

2001-02 BUDGET PAPER No. 1

**BUDGET STRATEGY
AND OUTLOOK
2001-02**

CIRCULATED BY
THE HONOURABLE PETER COSTELLO, M.P.,
TREASURER OF THE COMMONWEALTH OF AUSTRALIA, AND
THE HONOURABLE JOHN FAHEY, M.P.,
MINISTER FOR FINANCE AND ADMINISTRATION,
FOR THE INFORMATION OF HONOURABLE MEMBERS
ON THE OCCASION OF THE BUDGET 2001-02
22 MAY 2001

© Commonwealth of Australia 2001

ISBN 0 642 45741-7 1

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth available from AusInfo. Requests and inquiries concerning reproduction and rights should be addressed to the Manager, Legislative Services, AusInfo, GPO Box 1920, Canberra ACT 2601.

Printed by CanPrint Communications Pty Limited

GUIDE TO THE 2001-02 BUDGET PAPERS

Budget Paper No. 1

Budget Strategy and Outlook 2001-02

Budget Paper No. 1 is comprised of 11 Statements.

Statement 1

- Overview of budget and economic forecasts.
- Discussion of the Government's medium-term fiscal strategy.
- The Government's key Budget priorities.

Statement 2

- Changes to the budget estimates since the 2000-01 *Mid-Year Economic and Fiscal Outlook* (MYEFO).
- Summary of revenue, expenses, net debt and net worth estimates.
- Analysis of the sensitivity of the budget estimates to changes in key economic parameters.

Statement 3

- Economic developments since MYEFO.
- The outlook for the domestic and international economies.
- Revised economic parameter forecasts.

Statement 4

- The role of productivity growth and new technology in economic growth.
- The United States experience.
- The Australian productivity acceleration.
- The outlook for productivity growth and the role of government.

Statement 5

- Developments in taxation and non-taxation revenue since MYEFO.
- Forward estimates of revenue.
- Summary of revenue policy measures.
- Revenue statistics.

Statement 6

- Developments in expenses and net capital investment since MYEFO.
- Forward estimates of expenses and net capital investment, presented by government function.
- Summary of expenses and net capital investment policy decisions since MYEFO.
- Expenses statistics.

Statement 7

- Details of the Commonwealth's budget funding requirement.
- Budget funding programme.

Statement 8

- Trends in the finances of the Commonwealth, State and Local levels of government.
- Size and structure of the Australian public sector.

Statement 9

- Government Finance Statistics financial statements for the Commonwealth government sectors.

Statement 10

- Australian Accounting Standard financial statements for the Commonwealth general government sector.
- Notes to the Accounting Standard financial statements.
- Statement of financial risks.
- Additional Commonwealth Government agency statistics.

Statement 11

- Discussion of external budget reporting standards.
- Historical data for the Commonwealth's key fiscal aggregates.
- Discussion of budget concepts.

GUIDE TO THE 2001-02 BUDGET PAPERS

Budget Paper No. 2

Budget Measures

Detailed information on the Government's budget policy initiatives

Budget Paper No. 3

Federal Financial Relations

Detailed information on the Commonwealth's financial relations with the State, Territory and Local Governments

Budget Paper No. 4

Agency Resourcing

Information on the resource requirements and resource bids of Commonwealth government agencies, including the Appropriation Bills.

Budget Speech

A transcript of the Treasurer's budget speech as delivered on 22 May.

Budget Overview

An overview of the 2001-02 Budget, providing summary information on the Government's:

- current and forecast budget position;
- economic forecasts; and
- budget priorities and strategy.

Budget Related Papers

Portfolio Budget Statements

Detailed information on the expected financial position of each Commonwealth government agency.

Internet

The Commonwealth budget papers and budget related information are available on the central Budget website at: www.budget.gov.au



Contents

Guide to the 2001-02 Budget Papers	iii
Statement 1: Fiscal Strategy and Budget Priorities	
Part I: Overview.....	1-3
Part II: Fiscal strategy	1-8
Part III: Budget priorities.....	1-12
Statement 2: Fiscal Outlook	
Fiscal aggregates	2-3
Variations to the fiscal balance estimates	2-4
Net debt and net worth	2-12
Cash flows.....	2-16
Appendix A: External reporting standards.....	2-18
Appendix B: Sensitivity of fiscal aggregates to economic developments.....	2-19
Statement 3: Economic Outlook	
Part I: Overview.....	3-3
Part II: The outlook for the international economy	3-6
Part III: The outlook for the domestic economy	3-11
Part IV: Uncertainties	3-26
Statement 4: A More Productive Australia — Policy and Technology	
Part I: Introduction	4-3
Part II: The United States experience.....	4-5
Part III: The Australian productivity acceleration.....	4-15
Part IV: Looking to the future.....	4-22
Part V: Conclusion.....	4-24
Statement 5: Revenue	
Part I: Overview.....	5-3
Part II: Estimates of revenue	5-9
Appendix A: Changes in revenue estimates since MYEFO	5-24
Appendix B: Forward estimates of revenue.....	5-26
Appendix C: Revenue measures.....	5-28
Appendix D: Tax expenditures.....	5-33
Appendix E: Cash revenue statistics and history.....	5-35

Statement 6: Expenses and Net Capital Investment	
Introduction	6-3
Part I: General government expenses	6-4
Part II: General government net capital investment.....	6-59
Appendix A: Expenses Measures.....	6-70
Appendix B: Net Capital Investment Measures	6-71
Appendix C: Expenses Statistics.....	6-72
Statement 7: Budget Funding	
Net Funding Requirement	7-3
Debt Issuance Programme.....	7-4
Statement 8: Trends in Public Sector Finances	
Introduction	8-3
Fiscal balance	8-6
Cash surplus.....	8-9
Net debt and net worth	8-15
Appendix A: Size and structure of the public sector	8-21
Appendix B: Non-financial public sector — supplementary cash tables.....	8-22
Statement 9: Government Finance Statistics Statements	
Government Finance Statistics Statements.....	9-3
Statement 10: Australian Accounting Standard No. 31 Budget Financial Statements	
Budget Financial Statements	10-3
Statistics, concepts and notes to the AAS31 Financial Statements.....	10-7
Appendix A: Additional agency statistics	10-15
Appendix B: Statement of Risks.....	10-31
Statement 11: Budget Concepts and Historical Data	
Part I: Budget concepts.....	11-3
Part II: Historical general government data	11-14

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 2001-02, while the forward years refer to 2002-03, 2003-04 and 2004-05; and
 - one billion is equal to one thousand million.
- (b) Figures in tables and generally in the text have been rounded. Discrepancies in tables between totals and sums of components are due to rounding:
- estimates under \$100,000 are rounded to the nearest thousand;
 - estimates \$100,000 and over are generally rounded to the nearest tenth of a million;
 - estimates midway between rounding points are rounded up; and
 - the percentage changes in statistical tables are calculated using unrounded data.
- (c) For the budget balance, a negative sign indicates a deficit while no sign indicates a surplus.
- (d) The following notations are used:
- | | |
|---------|---|
| NEC/nec | not elsewhere classified |
| AEST | Australian Eastern Standard Time |
| - | 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 2001-02 is one of a series of Budget Papers, the purpose of which is to provide information supplementary to that in the Budget Speech. A guide to the series is printed on pages iii and iv of this Paper.

STATEMENT 1: FISCAL STRATEGY AND BUDGET PRIORITIES

Contents

Part I: Overview	1-3
Fiscal outlook.....	1-3
Economic outlook.....	1-4
Part II: Fiscal strategy	1-8
Benefits of the medium-term fiscal strategy.....	1-8
Fiscal policy response to economic shocks and the medium-term fiscal strategy.....	1-9
Fiscal policy beyond 2001-02.....	1-11
Part III: Budget priorities	1-12
Building a more effective welfare system.....	1-13
More assistance	1-13
A welfare system that rewards work	1-14
More in return	1-14
Targeting income support arrangements.....	1-15
Youth transition to independence	1-16
Acknowledging older Australians.....	1-16
Veterans	1-17
Enhancing Australia's health system.....	1-17
Strengthening Medicare.....	1-17
Responding to community health needs.....	1-18
Addressing indigenous disadvantage.....	1-19
Justice	1-20
Safeguarding Australia's natural resources.....	1-20
Assisting rural and regional Australians	1-21
Improving telecommunications services.....	1-22
Australian Broadcasting Corporation	1-23
Improving Australia's transport system.....	1-23
Innovation and education	1-24
Generating ideas.....	1-24
Commercially applying ideas	1-24
Developing and retaining Australian skills.....	1-25
Regional university places.....	1-25
Sports.....	1-25
Defence White Paper.....	1-26
Implementing tax reform	1-27
Further benefits from tax reform	1-27
Excise and customs duty.....	1-28
First home owners	1-28

STATEMENT 1: FISCAL STRATEGY AND BUDGET PRIORITIES

Part I: Overview

The 2001-02 Budget provides for a fifth consecutive underlying cash surplus establishing the longest run of budget surpluses for almost thirty years. The Budget also delivers additional funding for national priority initiatives, including measures to assist older Australians and to build a more effective welfare system. The significant tax reductions provided in the Budget will help promote an early return to strong growth in the year ahead following a temporary slowdown in 2000-01.

FISCAL OUTLOOK

The budget projections, presented in Table 1, have been revised down from the corresponding estimates published in the *2000-01 Mid-Year Economic and Fiscal Outlook* (MYEFO). This primarily reflects new policy measures and the impact of a slowdown in economic growth in the second half of 2000. Nevertheless, an underlying cash surplus of \$1.5 billion is expected in 2001-02, and cash surpluses are projected for each of the forward years (Chart 1).

Table 1: Budget aggregates

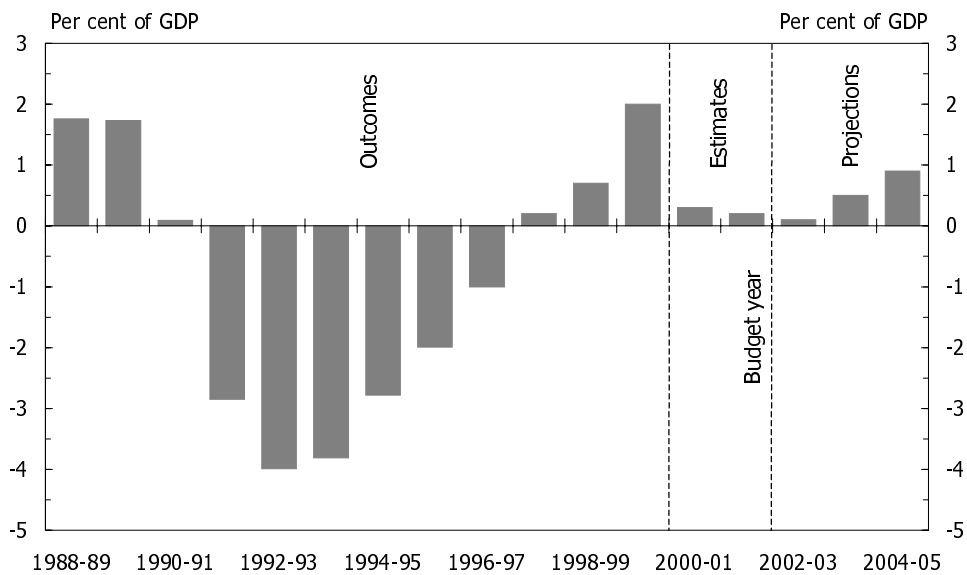
	Actual	Estimates		Projections		
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Underlying cash balance (\$b)	12.7	2.3	1.5	1.1	4.1	7.4
Per cent of GDP	2.0	0.3	0.2	0.1	0.5	0.9
Fiscal balance (\$b)	13.5	5.4	-0.8	-1.5	2.7	6.9
Per cent of GDP	2.1	0.8	-0.1	-0.2	0.3	0.8

In accrual terms, the fiscal balance is expected to move into a small deficit over the next two years, before returning to surplus. The divergence between the cash and accrual budget measures is principally due to the impact of transitional arrangements implemented for the introduction of the new Pay As You Go system of company tax collections in 2000-01. In accrual terms, the revenue is shown against 2000-01 even though it is not actually paid until subsequent years; in 2001-02 and following. As a result the outcome for 2000-01 is abnormally high as compared to the actual cash outcome and the fiscal outcome lower in subsequent years as a consequence.

The Government's fiscal policy continues to be guided by the primary objective of maintaining budget balance, on average, over the course of the economic cycle. This objective allows fiscal policy to respond to variations in economic growth, while ensuring that sound government finances are maintained over time.

The fiscal outlook reflects the Government's decision to support economic growth through an appropriate level of further tax reductions and targeted spending on priority areas. This builds on the fiscal stimulus from the personal income tax cuts delivered on 1 July 2000 under *The New Tax System*. Tax cuts provided in this Budget include the forthcoming further reduction in the company tax rate to 30 per cent and the abolition of State and Territory Financial Institutions Duty (FID) on 1 July 2001. In addition, State stamp duties on marketable securities will be abolished and full input tax credits for motor vehicles will be brought forward from 1 July 2002, allowing GST registered businesses to claim full input tax credits for motor vehicles acquired on or after 23 May 2001.

Chart 1: Underlying cash balance



The significant fiscal consolidation achieved in recent years has provided the scope for fiscal policy to be supportive of growth in 2001-02. The underlying strength of the fiscal position is demonstrated by the reduction in the Commonwealth's net debt. In June 1996, Commonwealth general government net debt stood at \$96 billion, after an increase of around \$80 billion over the previous five years. From June 1996 to June 2002 \$58 billion of Commonwealth general government net debt will be repaid. This will lead to an annual interest saving of \$4 billion compared with 1996-97. The net debt to GDP ratio will fall from its peak in 1995-96 of 18.9 per cent to 5.4 per cent by June 2002.

ECONOMIC OUTLOOK

Slower than expected growth in the second half of 2000 and a weaker outlook for the world economy in 2001, have led to downward revisions to the MYEFO growth forecasts for 2000-01 and 2001-02.

The slower growth in the second half of 2000 was concentrated in the residential construction sector. In part, this reflected an unwinding of the bring-forward of residential construction into the first half of 2000, ahead of the introduction of *The New Tax System*. The downturn in this sector had flow-on effects to other parts of the economy through its impact on employment, consumer spending and business sentiment.

Conversely, net exports have been contributing strongly to growth in 2000-01, buoyed by the lower exchange rate and the Olympics, despite a deteriorating international outlook and adverse seasonal conditions in the farm sector. Overall economic growth is now expected to be around 2 per cent in year-average terms, and around 1 per cent in through-the-year terms in 2000-01. Growth is expected to rebound in 2001-02 to around 3 ¼ per cent in year-average terms and around 4 per cent in through-the-year terms.

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

	Forecasts		Projections		
	2000-01	2001-02	2002-03	2003-04	2004-05
Real GDP	2	3 1/4	3 1/2	3 1/2	3 1/2
Employment(a)	2	1	2	2	2
Wages(b)	3 1/2	3 3/4	3 1/2	3 1/2	3 1/2
CPI(c)	6	2	2 1/2	2 1/2	2 1/2

(a) Labour force survey basis.

(b) Average earnings (national accounts basis).

(c) The Consumer Price Index (CPI) projections are set as the mid-point of the medium-term inflation target and as such make no allowance for any further impact of *The New Tax System*.

Following the sharp downturn in the second half of 2000, residential construction is expected to contribute strongly to growth in 2001-02, adding to moderate growth in household consumption, business investment and net exports. While employment growth is expected to strengthen in the second half of the year, average unemployment rates are forecast to be slightly higher than recent levels, at around 7 per cent. In addition, it is expected that inflation will decline as the one-off effect of tax changes washes out of the index and the current account deficit as a per cent of GDP will fall well below its average level of the last decade.

Australia's growth performance over the second half of the 1990s has been exceptionally strong, underpinned by a sustained productivity surge. This strongly improved productivity performance is the result of substantial macroeconomic and structural reforms.

Sustainable fiscal and monetary policies set transparently in a medium-term framework, more flexible labour markets, more intense competition and, in particular, important reforms to government business enterprises have created a good investment climate and strong competitive incentives to seek higher productivity.

Looking ahead, there is clear potential for a second wave of productivity growth in Australia as advances in information and communication technology are harnessed —

a process supported by highly competitive markets and a favourable investment climate.

More information on the fiscal strategy is provided in Part II of this statement, and on budget priorities in Part III. Information on the fiscal outlook is provided in Statement 2, Statement 3 discusses the economic outlook and Statement 4 the role of new technology in productivity growth.

Box 1: One hundred years of Commonwealth Budgets

This year marks the centenary of Australian federation and of the presentation of Commonwealth Budgets. The Commonwealth Budget has grown from being largely a bookkeeping exercise to a major annual statement with a significant influence on the direction of national policy. The following extract from the first Budget speech illustrates the fiscal philosophy of the time:

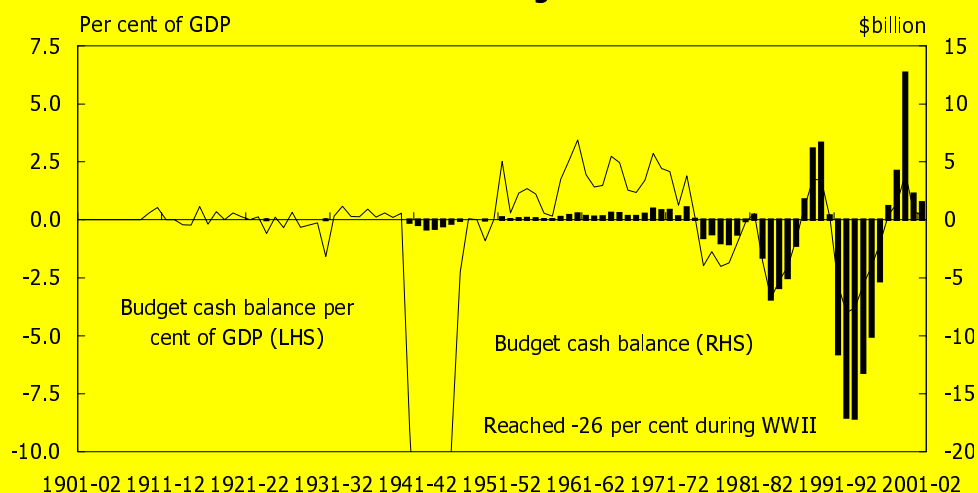
‘(we are) animated by but one desire — to do that which is best for Australia, and fair, just, and equitable to all the States, and to all classes and sections of our community. Another grave responsibility which rests upon us at this particular time is to take the utmost care that there shall be no extravagant expenditure. While we should spend all that is reasonably necessary for the purpose of defending and developing our country we must see ... that there is no extravagance, because the money we spend is money which comes from the States, and if we do anything which may put them into a difficult position they will feel inclined to curse rather than to bless federation.’

Sir George Turner, KCMG, Treasurer, Australia, House of Representatives 1901-02, Debates, Vol. 5, pp 5673-5674.

The increasing importance of Commonwealth Budgets over the succeeding 100 years arose largely from the demands of World War II and changes in community expectations of the role of government. In response to the latter, the range of issues that the budget addresses has expanded over time, now including most areas of economic and social activity.

The need for care remains a priority for the Government and is put into practice through the objective of budget balance over the medium term.

Commonwealth Budget balances^(a)



(a) Headline cash balance to 1957-58, underlying cash balance after 1958-59.

Part II: Fiscal strategy

The 2001-02 Budget has been framed against the Government's medium-term fiscal strategy. The primary objective of the strategy is to achieve budget balance on average over the course of the economic cycle. The supplementary objectives of the fiscal strategy are:

- *maintaining 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 worth¹ position over the medium to longer term.*

The 2001-02 Budget continues to meet these objectives.

BENEFITS OF THE MEDIUM-TERM FISCAL STRATEGY

The Government's medium-term fiscal strategy provides a number of benefits to the Australian economy. These benefits were discussed in detail in Budget Statement 1 of the 2000-01 Budget. The benefits include:

- ensuring public finances are sustainable by requiring government spending to be covered by government revenue over the medium-term;
- improving the Government's net worth position (assuming positive net investment) and reducing the burden of net interest payments relative to the tax base over time;
- helping to maintain intergenerational equity by ensuring that current taxpayers meet the cost of current spending and do not pass on an inequitable burden to future generations;
- promoting strong and sustainable growth in the Australian economy by removing the Government's call on private savings (and the current account deficit) over the medium-term and creating the conditions for low interest rates; and
- allowing fiscal policy to react to short-term fluctuations in the economy to support economic growth.

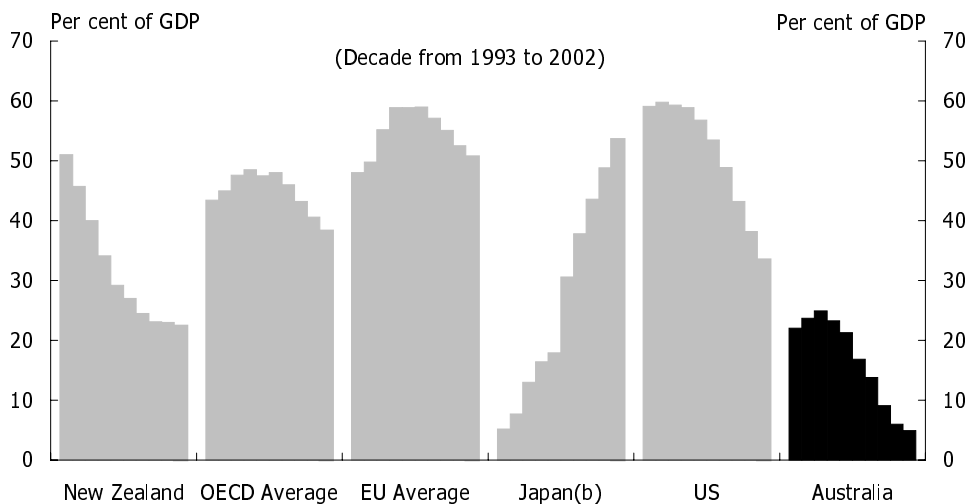
Adherence to the medium-term fiscal objective of budget balance on average over the course of the economic cycle also ensures that, abstracting from asset sales, nominal net debt will remain constant over time (as GDP increases over time, the ratio of net debt to GDP would fall). Net debt as a per cent of GDP has fallen considerably

1 Net worth is defined as general government assets less liabilities and discussed in more detail in Budget Statement 2 and Budget Statement 8.

since 1996, from its peak of around 19 per cent in 1995-96 to under 6 per cent projected for 2001-02.

Australia's total general government net debt level is much lower than in most other industrial countries (Chart 2). It is among the lowest in the OECD and compares well to the OECD average of around 40 per cent of GDP.

Chart 2: General 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).

(b) The above net debt data for Japan are inclusive of assets held by the social security system. Japan's net debt, calculated exclusive of these assets, was estimated by the IMF to be almost 100 per cent of GDP by March 2001.

Source: OECD Economic Outlook 68, Reserve Bank of New Zealand, Monetary Policy Statement March 2001, ABS Public Sector Financial Assets and Liabilities, 1998 (Cat. No. 5513.0), ABS 1999-2000 Government Financial Estimates (Cat. No. 5501.0), ABS 2000-01 Government Financial Estimates (Cat. No. 5501.0), State and Territory 1999-2000 budget outcomes, 2000-01 mid-year reports, 2001-02 Budgets where available and Treasury estimates.

FISCAL POLICY RESPONSE TO ECONOMIC SHOCKS AND THE MEDIUM-TERM FISCAL STRATEGY

Within its inflation targeting framework, monetary policy can be adjusted much more quickly to respond to short-term variation in economic activity than can fiscal policy.

That said, a key strength of the medium-term fiscal strategy is that it allows fiscal policy to respond to short-term fluctuations in economic activity while providing an anchor to ensure that fiscal discipline is maintained over time. In the present situation of a temporary slowdown in economic growth, an easing in the fiscal position is appropriate as it helps to support demand growth in the economy.

The Government has provided a moderate stimulus in the 2001-02 Budget through targeted tax reductions, discretionary spending and by allowing the Budget to respond to the temporary slowdown in economic growth (through the operation of the 'automatic stabilisers' which reduce tax revenues and increase expenditure). This is an appropriate policy response to recent economic developments. It is consistent with the medium-term fiscal strategy.

The easing in the fiscal position in 2001-02 builds on the stimulus already provided in the 2000-01 Budget. Discretionary policy action in the form of significant personal income tax cuts associated with *The New Tax System*, the further reduction in the company tax rate, the abolition of the Financial Institutions Duty (FID) levied by the States and Territories and the bring forward of full input tax credits for motor vehicles acquired by GST registered businesses will support economic growth.

