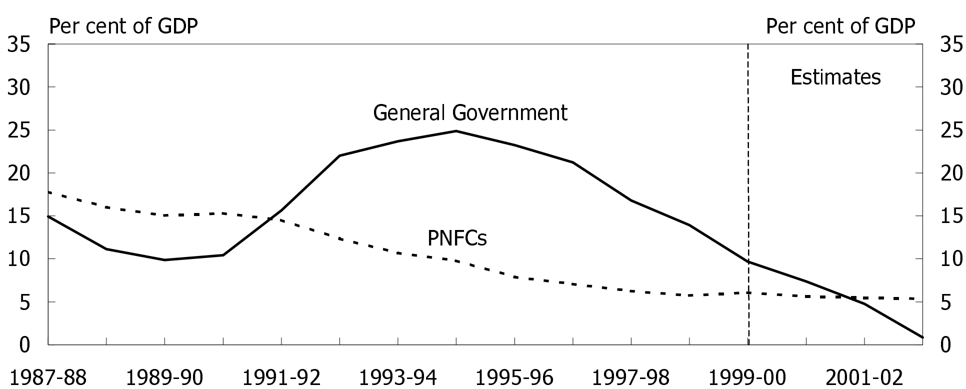
A: Commonwealth



B: State/local



C: Consolidated Non-financial Public Sector[(a)]



(a) Consolidated government includes Commonwealth and State/local governments, and universities.

The projections for the Commonwealth in Panel A of Chart 5 include the expected impact of measures announced in this Budget. These projections show that Commonwealth general government sector net debt is projected to decline from a peak in 1995-96 to around 7.1 per cent in 2000-01, consistent with the Government's announced aim of halving the net debt to GDP ratio over this period.

In contrast, State / local general government net debt grew only modestly in the early 1990s, and has since declined from a peak of 10.3 per cent in 1992-93 to around 2.7 per cent in 1998-99, as shown in Panel B. This improvement within the State / local general government sector reflects both the impact of asset sales, and fiscal consolidation during the second half of the 1990s.

State / local general government net debt as a share of GDP should continue to fall in line with the debt reduction programmes being pursued by the States as part of their medium term fiscal strategies. State / local general government net debt is expected to be close to zero by the end of the projection period. However, some individual States continue to face substantial net debt burdens (see *Budget Paper No. 3 — Federal Financial Relations* for more information).

GOVERNMENT FINANCE STATISTICS NET WORTH

The net worth, or net assets, measure provides a more comprehensive picture of a government's overall financial position than the net debt measure. Net worth incorporates a government's non-financial assets such as land, other fixed assets etc, which may be sold and used to repay debt, as well as certain financial assets and liabilities not captured by the net debt measure, most notably accrued employee superannuation liabilities.

The sale of physical assets decreases net debt, with proceeds from sales increasing financial assets. Net worth incorporates both sides of the story, showing the increase in financial assets and how the sale decreases the stock of non-financial assets.

With many jurisdictions yet to move to accrual accounting, net worth data for all Australian governments are currently only available on a general government sector basis, with just one year's figures obtainable for the State / local and Consolidated levels of government. Table 2 shows general government net worth by level of government.

Table 2: General Government GFS Net Worth by Level of Government as a Percentage of GDP (as at end of financial year)[(a)]

	Commonwealth	State/Local	Consolidated(b)
1998-99(e)	-12.8	59.0	46.2
1999-00(e)	-8.8	na	na
2000-01(e)	**-7.6**	**na**	**na**
2001-02(p)	-4.8	na	na
2002-03(p)	-1.6	na	na
2003-04(p)	0.4	na	na

(a) State/local data are sourced from the ABS *1999-2000 Government Financial Estimates* publication. Commonwealth and Consolidated data are Treasury estimates, utilising information contained in the ABS GFE.
(b) Consolidated government includes Commonwealth and State/local governments, and universities.
(e) Estimates.
(p) Projections.
na Data not available.

All State general governments have a positive net worth, ranging from 24 to 60 per cent of their gross state product. Local governments and universities also maintain a positive net worth. However, the Commonwealth general government has historically recorded negative net worth. The major difference between the levels of government lies in their stocks of land and fixed assets. At the State/local level, (as at 30 June 1999) general government land and fixed assets have an estimated value of $305 billion, easily exceeding total liabilities of $117 billion. At the Commonwealth level, general government land and fixed assets are valued at $52 billion, as against total liabilities of $187 billion. Part of this difference reflects the significant funding provided by the Commonwealth to the States for capital works, with the resultant assets recorded in the States' balance sheets. More information on capital grants to the States is available in *Budget Paper 3*.

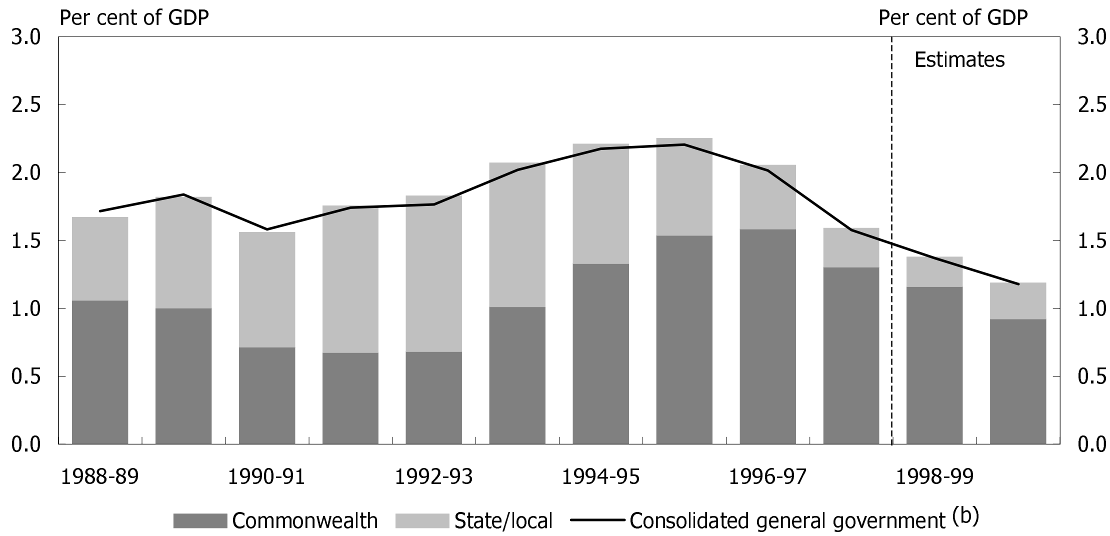
Table 2 shows that the Commonwealth government is meeting its fiscal objective of improving the general government net asset position over the medium to long term. For more information on changes in the Commonwealth's net worth (net asset) position, refer to Statement 1 and Statement 4.

NET INTEREST AND DIVIDEND FLOWS

Net interest outlays are defined as interest payments on gross debt less interest received on loans and advances, and are affected by the volume of net debt on issue and by interest rates.

Chart 6 shows the trend in general government net interest payments by level of government. As shown in Chart 6, total general government net interest outlays peaked in 1995-96 at 2.2 per cent of GDP. High net interest outlays during the mid-1990s climate of relatively lower interest rates, reflected ongoing Commonwealth budget cash deficits during the expansionary phase of the economic cycle.

Chart 6: General Government Net Interest Outlays[a]



(a) Data to 1997-98 is derived from 1997-98 ABS Government Finance Statistics (Cat. No. 5512.0), data for 1998-99 and 1999-2000 is from the 1999-2000 ABS Government Financial Estimates (Cat. No. 5501.0).

(b) Consolidated government includes Commonwealth and State/local governments, and universities.

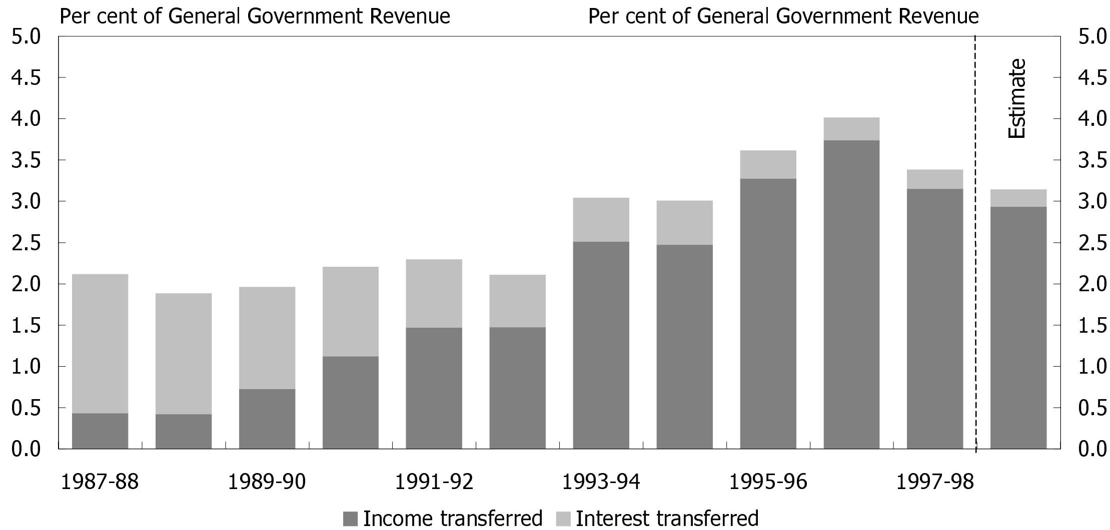
The contribution of the PNFC sector to non-financial public sector net interest outlays has decreased significantly over the last decade and a half, as reduced capital outlays, improved PNFC performance and privatisations have reduced PNFC sector net debt as a share of GDP.

The PNFC sector provides the general government sector (particularly at the State/local level) with significant revenue in the form of dividends and interest payments. Dividends correspond to general government equity holdings while interest payments reflect the stock of general government loans to the PNFC sector.

Chart 7 shows the effect of PNFC restructuring on these revenue sources. As PNFCs have become more commercial in focus, and less directly controlled by government, they have refinanced general government advances in the market and adopted capital structures and dividend policies more comparable with those applying in the private sector.

Notwithstanding the impact of privatisations, in recent years the PNFC sector has paid increasing dividends to its general government owners due to improved profitability and the adoption of commercial dividend policies. Income transferred to general government by PNFCs has increased from 0.4 per cent of general government revenue in 1988-89 to 2.9 per cent in 1998-99. There has been a corresponding decrease in interest paid by PNFCs to general government over the same period, but the magnitudes of the payments have been much smaller.

Chart 7: Income and Interest Transferred from PNFCs to General Government Sector[(a)]

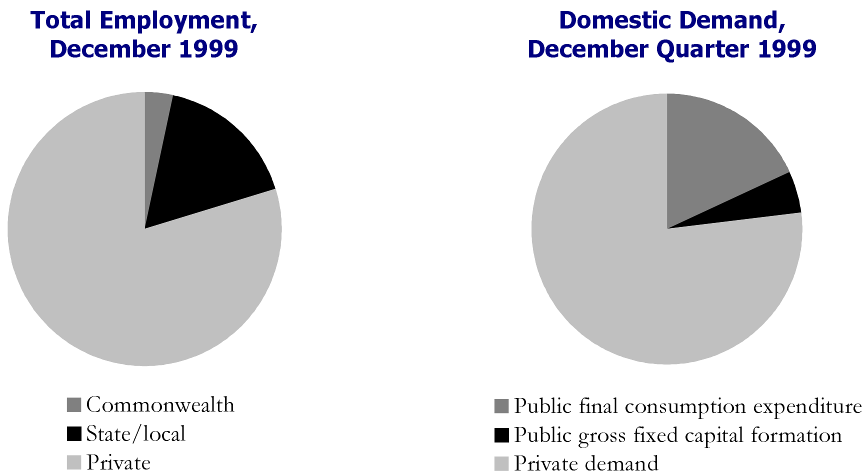


(a) Data to 1997-98 is derived from *1997-98 ABS Government Finance Statistics* (Cat. No. 5512.0), data for 1998-99 and 1999-2000 is from the *1999-2000 ABS Government Financial Estimates* (Cat. No. 5501.0).

Appendix A: Size and Structure of the Public Sector

This Appendix provides an overview of the size and structure of Australia's public sector, to assist in interpreting the trends discussed elsewhere in this statement.

Chart A1: Contribution of Public and Private Sectors



As shown in Chart A1, the public sector directly accounts for around 20 per cent of civilian employment and 23 per cent of final domestic demand[2]. The State/local level accounts for 83 per cent of total public sector civilian employment, reflecting its major responsibilities for service delivery — for example in the areas of education and health — and for infrastructure.

There are significant differences in the roles and responsibilities of the two main levels of government. Major Commonwealth expenses include transfer payments in relation to social security, welfare, health and defence expenditure. The Commonwealth also has an important role in funding education and health services provided by the States and the private sector. Major State/local expenses are in the areas of education, health, transport, and public order and safety.

2 Transfer payments by the Commonwealth — for example, income support — are not included in public final demand.

Appendix B: Non-financial Public Sector — Supplementary Cash Tables

Table B1: Consolidated Revenue, Outlays and Cash Surplus by Institutional Sector as a Percentage of GDP[(a)]

	General Government (b)			Public Non-financial Corporations			Non-financial Public Sector		
	Revenue	Outlays	Cash Surplus	Revenue	Outlays	Cash Surplus	Revenue	Outlays	Cash Surplus
1987-88	32.6	32.4	0.2	4.0	5.9	-0.6	35.5	37.2	-0.4
1988-89	31.9	30.2	1.7	3.8	5.4	-0.1	34.8	34.6	1.6
1989-90	31.6	30.4	1.2	3.7	6.7	-1.6	34.2	36.0	-0.4
1990-91	31.6	32.2	-0.6	3.8	5.9	-0.7	34.2	36.9	-1.2
1991-92	30.3	34.1	-3.9	3.6	5.5	0.0	32.5	38.2	-3.8
1992-93	29.7	34.4	-4.7	3.6	5.0	0.3	31.9	38.0	-4.3
1993-94	30.4	34.3	-3.9	3.7	4.3	0.9	32.5	37.1	-3.0
1994-95	31.2	33.9	-2.7	3.4	4.5	0.8	33.1	36.9	-2.0
1995-96	32.3	33.7	-1.4	3.0	4.5	0.1	33.5	36.5	-1.4
1996-97	33.2	33.6	-0.4	3.0	4.1	0.3	34.2	35.7	-0.1
1997-98	32.8	32.3	0.5	2.9	3.6	0.6	34.1	34.4	1.1
1998-99	34.6	34.2	0.2	na	na	-0.4	na	na	-0.2
1999-00(e)	35.6	34.2	1.5	na	na	-0.7	na	na	0.8
2000-01(e)	**34.5**	**34.0**	**0.6**	**na**	**na**	**0.0**	**na**	**na**	**0.6**
2001-02(p)	33.8	33.0	0.9	na	na	-0.2	na	na	0.7
2002-03(p)	33.7	32.2	1.5	na	na	-0.2	na	na	1.3

(a) Numbers are based on the ABS *1997-98 Government Finance Statistics* publication, and on jurisdictions' published budget data.
(b) Following recent changes to the Australian National Accounts standards, the general government surplus measures in this table, from 1998-99 onwards, incorporate payments by the Commonwealth general government sector in respect of accumulated PNFC superannuation liabilities. Payments prior to 1998-99 do not incorporate these payments.
(e) Estimates.
(p) Projections.
na Data not available.