However, as noted in the Fiscal Strategy statement of the 2000-01 Budget, the scope to use fiscal policy to 'fine-tune' demand should not be overstated. The impact of significant changes in fiscal policy are likely to lag underlying changes in economic activity, and be offset, to some extent, by changes in private saving, the 'crowding out' effects of increased competition for funds, and changes in the exchange rate.

The significant fiscal consolidation of recent years has achieved an average budget surplus of around $\frac{1}{2}$ per cent of GDP. This has provided sufficient scope for fiscal policy to be accommodative of slower economic growth without threatening the sustainability of public finances. Furthermore, consistent with the temporary nature of the current economic slowdown, the fiscal easing is moderate and, as indicated in projections for the forward years (2003-04), is expected to reverse in later years.

The sustainability of the current fiscal position is also demonstrated by the expected continued improvement in the Government's net worth and reduction in the ratio of net debt to GDP over the budget and forward estimates period.

Commonwealth general government net debt as a proportion of GDP is expected to further decline from 6.4 per cent of GDP in 2000-01 to 5.4 per cent of GDP in 2001-02 (Budget Statement 2, Chart 3). On current policy settings, debt could be eliminated in 2004-05.

Policy measures introduced in this and previous budgets, including reforms to the welfare and taxation systems, deliver longer-term structural benefits to the economy. Furthermore, the Government's medium-term fiscal strategy also contributes to a stable economic environment conducive to longer-term productive investment. Together, these benefits will help to sustain stronger economic growth over the medium-term and improve the economy's flexibility to adjust to economic shocks. This will yield significant dividends to the budget over time and assist with the future achievement of fiscal objectives.

FISCAL POLICY BEYOND 2001-02

The underlying cash balance will remain in surplus over the entire forward estimates period.

A small fiscal deficit is currently projected for 2002-03 before the fiscal position returns to surplus over the remainder of the forward estimates period, in line with projected economic growth.

The small deficit in 2002-03 occurs as a result of accounting treatment which treats tax accruing but unpaid as revenue in 2000-01 and consequently treats it as not accruing in the later years when it is actually paid.

As always, the size of the projected surpluses in the forward years need to be treated with some caution, given uncertainties associated with economic projections and the 'no policy change' assumptions on which they are based.

The Government will continue to assess economic developments as they occur and will set fiscal policy each year according to the economic circumstances at that time and the requirements of sound economic and fiscal management established by the medium-term fiscal strategy.

Part III: Budget priorities

This Budget aims to promote a stronger and fairer Australia, including by addressing the needs of those living in rural and regional areas. New initiatives are being introduced to meet national priorities and funding is provided for identified areas of need.

New spending is being announced for the welfare system, older Australians and veterans, health, indigenous Australians, families, the environment, quarantine and rural telecommunications.

The Government is introducing a number of measures to build a more effective welfare system. The Government is also assisting older Australians through a range of measures for people of age pension age. These measures include increasing the effective tax-free threshold, providing a one-off \$300 payment for income support recipients and extending the telephone allowance of \$17.20 per quarter to senior Australians who qualify for a Commonwealth Seniors Health Care Card. Priority has been given to improving health services by enhancing Medicare and targeting key areas of community health concern. This Budget also addresses the needs of indigenous Australians, providing funding for native title, housing, health and employment.

Significant additional funding has been provided for the environment, with the Government committing \$1.0 billion over five years to extend the Natural Heritage Trust.

The Government is responding to new risks faced in regional and rural areas by providing funding to strengthen Australia's quarantine operations against the entry of foot and mouth disease and by providing assistance for flood mitigation. The Government is also providing funding for additional practice nurses in rural areas and extra regional university places. This Budget improves telecommunications services available to regional and remote consumers. Further investment in roads and aviation safety will promote an efficient and safe transport network.

This new funding builds on the additional funding committed since the Mid-Year Economic and Fiscal Outlook (MYEFO) to defence, innovation, roads, sports and the First Home Owners Scheme. In March and April this year, the Government reduced excise on petroleum fuels and draught beer.

In December 2000, the Government announced in the Defence White Paper, *Defence 2000: Our Future Defence Force*, a clear strategy for the defence forces and their funding. This Budget delivers on the funding commitment and associated enhancements to Australia's defence capabilities contained in the Defence White Paper.

The Government is encouraging innovation with *Backing Australia's Ability — An Innovation Action Plan for the Future*, announced in January 2001. This includes

significant funding aimed at promoting the generation and commercial application of ideas and the development and retention of Australian skills.

The additional funding allocated to these important areas has been made possible by the Government's ongoing sound economic management, and through ensuring that Australia has a fair and efficient taxation system to fund essential services for Australian communities.

The efficiency and fairness of the taxation system is enhanced by tax cuts and changes to create a more competitive tax system. From 1 July 2001, Australians will benefit from a further reduction in the company tax rate from 34 per cent to 30 per cent. Revenue from the goods and services tax and the Commonwealth Budget Balancing Assistance to the States will fund the abolition of the \$1.2 billion Financial Institutions Duty (FID).

BUILDING A MORE EFFECTIVE WELFARE SYSTEM

In order to build a more active, participation based social safety net, this Budget provides a substantial investment of \$1.7 billion over four years to substantially improve our welfare system.

The *Australians Working Together* package will build on our uniquely Australian social safety net to provide more choices and opportunities to people on income support to help them get a job wherever this is possible.

This up-front investment is designed to strike the right balance between incentives, obligations and assistance. It aims to:

- help more people achieve independence;
- see more families with jobs; and
- promote stronger, more robust communities.

More assistance

More services will be provided to assist people to become job ready and find jobs. The package provides for:

- job search training to be made available to all unemployed people. An additional 30,000 places will be provided over four years;
- a new transition to work programme, at a cost of \$44 million, including redirected funding, to provide additional help to people returning to paid employment who have been absent from the workforce for a long period;

- an expansion of the assessment component of Intensive Assistance which will result in a better identification of job seekers' needs, for up to 300,000 places;
- a significant expansion of assistance available to people with disabilities for additional education and employment opportunities;
- more practical support for indigenous Australians through community capacity building, increased education and training assistance and remote service delivery; and
- new Indigenous Employment Centres to offer work experience, job search support and access to training.

As a complementary measure to help parents take on work obligations, the Government will provide an additional 5,300 outside school hour child care places from 1 July 2001. The funding will provide establishment grants to new outside school hours care services and Child Care Benefits to eligible parents.

A welfare system that rewards work

The Government will improve financial incentives so that people will be better rewarded when they undertake available work, even if the work is intermittent or irregular. The package, *Australians Working Together — Helping people to move forward*, includes:

- the introduction of a Working Credit at a cost of \$500 million over four years. The Working Credit will allow people to accumulate, over time, a portion of the income test free area up to a total value of \$1,000. The accumulated balance can then be offset against earnings when taking up part-time or full-time work;
- Training Credits of up to \$800 for job seekers undertaking Work for the Dole or equivalent community work activities. Training Credits can be used to cover the cost of accredited training, including that provided by employers;
- a 'Participation Pack' to assist all Parenting Payment recipients which will include information on financial assistance, return to work assistance and support services; and
- a Literacy and Numeracy Training Supplement to assist job seekers to improve their skills in these areas.

More in return

In return for this assistance, those receiving unemployment payments will be expected to make the most of these new opportunities to participate in work and the community. Many people are already making a major contribution to society as parents, carers and volunteers. For many others, who have the capability, additional responsibility will be expected.

- Unemployed people aged up to 39 years will be required to undertake Work for the Dole or an equivalent amount of community service, part-time work or study every six months. People aged 18 to 20 years will be required to undertake 24 hours per week and people aged 21 to 39 years will be required to undertake 30 hours per week.
- Unemployed people aged 40 to 49 years will be expected to do some community work, part-time work or study (but not Work for the Dole).
- Parenting Payment recipients with children aged thirteen and over will be required to undertake, on average, six hours a week of activities designed to help them return to work (with flexibility for school holidays and illness). These activities will include education and training, confidence building or community service.
- Parenting Payment recipients with younger children (aged six and above) will be required to attend an annual interview, to help prepare them for re-entry to work in the future.

The rewards from the new welfare system will assist many people who currently rely on welfare to move into employment and secure a better income. This in turn will produce savings to welfare expenditure. This will have dividends for the whole of Australia.

Table 3: Welfare reform measures

	2001-02	2002-03	2003-04	2004-05	Total
	\$m	\$m	\$m	\$m	\$m
Helping people find jobs	11.2	104.2	103.1	105.9	324.4
Helping parents return to work	6.9	58.5	82.6	92.1	240.1
A fair go for mature age workers	2.6	22.0	56.2	65.6	146.4
Getting people the right help	6.4	34.3	43.3	59.5	143.6
A better deal for people with disabilities	6.2	59.3	54.5	57.0	177.0
Promoting self-reliance for indigenous Australians	4.4	15.1	27.5	35.7	82.7
Help to participate	9.7	131.4	183.6	196.0	520.7
More child care places	2.3	5.4	4.2	4.4	16.2
Community and business engagement	9.0	7.7	2.6	2.7	22.0
Planning for the future	1.0	1.0	2.0	1.0	5.0
Total gross expenses(a)	75.8	439.8	559.6	619.9	1695.1
Expected savings	0.0	-131.5	-373.3	-418.7	-923.6
Net expenses	75.8	308.3	186.3	201.2	771.5

(a) This includes a capital injection to Centrelink of \$16.9 million over two years.

Targeting income support arrangements

The Budget introduces a number of measures to improve the provision of accurate and up-to-date information from income support recipients to ensure correct payments and to reduce fraud. These measures are expected to deliver savings of \$143.1 million over the next four years.

In addition, recently announced changes to social security arrangements with New Zealand are expected to deliver savings of \$438.9 million over four years.

Youth transition to independence

During 2001-02, the Government will consult with stakeholders regarding the report of the Prime Minister's Youth Pathways Action Plan Taskforce, *Footprints to the Future*, on how to best advise and support young people in their transition through school, and from school into further education, employment and independence. In the interim, the Government will continue to provide around \$84.4 million over four years to support key programmes addressing youth transitions through school and beyond.

ACKNOWLEDGING OLDER AUSTRALIANS

The Government is introducing a number of measures to specifically address the needs of older Australians.

For a single person of age pension age, the effective tax-free threshold will increase to \$20,000 per annum and for couples, the effective tax-free threshold will increase to up to \$32,612 per annum. People of age pension age who receive income support or, with their partner, are outside the taxation and social security system will receive a one-off payment of \$300. This payment will not be subject to taxation or included in social security assets tests. The Government will also increase Commonwealth superannuation pensions in line with the Consumer Price Index twice yearly instead of annually.

The Government will extend the telephone allowance of \$17.20 per quarter and seek to extend other State and Territory concessions to all people who hold a Commonwealth Seniors Health Card.

The Commonwealth Seniors Health Card is currently available to single persons with an income up to \$41,000 per annum, couples with an income up to \$68,676 per annum and couples separated by illness or in respite care each with an income of up to \$37,615 per annum. The Government will increase these thresholds to \$50,000 for singles, \$80,000 for couples and \$45,000 each for couples separated by illness or in respite care.

Superannuation assets are to be exempted from social security means tests for people aged between 55 years and the age pension age. This will provide assistance to Australians seeking to maintain their superannuation savings in the years immediately prior to their retirement.

This Budget provides \$58.1 million over four years to improve aged care services. The major initiatives include additional funding for Day Therapy Centres, which provide rehabilitation services to older people, and for the Continence Aids Assistance Scheme. Funding is also provided for specialised care for older people from ethnic backgrounds and to finance 1,000 additional visitors for people in residential aged care who are isolated or lonely. The Government has allocated an extra \$10.0 million over two years for the Aged Care Standards and Accreditation Agency to ensure that users of residential aged care services receive quality care. In addition, the Government has

increased funding by \$5.0 million in 2001-02 to address the needs of residential aged care homes in rural and urban fringe areas of Australia.

Veterans

In recognition of the unique circumstances of their captivity, the Government will make a one-off payment of \$25,000 to former Australian Defence Force members who were Prisoners of War of the Japanese and to civilian internees and detainees of the Japanese. For those who are no longer living payments will be made to their surviving spouses.

Full access to the Repatriation Pharmaceutical Benefits Scheme will be provided to British, other Commonwealth and Allied Veterans of World War II who are aged seventy years or over and have qualifying service consistent with the requirements for the service pension.

ENHANCING AUSTRALIA'S HEALTH SYSTEM

This Budget provides significant additional funding to improve the health of Australians by enhancing Medicare, targeting key health needs and encouraging the appropriate use of medicines.

Strengthening Medicare

Medicare is the centrepiece of the health system and the Government is committed to maintaining and improving Medicare for the benefit of all Australians.

This Budget delivers substantial additional funding to general practitioners (GPs) by increasing patient rebates for GP services. This responds to the Relative Value Study (RVS), undertaken jointly by the Australian Medical Association and the Government. The study found that rebates for consultative work, primarily undertaken by GPs, are underfunded relative to rebates for procedural work, primarily undertaken by specialists. Consistent with this, the Government will increase rebates under the Medical Benefits Schedule and provide financial incentive payments to GPs so that the average (full time equivalent) GP will receive an extra \$13,900 per annum.

The Government will provide \$104.3 million over four years to assist GPs in rural Australia and other areas of need to employ practice nurses. Practice nurses support GPs by providing a range of medical services, including chronic disease management and population health activities. In a related measure, 100 rural nursing scholarships will be provided to increase the number of nurses working in rural and regional areas. An additional ten scholarships will be provided for indigenous students or Aboriginal health workers to undertake nursing education.

This Budget provides \$43.4 million over four years to extend the availability of after hours and emergency medical care. This measure will provide funding for up to

32 new after hours service sites. After hours services may include GP/nurse telephone call centres, joint GP arrangements, transport and home visits.

The Quality Use of Medicines Package includes funding for the National Prescribing Service, a consumer education strategy and the safe disposal of medicines. The National Prescribing Service seeks to improve the quality of prescribing while reducing growth in the Pharmaceutical Benefits Scheme (PBS). The consumer education strategy will encourage consumers to be more critical in their use of medications and to ask their medical practitioner about potential side effects and interactions with other drugs. The National Medicines Disposal Programme collects expired medicines from consumers to reduce the risk of accidental poisoning and medication misuse.

In a further pharmaceutical measure, the Government will clarify PBS instructions issued to prescribers for the use of cholesterol lowering medicines to ensure that these medicines are used by people most likely to benefit from them. These changes are estimated to save \$103.9 million over four years by reducing the unnecessary use of the medicines.

Responding to community health needs

The Government is improving health services across Australia through additional expenditure to address health needs in asthma, mental health, diabetes, cervical cancer and alcohol education and rehabilitation. Funding is being provided for these priority areas to improve the diagnosis and treatment of these conditions.

- Asthma affects over two million Australians, including one in four primary school children and one in seven teenagers. The Government will provide additional funding of \$48.4 million to GPs to proactively manage asthma with a three stage consultation programme. These consultations are to diagnose asthma, develop a care plan and review its management.
- The Government will allocate \$120.4 million over four years to improve the quality of care provided by general practice to people with a mental illness. This funding will be used for education and training for GPs on mental health issues and will provide support for GPs to deliver quality mental health care.
- This Budget provides \$49.8 million over four years for an Integrated National Diabetes Programme which will provide incentive payments to GPs to improve the diagnosis and management of people with diabetes.
- Additional funding of \$71.9 million over four years will be provided to encourage more women to be screened for cervical cancer. This funding will allow GPs to increase the screening of high risk women and reward general practices which reach overall screening targets.

- The Government will provide \$115.7 million over four years for a new Alcohol Education and Rehabilitation Foundation to help prevent alcohol and other legal substance misuse.

ADDRESSING INDIGENOUS DISADVANTAGE

The Government is committed to reconciliation with indigenous Australians. This Budget provides additional funding of \$283.7 million over four years in the key areas of the native title claim system, health, housing and employment.

New programmes for housing, health, employment and community capacity building will be developed in accordance with the framework for advancing reconciliation, agreed to by the Council of Australian Governments in November 2000. The Council committed itself to an approach based on partnerships and shared responsibilities with indigenous communities, programme flexibility and coordination between government agencies, with a focus on local communities and outcomes.

The Government is providing additional funding of \$85.9 million over four years to the Commonwealth native title system. This will facilitate the recognition and protection of native title in accordance with the *Native Title Act 1993*, and ensure that the system can resolve native title issues within reasonable timeframes.

From 2003-04, funding for the Primary Health Care Access Programme will be increased to allow for services to be delivered at a number of new sites. These services include the provision of primary and clinical care, population health and education activities. Additional services will be developed in a manner consistent with collaboration and shared responsibility with local communities.

An extra \$75.0 million over four years has been provided for upgrading indigenous housing in rural and remote areas. This will fund the repair of existing houses to a safe and healthy standard, build new homes and assist communities to better manage their housing and tenancy services.

Under the package *Australians Working Together* funding will be provided for:

- the development of Community Participation Agreements in consultation with the Aboriginal and Torres Strait Islander Commission, in which communities will decide what people should do in return for their income support, and plan for better delivery of services at the local level;
- the establishment and operation of Indigenous Employment Centres which will offer work experience, job search support and access to training for indigenous job seekers;
- the provision of education and training assistance to encourage indigenous students to complete Year 12 and to progress to further education and training

through Government promoted partnerships between communities, industry and education providers; and

- improved delivery of Centrelink services to remote areas.

Table 4: Additional funding for practical measures to address indigenous disadvantage^(a)

	2001-02	2002-03	2003-04	2004-05	Total
	\$m	\$m	\$m	\$m	\$m
Native title resourcing	19.7	24.9	23.7	17.5	85.9
Improved primary care in Aboriginal and Torres Strait Island communities	0.0	0.0	19.7	20.5	40.2
Healthy indigenous housing	3.0	23.0	24.5	24.5	75.0
Promoting self reliance for indigenous people	4.4	15.1	27.5	35.7	82.7
Total	27.1	63.0	95.4	98.2	283.7

(a) Totals may not add due to rounding.

JUSTICE

This Budget provides \$110.5 million over four years for the continued targeting of organised crime and illicit drugs activities. Stage 2 of the Australian Federal Police (AFP) Reform Programme provides ongoing funding for the retention of 159 federal agents and enables re-equipment programmes to proceed.

Stage 1 of the programme, implemented in 1998, enhanced the operational capability of the AFP through an increase in staff numbers, enhanced training and new equipment. The programme has been successful in combating crime in the community. Apprehensions of offenders have increased by 30 per cent, seizures of illicit drugs have increased by 800 per cent for cocaine and 165 per cent for heroin, and the restraint and recovery of criminal assets has increased by 140 per cent.

SAFEGUARDING AUSTRALIA'S NATURAL RESOURCES

Environmental degradation poses a long-term threat to our agricultural and other natural resource based industries, the quality of future water supplies and the conservation of biodiversity.

In this Budget, the Government extends the Natural Heritage Trust (NHT) by five years from 2002-03 with an injection of new funding of more than \$1.0 billion. The NHT will continue to provide a long-term, integrated and comprehensive approach to the conservation of Australia's land, vegetation, biodiversity, coasts and oceans. Established in 1997, the NHT is the largest ever Government investment in Australia's natural resources.

The additional NHT funding builds on the Government's previous investment, announced in October 2000, of \$700.0 million over seven years for the *National Action*

Plan for dry land salinity and water quality. The National Action Plan is the first comprehensive strategy to address salinity and water quality problems in Australia and will involve collaboration between all levels of government.

The National Action Plan and the NHT foster community participation in environmental management, with the aim of enhancing the skills, capabilities and confidence of communities in tackling environmental challenges.

Over seven years from 2000-01, under these two programmes alone, the Government is investing \$130 for every Australian in safeguarding our natural resources.

ASSISTING RURAL AND REGIONAL AUSTRALIANS

This Budget introduces measures to address the specific needs of those in rural and regional areas. The Government is assisting farmers by ensuring that Australia's quarantine operations are best practice; by extending measures for dairy farmers and by responding to the immediate needs of flood affected areas as well as by providing pro-active flood mitigation funding. In addition, as discussed in other sections, the Government is supporting rural and regional Australia by improving health services, providing additional regional university places, safeguarding our natural resources and improving transport and telecommunications.

In response to concerns over the recent outbreak of foot and mouth disease in Europe, the Government will increase funding to the Australian Quarantine and Inspection Service (AQIS), the Australian Customs Service (ACS), Australia Post and airports corporations to strengthen Australia's quarantine protection. An additional \$596.4 million over five years will be used to increase the inspection of passengers, mail and cargo entering Australia. This will see funding of \$287.1 million over five years provided to AQIS to ensure that Australia's quarantine policies and practices are based on sound science and risk analysis consistent with Australia's international obligations.

The Government has decided to increase the Passenger Movement Charge by \$8 and continue the policy of full cost recovery for AQIS and ACS programmes involving cargo and seaports. These cost recovery items will provide around \$400 million over four years towards the cost of the initiative.

The Government has extended the Dairy Industry Adjustment Package announced last year in recognition of the difficulties being experienced by dairy producers across the country. An additional \$142.4 million will be provided to assist those farmers and communities most adversely affected by the fall in market milk prices. This will include additional payments to regions under the Dairy Regional Assistance Programme, increased entitlements under the Dairy Structural Adjustment Programme, and discretionary payments in circumstances of extreme disadvantage. The levy on drinking milk will be extended to fund the extension of the package.

In December 2000, the Government announced an assistance package of up to \$216.0 million over two years for farmers and businesses in the flood-ravaged cropping zones of New South Wales and southern Queensland. This package includes cash grants for replanting crops, interest subsidies for farmers, income support for farm families and grants to small and medium sized businesses to help them meet the cost of flood repairs. It also includes \$71.0 million under the Natural Disaster Relief Arrangements for activities such as repairing roads and public facilities and ensuring people's emergency household needs are met. The Government is providing an additional \$30.8 million over four years to implement flood mitigation works and measures to reduce the risk of damage caused by floods.

IMPROVING TELECOMMUNICATIONS SERVICES

This Budget addresses key concerns raised by the Telecommunications Service Inquiry (TSI), which assessed telecommunications service levels to customers in metropolitan, regional, rural and remote areas. The TSI found that the continued increase in competition in telecommunications services throughout regional and remote Australia, combined with key Government initiatives, is likely to materially improve services available to consumers over the next few years. The Government will address the recommendations of the TSI and its findings in relation to mobile phone coverage at affordable prices, reliable access to the Internet, and the installation, repair and reliability of basic telephone services, particularly in rural and remote areas.

The Government will improve access to mobile telephony services by extending terrestrial coverage to smaller communities, improving coverage on key highways and subsidising satellite mobile handsets at a cost of \$79.2 million over three years.

Internet access issues identified by the TSI will be substantially addressed through the establishment of an Online Technical Assistance Programme. This will comprise an Online Help Service funded by the Commonwealth and a Technical Support Service funded by Telstra to support a minimum data speed for dial-up Internet access over the public switched network. The Government will provide \$12.0 million over three years towards the Online Help Service and to support the operation of an independent advisory panel to oversee this programme. Telstra will provide up to \$38.0 million over three years towards the Technical Support Service.

Over four years, \$52.2 million will be provided to establish a National Communications Fund. This fund will award grants to assist significant telecommunications projects targeted at regional communities, particularly in the provision of health and education services. Other initiatives include improved payphone and other services for indigenous communities in remote areas.

The Government will also amend the Customer Service Guarantee to reduce the maximum new service connection time in rural and remote areas from twelve to six months and to require temporary services to be provided where the standard telephone service cannot be connected within 30 working days. In addition, the

Australian Communications Authority will review whether the existing standards of the Customer Service Guarantee are appropriate in a multicarrier, multiplatform environment.

Table 5: Telecommunications Service Inquiry (TSI) Initiatives^(a)

	2001-02	2002-03	2003-04	2004-05	Total
	\$m	\$m	\$m	\$m	\$m
Extending mobile phone coverage	20.0	29.3	29.9	-	79.2
National Communications Fund	0.7	13.4	25.4	12.7	52.2
Other Telecommunications Service Inquiry measures	7.5	2.9	4.7	0.9	16.0
Total	28.2	45.6	60.0	13.6	147.4

(a) The total of \$147.4 million does not include \$9 million that the Government will allocate from the Rural Transactions Centres Programme or \$6 million allocated from the Rural Internet Access Fund, an existing Telstra Social Bonus programme.