Table B2: Non-financial Public Sector Cash Surplus by Level of Government as a Percentage of GDP[(a)]

	Commonwealth	State/local	Consolidated(b)
1987-88	0.9	-1.2	-0.4
1988-89	1.8	-0.2	1.6
1989-90	0.4	-0.7	-0.4
1990-91	-0.4	-0.7	-1.2
1991-92	-2.8	-1.0	-3.8
1992-93	-4.0	-0.3	-4.3
1993-94	-3.5	0.4	-3.0
1994-95	-2.4	0.4	-2.0
1995-96	-2.1	0.7	-1.4
1996-97	-0.9	0.8	-0.1
1997-98	0.4	0.7	1.1
1998-99	0.6	-0.9	-0.2
1999-00(e)	0.9	-0.1	0.8
2000-01(e)	**0.6**	**0.0**	**0.6**
2001-02(p)	0.5	0.2	0.7
2002-03(p)	1.2	0.1	1.3

(a) Numbers are based on the ABS *1997-98 Government Finance Statistics* publication, and on jurisdictions' published budget data.
(b) Consolidated government includes Commonwealth and State/local governments, and universities.
(e) Estimates.
(p) Projections.

Table B3: General Government Net Interest Outlays by Level of Government[a]

	Commonwealth		State/local	
	$m	Per cent of GDP	$m	Per cent of GDP
1972-73	-266	-0.6	449	1.0
1973-74	-306	-0.5	451	0.8
1974-75	-267	-0.4	474	0.7
1975-76	-389	-0.5	526	0.7
1976-77	-161	-0.2	555	0.6
1977-78	-106	-0.1	582	0.6
1978-79	126	0.1	609	0.5
1979-80	290	0.2	634	0.5
1980-81	444	0.3	801	0.6
1981-82	475	0.3	785	0.5
1982-83	654	0.4	1034	0.6
1983-84	1327	0.7	1347	0.7
1984-85	2462	1.1	1405	0.6
1985-86	3626	1.5	1159	0.5
1986-87	4387	1.6	1493	0.5
1987-88	4019	1.3	2127	0.7
1988-89	3722	1.1	2158	0.6
1989-90	3848	1.0	3153	0.8
1990-91	2834	0.7	3364	0.8
1991-92	2739	0.7	4397	1.1
1992-93	2912	0.7	4901	1.1
1993-94	4549	1.0	4771	1.1
1994-95	6310	1.3	4182	0.9
1995-96	7812	1.5	3636	0.7
1996-97	8449	1.6	2515	0.5
1997-98	7381	1.3	1617	0.3
1998-99(e)	6885	1.2	1307	0.2
1999-00(e)	5782	0.9	1675	0.3

(a) Data to 1997-98 are derived from *1997-98 ABS Government Finance Statistics*, data for 1998-99 and 1999-2000 are from the *1999-2000 ABS Government Financial Estimates*.

(e) Estimates.

Table B4: Non-financial Public Sector Net Debt[(a)]

	General Government						PNFC Sector		Non-financial Public Sector	
	Commonwealth		State/local		Consolidated(b)					
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1987-88	27,359	8.8	24,201	7.8	46,410	14.9	55,293	17.8	101,703	32.7
1988-89	21,982	6.2	21,683	6.2	39,232	11.2	56,363	16.0	95,595	27.2
1989-90	16,121	4.2	27,672	7.2	37,989	9.9	57,794	15.0	95,783	24.9
1990-91	16,936	4.3	31,322	7.9	41,380	10.4	60,745	15.3	102,125	25.7
1991-92	31,132	7.7	39,167	9.6	63,525	15.6	59,011	14.5	122,536	30.2
1992-93	55,218	12.9	44,020	10.3	94,048	22.0	52,878	12.4	146,926	34.4
1993-94	70,223	15.6	40,693	9.0	106,439	23.7	48,021	10.7	154,460	34.3
1994-95	83,492	17.6	37,039	7.8	117,973	24.9	46,482	9.8	164,455	34.7
1995-96	95,831	18.9	24,981	4.9	118,053	23.2	40,135	7.9	158,188	31.1
1996-97	96,281	18.0	19,757	3.7	113,236	21.2	37,748	7.1	150,984	28.3
1997-98	82,935	14.7	15,937	2.8	95,122	16.8	35,371	6.3	130,493	23.1
1998-99	70,402	11.9	15,810	2.7	82,662	13.9	34,032	5.7	116,694	19.7
1999-00(e)	56,346	9.0	7,907	1.3	60,707	9.7	38,117	6.1	98,825	15.7
2000-01(e)	**47,404**	**7.1**	**5,450**	**0.8**	**49,364**	**7.4**	**37,570**	**5.6**	**86,934**	**13.0**
2001-02(p)	34,650	4.9	2,665	0.4	33,884	4.8	38,686	5.5	72,570	10.2
2002-03(p)	9,157	1.2	551	0.1	6,333	0.8	40,282	5.4	46,615	6.2

(a) Data are from ABS 1998 *Public Sector Financial Assets and Liabilities*, ABS 1999-2000 *Government Financial Estimates*, and jurisdictions' published budget data.
(b) Includes universities.
(e) Estimates.
(p) Projections.

Appendix C: Commonwealth Government Finance Statistics

The Commonwealth *Charter of Budget Honesty Act 1998* requires that the budget be based on external reporting standards, and that departures from applicable external reporting standards be identified. The major external standards used in this budget are Australian Accounting Standards (AAS31) and the ABS accrual GFS framework. Statement 1, Appendix A, provides a reconciliation between the Commonwealth's general government GFS and AAS31 revenue, expenses and operating results.

The Commonwealth, States and Territories also have an agreement — the *Accrual Uniform Presentation Framework* (UPF) — that all jurisdictions publish a common core of GFS-consistent financial information in their budget papers. More information on this agreement, which has recently been updated to an accrual format, is available in *Budget Paper No 3*.

This appendix presents Commonwealth data on a GFS basis, as required by the UPF. Statistical tables are presented below, showing an operating statement, cash flow statement and balance sheet for the Commonwealth general government, PNFC and consolidated non-financial public sectors. The tables were produced by the Department of Finance and Administration (DoFA) in consultation with the ABS.

As discussed in the introduction to this Statement, the Commonwealth considers the GST to be a State tax, with GST revenue collected by the Commonwealth in an agency capacity. This approach is reflected elsewhere throughout the 2000-01 Budget. However, the technical interpretation of the GFS standards by the ABS treats the GST as a Commonwealth tax, with the transfer of GST revenues to the States treated as Commonwealth grants. In keeping with the Accrual UPF reporting requirements, the tables in this appendix are presented consistent with ABS standards, with Commonwealth revenue, outlays and expenses including GST collections.

Consistent with ABS practice, transactions between the Commonwealth general government and PNFC sectors are included in the tables produced for these sectors, but are removed from the consolidated non-financial sector tables as they are transactions internal to that sector.

Transactions between the Commonwealth non-financial sectors and the public financial corporations (PFC) sector are included in all tables. These transactions include income transfers such as dividends paid to general government, net advances paid by general government to PFCs and taxes paid by PFCs.

Comparison between GFS and Accounting Standards

There is a general consistency of treatment between GFS and accounting standards. GFS and AAS31 definitions of the scope of the public sector agree in almost all cases. AAS31 also recommends the same segmentation of the public sector into general government, PNFC and PFC.

Transactions are generally treated in a similar manner by GFS and accounting standards, however, where GFS is a framework designed to facilitate macro-economic analysis, AAS31 is designed as a standard for general purpose financial reporting. The different objectives of the two systems lead to variance in the treatment of certain items. Some of the major differences between GFS and AAS31 treatment of transactions are included in Table C1. For further information on the differences between the two systems refer to the ABS information paper *Accruals-based Government Finance Statistics* (Cat. No. 5517.0).

Table C1: Selected Differences between AAS31 and GFS Reporting Standards

Issue	AAS31 Treatment	GFS Treatment
Provisions for bad and doubtful debts and asset writedowns	Treated as part of operating expenses.	Treated as revaluations, except for mutually agreed writedowns, and therefore removed from operating revenues/expenses.
Profit/loss on sale of assets	Treated as part of operating revenues/expenses, possibly as abnormal gains/losses.	Treated as revaluations and therefore removed from operating revenues/expenses.
Abnormal items	Most abnormal items will be recorded below the operating result, although some (eg changes to the outstanding superannuation liability due to revised assumptions) would be recorded above the line.	Abnormal items are considered on an individual basis to ascertain whether it is an economic transaction and in which period the transaction applies. If it is treated as an economic transaction, it impacts on GFS operating result, otherwise it is treated as a revaluation and removed from the GFS net operating balance.
Benefits to households in goods and services (social transfers in kind) component of personal benefits payments	All personal benefits payments are treated as transfers in operating expenses.	Personal benefits payments that are not paid as direct cash transfers are treated as part of other expenses in the operating statement.
Regulatory Fees	Included in non-taxation revenue.	Predominantly treated as user charges and included in the 'Sales of Goods and Services' component of non-taxation revenue.
Fines	Included in non-taxation revenue.	Treated as transfer income as part of non-taxation revenue.
Public debt net interest	Under accounting standards, premia and discounts on the repurchase of debt are included in public debt net interest at the time of repurchase, regardless of whether the stock is cancelled at that time. Issue premia and discounts are amortised over the life of the stock.	Repurchase premia and discounts are treated as economic revaluations at the time the debt is repurchased (provided it is valued at historical cost). The GFS cash flow statement includes repurchase premia or discounts in the year that the repurchased stock is cancelled or matures.
Finance Leases	Treat finance leases as if an asset were purchased from borrowings ie the lease payment is split into an interest component (which is shown as an operating expense) and a principal component. The asset and the liability are recorded on the balance sheet. However, this convention does not apply to the cash flow statement, which does not record the acquisition of the asset or the liability.	As per the accounting standard, except that the GFS cash flow statement includes the acquisition of the asset and the liability.

Table C2: General Government Sector Operating Statement

	General Government				
	1999-00	2000-01	2001-02	2002-03	2003-04
	$m	$m	$m	$m	$m
GFS revenue					
Taxation revenue	150620	167815	176085	185864	198846
Current grants and subsidies	0	0	0	0	0
Sales of goods and services	3095	2922	3012	3004	3033
Interest income	1084	1030	1566	2795	4161
Other	9865	5760	5936	5693	5162
Total GFS revenue(a)	**164664**	**177528**	**186599**	**197356**	**211201**
GFS expenses					
Gross operating expenses					
Depreciation	2533	2823	3160	3475	3654
Superannuation	1429	1476	1263	1289	1282
Other operating expenses	40502	42225	42620	43417	44701
Total gross operating expenses	44465	46523	47043	48181	49637
Nominal superannuation interest expense	3666	3695	3706	3669	3718
Other interest expenses	6724	6332	5780	5820	5623
Other property expenses	0	0	0	0	0
Current transfers	0	0	0	0	0
Grant expenses	45212	53766	61451	60919	62793
Subsidy expenses	5382	7000	7614	8001	8247
Other current transfers	49600	56815	58720	62383	65974
Total current transfers	100194	117581	127784	131303	137014
Capital transfers	200	200	200	200	200
Total GFS expenses(b)	**155248**	**174332**	**184514**	**189172**	**196192**
Net operating balance	**9416**	**3196**	**2085**	**8183**	**15009**
Net acquisition of non-financial assets					
Gross fixed capital formation	3498	3352	3846	3854	4099
less Depreciation	2533	2823	3160	3475	3654
plus Change in inventories	184	1	205	145	405
plus Other movements in non-financial assets	-1,437	-2,770	122	49	275
Total net acquisition of non-financial assets	**-288**	**-2,240**	**1,013**	**574**	**1,125**
Net lending/fiscal balance(c)	**9704**	**5436**	**1072**	**7610**	**13884**

(a) GFS revenue is not equal to AAS31 revenue. GFS revenue includes all (mutually agreed) transactions that increase net worth. Revaluations are not considered mutually agreed transactions, and so are excluded from GFS revenue. Asset sales, which involve a transfer of a non-financial for a financial asset, are also excluded.

(b) GFS expenses is not equal to AAS31 expenses. GFS expenses includes all (mutually agreed) transactions that decrease net worth. Revaluations are not considered mutually agreed transactions, and so are excluded from GFS expenses.

(c) GFS net lending also equals net transactions in financial assets less net transactions in liabilities. The tem 'fiscal balance' is not used by the ABS.

Table C3: Public Non-financial Corporations Sector Operating Statement

	Public Non-financial Corporations	
	1999-00 $m	2000-01 $m
GFS revenue		
Current grants and subsidies	171	21
Sales of goods and services	24606	25695
Interest income	72	89
Other	18	19
Total GFS revenue(a)	**24866**	**25825**
GFS expenses		
Gross operating expenses		
Depreciation	3080	3199
Other operating expenses	14878	15016
Total gross operating expenses	17958	18216
Interest expenses	798	696
Other property expenses	4570	2725
Current transfers		
Tax expenses	2258	2328
Other current transfers	0	0
Total current transfers	2258	2328
Capital transfers	0	0
Total GFS expenses(b)	**25583**	**23964**
Net operating balance	**-717**	**1861**
Net acquisition of non-financial assets		
Gross fixed capital formation	5363	4152
less Depreciation	3080	3199
plus Change in inventories	-12	-44
equals Total net capital formation	2272	908
plus Other movements in non-financial assets	0	0
Total net acquisition of non-financial assets	**2272**	**908**
Net lending/fiscal balance(c)	**-2988**	**953**

(a) GFS revenue is not equal to AAS31 revenue. GFS revenue includes all (mutually agreed) transactions that increase net worth. Revaluations are not considered mutually agreed transactions, and so are excluded from GFS revenue.

(b) GFS expenses is not equal to AAS31 expenses. GFS expenses includes all (mutually agreed) transactions that decrease net worth. Revaluations are not considered mutually agreed transactions, and so are excluded from GFS expenses.

(c) GFS net lending also equals net transactions in financial assets less net transactions in liabilities. The tem 'fiscal balance' is not used by the ABS.