Australian Broadcasting Corporation

The Government will increase funding for the Australian Broadcasting Corporation (ABC) by \$71.2 million over four years. The Government is providing this funding in response to a request from the ABC to enable it to undertake further regional and local initiatives, including additional local radio production and local television production.

IMPROVING AUSTRALIA'S TRANSPORT SYSTEM

The Government continues to fund investment in roads, rail, aviation and maritime, in recognition of the economic and social importance of an efficient and safe transport network.

In November 2000, the Government announced additional funding of \$1.6 billion over five years, beginning February 2001, for Australia's road network. The majority of the funding (\$1.2 billion) is being distributed directly to local government, for councils to spend according to local priorities. Funding of \$400.0 million over five years will be spent on National Highway and Roads of National Importance projects to develop key arterial links in outer-metropolitan areas, such as the Scoresby freeway in Melbourne.

To improve aviation safety, this Budget provides increased funding of \$36.0 million over four years for the Civil Aviation Safety Authority. This funding will be used to undertake an aviation safety regulatory improvement programme, meet increasing demand for compliance and assist in the implementation of a single point of entry to provide better quality and more timely regulatory services to its clients. Additional funding of \$5.4 million over four years will also be provided to the Australian Maritime Safety Authority to improve search and rescue arrangements.

In this Budget, funding of \$111.0 million for undertaking interstate railway initiatives in New South Wales will be redirected to the Australian Rail Track Corporation

(ARTC). The equity injection of \$111.0 million for the ARTC is subject to a business case being agreed with the Government.

In February 2001, the Government announced additional funding of up to \$26.4 million to be provided to the Alice Springs to Darwin railway link in the form of a grant. The railway link will open up new opportunities for Australian industry. This contribution is in addition to the \$165.0 million previously committed to the project.

INNOVATION AND EDUCATION

Innovation, the use of ideas in new and more effective ways, is a key to Australia's future economic and social prosperity. In recognition of this, the Government released Backing Australia's Ability — An Innovation Action Plan for the Future, in January 2001. This package invests \$3.0 billion over five years in three key elements of Australia's innovation system: generating ideas, commercially applying ideas, and developing and retaining Australian skills.

Generating ideas

To strengthen Australia's ability to generate ideas, the Government will double funding for competitive research grants provided by the Australian Research Council, with \$736.4 million in additional funds over five years. A further \$583.0 million over five years will be provided to support university research infrastructure. In addition, \$155 million will be invested in major national research facilities, and \$176 million (including \$85 million of the ARC funds) will finance the establishment of world-class centres of excellence in biotechnology and information communications technology.

In addition, the Research and Development (R&D) Tax Concession arrangements will be enhanced. There will be a premium concession rate of 175 per cent on additional R&D expenditure and small companies will be eligible for a tax rebate. The R&D Start Programme will be extended through additional funding of \$534.9 million.

Commercially applying ideas

To accelerate the commercial application of ideas, an additional \$227.0 million over three years will be provided for Cooperative Research Centres. Funding for the Commercialising Emerging Technologies (COMET) Programme will more than double to provide early assistance to firms by improving their commercialisation skills. A pre-seed fund will be available to universities and public sector research agencies to take proposals to a venture capital-ready stage. In addition, an Innovation Access Programme, involving \$100.0 million over five years, will be introduced to increase access to global research and technologies.

Developing and retaining Australian skills

Major initiatives to develop and retain Australian skills include an income-contingent Postgraduate Education Loans Scheme for fee paying students and an additional 2,000 university places each year, with priority given to information and communication technology, mathematics and science. An additional \$184.3 million will be provided to government schools, where the Enrolment Benchmark Adjustment is triggered, to foster the foundational skills necessary for successful innovation.

Table 6: Backing Australia's Ability — An Innovation Action Plan for the Future^(a)

	2001-02	2002-03	2003-04	2004-05	2005-06	5 Years
	\$m	\$m	\$m	\$m	\$m	\$m
Competitive research grants	19.2	92.5	142.8	205.4	276.5	736.4
Project-specific research infrastructure	26.8	47.7	68.7	89.3	104.5	337.0
Systemic research infrastructure in universities	26.3	53.2	54.4	55.5	56.6	246.0
World class centres of excellence	6.0	12.6	17.0	23.9	31.5	91.0
Major national research facilities	5.0	20.0	30.0	50.0	50.0	155.0
R&D Start (b)	0.0	33.9	102.6	159.7	184.7	480.9
Premium rate R&D tax concession	30.0	90.0	105.0	110.0	125.0	460.0
Cooperative research centres	0.0	0.0	55.0	57.0	115.0	227.0
Expansion of COMET programme	10.0	10.0	10.0	10.0	0.0	40.0
Innovation access programme	1.0	19.6	22.2	27.3	29.9	100.0
Pre-seed fund	6.4	16.9	21.8	21.8	11.8	78.7
Targeted university places	13.9	24.7	33.0	39.5	39.9	151.0
Postgraduate Education Loans	0.7	-2.0	-7.7	-11.7	-15.9	-36.6
Science, mathematics and innovation in government schools	33.1	34.9	36.8	38.7	40.8	184.3
Other measures	-4.9	-62.1	-79.6	-70.3	-62.0	-279.1
Total	173.5	391.9	612.0	806.1	988.3	2971.6

(a) The figures in the table may not add due to rounding.

(b) This abstracts from the related capital measure.

Regional university places

Complementing the initiatives in *Backing Australia's Ability*, the Government will fund additional undergraduate student places in regional higher education institutions and campuses from 2002. This will address changing demographic patterns and the need to increase access and participation in higher education in particular regions. In the first year 670 new places will be provided, rising to 1,832 places in the fourth year.

SPORTS

Last month, the Government announced Backing Australia's Sporting Ability — A More Active Australia, the most comprehensive and well-funded sports policy Australia has yet seen.

The Government is investing an additional \$161.6 million in Australian sport over the next four years. This includes \$32.0 million over four years for participation initiatives, which will provide greater opportunities for Australians to participate in sport at the grass roots level. As part of the policy, \$122.2 million over four years will be provided to continue Australia's outstanding record of sporting achievements, particularly for high performance sports. Additional funding is also being provided to enhance the Government's *Tough on Drugs in Sport* strategy.

Building upon the support given to the Sydney 2000 Olympic and Paralympic Games, the Government will provide funding to support the staging of the Melbourne 2006 Commonwealth Games. The Government is providing \$90.0 million in this Budget towards redeveloping the Melbourne Cricket Ground for the 2006 Commonwealth Games. The upgrade will provide for essential improvements for spectators' stands.

DEFENCE WHITE PAPER

In December 2000, the Government released the Defence White Paper, Defence 2000, the most specific and detailed defence plan in more than 25 years. The White Paper followed a major review of Australia's defence requirements and maintains the Government's strong commitment to national security through the development of Australia's armed forces.

The military enhancements announced in the White Paper will significantly improve Australia's ability to pursue the principal strategic objectives of defending Australia and contributing to the security of our immediate neighbourhood. The White Paper foreshadowed a number of major capital projects, including the acquisition of four Airborne Early Warning and Control aircraft and the bringing of six Collins class submarines to a high level of capability. The additional funding will also be used to increase the responsiveness of land forces through the maintenance of six battalion groups.

This Budget provides \$5.1 billion over four years to begin implementing the capability enhancements contained in the White Paper, including \$507.0 million in 2001-02.

In addition to funding identified in the White Paper, Defence will retain proceeds from asset sales, totaling \$241.0 million in 2001-02. Proceeds from asset sales of \$263.2 million will be returned to the budget. Australia's successful involvement in INTERFET has resulted in an underspend of monies budgeted for the East Timor operation. Out of this underspend, \$100 million in 2001-02 and \$70 million in 2002-03 will be allocated to Defence in addition to the White Paper funding increase.

The Government is committed to pursuing further improvements in Defence financial and budgetary management to ensure this increased level of funding delivers value for money. To further this aim, Defence has recently presented to the Government its first Defence Financial and Management Plan which is built around the White Paper. For national security reasons, this more detailed plan is not a public document.

IMPLEMENTING TAX REFORM

This Budget implements the next stage in the Government's programme of tax reform.

Further benefits from tax reform

The Government will bring forward full input tax credits for motor vehicles from 1 July 2002, allowing GST registered businesses to claim full input tax credits for motor vehicles acquired on or after 23 May 2001.

On 1 July this year, further changes to the taxation system will be introduced.

- The company tax rate will be reduced from 34 to 30 per cent, among the lowest rates in the region.
- Financial Institutions Duty (FID) applied by State and Territory governments will be abolished, saving about \$1.2 billion for individuals and companies.
- State stamp duties on quoted marketable securities will be abolished, saving about \$675 million for investors and removing an impediment to investment and equity market development in Australia.
- Excess imputation credits (for dividends paid from 1 July 2000) will be refunded to resident individuals, complying superannuation funds, endorsed charities and gift deductible organisations. Shareholders will benefit by more than \$2 billion over four years.
- The Simplified Tax System will provide eligible small businesses with a cash-based approach to tax accounting, simpler depreciation and trading stock rules, and will reduce tax payable by small businesses who enter the scheme, by over \$1 billion in the first three years.
- The Uniform Capital Allowances system will simplify amortisation regimes and reduce compliance costs, replacing over 27 separate write-off regimes with a uniform approach.
- New thin capitalisation arrangements will prevent multi-national corporations from inappropriately minimising Australian taxation by allocating a disproportionate amount of debt to their Australian operations.

Further business tax measures, including the proposed consolidation regime which will allow groups of wholly owned companies to be treated as a single taxpaying entity, are scheduled to commence from 1 July 2002. Other reform measures to further improve the business taxation system are being developed for consideration.

Excise and customs duty

In March 2001, the excise and customs duty on petroleum fuels was reduced by 1.5 cents per litre for unleaded petrol, leaded petrol and other petroleum products that attract equivalent rates of duty. Duty on aviation fuels and on those petroleum products attracting concessional rates of duty was reduced by a proportional amount. The automatic half-yearly indexation of fuel excise was also abolished. The cost of these measures is approximately \$4.6 billion over four years. The Government has also reduced the excise on draught beer. The estimated cost of this initiative is \$630 million over four years. The ACCC is monitoring draught beer and fuel prices to ensure that the reductions in excise are being fully passed on to consumers.

First home owners

In March 2001, the Prime Minister announced an additional \$7,000 grant for first home owners, bringing the total to \$14,000, for those people who enter into contracts between 9 March 2001 and 31 December 2001 inclusive to build or purchase new homes. The grant, which is additional to the \$7,000 grant available to first home owners since 1 July 2000, is intended to provide a targeted, short-term stimulus to the building sector. The measure is expected to cost \$150.0 million.

STATEMENT 2: FISCAL OUTLOOK

Contents

Fiscal aggregates	2-3
Variations to the fiscal balance estimates	2-5
Variations in revenue estimates	2-6
Variations in expenses estimates	2-8
Variations in net capital investment estimates	2-12
Net debt and net worth	2-12
Cash flows	2-16
Appendices	
Appendix A: External reporting standards	2-18
Appendix B: Sensitivity of fiscal aggregates to economic developments	2-19

STATEMENT 2: FISCAL OUTLOOK

Following four consecutive underlying cash surpluses, the Commonwealth Budget is again expected to be in surplus in 2001-02. The budget outlook for 2001-02 and the forward years has moderated however, since the Mid-Year Economic and Fiscal Outlook (MYEFO) 2000-01 was published — reflecting the impact of a temporary slowdown in the economy on forecast revenue and expenses, and new spending and tax reductions targeted at priority areas. This moderation in the fiscal outlook is consistent with the Government's medium-term fiscal strategy, which allows fiscal policy to respond flexibly to changes in economic conditions.

FISCAL AGGREGATES

Table 1 provides details of the Commonwealth general government budget estimates and projections for the five years from 2000-01.

Table 1: Commonwealth general government fiscal aggregates^(a)

	Actual	Estimates		Projections		
	1999-00(b)	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue (\$b)	166.6	161.0	158.8	164.9	175.5	185.7
Per cent of GDP	26.3	24.0	22.6	22.1	22.2	22.1
Expenses (\$b)	154.4	157.6	160.9	166.8	173.1	179.0
Per cent of GDP	24.4	23.4	22.9	22.4	21.9	21.4
Net operating balance (\$b)	12.2	3.5	-2.0	-1.9	2.4	6.7
Net capital investment (\$b)(c)	-1.2	-2.0	-1.2	-0.4	-0.3	-0.2
Fiscal balance (\$b)	13.5	5.4	-0.8	-1.5	2.7	6.9
Per cent of GDP	2.1	0.8	-0.1	-0.2	0.3	0.8
Underlying cash balance (\$b)	12.7	2.3	1.5	1.1	4.1	7.4
Per cent of GDP	2.0	0.3	0.2	0.1	0.5	0.9
<i>Memorandum items:</i>						
Headline cash balance (\$b)	22.2	8.5	4.7	-0.1	17.6	20.7

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

(b) Expenses and net capital investment have been adjusted compared with the 1999-2000 Final Budget Outcome to reflect the acquisition of defence weapons platforms as expenses rather than net capital investment (see Box 2 of the 2000-01 MYEFO).

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

An underlying cash surplus of \$1.5 billion is expected in 2001-02, around \$0.8 billion lower than the anticipated outcome for 2000-01. Underlying cash surpluses are also expected throughout the forward years.

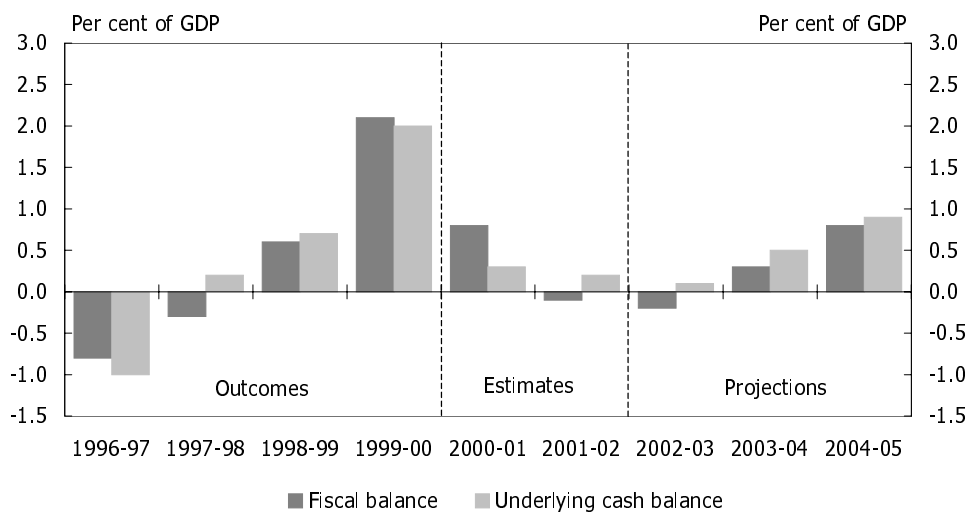
In accrual terms, a deficit of \$0.8 billion is expected in 2001-02, before returning to surplus over the forward estimates period. This follows an estimated fiscal surplus of \$5.4 billion in 2000-01.

The divergence between the expected underlying cash and fiscal balances in 2000-01 and the following years is largely explained by the impact of transitional arrangements associated with the introduction of the new Pay As You Go (PAYG) system of company taxation.

From 2000-01, these PAYG arrangements better align company tax payments with the period in which income is earned. This has created an overlap of company tax payments for business, because payments of tax obligations for 1999-2000 and PAYG instalments for 2000-01 both arise during 2000-01. However, under the PAYG transitional arrangements, companies may reduce the cash impact of this overlap by spreading their actual payments in interest free instalments over 2½ to 5 years (see Box 1 in Statement 5 for further information).

Whilst both sets of obligations accrue in 2000-01, in fact payments are spread into the following years. As a result of these transitional arrangements, revenues in 2000-01 are shown as higher in accrual terms and correspondingly lower in subsequent years when the payments are actually made.

Chart 1: Fiscal and underlying cash balances



VARIATIONS TO THE FISCAL BALANCE ESTIMATES

Since MYEFO, the estimated fiscal balances for 2000-01 and the forward years have been revised downwards. This is partly due to parameter variations, with the recent slowdown in economic growth expected to result in lower revenue and higher

expenses. In addition, new policy decisions in 2001-02 since MYEFO have increased expenses by around \$2.8 billion and reduced revenues by around \$1.1 billion.

Table 2 provides a reconciliation of the fiscal balance estimates between those at the time of the 2000-01 Budget, the 2000-01 MYEFO and the 2001-02 Budget.

Table 2: Reconciliation of 2000-01 Budget, 2000-01 MYEFO and 2001-02 Budget fiscal balance estimates^(a)

	2000-01	2001-02	2002-03	2003-04
	\$m	\$m	\$m	\$m
2000-01 Budget fiscal balance	5,436	1,072	7,610	13,884
Per cent of GDP	0.8	0.2	1.0	1.7
Changes between 2000-01 Budget and MYEFO				
Effect of policy decisions(b)				
Revenue	88	-66	-294	-276
Expenses	596	321	254	297
Net capital investment	1	6	0	0
Net effect of policy decisions	-509	-393	-548	-573
Effect of parameter and other variations				
Revenue	4,066	2,579	1,512	1,540
Expenses(c)	970	166	1,709	2,100
Net capital investment(c)	-384	-192	95	-78
Net effect of parameter and other variations	3,480	2,606	-292	-482
2000-01 MYEFO fiscal balance	8,407	3,285	6,769	12,829
Per cent of GDP	1.2	0.5	0.9	1.6
Changes between MYEFO and 2001-02 Budget				
Effect of policy decisions(b)				
Revenue	-164	-1,062	-1,664	-2,224
Expenses(d)	1,467	2,767	3,303	4,569
Net capital investment	18	-136	-111	-33
Net effect of policy decisions	-1,649	-3,693	-4,856	-6,760
Effect of parameter and other variations				
Revenue	3,564	-1,181	-2,922	-3,956
Expenses(e)	3,238	-37	510	-31
Net capital investment	1,661	-720	27	-554
Net effect of parameter and other variations	-1,334	-424	-3,459	-3,371
2001-02 Budget fiscal balance	5,424	-834	-1,546	2,697
Per cent of GDP	0.8	-0.1	-0.2	0.3

- (a) A positive number for revenue indicates an increase in the fiscal balance, while a positive number for expenses and net capital investment indicates a decrease in the fiscal balance.
- (b) Excluding the public debt net interest effect of policy measures.
- (c) Excludes the impact of a reclassification of expenditure on defence weapons platforms, which has no effect on the budget balances. The reclassification results in net capital investment being reduced by around \$1 billion in each year, which is fully offset by an equivalent increase in expenses.
- (d) Includes additional defence expenditure announced in the December 2000 Defence White Paper (\$507 million in 2001-02, increasing to over \$2 billion in 2004-05). Provision for this expenditure was made in the Contingency Reserve at MYEFO. The impact of this expenditure on the fiscal balance estimates is fully offset by a corresponding negative 'parameter and other' variation.
- (e) Includes the impact of the removal of additional Defence White Paper funding from the Contingency Reserve. Adjusting for this effect, parameter and other variations since MYEFO increase expenses by \$470 million in 2001-02 and by around \$1.4 billion in 2003-04.

Variations in revenue estimates

Despite recent stronger than expected collections of non-GST taxation, forecast general government revenue in 2001-02 has been revised down by \$2.2 billion since MYEFO. This is partly due to the lagged effect of the slowdown in economic growth in late 2000. In addition, policy measures since MYEFO have substantially reduced forecast revenue in 2001-02.

However, consistent with stronger than expected non-GST taxation collections to end-March 2001, estimated revenue for 2000-01 has been revised up by \$3.4 billion since MYEFO.

The recent strong collections of non-GST taxation revenue are partly explained by one-off factors, including:

- a change in the timing of some large petroleum resource rent taxation (PRRT) payments;¹ and
- the lagged impact of strong profit growth in 1999-2000 (final company taxation payments relating to the 1999-2000 income year are not received until 2000-01).

In addition, PAYG withholding tax collections from wages and salaries have been stronger than was expected at MYEFO. This indicator of labour market performance is somewhat stronger than other employment and job vacancy data. It is also possible that some of the recent strength in PAYG withholding collections reflects increased compliance by taxpayers following the introduction of *The New Tax System*, as well as a possible trend away from remunerating employees through fringe benefits.

Looking ahead, the recent slowdown in economic growth will likely result in lower revenue growth in 2001-02 and the forward years, relative to expectations at MYEFO.

- Lower profit growth relative to expectations at MYEFO, is expected to lead to a reduction in companies and other individuals tax revenue of around \$1.6 billion in 2001-02 and around \$2 billion through the forward years.
- Estimated PAYG withholding revenue in 2001-02 is broadly unchanged from the corresponding MYEFO estimate, with the positive base effect of stronger collections in 2000-01 offsetting the negative impact of lower forecast growth in employment and wages.

Partly offsetting the downwards revisions to forecast taxation revenue growth, expected dividends from the Reserve Bank of Australia (RBA) and government business enterprises (GBEs) in 2001-02 have been revised upwards since MYEFO by \$1.8 billion.

1 Changes in the expected timing of PRRT payments since MYEFO are expected to boost PRRT revenue in 2000-01 by around \$400 million, but reduce revenue by a similar amount in 2001-02.

Policy decisions taken since MYEFO are expected to reduce revenue by around \$1.1 billion in 2001-02, growing to around \$2.2 billion in 2003-04. The major policy decisions include:

- a 1.5 cents per litre reduction in petrol and diesel excise from 2 March 2001, and the decision to abolish the semi-annual consumer price index (CPI) indexation of petroleum excise (estimated to cost revenue around \$4.6 billion over the four years 2001-02 to 2004-05);
- an increase in the effective tax-free threshold and Medicare levy threshold for senior Australians and pensioners (estimated to cost around \$1.5 billion over the four years from 2001-02);
- the withdrawal of entity tax exposure draft legislation in response to concerns raised in public consultations that the existing draft legislation did not strike an appropriate balance between protecting legitimate small business and farming arrangements while addressing tax abuse in the trust area (at a cost to revenue of \$1.1 billion over the four years 2001-02 through 2004-05);
- a reduction in draught beer excise (estimated to cost \$630 million over the four years from 2001-02);
- cost recovery arrangements that will partially fund measures to prevent foot and mouth disease and other quarantine risks, involving an increase in the passenger movement charge to \$38 and full cost recovery for containers (estimated to raise around \$400 million over the four years from 2001-02);
- the initiative announced in *Backing Australia's Ability* to introduce a 175 per cent tax concession for companies that improve their research and development effort (at an estimated cost to revenue of \$335 million over 2001-02 through 2004-05);
- changes to simplify the Business Activity Statement (BAS) to allow eligible taxpayers the choice of paying their PAYG instalments annually, or use the instalment rate times instalment income method (at an estimated cost to revenue of \$230 million over the four years from 2001-02); and
- an increase in GSM 900 licence fees to align the licence fees more closely with the market value of the mobile phone spectrum (estimated to raise \$128 million over the four years from 2001-02).

Further details on variations in taxation and non-taxation revenue since MYEFO are provided in Statement 5. All revenue measures since MYEFO are described in detail in *Budget Paper No. 2 — Budget Measures 2001-02*.

Variations in expenses estimates

Since MYEFO, estimated expenses have been revised upwards by around \$2.7 billion in 2001-02, increasing to \$4.5 billion in 2003-04. These increases are largely explained by the effect of policy decisions and economic parameter revisions.

Adjusting for the removal of a provision for increased Defence White Paper expenditure, parameter and other revisions since MYEFO have led to an increase in estimated expenses of around \$470 million in 2001-02.² This increase can be partly attributed to the recent temporary slowdown in economic growth, with an upward revision to the forecast number of unemployment benefit recipients increasing estimated expenses by \$970 million in 2001-02.

Other major variations in estimated expenses include:

- an upward revision to interest expenses related to the Commonwealth's public sector and public trading enterprise superannuation liabilities (\$440 million in 2001-02, increasing to over \$700 million in 2003-04), following a recent review;
- higher budget balancing assistance payments to the States due to lower than previously anticipated collections of goods and services tax (GST) revenue (see Box 1 for further information); and
- higher forecast Pharmaceutical Benefits Scheme (PBS) expenses (\$530 million in 2001-02, increasing to \$1.2 billion in 2004-05), reflecting an increasing trend towards the use of newly listed, high cost drugs such as Celebrex (used in the treatment of arthritis) and Zyban (an anti-smoking drug).