Table C4: Non-financial Public Sector Operating Statement

	Total Non-financial Public Sector	
	1999-00	2000-01
	$m	$m
GFS revenue		
Taxation revenue	149060	165484
Current grants and subsidies	0	0
Sales of goods and services	27701	28618
Interest income	1134	1096
Other	6770	3913
Total GFS revenue(a)	**184665**	**199111**
GFS expenses		
Gross operating expenses		
Depreciation	5613	6022
Other operating expenses	56809	58717
Total gross operating expenses	62423	64739
Nominal superannuation interest expense	3666	3695
Other interest expenses	7498	7005
Other property expenses	1458	858
Current transfers	0	0
Grant expenses	45212	53766
Subsidy expenses	5211	6979
Other current transfers	50298	56812
Total current transfers	100721	117557
Capital transfers	200	200
Total GFS expenses(b)	**175966**	**194054**
Net operating balance	**8699**	**5057**
Net acquisition of non-financial assets		
Gross fixed capital formation	8861	7504
less Depreciation	5613	6022
plus Change in inventories	173	-44
plus Other movements in non-financial assets	-1437	-2770
Total net acquisition of non-financial assets	**1983**	**-1332**
Net lending/fiscal balance(c)	**6715**	**6389**

(a) GFS revenue is not equal to AAS31 revenue. GFS revenue includes all (mutually agreed) transactions that increase net worth. Revaluations are not considered mutually agreed transactions, and so are excluded from GFS revenue. Asset sales, which involve a transfer of a non-financial for a financial asset, are also excluded.

(b) GFS expenses is not equal to AAS31 expenses. GFS expenses includes all (mutually agreed) transactions that decrease net worth. Revaluations are not considered mutually agreed transactions, and so are excluded from GFS expenses.

(c) GFS net lending also equals net transactions in financial assets less net transactions in liabilities. The tem 'fiscal balance' is not used by the ABS.

Table C5: General Government Sector Balance Sheet

	General Government				
	1999-00	2000-01	2001-02	2002-03	2003-04
	$m	$m	$m	$m	$m
GFS assets					
Financial Assets					
Cash and deposits	885	775	67	244	202
Advances paid	15354	16578	15599	16242	16524
Investments, loans and placements	17905	8453	8554	8740	8881
Other non-equity assets	14083	10762	15546	13717	6433
Equity	19322	19387	17766	16147	16147
Total financial assets	67549	55956	57532	55090	48186
Non-financial assets					
Land and fixed assets	53820	54007	54503	54975	55537
Other non-financial assets	1932	1834	2060	2228	2602
Total non-financial assets	55752	55840	56564	57202	58140
Total GFS assets	**123302**	**111796**	**114095**	**112293**	**106326**
GFS liabilities					
Deposits held	9	9	9	9	9
Advances received	0	0	0	0	0
Borrowing	90481	73201	58860	34374	13689
Superannuation liability	71350	71929	71970	71804	71822
Other employee entitlements and provisions	5431	5394	5415	5438	5477
Other non-equity liabilities	11562	11918	12159	12330	12536
Total GFS liabilities	**178833**	**162451**	**148415**	**123955**	**103533**
Net Worth (Net assets)(a)	**-55532**	**-50655**	**-34319**	**-11663**	**2793**
Net financial worth(b)	**-111,284**	**-106,495**	**-90,883**	**-68,865**	**-55,347**
Net debt(c)	56346	47404	34650	9157	-11908

(a) General government net worth equals assets minus liabilities.
(b) Net financial worth equals total financial assets minus total liabilities.
(c) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table C6: Public Non-financial Corporations Sector Balance Sheet

	Public Non-financial Corporations	
	1999-00 $m	2000-01 $m
GFS assets		
Financial assets		
Cash and deposits	1056	985
Advances paid	350	250
Investments, loans and placements	1171	1067
Other non-equity assets	2598	2929
Equity	0	0
Total financial assets	5175	5230
Non-financial assets		
Land and fixed assets	31293	29309
Other non-financial assets	1601	1576
Total non-financial assets	32894	30886
Total GFS assets	**38069**	**36116**
GFS liabilities		
Deposits held	0	0
Advances received	0	0
Borrowing	10549	8669
Provisions (other than depreciation and bad debts)	5744	6078
Other non-equity liabilities	3907	4102
Total GFS liabilities	**20200**	**18850**
Net Worth (Net assets)(a)	**17869**	**17266**
Net financial worth(b)	-15,025	-13,619
Net debt(c)	7972	6367

(a) Net worth is calculated as assets minus liabilities.
(b) Net financial worth equals total financial assets minus total liabilities.
(c) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table C7: Non-financial Public Sector Balance Sheet

	Total Non-financial Public Sector	
	1999-00 $m	2000-01 $m
GFS assets		
Financial assets		
Cash and deposits	1,941	1,760
Advances paid	15,727	16,833
Investments, loans and placements	19,076	9,520
Other non-equity assets	16,261	13,321
Equity	11,377	11,426
Total financial assets	64,382	52,861
Non-financial assets		
Land and fixed assets	85,113	83,316
Other non-financial assets	3,533	3,410
Total non-financial assets	88,646	86,726
Total GFS Assets	**153,029**	**139,587**
GFS liabilities		
Deposits held	9	9
Advances received	23	5
Borrowing	101,030	81,870
Superannuation liability	71,350	71,929
Other employee entitlements and provisions	11,175	11,472
Other non-equity liabilities	14,403	15,009
Total GFS liabilities	**197,991**	**180,294**
Net Worth (Net assets)(a)	**-44,962**	**-40,707**
Net financial worth(b)	-133,608	-127,433
Net debt(c)	64,318	53,771

(a) Net worth is calculated as assets minus liabilities.
(b) Net financial worth equals total financial assets minus total liabilities.
(c) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table C8: General Government Sector Cash Flow Statement[(a)]

	General Government				
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Cash receipts from operating activities					
Taxes received	148198	163000	177079	186747	198332
Receipts from sales of goods and services	3341	3130	3246	3193	3215
Grants/subsidies received	0	0	0	0	0
Other receipts	9963	7404	7124	7989	8811
Total receipts	161502	173535	187449	197929	210359
Cash payments for operating activities					
Payments for goods and services	-26259	-27964	-28395	-28972	-13218
Grants and subsidies paid	-50246	-60495	-68817	-68883	-71032
Interest paid	-7440	-6508	-5730	-6003	-5563
Other payments for operating activities	-67593	-75161	-77488	-81476	-102032
Total payments	-151537	-170127	-180431	-185334	-191845
Net cash flows from operating activities	**9965**	**3407**	**7018**	**12595**	**18514**
Cash Flows from investments in non-financial assets					
Sales of non-financial assets	2223	4321	785	752	511
Purchases of new & secondhand non-financial assets	-4393	-4884	-4592	-4567	-4596
Net cash flows from investments in non-financial assets	**-2170**	**-563**	**-3806**	**-3814**	**-4084**
Cash flows from investments in financial assets for policy purposes					
Net advances paid	9385	5168	10748	15942	6530
Net equity acquisitions, disposals & privatisations	0	0	0	0	0
Net cash flows from investments in financial assets for policy purposes	**9385**	**5168**	**10748**	**15942**	**6530**
Cash Flows from investments in financial assets for liquidity purposes					
Increase in investments	-10424	9320	-523	-534	-443
Net cash flows from investments in financial assets for liquidity purposes	**-10424**	**9320**	**-523**	**-534**	**-443**
Cash flows from financing activities					
Advances received (net)	0	0	0	0	0
Borrowing (net)	-8002	-16935	-13722	-24214	-20353
Deposits received (net)	0	0	0	0	0
Other financing (net)	341	-487	-502	76	-399
Net cash flows from financing activities	**-7661**	**-17421**	**-14224**	**-24138**	**-20751**
Net increase/decrease in cash held	**-906**	**-89**	**-788**	**50**	**-237**
Net cash from operating activities and investments in non-financial assets	**7795**	**2844**	**3211**	**8781**	**14429**
Finance leases and similar arrangements(b)	0	0	0	0	0
Equals Surplus(+)/Deficit(-)(c)	**7795**	**2844**	**3211**	**8781**	**14429**

(a) A positive number denotes a cash inflow, a negative sign denotes a cash outflow.
(b) Finance leases are shown with a negative sign as they are deducted in compiling the surplus/deficit.
(c) Conceptually, the surplus/deficit aggregate contained in the cash flow statement is the same as the deficit measure obtained under the cash UFP. However, in practice, the process of deriving these aggregates differs so that the measures are not directly comparable. Time-series data created by splicing these measures together should therefore be used with caution.