These variations in estimated expenses since MYEFO are partly offset by the regular draw-down of the conservative bias allowance,³ which reduces estimated expenses by around \$800 million each year from 2001-02.

Major new policy decisions since MYEFO include:

- measures to build a more effective welfare system by providing new welfare services, incentives and obligations, at a gross cost of \$1.7 billion over four years;

2 In Table 2, additional defence expenditure announced in the November 2000 Defence White Paper, *Defence 2000* (\$507 million in 2001-02, increasing to over \$2 billion in 2004-05) is recorded as a policy decision since MYEFO. However, provision for this expenditure was made at MYEFO. Therefore, the impact of this expenditure on the fiscal balance estimates is fully offset by a corresponding negative 'parameter and other' variation.

3 The forward estimates include an allowance for the established tendency for actual spending on existing government policy (particularly demand driven programmes) to be higher than estimated in the forward years. This allowance, known as the conservative bias allowance, is gradually reduced so that the budget year conservative bias allowance is zero.

- enhancements to quarantine and inspection arrangements in response to foot and mouth disease and other quarantine risks, totaling around \$500 million over five years;
- exempting superannuation assets from the social security means test for those aged between 55 years and the age pension age, at a cost of around \$360 million over four years; and
- an increase in budget balancing assistance payments of around \$670 million over the three years from 2000-01, largely as a result of lower GST revenue following the decision to allow full input tax credits for motor vehicles purchased by business from 23 May 2001.

A number of other major measures have been announced since MYEFO, including:

- additional funding of \$5.1 billion over four years to enhance Australia's military capabilities, as announced in the Defence White Paper;
- additional funding of around \$3 billion over five years, to fund the innovation package, *Backing Australia's Ability*; and
- funding of \$1.6 billion over five years for the *Roads to Recovery* and *Roads to Outer Metropolitan Areas* Packages.

More detailed information on expenses can be found in Statement 6. A full description of all policy decisions taken since the 2000-01 MYEFO can be found in *Budget Paper No. 2 — Budget Measures 2001-02*.

Box 1: The revised outlook for GST collections and budget balancing assistance payments to the States

Under *The New Tax System*, the Commonwealth has undertaken to ensure that the States and Territories are not financially disadvantaged by their changed funding arrangements. During the initial transitional period, the Commonwealth meets this undertaking by providing budget balancing assistance (BBA) payments to the States.

Budget balancing assistance (BBA) is calculated as the difference between GST revenue and the guaranteed minimum amount (GMA). The GMA ensures that the States and Territories are not financially disadvantaged against earlier funding arrangements and includes estimated revenues forgone by the States as well as additional expenses that the States incur.

GST revenue is paid directly to the States and does not directly affect the Commonwealth budget. However, during the transitional period, changes to GST revenue affect the Commonwealth budget indirectly through variations to BBA payments.

Estimated GST revenue in 2001-02 has been revised down by around \$550 million since MYEFO. This is primarily due to the impact of new policy decisions, including the decision to allow full input tax credits for motor vehicles purchased by business from 23 May 2001.

Forecast GST cash revenue in 2000-01 has been revised downwards even further, by around \$2.1 billion. This significant revision mainly reflects a reassessment of the net effect of transitional factors on GST revenue in the first year.

Recent collections data suggests that the boost to first year GST revenue from one-off transitional factors identified at MYEFO, while still substantial, will not be as large as anticipated. In particular, the wholesale sales tax (WST) credits on existing stock that taxpayers are entitled to claim in their initial GST returns have now totaled almost \$2 billion — around \$1 billion higher than anticipated at MYEFO.

- As part of the introduction of *The New Tax System*, businesses were able to claim credits against GST for WST paid on goods acquired before 1 July 2000 and sold from 1 July 2000. This credit could be used to offset a GST liability and could be claimed until January 2001.

In addition, the estimated proportion of GST revenue relating to sales in 2000-01 but collected in 2001-02 has been revised upwards since MYEFO. This arises mainly because a greater share of GST revenue than originally expected is being paid by quarterly rather than monthly payers, and only three quarterly payments are being made in 2000-01. In addition, more GST collected on imports is being recognised in activity statement collections than initially estimated. This overall revision has led to a downwards revision to GST revenue in 2000-01, but has little impact on expected GST revenue in 2001-02.

Box 1: The revised outlook for GST collections and budget balancing assistance payments to the States (continued)

Abstracting from transitional factors — which have been difficult to identify and estimate — the underlying GST base appears to be very close to initial expectations.

As a result of changes in expected GST revenue, together with small upward revisions to the GMA, the Budget estimates provide for increases in BBA payments to the States in 2000-01 and throughout the forward estimates period. All of these payments are expected to take the form of grants.

The table below shows the expected impact of revised GST collections and revisions to the GMA on BBA grant payments. Further details are provided in *Budget Paper No. 3 — Federal Financial Relations 2001-02*.

Revisions to cash GST, GMA and BBA since the 2000-01 MYEFO

	2000-01			2001-02		
	MYEFO \$m	Budget \$m	Variation \$m	MYEFO \$m	Budget \$m	Variation \$m
GMA	26,979	27,138	158	29,803	29,924	121
GST	26,303	24,180	-2,123	28,029	27,480	-549
BBA grants	677	2,958	2,281	1,774	2,444	670
	2002-03			2003-04		
	MYEFO \$m	Budget \$m	Variation \$m	MYEFO \$m	Budget \$m	Variation \$m
GMA	30,823	30,719	-105	31,712	31,628	-84
GST	29,083	29,170	87	30,737	30,830	93
BBA grants(a)	1,777	1,549	-228	1,202	933	-269

(a) From 2002-03 BBA may be greater than the difference between aggregate GST and aggregate GMA, as States with greater GST than their GMA are entitled to retain the surplus from that time on.

Variations in net capital investment estimates

In 2001-02, forecast net capital investment has fallen by around \$860 million since MYEFO, largely reflecting changes in Defence property sales. These include the delay of \$362 million of Defence property sales from 2000-01 into 2001-02 and the acceleration of further Defence property sales into 2001-02 from later years (of around \$200 million)⁴.

The forecast increase in net capital investment in 2000-01 is largely due to reduced proceeds from the sale of non-financial assets, including the delay in Defence property sales noted above and lower than anticipated proceeds from the sale of third generation (3G) telecommunications spectrum licenses. The cancellation of the digital datacasting auction has also contributed to the increase in estimated net capital investment in 2000-01.

Further details on net capital investment can be found in Statement 6.

NET DEBT AND NET WORTH

The level of Commonwealth general government net debt has fallen consistently since the mid-1990s, from a peak of almost 19 per cent of gross domestic product (GDP) in 1995-96 to an expected 5.4 per cent in 2001-02. In dollar terms, around \$58 billion of net debt will have been repaid since 1995-96, reflecting the combined effect of budget surpluses and asset sales (principally the sale of 49 per cent of the Commonwealth's shareholding in Telstra).

Net debt is expected to fall further through the forward estimates period, although at a slower rate than anticipated at MYEFO. The slowing in the expected rate of debt reduction reflects lower projected underlying cash surpluses, and the deferral of further sales of the Commonwealth's shareholding in Telstra to 2003-04 (see Box 2). Consistent with further reductions in net debt, net interest outlays are also expected to continue to fall. As a percentage of GDP, net interest outlays have been more than halved since 1996-97, which in dollar terms, equates to a reduction of around \$4 billion.

Table 3 provides a summary of Commonwealth general government net worth, net debt and net interest outlays.

4 In the calculation of net capital investment, proceeds from the sale of non-financial assets are subtracted from purchases of non-financial assets. Consequently, proceeds from the sale of non-financial assets decrease net capital investment and increase the fiscal balance.

Table 3: Commonwealth general government net worth, net debt and net interest outlays

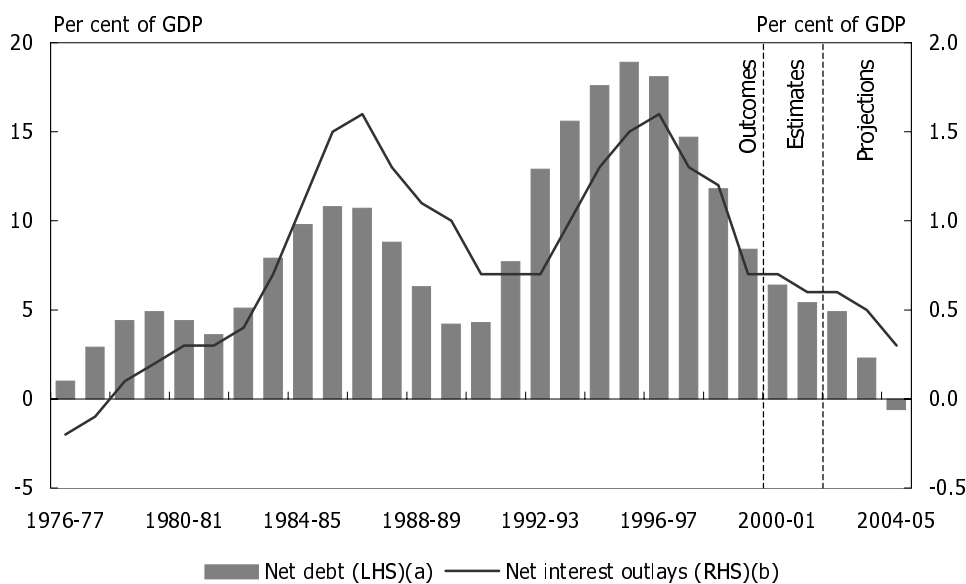
	Estimates		Projections		
	2000-01 \$b	2001-02 \$b	2002-03 \$b	2003-04 \$b	2004-05 \$b
Financial assets	105.3	100.8	100.5	85.8	71.8
Non-financial assets	31.3	30.7	30.9	31.0	31.1
Total assets	136.6	131.5	131.4	116.8	102.9
Total liabilities	169.2	165.4	166.7	150.1	130.0
Net worth	-32.7	-33.9	-35.4	-33.3	-27.1
Net debt(a)(b)	42.8	37.7	36.6	17.9	-4.7
Per cent of GDP	6.4	5.4	4.9	2.3	-0.6
Net interest outlays(c)	4.9	4.5	4.2	3.7	2.6
Per cent of GDP	0.7	0.6	0.6	0.5	0.3

(a) Net debt comprises a sub-set of liabilities (deposits held, advances received and borrowing) less a sub-set of financial assets (cash and deposits; advances paid; and investments, loans and placements).

(b) Includes the impact of the further sale of Commonwealth shareholdings in Telstra.

(c) Commonwealth cash interest payments less cash interest receipts.

Chart 2: Commonwealth general government net debt and net interest outlays



(a) Includes the impact of the further sale of Commonwealth shareholdings in Telstra.

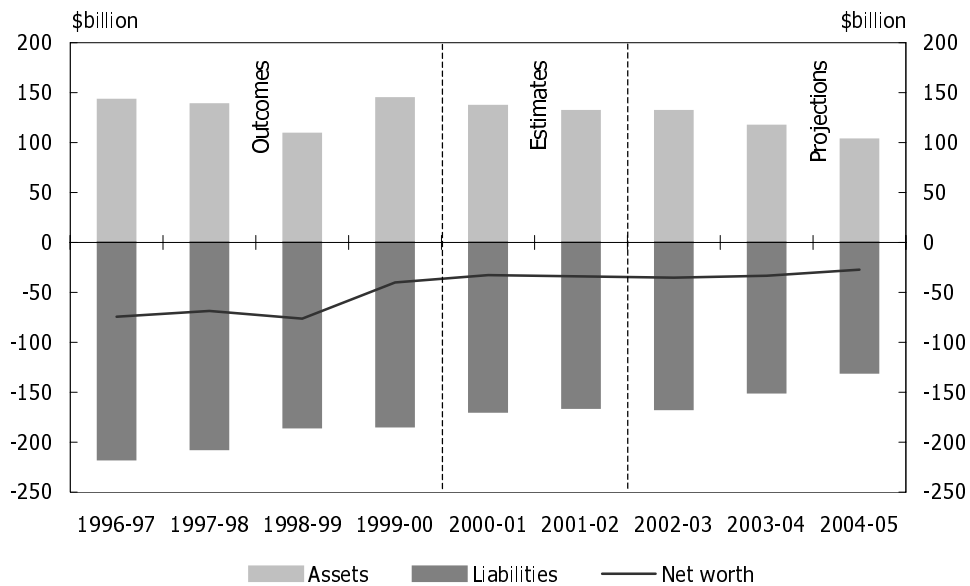
(b) Commonwealth cash interest payments less cash interest receipts.

Source: Data to 1997-98 are from *1997-98 ABS Government Finance Statistics*; data for 1998-99 onwards are from Treasury and DOFA estimates.

Consistent with the move to accrual budgeting, net worth is reported in the Commonwealth general government sector balance sheet. Net worth measures total assets less total liabilities and is therefore a broader measure than net debt, which only incorporates a subset of assets and liabilities.

Net worth is projected to fall in 2001-02 and 2002-03 reflecting accrual operating deficits before improving later in the forward estimates period in line with the return to accrual surpluses (see Chart 3). The overall improvement in net worth over the period 2001-02 to 2004-05 is due to a greater reduction in expected liabilities compared with the expected reduction in assets.

Chart 3: Commonwealth general government contribution of assets and liabilities to net worth



Box 2: Deferral of the further sale of the Commonwealth's shareholding in Telstra

In response to the Telecommunications Service Inquiry, the Budget includes a range of measures to strengthen telecommunications services, particularly in rural and regional Australia. To allow time for these measures to be implemented, the Government has deferred the anticipated timetable for the sale of the Commonwealth's remaining equity in Telstra. Further sales of Telstra equity are now included from 2003-04 (compared with 2001-02 at MYEFO).

The receipts from the sale of the Commonwealth's shareholding in Telstra are not included in the calculation of the fiscal or underlying cash balances. Nevertheless, the sale does have some indirect effects on the budget surplus, in both cash and accrual terms. These include sale cost expenses, changes in expected dividends from Telstra, and ongoing savings in public net debt interest.

The estimated net effect of these changes since MYEFO on the fiscal and underlying cash balances through the forward estimates period is shown in the table below. Deferring the sale improves the budget balances in 2001-02, as higher dividends and the elimination of sale costs in that year outweigh the effect of changes in public net debt interest. From 2002-03 onwards, increases in estimated public net debt interest outweigh increased dividends, leading to a reduction in the fiscal and underlying cash balances.

Estimated net impact of revisions since MYEFO to the Telstra sale assumptions on the fiscal and underlying cash balances^{(a)(b)}

	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
Net effect on fiscal and underlying cash balances	0	97	-163	-373	-327

(a) The estimates reflect changes to the sale timetable and estimated sale proceeds.

(b) The estimates are highly dependent on the assumptions made regarding: the structure, timing and proceeds of the sale; expected sale costs; future dividends from Telstra; interest rate assumptions; and financial management strategies.

Net worth is only marginally affected by the later sale timetable because the sale is effectively a reallocation of items in the balance sheet. The deferred sale increases net debt in the forward estimates, but also increases equity assets by an equivalent amount, leaving net worth broadly unchanged.

CASH FLOWS

Table 4 provides a summary of Commonwealth general government cash flows.

Table 4: Summary of Commonwealth general government cash flows

	Estimates		Projections		
	2000-01 \$b	2001-02 \$b	2002-03 \$b	2003-04 \$b	2004-05 \$b
Cash receipts from operating activities	156.6	161.1	167.2	176.8	186.8
Cash payments for operating activities	155.1	159.6	165.0	171.7	178.3
Net cash flows from operating activities	1.5	1.5	2.2	5.1	8.5
Net cash flows from investments in non-financial assets	0.7	-0.1	-1.2	-1.0	-1.1
<i>less</i> Finance leases & similar arrangements	0.0	-0.1	0.0	0.0	0.0
Underlying cash balance	2.3	1.5	1.1	4.1	7.4
<i>Memorandum items:</i>					
Net cash flows from investments in financial assets for policy purposes(a)	6.2	3.2	-1.1	13.5	13.3
Headline cash balance	8.5	4.7	-0.1	17.6	20.7

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

The underlying cash balance is forecast to remain in surplus over the forward estimates period, although the magnitude of the surpluses has fallen compared with those expected at the 2000-01 MYEFO. However, the declines in the underlying cash balance since MYEFO have not been as great as those in the fiscal balance estimates.

In most instances, government transactions have very similar effects on the accrual and cash budget aggregates. Therefore, most of the change to the underlying cash balance estimates since MYEFO is explained by corresponding variations in the fiscal balance estimates described earlier in this Statement.

However, there are a small number of variations that have significantly different cash and accrual effects (because of the different basis of recording transactions).

- Superannuation cash payments have fallen by around \$700 million in 2001-02 (with smaller falls in the forward years), compared with a \$630 million increase in accrual expenses. Lump sum cash payments have fallen in line with a lower expected rate of redundancies from the Australian Public Service. In addition, the start date for the choice of superannuation fund legislation⁵ has been deferred (Commonwealth employees will be able to direct their employer's superannuation contributions on

5 The Government's choice of superannuation fund legislation will give employees greater choice as to the superannuation fund or retirement savings account into which their employer superannuation contributions are paid.

their behalf into funds outside the Commonwealth general government sector once the legislation is in place, with a consequent reduction in the underlying cash balance, compared with current arrangements).

- A change to military superannuation estimates made at MYEFO has been reversed, reflecting a reassessment of the appropriate accounting treatment that has the effect of reducing aggregate cash payments by around \$500 million in all years (with no impact on accrual expenses).
- There has been a lower than expected take-up of the PAYG transitional arrangements to defer company and superannuation tax payments. This boosts cash estimates of company and superannuation tax revenue in 2000-01 by around \$1.1 billion but reduces cash revenue estimates in the forward years. There is no effect on accrual revenue estimates.

The headline cash balance is estimated to be in surplus in 2001-02, although smaller than forecast at MYEFO. This mainly reflects changes in the Commonwealth's asset sales programme. In particular, the sale of the Commonwealth's remaining equity in Telstra has been deferred (as outlined in Box 2), significantly reducing expected 'cash flows from investments in financial assets for policy purposes' in 2001-02 and 2002-03. The incorporation of the estimated proceeds from the sale of the Sydney Airports Corporation partially offsets the loss of Telstra sale proceeds in 2001-02.

Appendix A: External reporting standards

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 the budget are the Australian Bureau of Statistics (ABS) accrual Government Finance Statistics (GFS) framework and Australian accounting standards, including Australian Accounting Standard No. 31 *Financial Reporting by Governments* (AAS31).

Estimates presented in Budget Paper No. 1 are prepared on a GFS basis unless otherwise indicated. AAS31 estimates are provided in Statement 10.

The GFS framework requires that flows and stocks are valued at current market prices (or where these are not observable, a suitable proxy indicator). While this is the case for flows in the operating statement and the cash flow statement, not all assets and liabilities in the GFS balance sheet are currently valued at current market prices. This is principally because Australian accounting standards allow reporting entities to elect to value their assets at either cost or fair value (current market value). The accounting profession is considering general valuation issues relating to liabilities. In the early years of accrual budgeting the focus has been on preparing robust GFS operating and cash flow statements. Refinements to the GFS balance sheet valuations of assets and liabilities will be considered over time, in consultation with the ABS, as the new framework is bedded down.

The Commonwealth revenue and expenses estimates in Statement 5 and Statement 6 do not include goods and services tax (GST) collections and equivalent payments to the States. Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the IGA), all GST receipts are appropriated to the States and Territories and thus are not available for expenditure by the Commonwealth. Because the Commonwealth collects GST as an agent for the States and Territories, GST receipts are not shown as Commonwealth revenue. Estimates of GST receipts are provided in Box 1 in this Statement and in Table 2 of Statement 11.

In order to ensure the reporting of reliable budget estimates and outcomes, taxation revenue is recognised the earlier of when an assessment of a tax liability is made or cash payment is received by the Australian Tax Office (ATO) or the Australian Customs Service (ACS). Accordingly, for most categories of taxation revenue, there is a short lag between when the revenue is recognised and the time at which the underlying income (or economic activity) giving rise to the tax liability occurs. Longer lags, of up to a year, occur for some elements of company and superannuation funds taxation.

Additional information on the external reporting standards and budget concepts is provided in Statement 11.

Appendix B: Sensitivity of fiscal 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 2001-02. 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

	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m
Expenses				
Prices	690	720	750	770
Wages	90	330	350	370
Unemployment benefit recipients	290	280	270	250
Safety net adjustments	60	120	190	250
Revenue				
Prices	40	80	80	80
Wages	1140	1220	1310	1420
Employment	770	830	890	960
Private final demand	260	270	280	290

Expenses

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

Prices

All price deflators are assumed to change by one percentage point at the start of the September quarter 2001, with wage deflators left unchanged.

- The effect of a change in prices on Commonwealth expenses has increased since the 2000-01 MYEFO reflecting a change to the methodology for indexing superannuation liabilities and defence expenditures.

Wages

All wage and salary growth rates are assumed to change by one percentage point from the beginning of the September quarter 2001, with price deflators left unchanged.

- The wages effect resulting from a change in wage and salary growth rates is largely determined by the effect of the Government's commitment to maintain selected pensions at 25 per cent of Male Total Average Weekly Earnings (MTAWE). The

wages effect in Table B1 above does not include changes to wage and salary payments in Commonwealth departmental expenses.

Unemployment benefit recipients (includes Newstart Allowance and unemployed Youth Allowance recipients)

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

Safety Net Adjustment

The Safety Net Adjustment (SNA) determined by the Australian Industrial Relations Commission is assumed to change by \$2 per week, taking effect from the beginning of the September quarter 2001, and each year after that.

- About \$45 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 SNA.

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 impact of the following assumed changes:

- employment — the level of employment is assumed to change by one percentage point from the beginning of the September quarter 2001, 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 2001, 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.

Relative to the 2000-01 Budget, the sensitivity of revenue to prices has fallen. This is attributable to the decision to abolish petroleum excise indexation. Hence, changes in the price deflator from the beginning of the September quarter 2001 no longer affect the petroleum excise revenue estimates.

STATEMENT 3: ECONOMIC OUTLOOK

Contents

Part I: Overview	3-3
Part II: The outlook for the international economy	3-6
Part III: The outlook for the domestic economy	3-11
Demand and output	3-11
Household consumption.....	3-13
Dwelling investment.....	3-15
Business investment.....	3-16
Inventories.....	3-18
Public final demand.....	3-18
Net exports and the current account balance.....	3-19
Net exports	3-19
The terms of trade.....	3-20
The current account deficit	3-21
The labour market.....	3-21
Wages.....	3-24
Prices.....	3-24
Part IV: Uncertainties	3-26

STATEMENT 3: ECONOMIC OUTLOOK

Part I: Overview

Economic growth in Australia in 2001-02 is forecast to rebound quite strongly, driven by a turn around in residential construction. Employment growth is expected to be subdued with the unemployment rate averaging around 7 per cent, while inflation is forecast to decline and the current account deficit to be well below the average of the last decade. World growth is expected to weaken in 2001 to a little below historical averages, although there are significant downside risks.

In 2001-02, **economic growth** in Australia is forecast to be around 3¼ per cent in year-average terms and a strong 4 per cent through the year to the June quarter 2002. Residential construction is expected to contribute strongly to growth in 2001-02, with moderate growth in household consumption, business investment and net exports. Average unemployment rates are forecast to be slightly higher than recent levels, with inflation declining and the current account deficit well below its decade average.

Following three years of very strong economic growth in excess of 4 per cent per annum, the Australian economy slowed sharply in the second half of 2000. The weakness was concentrated in the residential construction sector, in part reflecting an unwinding of the bring-forward of residential construction into the first half of 2000, ahead of the introduction of *The New Tax System*. The downturn in this sector had flow-on effects to other parts of the economy through its impact on employment, consumer spending and consumer and business sentiment. At the same time, net exports contributed strongly to growth in 2000-01, buoyed by the lower exchange rate and the Olympics, despite a deteriorating international outlook and adverse seasonal conditions in the farm sector.

Given the weakness in the second half of 2000 and subdued growth expected in the first half of 2001, economic growth is now expected to be around 2 per cent in 2000-01 in year-average terms, and around 1 per cent in through-the-year terms.

The outlook for **world growth** has deteriorated since late 2000, led by a sharp slowdown in the United States (US) and weaker conditions in Japan. The outlook for growth in countries with close linkages to the US — such as the non-Japan East Asian economies — has also weakened. Europe is likely to be less affected by a slowdown in the US and is expected to continue to grow at a solid pace. Overall, the global economy is expected to grow by around 3¼ per cent in 2001, down sharply from 4.8 per cent in 2000, although only a little below the long-run historical average. Nevertheless, there are significant downside risks to growth in the US and Japan. Slower than forecast growth in these countries would result in weaker growth in East Asia and a more broadly based global slowdown.

Despite the slower world growth expected in 2001, **net exports** are estimated to contribute strongly to overall economic growth in Australia in 2000-01, with a further

modest positive contribution expected in 2001-02. The exchange rate has helped boost the competitiveness of many of Australia's export and import competing industries. Australia's **current account deficit** (CAD) is forecast to be around 3 per cent of gross domestic product (GDP) in both 2000-01 and 2001-02. At these forecast levels, the CAD will be down markedly from 5.3 per cent of GDP in 1999-2000 and well below its average of the 1990s. In addition to the stronger balance of trade, the lower CAD also reflects a decline in the net income deficit (NID) in response to lower world and domestic interest rates and reduced margins between Australian and world investment returns.

Gross national expenditure is forecast to grow at a moderate rate of around 3 per cent in 2001-02, compared with less than 1 per cent in 2000-01. Residential construction is expected to grow by around 5 per cent in year-average terms in 2001-02, following a marked decline of around 25 per cent in 2000-01, with the turn around supported by recent reductions in interest rates and the Government's more generous First Home Owners Scheme. The recovery in this sector is expected to gather strength as 2001-02 proceeds, with through-the-year growth of around 14 per cent. Modest growth is also expected to resume in non-residential construction, particularly engineering construction, following several years of decline since the recent peak in 1998-99.

Household consumption expenditure is forecast to increase by around 3 per cent in 2001-02, a little faster than in 2000-01 but well below the very rapid growth experienced in the latter part of the 1990s (which was buoyed by strong growth in asset prices and household wealth). Household consumption will be supported by lower interest rates and a forecast gradual easing in petrol prices.

Employment growth in 2001-02 is expected to be slower than in recent years but grow at around 1 per cent in year-average terms and around 1½ per cent through the year. This largely reflects the lagged effects of slower overall economic growth in 2000-01, particularly the downturn in the labour intensive construction sector. The **unemployment rate** is expected to increase slightly, to average around 7 per cent in 2001-02 and in the June quarter 2002. This follows a period of declining unemployment which carried the unemployment rate down to around decade lows. Prospects are sound for a resumption in the downward trend in unemployment over the medium term as the construction sector recovers and overall economic growth strengthens.

Inflation is forecast to decline in 2001-02, with the headline consumer price index (CPI) rising by around 2 per cent in both year-average and through-the-year terms. The abolition of Financial Institutions Duty and other elements of *The New Tax System* will put downward pressure on consumer prices in 2001-02 and the forecasts also incorporate a slight easing in petrol prices in line with an expected downward trend in world oil prices.

From a domestic perspective, a key **uncertainty** relates to the possibility that the recent downward trend in business and consumer sentiment is sustained over coming quarters. This poses a downside risk to the forecasts for business investment and consumption. On the other hand, there is a possibility that the lower exchange rate and reductions in interest rates will provide a greater stimulus to economic growth than has been incorporated into the forecasts.

Table 1: Domestic economy forecasts^(a)

	Outcomes(b)		Estimates		Forecasts	
	1999-00 Year Average	2000-01 Year Average	2001-02 Year Average	Four Quarters to June 2002		
Panel A - Demand and output(c)						
Household consumption	4.5	2 3/4	3	3 1/4		
Private investment						
Dwellings	12.4	-25	5	14		
Total business investment(d)	3.6	0	5	9		
Other buildings and structures(d)	-11.0	-22	6	10		
Machinery and equipment(d)	8.8	5	3	7		
Private final demand(d)	5.0	0	3 1/2	4 3/4		
Public final demand(d)	5.6	2 1/4	2 1/4	0		
Total final demand	5.1	1/2	3 1/4	3 3/4		
Change in inventories(e)						
Private non-farm	-0.6	1/4	- 1/4	1/4		
Farm and public authorities	0.0	0	0	0		
Gross national expenditure	4.5	1/2	3	4		
Exports of goods and services	9.2	6	5	7		
Imports of goods and services	12.5	0	4	7		
Net exports(e)	-0.9	1 1/4	1/4	0		
Gross domestic product	4.3	2	3 1/4	4		
Non-farm product	4.4	2 1/4	3	3 3/4		
Farm product (at basic prices)	4.0	-6	7	13		
Panel B - Other selected economic measures						
External accounts						
Terms of trade	4.3	4	- 3/4	- 1/2		
Current account balance						
\$billion	-33.7	-20 1/2	-20			
Percentage of GDP	-5.3	-3	-3			
Labour market						
Employment (labour force survey basis)	2.7	2	1	1 1/2		
Unemployment rate (per cent)(f)	6.6	6 1/4	7	7		
Participation rate (per cent)(f)	63.4	63 3/4	63 3/4	63 3/4		
Prices and wages						
Consumer price index - headline	2.4	6	2	2		
Consumer price index - 'ongoing'(g)	2.4	3 1/4	2 1/2	2 1/4		
Gross non-farm product deflator	1.8	4	1 1/2	1 1/2		
Average earnings (national accounts basis)	2.8	3 1/2	3 3/4	3 3/4		

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

(b) Calculated using original data.

(c) Chain volume measure.

(d) Excluding private sector net purchases of second-hand public sector assets.

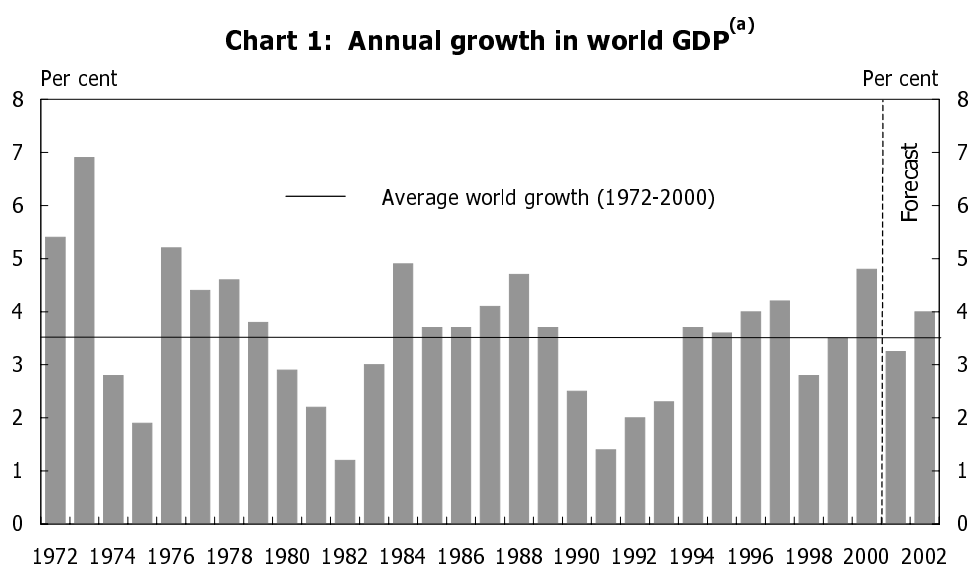
(e) Percentage point contribution to growth in GDP.

(f) The estimate in the final column represents the forecast level in the June quarter 2002.

(g) The 'ongoing' CPI is the headline measure abstracting from the impact of *The New Tax System*.

Part II: The outlook for the international economy

The world economy grew by an estimated 4.8 per cent in 2000, up from 3.5 per cent growth in 1999 and well above long-term average growth rates. However, economic growth slowed through the second half of 2000 and is expected to be significantly weaker in 2001 at about 3¼ per cent, although this is only a little below the long-run historical average. The pace of growth is expected to pick up later in 2001 and increase to around 4 per cent in 2002 (Chart 1).



(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.

The slowing in world economic growth in the second half of 2000 reflected the restraining influence of earlier monetary tightenings, the rise in oil prices that reduced business and household purchasing power, and falls in equity prices, particularly in high-technology stocks.

The slowing in growth was particularly pronounced in the US. Following very rapid growth in the first half of 2000, household consumption slowed and production and investment eased in manufacturing industries following the build-up of inventories and capacity earlier in the year. Growth also softened in Europe, and the nascent recovery in Japan stalled. Activity in non-Japan East Asia was adversely affected by slowing US growth as the year ended.

World growth is expected to pick up as 2001 progresses, supported by a recovery in the US economy over the course of the year, solid growth in Europe and continued, albeit slower, growth in East Asian economies, particularly China. With the Japanese economy remaining sluggish, economic growth in Australia's main export markets is

expected to be around 2¾ per cent in 2001, down sharply from 5 per cent in 2000, but well above the fall of 0.5 per cent recorded in 1998, during the Asian financial crisis.

In 2002, world growth is expected to rise to around 4 per cent, underpinned by gathering momentum in the US and stronger growth in the East Asian economies. However, the slow pace of growth expected in Japan points to Australia's export market growth being around 3½ per cent.

World inflation is expected to remain subdued with slower growth in the major economies easing capacity constraints and moderating price pressures. Ongoing productivity gains and increasingly competitive trading environments should also help contain inflation as growth picks up in 2002.

World oil prices have declined significantly over the past six months, suggesting that the risks to world activity and inflation from this source have abated somewhat. Prices are expected to continue to ease, in line with the weaker outlook for the world economy in 2001. Crude oil prices are now expected to decline from a world trade weighted¹ average of US\$27.6 per barrel in 2000 to around US\$23¼ per barrel in 2001, and US\$22 per barrel in 2002.

Oil prices are likely to remain volatile in the short term, reflecting uncertainty about the action of key producers and the strength of world demand. In particular, the actions of the Organisation of Petroleum Exporting Countries — which has already cut production by 2.5 million barrels per day thus far in 2001 — in the face of falling demand and prices, create some uncertainty around the forecast.

Growth in the **United States** was 5 per cent in 2000, although the rapid growth of the first half gave way abruptly to very modest rates in the second half of the year. Growth is expected to average around 1½ per cent in 2001 before rising to around 3¼ per cent in 2002.

The first half of 2000 was marked by a surge in business and consumer spending and a continuation of the same supply-side forces that have propelled the economy over the past few years: ongoing realisation of synergies from new technology and improved business practices, high levels of investment and elevated rates of productivity growth. In the second half of 2000, the situation changed. Equity markets adjusted downwards (particularly in high technology), consumption slowed, inventories grew, production weakened particularly in the manufacturing sector, and some capital spending was put on hold. The new technologies and business practices, which had underpinned the expansion, appeared to contribute to a more rapid pass through of the change in conditions than in the past.

The extent and duration of the slowdown in the US is expected to be mild compared with previous episodes, moderated by relatively sound underlying macroeconomic conditions and supportive policy settings. Growth is expected to be weak in the first

1 The world trade weighted oil price is the average of the contract price of different types of oil, weighted by their share of the world oil trade (that is, between countries).

half of 2001 as inventories and excess capacity in some industries are worked off, but should recover quickly in the second half of the year and into 2002. Consumer spending is expected to be supported by ongoing growth in income, still relatively high levels of consumer confidence, and by recent interest rate cuts and the prospect of tax cuts later in the year. Investment in housing appears to have picked up in the first part of 2001 and other investment should be supported in the longer term by productivity growth and prospects of attractive returns on high-tech investment. Nevertheless, risks around the US growth forecasts are substantial, with any significant deviations in US growth from the forecast levels having the potential to markedly affect overall world growth (Box 1).

Table 2: Annual growth in GDP for selected countries and groupings^{(a)(b)}

	1997	1998	1999	2000(c)	2001	2002
	Actual	Actual	Actual	Estimate	Forecast	Projection
World	4.2	2.8	3.5	4.8	3 1/4	4
OECD(d)	3.5	2.7	3.2	4.1	2 1/4	3
Main Trading Partners(e)	4.1	-0.5	4.0	5.0	2 3/4	3 1/2
United States	4.4	4.4	4.2	5.0	1 1/2	3 1/4
Japan	1.9	-1.1	0.8	1.7	3/4	1 1/2
European Union	2.6	2.9	2.6	3.4	2 1/2	2 3/4
Non-Japan East Asia(f)	6.7	1.1	6.3	7.4	5 3/4	6 1/2

(a) Percentage change on previous year.

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

(c) Treasury estimates of World, OECD and EU growth rates.

(d) The 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, Turkey and includes Slovakia from 2001.

(e) Export trade-weighted basis.

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

Source: Various national statistical publications, IMF and Treasury.

Japan's economy grew by 1.7 per cent in 2000, although uncertainty about the sustainability of the expansion remains. Growth is expected to be uneven in 2001 with last year's fiscal package likely to raise public investment during the first half of the year, but with the boost to activity tapering off in the second half of the year as public spending declines. Consumption is likely to remain subdued and investment is expected to ease through 2001 as slower world growth and weaker demand for high-tech products reduce exports and weaken the outlook for corporate profits. The sharp decline in equity prices over the past year is also likely to undermine business confidence and the investment outlook. For 2001 as a whole, growth is expected to average around $\frac{3}{4}$ per cent, before picking up to around $1\frac{1}{2}$ per cent in 2002 as the global economy strengthens. Sustained recovery in Japan continues to be constrained by high levels of bad debts in the banking system. The new Government has expressed a commitment to progressing further reforms, including in the financial sector.

Growth in the **euro area** strengthened in 2000, rising to 3.4 per cent, buoyed by strong domestic and external demand. For 2001, growth is expected to moderate in the face of a less supportive global environment. However, the euro area appears to be less affected by the downturn in the US than some other regions and the effects are likely to be more muted. Consumption is expected to be underpinned by rising incomes, recent tax cuts and relatively high levels of consumer confidence. Investment, although adversely affected by weaker export earnings and higher energy prices, is likely to be supported by recent corporate tax cuts and relatively high levels of capacity utilisation. In 2001, growth in the euro area is expected to be around 2½ per cent, with slightly higher growth expected in 2002 at around 2¾ per cent, as world economic conditions improve. Growth in the **United Kingdom** is expected to be more affected by the slowdown in the US and problems associated with foot and mouth disease, with growth slowing to 2¼ per cent in 2001, before picking up to 2¾ per cent in 2002 on the back of stronger world growth and supportive macroeconomic policy.

The **non-Japan East Asia** region grew strongly in 2000, supported by strong export demand and rising domestic demand. The region benefited from the strong growth in the world economy and particularly from the upturn in demand for electronics in the US, Europe and Japan.

Growth is expected to slow in 2001 with the slowdown in the US and continued weakness in Japan expected to reduce demand for exports, particularly electronics, industrial machinery and automobiles which have been a cornerstone of the expansion. The impact is likely to be more pronounced for countries such as Taiwan, Singapore and Korea which have a high electronics component in their export base.

Unfavourable domestic factors are also likely to weigh heavily on the immediate outlook for the region, particularly in Indonesia, Thailand and the Philippines. However, foreign exchange reserves are generally higher than immediately preceding the Asian crisis, external positions have improved, and speculative capital inflow has been limited, leaving countries less vulnerable to unfavourable shifts of sentiment and capital flight.

Growth in non-Japan East Asia is forecast to decline from 7.4 per cent in 2000 to around 5¾ per cent in 2001 before picking up to 6½ per cent in 2002, in line with the expected recovery in the US. Excluding China (which continues to grow strongly), growth in the region is forecast to be 3½ per cent in 2001 before rising to 4¾ per cent in 2002.

Other **emerging market** economies grew strongly in 2000, but growth is likely to moderate in 2001. Financial and economic conditions remain fragile and they remain vulnerable to any further weakening in global conditions and/or a deterioration in sentiment towards emerging markets.

Box 1: Risks to the US and global outlook

The path of the global economy over the next year depends heavily on developments in the US economy. The most likely outcome in the US is that growth will slow through the first half of 2001 as excess inventories are reduced and surplus capital stock is unwound through lower investment and modest growth, but pick up strongly in the latter part of the year. This relatively benign outcome would be consistent with the generally sound underlying fundamentals of the US economy and the stimulative impact of lower interest rates and foreshadowed tax cuts.

It is possible, however, that business conditions and business and consumer confidence will fall further during the adjustment process leading to a deeper and more prolonged slowdown than currently envisaged. Energy prices have risen sharply in the US reflecting in part domestic capacity constraints in the energy sector which could put further pressure on prices and incomes. Other factors, including a reassessment of the wealth and income gains from investment in new technology areas, could also adversely affect incomes and sentiment.

In these circumstances, there would likely be a sharp reduction in consumption and investment spending. Increased uncertainty with respect to employment and incomes would see consumption weaken, and this would be reflected in lower profit prospects and a further decline in equity prices. With household debt already at high levels and savings rates low, household consumption would likely be pared back further. Reduced sales and earnings prospects and increased risk would also likely see firms delay investment, using funds to repair extended balance sheets instead. In this scenario, equity returns would fall, capital inflows would ease, the large current account deficit would unwind, and the exchange rate would depreciate.

A weaker US economy accompanied by a rapid adjustment in financial markets would adversely affect other countries, including East Asian economies. The outlook for Japan has already deteriorated, partly as a result of weaker global conditions, but also due to domestic factors including weak consumer and business confidence and unresolved problems in the financial sector. Further deterioration in the economy and weaker confidence would expose vulnerabilities in the financial and corporate sectors, exacerbating the adverse effects of weaker external conditions. Both Japan and other East Asian economies are particularly vulnerable to a more severe downturn in the US because of their specialisation in electronic products. However, there could be some offsetting effects from lower interest rates, lower exchange rates, and increased capital inflow where attractive investment opportunities arise.

Other countries would also be adversely affected by further weakness in the US and Japan, through the usual trade linkages and through confidence effects.

On the upside, recent policy adjustments in several countries may forestall a further downturn. If confidence were to turn up quickly there may be some upside risks to the forecasts.

Part III: The outlook for the domestic economy

Key assumptions

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, at around US52½c and around 50 against the trade weighted index (TWI). On the basis of these assumptions, the exchange rate would be lower on average in 2001-02 than in 2000-01, and significantly lower than its average level of around US63c and 55 against the TWI in 1999-2000, helping to produce a solid net export performance in the face of slower world growth.

The forecasts take into account the reductions in official interest rates since February 2001. The reductions in interest rates are expected to be supportive of domestic demand, especially residential investment and household consumption spending (in particular, on consumer durables). Although the timing and magnitude of this effect is uncertain, most of the impact from lower interest rates is expected to be felt in 2001-02.

The forecast fall in farm production in 2000-01 largely reflects a combination of very dry conditions in some areas and severe flooding in others. An assumed return to normal seasonal conditions in 2001-02 would see stronger farm production contributing to overall economic growth.

DEMAND AND OUTPUT

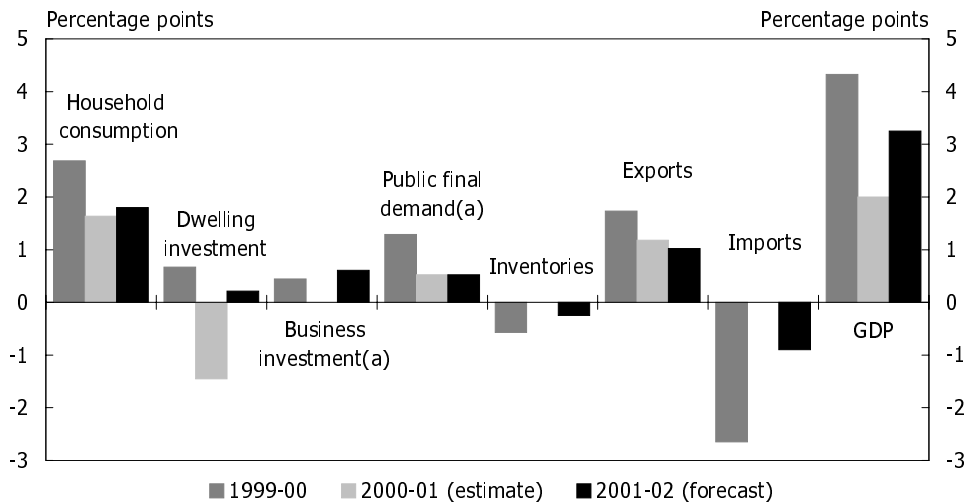
In 2001-02, economic growth in Australia is forecast to be around 3¼ per cent in year-average terms and a strong 4 per cent through the year to the June quarter 2002. Average unemployment rates are forecast to be slightly higher than recent levels at around 7 per cent, with inflation declining relative to 2000-01 and the CAD well below its average level of the 1990s.

Gross national expenditure is forecast to grow at a moderate rate of around 3 per cent in 2001-02, following growth of less than 1 per cent in 2000-01. Residential construction is expected to contribute strongly to growth, with moderate growth in household consumption, business investment and net exports (Chart 2).

Residential construction is expected to grow by around 5 per cent in year-average terms in 2001-02, following a large decline of around 25 per cent in 2000-01, with the turn around supported by recent reductions in interest rates and the Government's more generous First Home Owners Scheme. The recovery in this sector is expected to gather strength as 2001-02 proceeds, with through-the-year growth of around 14 per cent. Modest growth is also expected to resume in non-residential construction, particularly engineering construction, following several years of decline since the recent peak in 1998-99.

Following the weakness in the second half of 2000 and subdued growth expected in the first half of 2001, economic growth is now expected to be around 2 per cent in 2000-01 in year-average terms and around 1 per cent in through-the-year terms.

Chart 2: Contributions to GDP growth

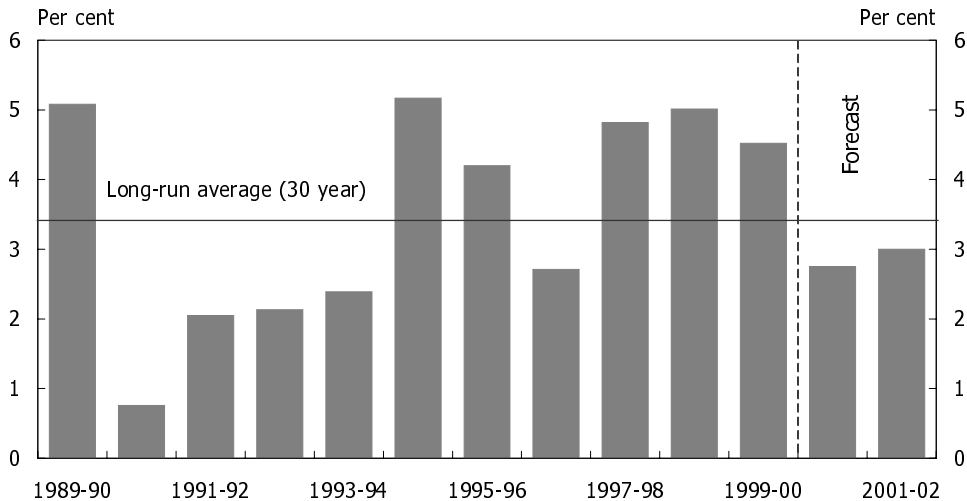


(a) Excluding private sector net purchases of second-hand public sector assets.
 Source: Australian Bureau of Statistics (ABS) Cat. No. 5206.0 and Treasury.

Household consumption

Household consumption is forecast to increase by around 3 per cent in 2001-02, a little stronger than the estimate of $2\frac{3}{4}$ per cent for 2000-01 (Chart 3). This follows a six year period where consumption growth averaged a very strong $4\frac{1}{2}$ per cent per annum.

Chart 3: Annual growth in real household consumption

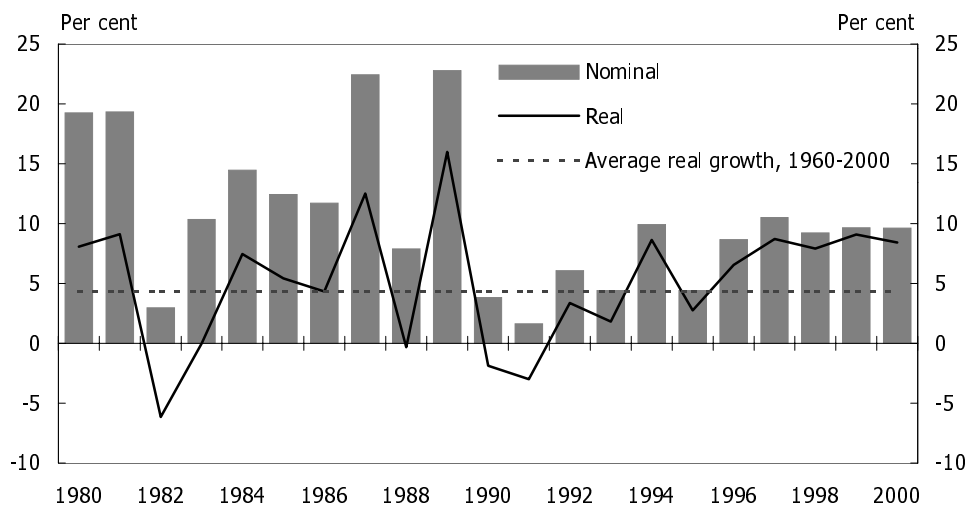


Source: ABS Cat. No. 5206.0 and Treasury.