Table C9: Public Non-financial Corporations Sector Cash Flow Statement[(a)]

	Public Non-financial Corporations	
	1999-00 $m	2000-01 $m
Cash receipts from operating activities		
Receipts from sales of goods and services	24272	25237
Grants and subsidies received	163	20
Other receipts	113	121
Total receipts	24548	25378
Cash payments for operating activities		
Payment for goods and services	-14839	-14876
Interest paid	-696	-594
Other payments for operating activities(b)	-4237	-3910
Total payments	-19772	-19380
Net cash flows from operating activities	**4775**	**5998**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	375	148
Purchases of new and secondhand non-financial assets	-5738	-4300
Net cash flows from investments in non-financial assets	**-5363**	**-4152**
Cash flows from investments in financial assets for policy purposes		
Net advances paid	0	0
Net equity acquisitions, disposals and privatisations	0	0
Net cash flows from investments in financial assets for policy purposes	**0**	**0**
Cash Flows from investments in financial assets for liquidity purposes		
Increase in investments	-11	0
Net cash flows from investments in financial assets for liquidity purposes	**-11**	**0**
Cash flows from financing activities		
Advances received (net)	-23	-5
Borrowing (net)	1846	-966
Deposits received (net)	0	0
Distributions paid (net)(c)	-1458	-858
Other financing (net)	2897	1701
Net cash flows from financing activities	**3262**	**-128**
Net increase/decrease in cash held	**2663**	**1718**
Net cash from operating activities, distributions paid and investments in non-financial assets	**-2046**	**988**
Finance leases and similar arrangements(d)	0	0
Equals Surplus(+)/Deficit(-)(e)	**-2046**	**988**

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

(b) 'Other payments for operating activities' includes the cash flow to the general government sector from PNFC distributions paid.

(c) 'Distributions paid' comprises PNFC dividends to external shareholders.

(d) Finance leases are shown with a negative sign as they are deducted in compiling the surplus/deficit.

(e) Conceptually, the surplus/deficit aggregate contained in the cash flow statement is the same as the deficit measure obtained under the cash UFP. However, in practice, the process of deriving these aggregates differs so that the measures are not directly comparable. Time-series data created by splicing these measures together should therefore be used with caution.

Table C10: Non-financial Public Sector Cash Flow Statement[a]

	Total Non-financial Public Sector	
	1999-00 $m	2000-01 $m
Cash receipts from operating activities		
Taxes received	146638	160669
Receipts from sales of goods and services	27613	28367
Grants and subsidies received	0	0
Other receipts	6942	5635
Total receipts	181193	194671
Cash payments for operating activities		
Payments for goods and services	-41098	-42840
Grants and subsidies paid	-50083	-60474
Interest paid	-8113	-7078
Other payments for operating activities(b)	-67158	-74873
Total payments	-166453	-185266
Net cash flows from operating activities	**14740**	**9406**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	2598	4469
Purchases of new and secondhand non-financial assets	-10131	-9185
Net cash flows from investments in non-financial assets	**-7533**	**-4715**
Cash flows from investments in financial assets for policy		
Net advances paid	9362	5163
Net equity acquisitions, disposals and privatisations	0	0
Net cash flows from investments in financial assets for policy purposes	**9362**	**5163**
Cash flows from investments in financial assets for liquidity purposes		
Increase in investments	-10436	9320
Net cash flows from investments in financial assets for liquidity purposes	**-10436**	**9320**
Cash flows from financing activities		
Advances received (net)	0	0
Borrowing (net)	-6156	-17901
Deposits received (net)	0	0
Distributions paid (net)(c)	-1458	-858
Other financing (net)	3237	1214
Net cash flows from financing activities	**-4377**	**-17545**
Net increase/decrease in cash held	**1757**	**1629**
Net cash from operating activities, distributions paid and investments in non-financial assets	**5749**	**3832**
Finance leases and similar arrangements(d)	0	0
Equals Surplus(+)/Deficit(-)(e)	**5749**	**3832**

(a) A positive number denotes a cash inflow, a negative sign denotes a cash outflow.
(b) 'Other payments for operating activities' includes the cash flow to the general government sector from NFPS distributions paid.
(c) 'Distributions paid' comprises PNFC dividends to external shareholders.
(d) Finance leases are shown with a negative sign as they are deducted in compiling the surplus/deficit.

(e) Conceptually, the surplus / deficit aggregate contained in the cash flow statement is the same as the deficit measure obtained under the cash UFP. However, in practice, the process of deriving these aggregates differs so that the measures are not directly comparable. Time-series data created by splicing these measures together should therefore be used with caution.

Table C11: General Government Sector Expenses by Function[a]

	General government sector	
	1999-00 $m	2000-01 $m
General public services	15486	16678
Defence	10440	10606
Public order and safety	1187	1168
Education	10390	10915
Health	23409	25035
Social security and welfare	57361	65327
Housing and community amenities	1858	2050
Recreation and culture	1484	1493
Fuel and energy	48	52
Agriculture, forestry, fishing and hunting	1852	1694
Mining, manufacturing and construction	888	850
Transport and communications	2177	2074
Other economic affairs	3432	3743
Other purposes	28381	12046
Total AAS31 Expenses	**158392**	**153732**
Reconciliation between AAS31 and GFS expenses	3144	-20600
Total GFS Expenses	**155,248**	**174,332**

(a) Inclusive of GST payments to States and Territories.

Table C12: General Government Sector Taxation Revenue by Source[a]

	General government sector	
	1999-00 $m	2000-01 $m
Taxes on income, profits and capital gains		
Income and capital gains levied on individuals	82512	74123
Income and capital gains levied on enterprises	28694	37312
Income taxes levied on non-residents	1411	1346
Total	*112617*	*112781*
Taxes on employers' payroll and labour force	3340	3650
Taxes on property	5	5
Taxes on the provision of goods and services		
Sales tax	15497	26029
Excises and levies	14805	20364
Taxes on international trade	3770	4413
Total	*34071*	*50806*
Taxes on use of goods and performance of activities	587	574
Total GFS taxation revenue	**150620**	**167815**

(a) Inclusive of GST revenue.

Appendix D: Commonwealth Historical Budget Data

This appendix provides historical data and forward estimates for Commonwealth budget aggregates. Estimates of outlays, expenses and revenues are net of GST collections.

Table D1 provides details of the cash revenue, outlays and surplus for the period 1969-70 to 2003-04. Table D2 provides details of tax, non-tax and total cash revenue for the period 1969-70 to 2003-04.

Estimates to 1998-99 are on cash terms, and from 1999-2000 onwards are based on an accrual framework. Due to methodological and data-source changes associated with the move to an accrual accounting framework, time series data which encompasses measures derived under both cash and accrual accounting should be used with caution.

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

Following recent changes to the Australian National Accounts standards, the general government surplus measures in this appendix, from 1998-99 onwards, incorporate payments by the Commonwealth general government sector in respect of accumulated PNFC superannuation liabilities. Payments prior to 1998-99 do not incorporate these payments.