Real household disposable income in 2000-01 has been boosted by the income tax cuts and increases in benefits flowing from *The New Tax System* (after an allowance for the associated increases in indirect taxes). However, the beneficial impact of these tax cuts on consumption expenditure was offset to some extent in the latter part of 2000 by the effects of rising interest rates during 2000 and rising petrol prices. Slower employment growth in 2000-01 also had a moderating effect on the growth in real household income and consumption. In addition, the strong accumulation of wealth experienced over recent years (Chart 4) did not continue to the same extent in 2000-01, with relatively steady share prices, and with house prices declining in some areas and rising less quickly than previously in other areas.

The significant interest rate reductions since early 2001 are likely to give some boost to consumption growth in 2001-02, as will the expected gradual downward trend in petrol prices. On the other hand, subdued employment growth will continue to have a moderating effect on the growth in real household income in 2001-02.

Chart 4: Annual growth in private sector wealth^(a)



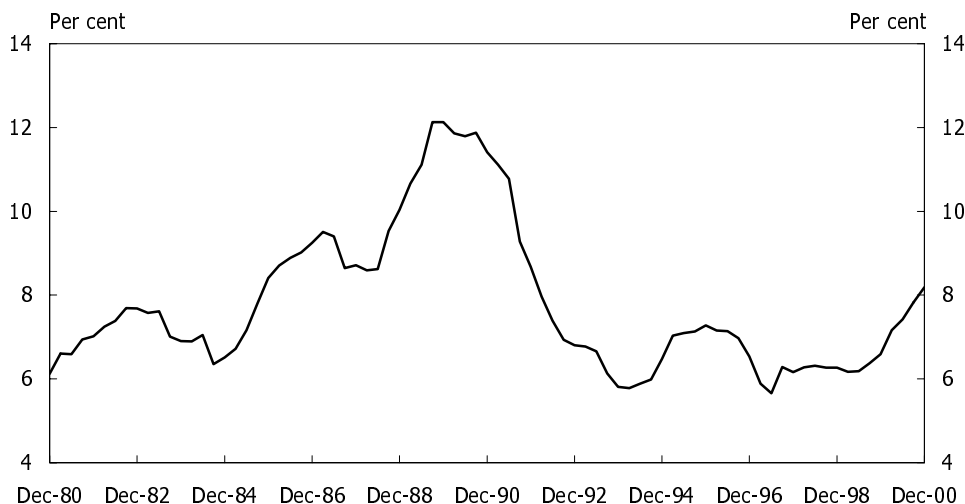
(a) June 30 estimates.
Source: Treasury.

There are few signs of major imbalances in the balance sheet of the household sector, suggesting that the household sector's net financial position should not act as a major constraint on consumption growth over the forecast horizon. Household borrowing has been strong in recent years, partially reflecting the continuing impact of financial deregulation on the availability of credit and lower interest rates. This has increased the debt-to-disposable income ratio to a little over 100 per cent, close to the average of other developed economies. However, the growth in household debt has been broadly matched by an increase in assets held by households, with the household debt-to-assets ratio showing only a gradual increase over recent years. Further, the household debt servicing ratio remains at a relatively modest level by historical standards (see Chart 5), well below the peak in the late 1980s, and is likely to fall during 2001 in response to recent declines in interest rates.

Measures of consumer sentiment have been particularly volatile over the last year, with the Westpac-Melbourne Institute index falling by around 15 per cent prior to the introduction of *The New Tax System* and then rebounding to previous levels, as the uncertainty surrounding the introduction of *The New Tax System* abated. The consumer sentiment index has trended lower over recent months, although with a significant rebound in May. Nevertheless, it is too early yet for the full impact of lower interest rates to be reflected in the survey responses. It is also noteworthy that retail sales increased strongly in the March quarter 2001 (by around 1.9 per cent in real terms), at a time when measures of consumer sentiment were declining.

An extended period of low consumer sentiment represents a downside risk to the consumption growth forecasts, although the recent reductions in interest rates should be supportive of higher confidence levels.

Chart 5: Household debt servicing ratio



(a) Household (including unincorporated enterprises) debt interest payments as a proportion of household disposable income.

Source: ABS Cat. No. 5206.0.

Dwelling investment

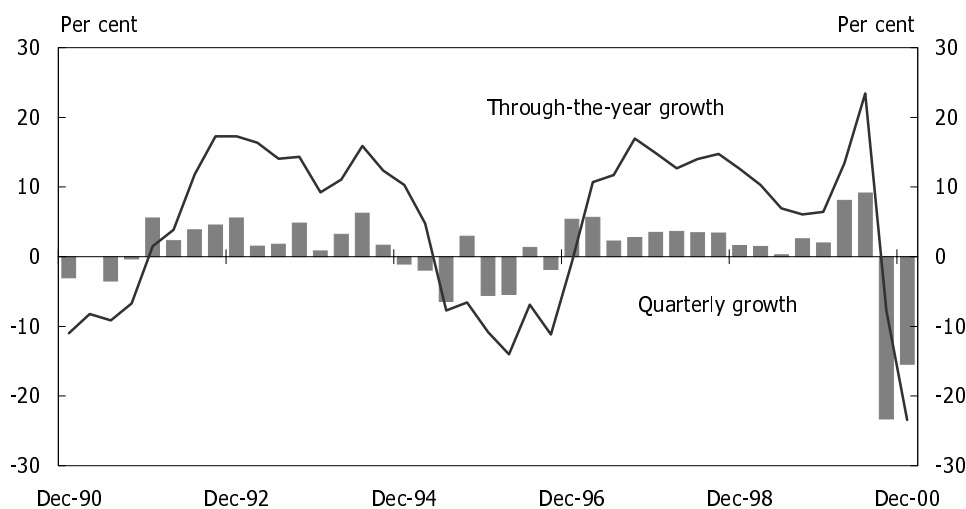
Following several years of strong growth, dwelling investment is expected to fall by around 25 per cent in 2000-01 in year-average terms, before returning to a positive rate of growth later in 2001.

In 1999-2000, building activity rose strongly to its highest level as a share of GDP in almost 20 years, as home builders and renovators brought forward activity ahead of the introduction of *The New Tax System*. This bring-forward of activity was unwound in the second half of 2000 which, combined with the effects of higher interest rates, saw activity in this sector decline by around 35 per cent over the September and December quarters of 2000 (Chart 6). This decline in building activity, in turn, contributed to weaker employment and household consumption spending.

In 2001-02, dwelling investment is expected to rebound significantly, with forecast growth of around 5 per cent in year-average terms and around 14 per cent in through-the-year terms. Strong growth is expected to be driven largely by improved housing affordability and by the Government's more generous First Home Owners Scheme. Recent declines in interest rates should see housing affordability improve through 2001. The First Home Owners Scheme, which encourages the construction of new dwellings through the payment of a \$14,000 grant to first home buyers, should also provide a targeted, short-term boost to building activity in 2001-02.

There is a greater than normal degree of uncertainty surrounding the timing and extent of the recovery in dwelling investment. The Government's more generous First Home Owners Scheme and the recent reductions in interest rates should provide a significant boost to activity in the sector, although the timing and magnitude of this boost is difficult to assess. Early indications suggest strong interest from home buyers resulting from the First Home Owners Scheme.

Chart 6: Growth in dwelling investment



Source: ABS Cat. No. 5206.0.

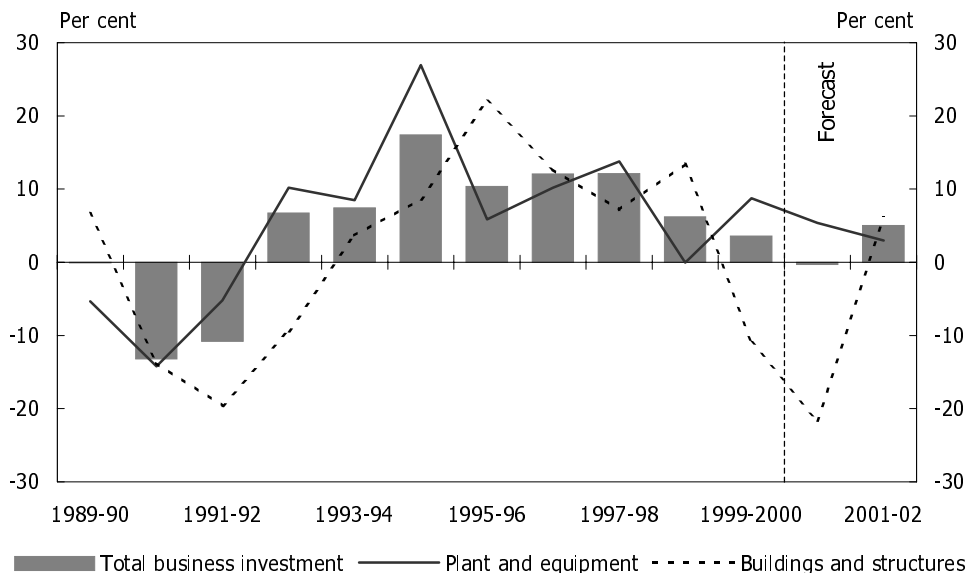
Business investment

New business investment² is expected to grow by around 5 per cent in 2001-02, following approximately zero growth in 2000-01 (Chart 7). Through the year to the June quarter 2002, new business investment is expected to grow by around 9 per cent. The solid outlook for business investment reflects sound fundamentals: short and long-term interest rates are near historical lows; corporate profitability (despite recent declines) remains around historically high levels as a share of GDP, and is particularly strong in the mining sector which is highly capital intensive; and the decline in the exchange rate over recent quarters will give many Australian industries an important buffer against the effects of slower world growth. Despite the forecast solid increase in business investment in 2001-02, the level of business investment would remain slightly below longer run averages as a share of GDP, following a small fall in 2000-01.

² Private sector net purchases of second-hand public sector assets can have a significant impact on estimates of business investment and public final demand, despite the fact that these asset purchases have no impact on aggregate economic activity. Accordingly, the forecasts of new business investment abstract from these transactions.

New investment in plant and equipment is expected to grow by around 3 per cent in 2001-02, and a strong 7 per cent through the year to the June quarter 2002, following estimated growth of around 5 per cent in 2000-01. The outlook for investment in plant and equipment is partially underpinned by expected investment in the mining sector. After a couple of very weak years during and immediately following the Asian crisis, conditions in the mining sector are conducive to investment, with record levels of profitability boosted by higher prices for a range of commodities and the decline in the exchange rate. Firms' first investment intentions for 2001-02, as reported in the ABS capital expenditure survey, were quite strong, although early estimates only provide a broad indication of likely outcomes. Allowing for some impact from lower levels of business confidence experienced over recent quarters on realisation ratios applied to investment intentions, the investment intentions data point to solid growth in plant and equipment investment in 2001-02.

Chart 7: Annual growth in new business investment^(a)



(a) Excluding net purchases of second-hand public sector assets.
Source: ABS Cat No. 5206.0 and Treasury.

The risks around the outlook for plant and equipment investment in 2001-02 appear to be balanced. On the one hand, slower domestic and world growth may point to a weaker outlook than forecast, particularly if business confidence falls in response to this uncertain outlook. While profits in aggregate have been around historically high levels, there is anecdotal evidence that margins in some sectors may have been affected by the lower Australian dollar, high energy and fuel costs, new tax payment arrangements and weaker demand. On the other hand, relatively low short and long-term interest rates, lower plant and equipment prices as a result of the introduction of *The New Tax System*, and the potential for investment by the mining and resource sectors over the medium term are supportive of strong investment. There

is also some potential for stronger than forecast investment in 2001-02 if business confidence rebounds sharply from its current level.

New investment in buildings and structures is expected to grow by around 6 per cent in 2001-02 and a strong 10 per cent through the year to the June quarter 2002. This follows an estimated decline of 22 per cent in 2000-01, mainly associated with the completion of Olympics-related projects. Strong growth in engineering construction is expected to underpin growth in investment in buildings and structures in 2001-02, as a number of new projects in the mining and resource sectors, and several power generation projects, commence during the year. A stabilisation in the level of non-residential building approvals, commencements and work-yet-to-be-done suggests that activity in this sector may have bottomed, following two years of decline.

Investment in intangible fixed assets (that is, computer software, mineral exploration rights and artistic originals) is expected to grow strongly in 2001-02, although at a slower rate than in 1999-2000 and 2000-01. The outlook for intangible fixed assets is dominated by expected strong growth in software investment, which now comprises over 10 per cent of total new business investment. Some easing in growth of software investment is expected in 2001-02, following the completion of work relating to the new tax arrangements in 2000, and Y2K-related work in 1999.

Inventories

Private non-farm inventories are expected to contribute around a $\frac{1}{4}$ of a percentage point to growth in 2000-01. In the first half of 2000, there appears to have been an unanticipated run-down in inventories, especially in the retail sector, as sales were brought forward ahead of the introduction of *The New Tax System*. In turn, there was some rebuilding of inventory levels in the second half of 2000 as this net bring-forward of sales was unwound. However, after making an allowance for this effect, there appears to have been a modest build-up in inventory levels in the second half of 2000, due to weaker than expected growth in sales.

Private non-farm inventories are expected to subtract around a $\frac{1}{4}$ of a percentage point from GDP growth in 2001-02, as the modest build-up in inventories in the second half of 2000 is gradually unwound over 2001, and more generally as firms continue to manage down inventory-to-sales ratios to increase profitability. However, there is a risk that the build-up in inventories may be unwound more quickly, especially if the recent falls in business sentiment are sustained.

Public final demand

In 2001-02, real public final expenditure³ is anticipated to grow by around $2\frac{1}{4}$ per cent in year-average terms, similar to the outcome expected in 2000-01, but well below the 5.6 per cent growth recorded in 1999-2000. The moderation relative to 1999-2000

3 The forecasts of public final expenditure abstract from private sector net purchases of second-hand public sector assets — see footnote 2.

reflects the winding down of expenditure related to the peacekeeping mission in East Timor; the start-up costs associated with tax reform; and the completion of large infrastructure projects in some States (including the Olympics). This has been partially offset at the Commonwealth level by the new spending initiatives on research and development, roads and defence that are expected to commence in 2001-02.

Growth in consumption at the State level is expected to be steady, with a fall in consumption following the Olympics offset by increased spending on roads and wage costs. An expected fall in State underlying investment reflects the completion of a large number of infrastructure projects in 2000-01 and decreased investment spending in 2001-02.

NET EXPORTS AND THE CURRENT ACCOUNT BALANCE

The CAD is forecast to decline sharply from 5.3 per cent of GDP in 1999-2000 to around 3 per cent of GDP in 2000-01 and 2001-02. The decline in the CAD relative to 1999-2000 is expected to be driven by a stronger trading performance in volume terms, a rise in the terms of trade and a lower NID. At these levels, the CAD would be well below its average level as a share of GDP during the 1990s, and around half its earlier peaks.

Net exports

Net exports are expected to contribute a large 1¼ percentage points to GDP growth in 2000-01, but slower world growth in 2001 will have a significant impact on exports in 2001-02. However, net exports are still expected to contribute around ¼ of a percentage point to GDP growth in 2001-02, reflecting the assumed lower average exchange rate in 2001-02 and the impact of modest growth in domestic demand on imports.

In 2001-02, export volume growth is expected to be a solid 5 per cent, following an estimated 6 per cent growth in 2000-01. These growth rates are only a little below trend, reflecting the impact of slower world growth in 2001 on Australia's export volumes being substantially offset by a lower average exchange rate. Export growth in 2001-02 is expected to be underpinned by strong growth in non-rural commodity exports, reflecting the continued ramp-up of production from recently completed projects.

Farm production is expected to fall by around 6 per cent in 2000-01 due to adverse seasonal conditions. In 2001-02, farm production is expected to grow strongly, by around 7 per cent (well above trend), due to the assumed return to average seasonal conditions. Rural export volumes are not expected to fall by as much as farm production in 2000-01, as stocks — particularly wool and wheat — are drawn down to meet demand. As a result, rural export volumes are not expected to rebound as strongly as farm production in 2001-02.

The impact of slower world growth — in particular in Australia's major trading partners — is expected to be most apparent in lower growth in elaborately transformed manufactures (ETMs) and services exports. However, the lower average

exchange rate should partially offset this by providing a boost to Australia's competitiveness, enabling Australian exporters to increase their market share. As a result, both services (abstracting from the Olympics) and ETM export volumes are expected to continue to grow solidly in 2001-02, albeit at rates somewhat below trend.

Import volumes are expected to grow by 4 per cent in 2001-02, up from around zero growth in 2000-01, reflecting strengthening — but still below trend — domestic demand growth and more modest growth in import prices in Australian dollar terms than in 2000-01. Nevertheless, in both years, import volume growth is expected to be well below trend growth rates.

The terms of trade

The terms of trade are expected to increase by a strong 4 per cent in 2000-01, to be around the highest level in a decade. Only a slight decline ($\frac{3}{4}$ per cent) from these levels is forecast in 2001-02, despite slower expected world growth. This slight decline reflects a modest fall in the world price of Australia's exports, partly offset by continued weakness in the world price of Australia's imports.

In currency neutral (Special Drawing Rights (SDR)) terms, Australia's non-rural commodity export prices — as measured by the Reserve Bank of Australia's commodity price index — are expected to continue to grow in 2001-02, following strong growth in 2000-01. Underlying this forecast are strong increases in negotiated contract prices for bulk commodities being partially offset by weaker prices for base metals and mineral fuels. Contract prices for steaming coal have recently increased by around 20 per cent in US dollar terms, coking coal by around 11 per cent and iron ore by around 4 per cent.

Some moderation in aggregate rural prices in SDR terms from recent high levels is anticipated, reflecting an expected rise in world agricultural production in 2001-02 (in part driven by the continued high level of agricultural subsidies in developed countries) and continued high levels of world stocks. This points to subdued world prices in 2001-02, particularly for wheat and cotton. Nevertheless, world prices for beef and wool — two of Australia's key rural exports — are expected to increase slightly in 2001-02, building on strong gains in 2000-01, to be at their highest level in two decades in Australian dollar terms. This reflects a relatively tight supply/demand balance in both markets.

In Australian dollar terms, rural commodity prices are expected to remain around historically high levels over the forecast period. While adverse seasonal conditions have seen farm production fall by around 6 per cent in 2000-01, a return to average seasonal conditions is expected to see farm production increase by 7 per cent in 2001-02. The relatively unusual combination of high prices and strong production should see farm incomes increase to historically high levels in 2001-02.

The current account deficit

The CAD is forecast to decline sharply in 2000-01, to 3 per cent of GDP, down from 5.3 per cent of GDP in 1999-2000. The decline in the CAD is expected to be driven by a stronger trading performance in volume terms, a rise in the terms of trade and a lower NID. In 2001-02, the CAD is expected to remain around 3 per cent of GDP.

Chart 8: Contributions to the current account deficit



Source: ABS Cat. No. 5302.0 and 5206.0 and Treasury.

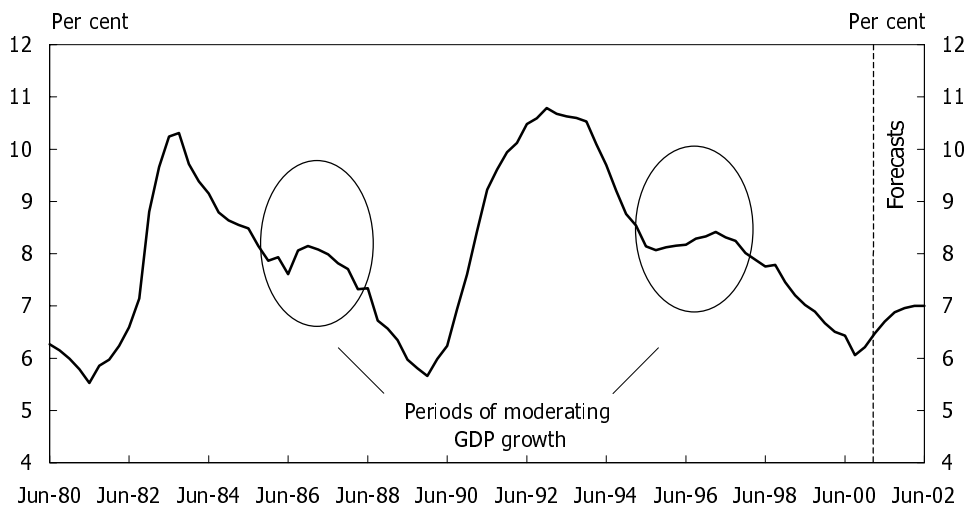
The NID is forecast to remain a little below 3 per cent of GDP, despite a continued (albeit more moderate) build up in Australia's net foreign liabilities as a share of GDP. This outcome reflects lower Australian and world interest rates, and the significant narrowing in the difference between the yield on foreign investment in Australia and the yield on Australian investment abroad over recent years. Recent trends in the NID are discussed in more detail in the Centenary edition of the *Economic Roundup*.

THE LABOUR MARKET

Employment growth in 2001-02 is expected to be slower than in recent years at around 1 per cent in year-average terms and around 1½ per cent through the year. This largely reflects the lagged effects of slower overall economic growth in 2000-01, particularly the downturn in the labour intensive construction sector (Box 2).

Employment in the construction sector declined by around 55,000 in total over the December 2000 and March 2001 quarters, with likely flow-on effects to other sectors, including employment in parts of the manufacturing sector involved in the production of building materials. These effects are expected to be reversed gradually as the construction sector recovers during the course of 2001-02, with the turn around likely to be most apparent in the second half of the year.

Chart 9: Unemployment rate



Source: ABS Cat. No. 6202.0 and Treasury.

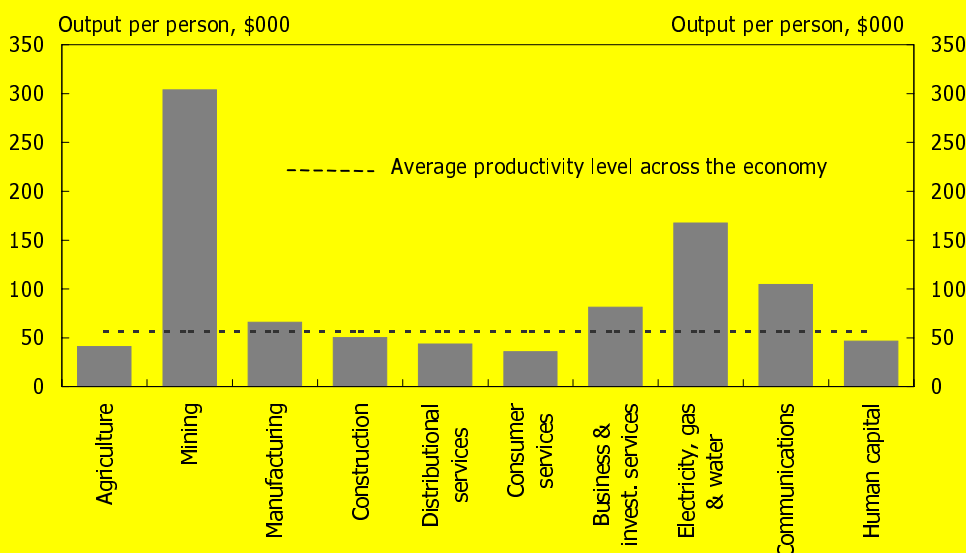
The unemployment rate is expected to increase slightly from recent levels, to average around 7 per cent in 2001-02 as a whole and in the June quarter 2002. Monthly data are likely to vary significantly around these averages. Recent falls in the various job vacancy series suggest that weak employment outcomes are likely over coming months, which is expected to put some upward pressure on the unemployment rate. However, as in previous short periods of slower GDP growth (identified by the circled periods in Chart 9), the increase in the unemployment rate is expected to be relatively small and quite brief. Continued moderate growth in wages will help to limit the extent and duration of the rise in unemployment. Prospects are sound for a resumption of the downward trend in unemployment over the medium term as the construction sector recovers, overall economic growth strengthens and the benefits from earlier labour market reforms and more general microeconomic reforms, including taxation reform, continue to accrue.