Other factors which affect the comparability of budget aggregates between years include:

- classification differences in the data relating to the period prior to 1976-77 mean that data for the earlier period may not be entirely consistent with that for 1976-77 and later years;
- adjustments in the coverage of agencies included in the accounts of the different sectors;
- the reclassification of Central Banking Authorities from the general government to the PFC sector in 1998-99, and subsequent backcasting to account for this change;
- the 1998-99 reclassification of fees and fines out of the broader taxes, fees and fines category used in previous years;
- transfers of taxing powers between the Commonwealth and the States;
- other changes in financial arrangements between the Commonwealth budget sector, Commonwealth non-budget sector agencies and the State/local government sector; and

- changes in arrangements for transfer payments where tax concessions or rebates are replaced by payments through the social security system. This has the effect of increasing both cash revenues and outlays as compared with earlier periods, but not changing cash balances. Changes in the opposite direction (tax expenditures replacing outlays) reduce both cash outlays and revenue.

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

Table D3 provides details of Commonwealth general government net debt. The net debt series used in this table incorporates:

- Treasury estimates for the period 1975 to 1987;

- Published ABS data for the period 1988 to 1998 (*Public Sector Financial Assets and Liabilities,* Cat. No. 5513.0); and

- Treasury estimates for the period 1999 to 2004.

Comparable net debt data have only been collected by the ABS since 1988. Treasury estimates for the period 1975 to 1987 were constructed by deducting annual net borrowing — defined as the ABS cash deficit — from the ABS measure of the stock of net debt at end June 1988.

Table D4 looks at Commonwealth net worth by sector, from 1996-97 to 2003-04.

Tables D5 to D7 provide details of Commonwealth accrual budget aggregates for the period 1996-97 to 2003-04, for the general government, PNFC and non-financial public sectors.

Table D1: Commonwealth General Government Sector Cash Revenue, Outlays and Surplus [a]

	Revenue			Outlays			Cash Surplus(b)	
	Estimate $m	% Real Growth	Per cent of GDP	Estimate $m	% Real Growth	Per cent of GDP	Estimate $m	Per cent of GDP
1969-70	7,097	8.6	21.1	6,131	2.1	18.2	966	2.9
1970-71	8,000	6.1	21.5	7,176	10.2	19.3	824	2.2
1971-72	8,827	3.6	21.4	7,987	4.5	19.4	840	2.0
1972-73	9,414	-0.1	20.3	9,120	7.0	19.7	294	0.6
1973-74	11,890	10.4	21.2	10,829	3.8	19.3	1,061	1.9
1974-75	15,325	5.6	22.9	15,275	15.5	22.8	50	0.1
1975-76	18,316	3.0	23.2	19,876	12.1	25.1	-1,560	-2.0
1976-77	21,418	4.7	23.5	22,657	2.0	24.9	-1,239	-1.4
1977-78	23,491	0.7	23.6	25,489	3.3	25.6	-1,998	-2.0
1978-79	25,666	3.2	22.8	27,753	2.9	24.6	-2,087	-1.9
1979-80	29,780	5.6	23.2	31,041	1.8	24.2	-1,261	-1.0
1980-81	35,148	6.8	24.2	35,260	2.8	24.3	-112	-0.1
1981-82	40,831	3.5	24.5	40,394	2.1	24.3	437	0.3
1982-83	44,675	-1.9	24.8	47,907	6.4	26.6	-3,232	-1.8
1983-84	49,102	3.4	24.2	55,966	9.9	27.6	-6,864	-3.4
1984-85	57,758	11.2	25.7	63,639	7.5	28.3	-5,881	-2.6
1985-86	64,845	5.6	26.1	69,838	3.3	28.1	-4,993	-2.0
1986-87	73,145	5.6	26.8	75,392	1.1	27.7	-2,247	-0.8
1987-88	81,217	3.8	26.1	79,440	-1.5	25.6	1,777	0.6
1988-89	88,369	0.8	25.1	82,202	-4.2	23.4	6,167	1.8
1989-90	95,517	1.7	24.8	88,882	1.8	23.1	6,635	1.7
1990-91	97,705	-2.0	24.6	97,333	4.9	24.5	372	0.1
1991-92	92,966	-6.5	22.9	104,551	5.5	25.7	-11,585	-2.9
1992-93	94,448	0.1	22.1	111,484	5.0	26.1	-17,036	-4.0
1993-94	100,142	5.0	22.3	117,252	4.2	26.1	-17,110	-3.8
1994-95	109,720	9.3	23.1	122,901	4.6	25.9	-13,181	-2.8
1995-96	121,105	7.5	23.8	131,182	4.0	25.8	-10,077	-2.0
1996-97	129,845	5.2	24.3	135,126	1.0	25.3	-5,281	-1.0
1997-98	135,779	3.3	24.0	134,608	-1.6	23.8	1,171	0.2
1998-99	146,521	7.2	24.7	141,033	4.0	23.8	4,190	0.7
(a)								
1999-00(e)	163,726	na	26.1	155,930	na	24.8	7,795	1.2
2000-01(e)	153,803	-8.6	23.0	150,959	-5.8	22.6	2,844	0.4
2001-02(p)	160,205	1.7	22.6	156,994	1.6	22.2	3,211	0.5
2002-03(p)	169,598	3.4	22.6	160,817	0.0	21.4	8,781	1.2
2003-04(p)	180,133	3.7	22.6	165,704	0.6	20.8	14,429	1.8

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

(b) Following recent changes to the Australian National Accounts standards, the surplus measures in this table, from 1998-99 onwards, incorporate payments by the general government sector in respect of accumulated PNFC superannuation liabilities. Payments prior to 1998-99 do not incorporate these payments.

(e) Estimates.

(p) Projections.

Table D2: Commonwealth General Government Sector Cash Taxation Revenue, Non-taxation Revenue and Total Revenue[(a)]

	Taxation revenue			Non-taxation revenue			Total revenue		
	Estimate $m	% Real Growth	Per cent of GDP	Estimate $m	% Real Growth	Per cent of GDP	Estimate $m	% Real Growth	Per cent of GDP
1969-70	6,341	9.1	18.8	756	4.7	2.2	7,097	8.6	21.1
1970-71	7,148	6.1	19.2	852	6.1	2.3	8,000	6.1	21.5
1971-72	7,887	3.6	19.2	940	3.6	2.3	8,827	3.6	21.4
1972-73	8,411	-0.1	18.1	1,003	0.0	2.2	9,414	-0.1	20.3
1973-74	10,832	12.6	19.3	1,058	-7.8	1.9	11,890	10.4	21.2
1974-75	14,141	6.9	21.1	1,184	-8.4	1.8	15,325	5.6	22.9
1975-76	16,920	3.1	21.4	1,396	1.6	1.8	18,316	3.0	23.2
1976-77	19,714	4.3	21.6	1,704	9.3	1.9	21,418	4.7	23.5
1977-78	21,428	-0.2	21.6	2,063	11.2	2.1	23,491	0.7	23.6
1978-79	23,409	3.2	20.8	2,257	3.4	2.0	25,666	3.2	22.8
1979-80	27,473	6.8	21.4	2,307	-7.0	1.8	29,780	5.6	23.2
1980-81	32,641	7.5	22.4	2,507	-1.7	1.7	35,148	6.8	24.2
1981-82	37,880	3.4	22.7	2,951	4.9	1.8	40,831	3.5	24.5
1982-83	41,025	-2.9	22.8	3,650	10.9	2.0	44,675	-1.9	24.8
1983-84	44,849	2.8	22.1	4,253	9.6	2.1	49,102	3.4	24.2
1984-85	52,970	11.6	23.6	4,788	6.4	2.1	57,758	11.2	25.7
1985-86	58,841	4.5	23.7	6,004	18.0	2.4	64,845	5.6	26.1
1986-87	66,467	5.8	24.4	6,678	4.1	2.5	73,145	5.6	26.8
1987-88	75,076	5.6	24.2	6,141	-14.0	2.0	81,217	3.8	26.1
1988-89	83,452	3.0	23.7	4,917	-25.8	1.4	88,369	0.8	25.1
1989-90	90,773	2.4	23.6	4,744	-9.2	1.2	95,517	1.7	24.8
1990-91	92,739	-2.1	23.4	4,966	0.3	1.3	97,705	-2.0	24.6
1991-92	87,364	-7.4	21.5	5,602	10.8	1.4	92,966	-6.5	22.9
1992-93	88,760	0.1	20.8	5,688	0.0	1.3	94,448	0.1	22.1
1993-94	93,362	4.2	20.8	6,780	18.1	1.5	100,142	5.0	22.3
1994-95	104,921	12.1	22.1	4,799	-29.4	1.0	109,720	9.3	23.1
1995-96	115,700	7.4	22.8	5,405	9.7	1.1	121,105	7.5	23.8
1996-97	124,559	5.6	23.3	5,286	-4.1	1.0	129,845	5.2	24.3
1997-98	130,984	3.9	23.1	4,795	-10.4	0.8	135,779	3.3	24.0
1998-99	141,105	7.0	23.8	5,416	12.2	0.9	146,521	7.2	24.7
(a)									
1999-00(e)	148,198	na	23.6	15,528	na	2.5	163,726	na	26.1
2000-01(e)	138,948	-8.7	20.8	14,855	-6.9	2.2	153,803	-8.6	23.0
2001-02(p)	149,050	4.8	21.0	11,155	-26.7	1.6	160,205	1.7	22.6
2002-03(p)	157,664	3.3	21.0	11,934	4.5	1.6	169,598	3.4	22.6
2003-04(p)	167,595	3.8	21.0	12,538	2.5	1.6	180,133	3.7	22.6

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

(e) Estimates.

(p) Projections.

Table D3: Commonwealth General Government Net Debt

	$billion	Per cent of GDP
1974-75	-1.9	-2.8
1975-76	-0.3	-0.4
1976-77	0.9	1.0
1977-78	2.9	2.9
1978-79	5.0	4.4
1979-80	6.2	4.9
1980-81	6.4	4.4
1981-82	5.9	3.6
1982-83	9.2	5.1
1983-84	16.0	7.9
1984-85	21.9	9.7
1985-86	26.9	10.8
1986-87	29.1	10.7
1987-88	27.4	8.8
1988-89	22.0	6.2
1989-90	16.1	4.2
1990-91	16.9	4.3
1991-92	31.1	7.7
1992-93	55.2	12.9
1993-94	70.2	15.6
1994-95	83.5	17.6
1995-96	95.8	18.9
1996-97	96.3	18.0
1997-98	82.9	14.7
1998-99	70.4	11.9
1999-00(e)	56.3	9.0
2000-01(e)	**47.4**	**7.1**
2001-02(p)	34.7	4.9
2002-03(p)	9.2	1.2
2003-04(p)	-11.9	-1.5

(e) Estimates.
(p) Projections.

Table D4: Commonwealth Net Worth (Net Assets) by Sector[a]

	General Government		PNFCs		Non-financial Public Sector	
	Estimate $b	Per cent of GDP	Estimate $b	Per cent of GDP	Estimate $b	Per cent of GDP
1996-97	-74.4	-13.9	18.1	3.4	-56.3	-10.5
1997-98	-68.5	-12.1	18.1	3.2	-50.5	-8.9
1998-99	-76.2	-12.8	7.4	1.2	-81.0	-13.6
1999-00(e)	-55.5	-8.8	17.9	2.8	-45.0	-7.2
2000-01(e)	**-50.7**	**-7.6**	**17.3**	**2.6**	**-40.7**	**-6.1**
2001-02(p)	-34.3	-4.8	na	na	na	na
2002-03(p)	-11.7	-1.6	na	na	na	na
2003-04(p)	2.8	0.4	na	na	na	na

(a) Net worth is calculated as assets minus liabilities.
(e) Estimates.
(p) Projections.

Table D5: Commonwealth General Government Sector GFS Revenue, GFS Expenses and Fiscal Balance

	GFS Revenue			GFS Expenses			Fiscal balance(a)	
	Estimate $m	% Real Growth	Per cent of GDP	Estimate $m	% Real Growth	Per cent of GDP	Estimate $m	Per cent of GDP
1996-97	143,108		26.8	146,964		27.5	-4,211	-0.8
1997-98	148,197	2.3	26.2	154,692	4.0	27.3	-1,973	-0.3
1998-99	151,922	1.8	25.6	146,620	-5.9	24.7	3,869	0.7
1999-00(e)	164,664	6.9	26.2	155,248	4.4	24.7	9,704	1.5
2000-01(e)	**153,475**	**-9.3**	**23.0**	**150,279**	**-5.8**	**22.5**	**5,436**	**0.8**
2001-02(p)	158,570	0.9	22.4	156,485	1.7	22.1	1,072	0.2
2002-03(p)	168,272	3.6	22.4	160,089	-0.1	21.3	7,610	1.0
2003-04(p)	180,464	4.7	22.7	165,455	0.9	20.8	13,884	1.7

(a) Fiscal balance equals GFS revenue less GFS expenses less net acquisition of non-financial assets.
(e) Estimates.
(p) Projections.

Table D6: Commonwealth PNFC GFS Revenue, GFS Expenses and Fiscal Balance

	GFS Revenue			GFS Expenses			Fiscal balance(a)	
	Estimate $m	% Real Growth	Per cent of GDP	Estimate $m	% Real Growth	Per cent of GDP	Estimate $m	Per cent of GDP
1996-97	27,431		5.1	26,015		4.9	-331	-0.1
1997-98	29,618	6.7	5.2	26,999	2.5	4.8	2,360	0.4
1998-99	27,687	-7.2	4.7	26,088	-4.0	4.4	-816	-0.1
1999-00(e)	24,866	-11.4	4.0	25,583	-3.3	4.1	-2,988	-0.5
2000-01(e)	**25,825**	**1.1**	**3.9**	**23,964**	**-8.8**	**3.6**	**953**	**0.1**

(a) Fiscal balance equals GFS revenue less GFS expenses less net acquisition of non-financial assets.
(e) Estimates.

Table D7: Commonwealth NFPS GFS Revenue, GFS Expenses and Fiscal Balance

	GFS Revenue			GFS Expenses			Fiscal balance(a)	
	Estimate $m	% Real Growth	Per cent of GDP	Estimate $m	% Real Growth	Per cent of GDP	Estimate $m	Per cent of GDP
1996-97	na	na	na	na	na	na	-4,542	-0.9
1997-98	na	na	na	na	na	na	387	0.1
1998-99	175,707	na	29.6	168,806	na	28.4	3,053	0.5
1999-00(e)	184,665	3.7	29.4	175,966	2.8	28.0	6,715	1.1
2000-01(e)	**175,058**	**-7.7**	**26.2**	**170,001**	**-6.0**	**25.4**	**6,389**	**1.0**

(a) GFS net operating balance equals GFS revenue less GFS expenses.
(b) Fiscal balance equals GFS revenue less GFS expenses less net acquisition of non-financial assets.
(e) Estimates.
na Data not available.