Productivity growth (on a heads basis) is forecast to reach a cyclical low in 2000-01 before rebounding solidly in 2001-02 to 2¼ per cent. Some of the factors likely to influence the medium-term trends in productivity are discussed in *Budget Paper No. 1*, Statement 4.

Box 2: Sectoral differences in labour productivity in Australia

Industries in Australia differ markedly in terms of their labour intensity and therefore their levels of labour productivity (Chart 10). For example, mining accounts for around 5 per cent of total output, but employs just 1 per cent of the workforce and therefore has a high level of labour productivity (output of around \$300,000 per person employed in the industry) and is relatively capital intensive. In contrast, construction is relatively labour intensive with levels of labour productivity (output of around \$50,000 per person employed in the industry) a little below the economy-wide average.

Chart 10: Labour productivity by industry^(a)⁴



(a) The chart shows average levels of productivity over the years 1996-97 to 1999-2000.
Source: ABS Cat. No. 5206.0 and 6203.0.

In 2000-01, as the composition of economic activity shifted away from relatively labour intensive industries such as construction, and towards relatively capital intensive industries such as mining, the impact of the slower overall economic growth on the labour market was more pronounced. As the construction industry recovers during 2001-02, this effect will be unwound gradually.

4 The following industries are aggregations of 'similar' ABS standard industry classifications: distributional services include wholesale trade, retail trade and transport and storage; business and investment-related services include finance and insurance, and property and business services; consumer services include accommodation, cafes and restaurants, cultural and recreational services, and personal and other services; and human capital services include government administration and defence, education, and health and community services.

WAGES

Wages have continued to grow at a moderate pace in 2000-01, consistent with slower economic and employment growth and the moderate increase in unemployment. Importantly, there has been little evidence to date of widespread wage increases in response to price changes following the introduction of *The New Tax System*.

Average earnings growth on a national accounts basis (AENA) is expected to be a moderate 3½ per cent in 2000-01. Abstracting from the increase in the superannuation guarantee charge on 1 July 2000, AENA is expected to grow by 3 per cent in 2000-01.

In 2001-02, growth in AENA is expected to increase to 3¾ per cent, as economic growth strengthens and is reflected in slightly firmer labour market outcomes as the year progresses. The forecast incorporates the recent 'Living Wage Case' decision.

The pace of the pick up in economic activity and the timing of its impact on the labour market represent a key source of uncertainty around the wages outlook.

While the introduction of *The New Tax System* does not appear to have influenced wages growth to date, there remains a residual risk to wages over the forecast period (for example, if union campaigns were to be successful). Recent enterprise bargaining data indicate that the proportion of employees covered by agreements that include inflation-related clauses has increased. However, there is no rationale for higher wages to compensate for the price effects of *The New Tax System*, given the significant personal income tax cuts and increases in benefits contained in the package.

PRICES

In 2000-01, 'ongoing' inflation (that is, inflation excluding the impact of *The New Tax System*) is expected to be around 3¼ per cent in both year-average and through-the-year terms. The increase in 'ongoing' inflation relative to the 1999-2000 outcome of 2.4 per cent in year-average terms largely reflects the effect of the increase in petrol prices over calendar year 2000.

The New Tax System is expected to increase the CPI by around 2½ per cent through the year to the June quarter 2001, with this effect having been felt largely in the September quarter 2000. Taking together the estimates of 'ongoing' inflation and the impact of *The New Tax System*, the CPI is expected to increase by 6 per cent in year-average terms in 2000-01 and by 5¾ per cent through the year to the June quarter 2001.

The CPI increased by 1.1 per cent in the March quarter of 2001. This higher than expected outcome largely reflected the effect of flooding in northern New South Wales and southern Queensland on fruit and vegetable prices and the effect of increased world demand for Australian meat products. The sharp rise in fruit and vegetable prices is likely to be at least partly reversed in coming quarters as supply returns to more normal levels. There were also the usual seasonal increases in the price of education, pharmaceuticals and childcare. Petrol prices fell 3.7 per cent in the quarter,

in response to lower world oil prices and the Government's decision to reduce excise on petrol (and abolish indexation) in early March. Looking through these influences, the CPI increased by a moderate 0.6 per cent in the March quarter, following the very low increase of 0.3 per cent in the December quarter.

Inflation is forecast to decline in 2001-02, with the headline CPI rising by around 2 per cent in both year-average and through-the-year terms. The abolition of Financial Institutions Duty (FID) and other elements of *The New Tax System* will put downward pressure on consumer prices in 2001-02 and the forecasts also incorporate an allowance for a slight easing in petrol prices in line with an expected downward trend in world oil prices. Wages growth is expected to remain moderate, at around 3¾ per cent, helping to ensure that growth in labour costs remains well contained. The inflation forecasts also make an allowance for some impact on consumer prices of the decline in the Australian dollar over recent quarters.

Measures introduced as part of *The New Tax System* (including the abolition of FID and stamp duty on marketable securities from 1 July 2001, as well as the early introduction of input tax credits for motor vehicles) are expected to reduce the CPI by between a ¼ and a ½ of a percentage point in both year-average and through-the-year terms. Leaving aside this effect, 'ongoing' inflation is expected to be around 2¼ per cent in the year to the June quarter 2002.

A number of key uncertainties surround the inflation outlook, particularly for 2001-02. If world oil prices or the value of the Australian dollar differ substantially from their assumed levels, this could pose risks to the inflation forecasts on both sides. The inflation forecasts are also based on the historical pass-through from exchange rates into the CPI. However, in recent years, exchange rate movements appear to have had less impact on the CPI than was the case on average over recent decades. If this reduced pass-through from the exchange rate to the CPI were to continue, inflation could be lower than forecast.

Part IV: Uncertainties

From a domestic perspective, a key uncertainty relates to the possibility that the recent downward trend in business and consumer sentiment is sustained over coming quarters. While the relationship between business and consumer sentiment measures and actual growth outcomes can be loose, if the recent falls in these measures were sustained there may be downside risk to the forecasts for business investment and consumption.

On the other hand, there is a possibility that the lower dollar and lower interest rates will provide a greater stimulus to economic growth than has been incorporated into the forecasts. There is also the potential for stronger than forecast investment and consumption in 2001-02 if business and consumer confidence were to rebound sharply from their current levels.

The dwelling sector is expected to rebound strongly in 2001-02, although, there is a greater than normal degree of uncertainty surrounding the timing and extent of this recovery. In particular, while the Government's more generous First Home Owners Scheme and the recent reductions in interest rates should provide a significant boost to activity in the sector, the timing and magnitude of this boost is difficult to assess.

The key international uncertainty is how the US economy will evolve over the next few quarters. The most likely outcome is that growth will slow in the first half of 2001 as excess inventories are unwound and excess capacity is pared back, but will pick up quickly once the adjustment is complete. In this case the impact on the rest of the world would be relatively mild and transitory. However, if falls in consumer and business confidence were to translate into weaker demand then the deterioration in confidence would likely become self-reinforcing and the outcome would be a deeper and more prolonged period of weakness than currently envisaged.

Japan and the non-Japan East Asian region would be adversely affected if a sharp and severe downturn in the US were to occur. The Japanese economy has been weak for some time, unable to gather momentum despite substantial fiscal stimulus. With short-term policy options now limited and unresolved problems in the financial and corporate sectors continuing to weigh heavily on consumer and business sentiment, Japan is exposed to any further deterioration in global economic conditions. Weaker external demand would see a further erosion of confidence and increase the chance that the economy would fall back into recession.

A sharper than forecast slowdown in the US and in Japan would adversely affect several regions, but especially non-Japan East Asia. Asian economies have relied heavily on export-led growth to support recovery over the past few years and are vulnerable to a broad based slowdown in global demand. The Asian economies have also become increasingly integrated with the US economy through the information technology production chain, and are exposed to a weaker US economy through this channel. With several Asian economies facing domestic problems and further progress on structural reforms necessary to strengthen their resilience to external shocks, there is a risk of substantial spillover effects in the region if economic conditions either in the

US or Japan were to deteriorate substantially. However, the lower interest rates provide some relief and the gradual decline in oil prices is also helpful for oil importing countries.

A significant slowdown in the US economy, combined with weaker growth in East Asia would result in a more broadly based global slowdown. This would translate into some downside risk to the outlook for Australia's export growth, especially in 2001-02 and hence represents a downside risk to the outlook for Australia's GDP growth in that year.

STATEMENT 4: A MORE PRODUCTIVE AUSTRALIA — POLICY AND TECHNOLOGY

Contents

Part I: Introduction	4-3
Part II: The United States experience	4-5
The United States 'new economy'	4-6
The role of information and communication technology	4-7
The NASDAQ bubble — implications for the future of the 'new economy'?	4-11
Part III: The Australian productivity acceleration	4-15
Structural reform and productivity growth	4-17
The role of new technology in Australia	4-19
Part IV: Looking to the future	4-22
Is productivity growth slowing?	4-22
The role of Government	4-22
Part V: Conclusion	4-24

STATEMENT 4: A MORE PRODUCTIVE AUSTRALIA — POLICY AND TECHNOLOGY

There is mounting evidence that the exceptional lift in productivity growth in the United States (US) economy in the late-1990s was largely the result of the productive diffusion of information and communication technology (ICT) throughout the economy. In Australia, a sound macroeconomic policy framework has encouraged competition and created a strong incentive to apply productivity-enhancing ICT advances in the Australian economy. This has created the potential for Australia to experience an extended period of strong productivity growth in coming years.

Part I: Introduction

Productivity growth underpins economic and social advance.

In the second half of the 1990s, the US economy achieved a significant lift in productivity and gross domestic product (GDP) growth, together with unusually low levels of both inflation and unemployment. There is evidence that this exceptional performance was substantially the result of the productive diffusion of ICT throughout the economy supported by highly competitive markets and a favourable investment climate. The US has been able to take advantage of this capital investment — often substituting labour — because of extremely flexible labour markets and the absence of rigidity in employment laws.

Computers and the means to link them in networks have been available for almost half a century, and have long been perceived as the next major 'general purpose technology', capable of pervasive application throughout the economy. However, it is only in the 1990s that these technologies have become cheap enough, and have been deployed widely enough in open, low-cost, Internet-based networks, to provide significant benefits to businesses and consumers. Although much of the discussion surrounding this general purpose technology has focused on the production of ICT, historically the greatest benefits of such technologies have come not from their production but from their use throughout the economy.

In the second half of the 1990s, Australia also experienced very strong economic growth by historical and international standards, combined with low inflation and falling unemployment. As with the US, this performance was underpinned by high productivity growth rates, allowing the economy to grow faster without inflationary pressures emerging.

Despite these broad similarities, the initial improvement in Australian productivity growth in the early-1990s preceded the ICT triggers at work in the US. Australian productivity growth during the early-1990s appears to have largely reflected structural

reforms, particularly to improve the performance of government business enterprises (GBEs), many of which were not previously subject to competition.

More recently, the Government has established a sound and responsible macroeconomic policy framework favourable to low inflation, low interest rates and high investment, and continued to implement further major structural reforms, including more flexible labour markets. This has encouraged competition and created a strong incentive to apply productivity-enhancing ICT advances throughout the economy. Indeed, Australia is now among the most extensive users of ICT in the world.

The Government has also promoted the efficient use of ICT directly through a range of policies and institutions, including the recently announced *Backing Australia's Ability — An Innovation Action Plan for the Future*, the largest group of measures ever proposed by an Australian government to foster innovation.

Given Australia's rapid adoption of ICT and sound macroeconomic policy framework, there is strong potential for a further wave of productivity growth in coming years. Such sustained high productivity growth would provide a firm foundation for solid economic growth and rising living standards in Australia over the longer term.

The recent slowdowns in growth in Australia and the US are likely to cause some cyclical slowing in productivity growth. But despite this, and despite the recent falls in equity prices of ICT companies in the US, the potential productivity gains to the entire economy from utilising the recent wave of Internet-based computer applications remains high. As the Organisation for Economic Cooperation and Development (OECD) noted in its May 2001 Report on The OECD Growth Project¹, analysing the reasons for improved performance in the US, Australia and a few other OECD economies:

‘... it would be wrong to conclude that there was nothing particularly exceptional about the recent US experience or that of other countries whose potential growth has been lifted.’²

Realising that potential will require maintenance of a good investment climate and further structural reforms. In particular, vibrant competition will need to be maintained and labour markets will need to continue to become more flexible to facilitate corporate re-design and the creation of new jobs from productivity-enhancing applications of the new technologies.

1 OECD (2001), *The New Economy: Beyond the Hype*, Final report on the OECD Growth Project, Meeting of the OECD Council at Ministerial Level.

2 OECD (2001), p 5.

Part II: The United States experience

Following almost sixty years of strong growth since 1913, US labour productivity growth slowed significantly to a little over 1 per cent a year from the early 1970s to the early-1990s. The earlier productivity surge from deploying the great inventions of the late 19th century seemed exhausted.

However, since 1995 the US has experienced a sustained return to very rapid productivity growth, rising incomes, low unemployment, and low inflation.

Economic analysts attribute an important role in the acceleration of US productivity growth to the diffusion throughout the economy of computer and related communication technologies. Economic historians identify ICT as a 'general purpose technology' with the potential for pervasive, productivity-enhancing applications throughout the entire economy, analogous to the application of electricity at the beginning of the last century — see Box 1.

These developments represented such significant changes in economic trends that US economic commentators, academics and officials speak of a 'new economy'.

Box 1: Historical experiences of new technologies and productivity growth surges

Most innovations are incremental, involving steady improvements within the framework of existing technologies. But there is a special class of 'radical technologies', which could not have evolved through incremental improvements in the technology that they displace (for example, synthetic fabrics or the transistor). Within the category of radical technologies, economic historians have identified a very small group of 'general purpose technologies' that have great economic significance because they can be applied to a broad range of sectors within the economy, and have many complementarities with other, existing technologies.

Identification of general purpose technologies is in part subjective, but on one reckoning, there have been only about a dozen general purpose technologies in the history of modern humans (that is, about 40,000 years): the domestication of crops; the domestication of animals; bronze; iron; the water wheel and windmill; the three-masted sailing ship; the printing press; automated textile machinery; the steam engine; electricity; the internal combustion engine; and the computer.

Continued...

Box 1: Historical experiences of new technologies and productivity growth surges (continued)

The first industrial revolution, the then-unprecedented burst of high productivity growth in the United Kingdom (UK) from 1760 to 1830, arose in part from the diffusion of two general purpose technologies, the steam engine and automated textile machinery. The second industrial revolution in the US from 1913 to 1972 also arose in part from the diffusion of two more general purpose technologies, electricity and the internal combustion engine, together with other major inventions of the late 19th century. (Economic historians have used the label of 'industrial revolution' to refer to any great acceleration of output and productivity growth that is pervasive and economy-wide.)³

Getting the most from general purpose technologies requires extensive corporate re-design, often involving extended trial and error and 'learning by doing'. For example, the full benefits from the electrification of factories required a completely new conception of factory layout, of job design, of training to convey relevant skills, and of management of workers and workflow, as epitomised in Henry Ford's production line.⁴ So slow and demanding was the process of diffusion that the productivity pay-offs from the application of electricity and the internal combustion engine, both general purpose technologies of the late 19th century, were still being felt in the middle of the 20th century.

The computer (used here as shorthand for the related group of ICTs including the Internet and the World Wide Web (WWW)) has been the 20th century's only new general purpose technology.

THE UNITED STATES 'NEW ECONOMY'

The US achieved a major lift in economic performance in the second half of the 1990s:⁵

- Productivity growth accelerated considerably, averaging over 3 per cent per year compared to 1.4 per cent for the previous 20 years. In contrast, labour productivity growth in the other G-7 economies slowed over the same period.

3 Gordon, R.J. (2000), *Does the 'New Economy' Measure up to the Great Inventions of the Past?* NBER Working Paper No. W7833, p 17.

4 David, Paul, A. (1990), *The Dynamo and the Computer: an Historical perspective on the Modern Productivity Paradox*, American Economic Review, Vol 80, No. 2, pp 355-361.

5 The Annual Report of the Council of Economic Advisers (CEA), *Economic Report of the President*, January 2001

- Real GDP growth rates averaged above 4 per cent per annum, almost half as fast again as in the previous 20 years.
- The unemployment rate fell to below 4 per cent — the lowest level in a generation. Disadvantaged groups have shared in the improvement.
 - African-American unemployment has fallen from 13 per cent in the early-1990s to under 8 per cent in 2000, and Hispanic unemployment fell from almost 11 per cent to under 6 per cent. In both cases, these are the lowest rates since separate statistics began to be collected in the early-1970s.
- Real hourly wages in the private sector rose (after a period of contraction in the late-1980s and early-1990s).
- Poverty rates fell across the board, with the largest improvements for the most disadvantaged groups. The incomes of the poorest 20 per cent of households grew slightly faster than the incomes of the richest 20 per cent.

Changes of just a percentage point or two in single-digit growth rates in productivity and GDP might seem small. But their compounded effects on American real incomes and wealth have already been significant.

‘Thus the United States today is some 10-15 per cent richer than mainstream economists would have dared to forecast a decade ago. It has an unemployment rate — a hair more than 4 per cent — that is two percentage points lower than mainstream economists would have dared to forecast a decade ago. And it has a much more favourable short-term inflation-unemployment trade-off than the US economy had a decade ago, when a decline in unemployment below 6 per cent set off increases in inflationary pressures reminiscent of the late 1960s or the late 1970s.’⁶

THE ROLE OF INFORMATION AND COMMUNICATION TECHNOLOGY

The technological key to this strong US performance in the second half of the 1990s has been the rapid rise in ICT investment, together with the intense competition that created the incentive for that investment, and the macroeconomic policy framework that created a favourable investment environment and low interest rates.

This rapid investment in new technology was made possible by the highly flexible nature of product and labour markets in the US. The lack of labour market rigidities in the US, particularly in relation to employment dismissal laws, has allowed existing

⁶ Delong, J. B. (2000), *What Went Right in the 1990s? Sources of American and Prospects for World Economic Growth*, Paper to Reserve Bank of Australia 2000 Conference ‘The Australian Economy in the 1990s’, p 13.

firms to freely and efficiently substitute labour for capital in areas where there is potential for such decisions to improve the production process. This regulatory framework sends a clear signal that innovation and risk taking is encouraged by reducing unnecessary administrative regulations and instilling positive attitudes towards entrepreneurship. This has been a major factor behind the emergence of the US as a centre for ICT development. In turn, this creates an environment conducive to the creation of innovative startup firms, which contributed to the rapid employment growth seen over the same period.

New technologies that permitted the personal computer (PC), cheaper telecommunications and the Internet have been available for many years. However it was only in the 1990s that diffusion of the Internet and the WWW, accelerating falls in ICT prices and the emergence of user-friendly computer software, has allowed these technologies to interact on an unprecedented scale, and has allowed ordinary people and small businesses to use them productively — see Box 2.

Box 2: The evolution of information and communication technologies

From at least the onset of the 1972 to 1995 productivity slowdown in the US, economists had pondered what became known as the ‘Solow paradox’: the impact of computers could be seen everywhere except in the productivity statistics.⁷

A timeline of significant commercial computer and ICT developments helps explain the technological basis to the very slow economic process of diffusion of ICT throughout the economy. The technological foundations were laid in the 1950s for commercial computing, and even for business-to-business (B2B) e-commerce (albeit through expensive, closed and inherently anti-competitive proprietary systems, rather than the cheap and open Internet). But the economic diffusion of ICTs in large, valuable networks that could link most businesses and many households, awaited the remarkably recent development of low-cost, high-powered computers, low cost telecommunications, the Internet and the WWW, and — perhaps most importantly of all — software that made it easy for ordinary people to use computers:

- 1951 UNIVAC I, first commercial mainframe computer goes on sale.
- 1957 SABRE, first proprietary B2B (originally airline reservations within American Airlines, subsequently made available to other airlines).
- 1980 First spreadsheet software.
- 1981 First IBM personal computer.
- 1983 Transition to TCP/IP protocols create the current Internet.
- 1984 Apple Macintosh ‘point and click’ interface.
- 1992 WWW software and protocols launched.
- 1995 Microsoft Windows 95 makes ‘point and click’ available to PC users. Use of Internet for commercial transactions starts to gain momentum.

The melding of all these advances into large networks was critical to their economic value. Economists analyse e-commerce and the Internet in terms of ‘direct network economies’. A direct network economy arises in two-way communications networks, where each new customer increases the value of the network to all previous customers. Users of the network receive increasing returns in consumption. For example, the English language is a communications network, and every additional speaker of English increases the value of the language to all existing speakers. So are the TCP/IP protocols on which the Internet rests. So are all applications of the Internet, such as B2B exchanges.

⁷ Solow, R. (1997), *We’d Better Watch Out*, The New York Times Book Review, 12 July 1987, p 36.

The 2001 Annual Report of the Council of Economic Advisers (CEA)⁸ marshals analysis of the last few years in attributing the pick-up in productivity growth to a combination of mutually reinforcing advances in ICT, business practices and economic policies. This need for competitive pressures and good policies to create a positive investment climate has also been important in the previous diffusion of other general purpose technologies.

For example, the original spread of electric power and light through the US economy did not acquire real momentum until the 1920s, although central generating systems for electric power appeared in New York and London in the 1880s. The diffusion of electric technology did not proceed until the fall in regional utility rates for electricity which followed deregulation in 1914 to 1917 (analogous to the accelerated fall in the prices for computers in the mid-1990s). Large investments in both equipment and new human skills were necessary to reap the ultimate advantages of electrification, so a good overall investment climate and a low cost of capital was necessary. This was provided in the expansionary macroeconomic climate of the 1920s.

As with many new general purpose technologies, there was a long initial period of business 'learning by doing' and trial and error in getting the most out of electricity, and the first lessons from isolated successes could not be communicated efficiently to the diffuse range of potential beneficiaries.

Competition has been an important factor in driving economic advances from ICT, both within the ICT-using industries and in the ICT industries themselves:

'... in 1999, some 60 per cent of US spending on computers was sourced from imports, while some 50 per cent of domestically produced computers were exported. International competition has reinforced competition at home. ... Antitrust laws limit corporate conduct that undermines competition and consequently harms consumers. ... Regulatory policies have also promoted competition.'⁹

US research has extensively explored the extent to which accelerated productivity growth has arisen within the ICT sectors themselves, compared to the productivity gains from the use of ICT in the broader economy. Estimates differ in detail because some are constructed from the production side of the national accounts, some from the consumption side and some from the average of the two. Estimates also differ in the amount of the overall productivity acceleration they estimate to be structural, rather than cyclical. But almost all tell the same broad story. The CEA Report is representative in estimating that, of the 1.6 percentage point acceleration in annual productivity growth:

8 CEA (2001).

9 CEA (2001), p 47.

- Around 11 per cent can be attributed to total factor productivity (TFP) growth in computer producing industries.
- Around 63 per cent can be attributed to TFP improvements throughout the rest of the economy. This implies that improvements in the ways capital and labour are used throughout the economy are central to the recent acceleration in productivity. Some of these gains have likely resulted as firms learn to apply innovative information technology to their particular business and production methods.
- Most of the remainder can be attributed to capital deepening, as the non-ICT sectors invested more in ICT.

So the US productivity surge has largely been the result of the productivity-enhancing application of ICT breakthroughs by rapidly restructuring companies, driven by competitive markets and a macroeconomic environment supportive of high investment and low interest rates.

THE NASDAQ BUBBLE — IMPLICATIONS FOR THE FUTURE OF THE ‘NEW ECONOMY’?

Between March 2000 and April 2001, the ICT-heavy NASDAQ index fell by around two-thirds of its total value. This extraordinary volatility bears the hallmark of previous stock market ‘bubbles’ with a rapid run-up in values beyond any supporting data on earnings potential, followed by an equally rapid collapse without any obvious trigger. Has the ICT boom run its course, and might its contribution to the US productivity acceleration already have passed?

Some bubbles in asset markets arise merely from excesses of credit, of greed or of both. But most have at their base some plausible hope for profit from burgeoning demand for a new product (such as for tulips in 17th century Holland), or profits from resources from a new frontier, or a new politically-guaranteed monopoly (such as the South Sea bubble in 18th century England), or from a new technology. In short, bubbles frequently arise when the fundamentals become difficult to assess — see Box 3.

Box 3: Stock market 'bubbles' and previous radical or general purpose technologies

Most major technological innovations have caused a 'bubble' in the prices of equities in associated companies.

There are similarities in the recent enthusiasm for ICT stocks to the railway age from the 1840s to the 1890s. In the UK, vast sums were raised on the stock market to finance new railway lines, but '...most railway companies never paid a penny to shareholders, and many went bust, largely because over-investment created excess capacity. The Great Western Railway was for decades the most admired railway company in Britain, yet anyone who had bought shares at its launch in 1835 (at a fraction of their peak in 1845) and held them until 1913 would have seen an annual return of only 5 per cent. Even so, the railways brought huge economic benefits to the economy long after share prices crashed.'¹⁰

In the US alone, there were once 5,000 railway firms, almost all of which have now disappeared. The real beneficiaries of the US railway boom were the small firms and farmers who benefited from the opening up of the continent.

There are also similarities to the more recent productivity surge from the 1890s to the 1950s driven by the diffusion of the late-19th century's two general purpose technologies, electricity and the internal combustion engine, together with other radical technologies such as radio, sound recording and movies, aeroplanes and industrial chemistry.

Profits and share prices of the early electricity firms were disappointing. During the electrification of American industry, profits actually fell slightly as a share of GDP, as competition drove manufacturers to pass cost savings through to consumers. A few of the 'new economy' firms at the beginning of the last century, producing the technologies of the electric age, prospered and have survived into the computer age (such as the archetypical 'General Electric', the only company listed in the Dow Jones Industrial Index today that was also included in the original index in 1896). But references to many other firms and their brand names are now to be found only in the Smithsonian museums. In contrast, the whole-of-economy beneficiaries of the electric age are everywhere.

In the US alone, there were initially 2,000 automobile firms; now there are three, all with ownership links or corporate collaborations beyond US borders. The other firms were all driven out, over the years, through consolidations, while the quality, diversity and cost of motor transport options has improved rapidly.

¹⁰ Economist, *The New Economy: Untangling E-conomics*, Survey, 23 September 2000.

The more radical or potentially pervasive the new technology, the more difficult it is to reasonably foresee just which firms might profit from it, when, or by how much.

With a radical or a general purpose technology, it is likely that the initial production of the key goods and services embodying the new technology will be undertaken by a specially created firm with no previous history or earnings from any other source. Existing firms in competing areas using earlier technologies typically have a vested interest in maintaining that technology, and are burdened with the cost of servicing the capital tied up in those technologies.

So, frequently the firms exploiting new technologies defy benchmarking by historical record or the usual tools of the equity market analyst. For example, their share price might reasonably be positive — they have some prospect of producing a future stream of earnings — but their actual earnings are zero or negative, so their current price-earnings ratio is undefined, and their effect on the average price-earning ratio for the equities market as a whole is to move it towards new heights, as has been observed of the US market over recent years.¹¹

With the recent slowdown in the US economy, some slowdown in productivity growth has occurred, as usual cyclical 'labour hoarding' occurs. However, that should not be interpreted as the end of ICT-driven productivity growth. There seems to be abundant scope for future ICT efficiencies throughout the economy. For example, e-commerce efficiencies have not yet made much of a contribution to productivity growth. On one estimate of the value of business-to-consumer (B2C) and B2B commerce in the US in 1999, and assuming such sales were 10 per cent cheaper than if they had taken place through traditional channels, those resource savings may only have accounted for less than 0.1 of a percentage point of the increase in multifactor productivity (MFP) growth in the second half of the 1990s.

As with earlier radical and general purpose technologies, the greatest gains from future ICT applications are likely to flow to the users, not the producers. As noted in the OECD's Report on the Growth Project:

'ICT is important for growth, but having an ICT-producing sector is not a prerequisite. ... Moreover, only a few countries will have the necessary comparative advantages to succeed in ICT output. The key to benefiting from ICT is to focus on policies to foster its use, rather than its production.'¹²

11 Shiller, R. J., *Irrational Exuberance* (2000).

12 OECD (2001), p 9.

For tomorrow's Internet-driven ICT applications in particular, it should be remembered that the Internet is an open system which inherently tends to lower entry barriers and intensify competition. That will be good for companies, workers and consumers who can flexibly change their practices to use the new technologies, but it is unlikely to be a path to riches for many of the investors in the production of the technologies themselves.

Part III: The Australian productivity acceleration

Australia's economic performance in the 1990s and particularly in the second half of the decade was as remarkable as that of the US. Economic growth was strong and sustained, the unemployment rate fell to around the lowest level in a decade, yet inflationary and wage pressures remained subdued.

- Following the recession of the early-1990s, gross domestic product (GDP) growth strengthened, with nine years of positive growth. This strong performance included thirteen consecutive quarters of through-the-year growth above 4 per cent — the longest run of such growth recorded in the history of the quarterly National Accounts (since September 1959).
- The unemployment rate fell from an historic high of 11.2 per cent in December 1992 to 6.0 per cent in September 2000 — the lowest level in over 10 years.
- Inflation averaged 2.3 per cent in the 1990s, compared to over 8 per cent in the 1980s and over 10 per cent in the 1970s.

As was the case in the US, this exceptional performance was underpinned by very strong productivity growth rates.

During the 1990s, productivity growth rates in Australia returned to levels not seen since the late 1960s. The pick-up in productivity growth has been particularly noteworthy because it has occurred across all measures of productivity: labour, capital and MFP — Table 1.

Table 1: Productivity growth rates in Australia (annual average)

	Labour	Capital	Multifactor
Second half of 1990s	3.7	-0.4	2.0
1990s	2.9	-0.7	1.4
1980s	1.4	-1.4	0.4
1970s	2.8	-1.3	1.3
Long term average (since 1964/65)	2.4	-1.1	1.1

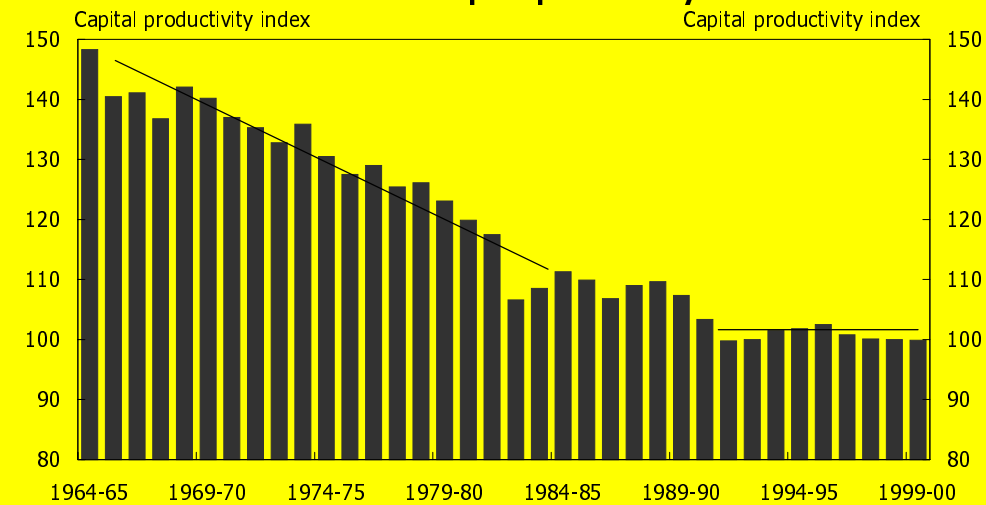
Source: ABS Cat. No. 5204.0.

Capital productivity in any modern economy is usually in secular decline, as new investments are added to a slowly growing labour supply. But Australia's capital productivity fell very rapidly from the 1960s to the 1980s, because of inefficiency in allocating and operating investments. In the 1990s, capital productivity declined at a much slower rate than previously, as sharpened competition and more flexible markets (including labour markets) permitted more efficient resource allocation and more intensive use of the existing capital stock — see Box 4.

Box 4: Capital productivity

Traditionally, capital productivity has declined due to increasing capital intensity. The capital-to-labour ratio has increased in all but a few years since the mid-1960s, reflecting a greater reliance on the use of machinery in the production process. By definition, this has the effect of increasing the relative productivity of workers and lowering the relative productivity of capital.

Chart 1: Capital productivity



Source: ABS Cat. No. 5204.0

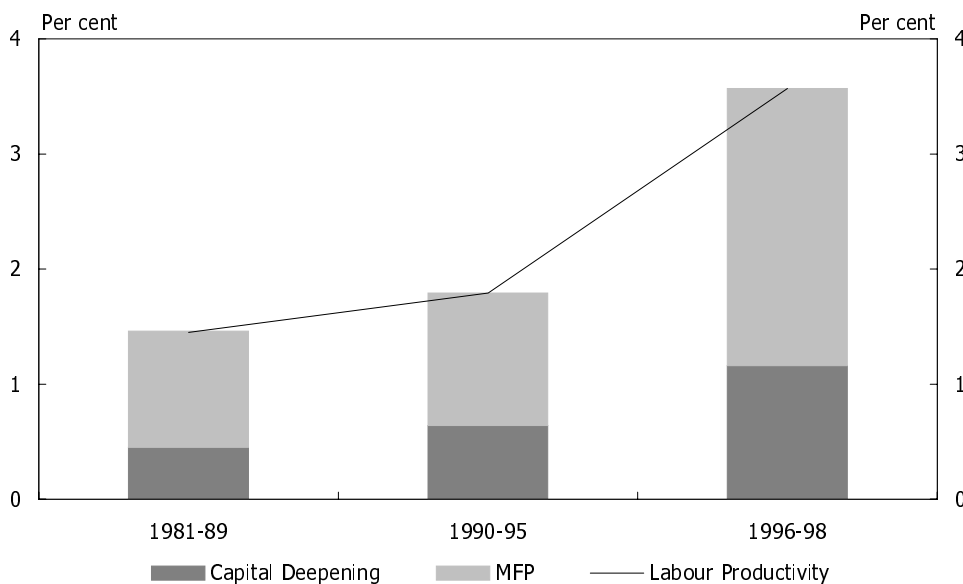
However, in the 1990s capital productivity growth has been relatively stable, a clear break from the downward trend of previous decades.

This moderation in the decline of capital productivity can be attributed to the widespread structural reform that has been implemented since the mid-1980s. It provides evidence that resources are now being directed into more productive and efficient areas, increasing economic returns to investment within the Australian economy, with economic benefits to all Australians.

This strong productivity performance has gained both domestic and international recognition. The May 2001 OECD Report of the Growth Project highlighted Australia as one of only three countries (together with the Netherlands and Ireland), to experience markedly stronger trend growth of GDP per capita in the 1990s, largely as a result of improvements in productivity.

The strong growth in MFP in the 1990s also highlights the fact that Australia's productivity surge did not simply reflect an increase in capital investment — commonly referred to as capital deepening — Chart 2. Instead, it reflected underlying improvements in the overall efficiency of the economy: the skill with which capital and labour were combined and managed.

Chart 2: Decomposition of Australian annual labour productivity growth



Source: US Federal Reserve Board.

STRUCTURAL REFORM AND PRODUCTIVITY GROWTH

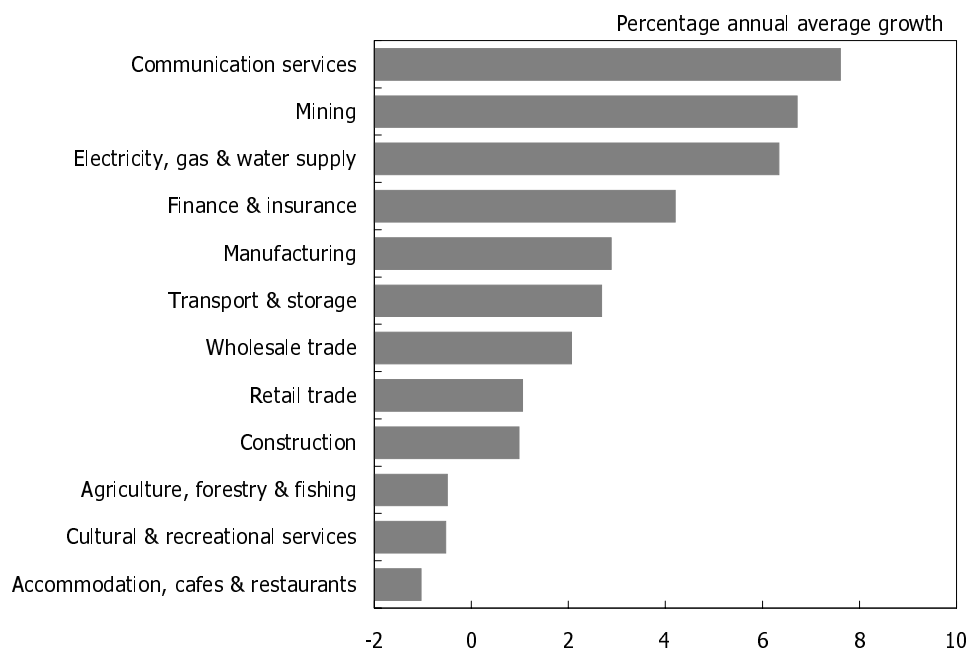
Despite the similarities between the magnitudes of the Australian and US productivity accelerations, there are important differences. Following a period of weak growth in the 1980s, Australian productivity growth accelerated strongly in the early-1990s. This initial surge began too early to have been initiated by the diffusion throughout the economy of those recent ICT breakthroughs that powered the US surge. Instead the Australian productivity improvement was triggered by a wide-ranging structural reform programme.

Reforms such as the reduction of external barriers to trade and increased access to essential infrastructure through the National Competition Policy (NCP), began the

process of increasing competition and improving the underlying efficiency of the Australian economy.

The effects of this reform can be seen by examining an industry breakdown of labour productivity growth rates in the early 1990s. Those sectors that were the primary focus of reform, including financial services and those sectors previously dominated by government owned monopolies, experienced very rapid productivity growth — see Chart 3.

Chart 3: Industry labour productivity growth 1989-90 to 1994-95



Source: ABS Cat. No. 5204.0

In the second half of the 1990s, Australia stepped up the reform process. *The New Tax System* replaced a range of narrowly-based indirect taxes, reducing the distortion of production and consumption choices. Enterprise bargaining replaced the centralised setting of wages and conditions of employment, with wage rises now set in a more competitive, flexible environment and more dependent on productivity improvements in particular workplaces.

The Government also established a transparent, medium-term macroeconomic policy framework. In August 1996, the *Statement on the Conduct of Monetary Policy* formalised the objective of 'keeping underlying inflation between 2 and 3 per cent, on average, over the cycle' and gave the Reserve Bank of Australia (RBA) operational independence in meeting that objective. The Government also adopted a medium-term fiscal objective of achieving underlying budget balance, on average, over the economic cycle. The credibility of fiscal policy was also enhanced through accrual accounting

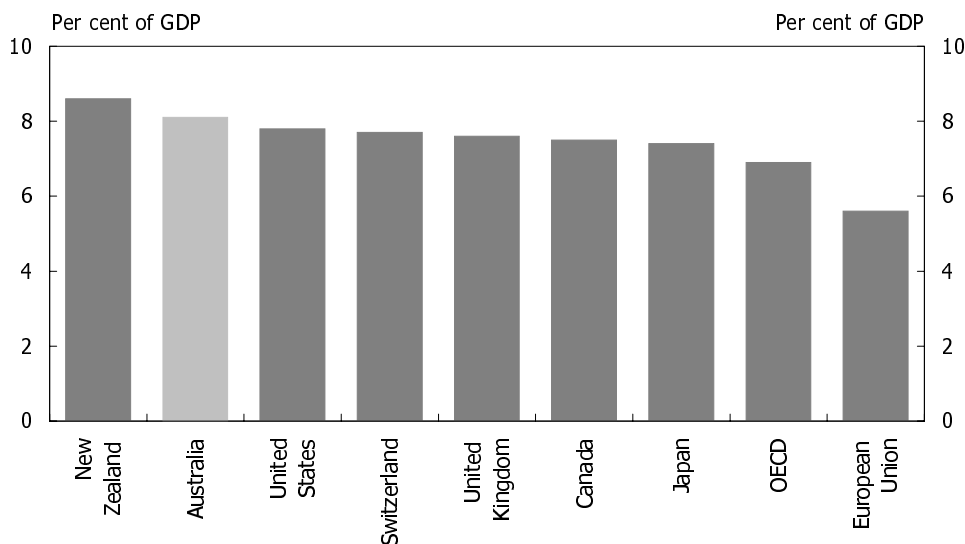
and superior transparency arrangements legislated into the Charter of Budget Honesty.

This combination of a sound and responsible macroeconomic policy framework and ongoing structural reform has continued to directly improve the underlying productivity of the Australian economy by creating a more dynamic and competitive environment.

THE ROLE OF NEW TECHNOLOGY IN AUSTRALIA

In pursuing productivity improvements within this highly competitive environment, Australian firms have applied new technology. Indeed, Australia is now amongst the most intensive and sophisticated users of new technology in the world, with recent OECD estimates ranking Australian spending on ICT as a percentage of GDP amongst the highest in the OECD — see Chart 4.

Chart 4: ICT expenditure as a per cent of GDP



Source: OECD Science and Technology Outlook 2000.

The OECD noted that Australia trails only the US and Iceland in the density and rate of growth of secure servers (a measure of preparedness for encrypted e-commerce). Of seven leading economies reviewed by the OECD, Australia had the second highest home Internet access among the richest quartile of household incomes, and the highest access among the poorest quartile.

More generally, ICT investment has also been growing rapidly, with the shares of capital income accruing to software and hardware owners in Australia — a measure of

the importance of ICT investment in the capital stock — rising rapidly in the 1990s, towards US levels.

In Australia's case, as a result of the reform-driven increases in domestic and international competition, investments in ICT have been practically and commercially focused. Indeed there has been a fundamental interplay between improved competition and the efficient adoption of new technology.

This rapid and efficient adoption of new technology by world standards, combined with Australia's long history of innovation, makes Australia very well placed to experience a second wave of productivity growth, as all sectors of the economy harness the benefits of new technology. As an example of Australia's ability to focus scientific research on new innovations, Australia is third to only the US and Canada within the OECD in the citation rates of research in patents taken in the US. As the OECD's Report on the Growth Project notes:

'In the United States, Canada and Australia, innovation draws more strongly on scientific research than in France, Germany and Japan.'¹³

Early evidence of this can be seen in those industries where ICT has been adopted most heavily. Both the wholesale and retail trade industries experienced very strong productivity growth in the second half of the 1990s. These industries have been quick to adopt new management and ICT techniques (drawing on computers and bar code scanners) in order to cut down on inventories and improve customer service.¹⁴

The benefits of ICT are also being felt in traditional industries such as mining and agriculture. By the end of March 1999, close to half of all farms in Australia owned or used a computer.¹⁵ This technology is being used to help overcome the communication and distribution problems posed by the isolated geographic nature of many of Australia's rural industries. It is also being used to access and compete effectively in new markets, particularly overseas.

These examples of a range of industries across the economy effectively harnessing the benefits of new technology, again highlight the long-run differences between the use and the production of new technology. Australia's small ICT-producing sector is not competing in the 'commoditised' chip production and PC assembling end of the market, but rather in specialised software applications that build on Australia's other

13 OECD (2001), p 12.

14 The application of the ubiquitous bar code scanner together with the computer is another example of how competition drives innovation in unpredictable directions through unforeseeable linkages, with application rather than production being the key. Bar code scanners use lasers. When Bell Laboratories invented the laser in 1957, it did not bother patenting it, regarding it as only a specialised scientific and potentially military tool. The barcode scanner (and other commonplace applications, such as the Compact Disc) awaited the pairing of the laser with complementary developments in the semiconductor industry.

15 *Use of Information Technology on Farms*, 1998-99, ABS Cat. No. 8134.0.

commercial comparative advantages. Australia is also benefiting from our openness with the world's best in this intrinsically globalised industry, as illustrated in the recent success of 'Radiata', whose alertness to the world potential for wireless LAN applications would be hard to envisage without its key Australian personnel's own experience in US academia and Silicon Valley.

Australian firms will continue to benefit from applying ICT productively throughout a competitive and flexible economy long after the apparent obsession with Internet start-up companies has faded away. This is the true test of a so-called 'new economy', and in the long-run Australia is well placed to compete in this new global arena.

Part IV: Looking to the future

IS PRODUCTIVITY GROWTH SLOWING?

Following the record growth recorded in the second half of the 1990s, labour productivity growth has slowed somewhat in recent quarters, in line with the pause in overall economic growth (see Statement 3).

Employment growth was particularly strong in the two years leading up to the Sydney Olympics, with this growth focused largely in highly labour intensive sectors of the economy, particularly construction. By nature, these are relatively low labour productivity sectors when compared with highly capital intensive areas such as mining. Combined with the recent pause in economic growth, this has led to lower productivity growth in the short term.

However, despite this cyclical slowing in productivity growth, prospects for productivity growth over the medium to longer term remain sound. As highlighted, the combination of stable macroeconomic policies, ongoing structural reform and the increased usage of new technology should all contribute to a resumption of strong productivity growth.

THE ROLE OF GOVERNMENT

Government has a key role in providing a policy framework for the private sector, to foster the efficient and practical adoption of new technology. The essential framework involves a vigorous national competition policy and flexible labour markets, in a stable macroeconomic context to create a favourable investment environment.

The Government has initiated technology and educational policies that support Australia's transformation to a modern technology-based economy. The Government released *Backing Australia's Ability — An Innovation Action Plan for the Future* on 29 January 2001. The package invests \$3 billion over five years in a wide range of measures designed to further encourage innovation. This builds on the Government's investment of around \$4.5 billion in major programmes of science and innovation in 2000-01 and on broader support provided in other areas of the innovation system such as education and training. These additional investments demonstrate the Government's recognition of the importance of innovation to national prosperity — see also Budget Paper No. 2 and at <http://www.innovation.gov.au>.

In 1997 the Government also established the National Office for the Information Economy (NOIE). NOIE is helping Australians create a world-class online economy and society through its work developing, overseeing, and coordinating Commonwealth Government policy on electronic commerce, online services and the Internet.

But applying better education and scientific skills are ultimately labour market issues. As the OECD observes in the Report on the Growth Project:

‘Improving skills is not enough — human capital needs to be used efficiently and its interactions with new technology [must] be enhanced. This means a reorganisation of work, since firms that introduce new work practices such as employee involvement, flatter management structures and teamwork tend to enjoy higher productivity gains than other firms. It is essential here to give workers greater voice in the process of change and institutions of labour-management cooperation should be strengthened. This calls for modernisation of traditional systems of collective bargaining and wage formation. In addition, regulation should provide for more flexibility in working hours, allowing new forms of work to flourish.’¹⁶

16 OECD (2001), p15.

Part V: Conclusion

This Statement has explored in both the United States (US) and Australia the recent experience of, and the potential for, a sustained period of accelerated productivity growth from exploiting innovation in ICTs through maintaining a good macroeconomic climate for investment, competitive and flexible markets, and open, outward looking trade and investment policies.

The experience of the US and Australia with ICTs, and broader global experience with earlier waves of general purpose technologies, shows that technological advance is not a *deus ex machina*. It does not automatically deliver its benefits as a windfall to the leading producers of the goods or services embodying the new technology.

Inappropriate policies and structural rigidities can hobble powerful new technologies. To give a distant example, by 1400 China had already invented moveable-type printing, the blast furnace and the water-powered spinning machine. If China had then had the right system of property rights and public policies to support the financing, efficient allocation and management of investments in the new technologies, the first industrial revolution could conceivably have occurred in China, 350 years earlier than its actual birth in the UK. Instead, it took until the 18th century for the UK to provide the first conjunction of powerful, general purpose technologies with the social attitudes, policies and institutions that allowed the confidence to invest, the ability to profit, and the 'gales of creative destruction' necessary to displace earlier technologies and change work practices.

Through history, the rewards of major new technologies have repeatedly gone to productive users of new technologies, not to the early producers of them. Productive deployment of new technologies requires large investments and extensive structural changes, both of which depend on a supportive policy framework and in particular, open flexible product and labour markets.

With general purpose technologies such as ICTs, and their potential to raise productivity throughout the economy, the early international winners will be those who can harness the technology through competition in a good investment climate to finance the most competitive, productivity-enhancing uses of the new technologies. If Australia can sustain a supportive macroeconomic environment and vibrantly competitive markets while creating more flexible labour markets, it will be well placed for a second wave of sustained high productivity growth and consequently broader social opportunities.

STATEMENT 5: REVENUE

Contents

Part I: Overview	5-3
Total revenue	5-3
Variations in revenue estimates	5-4
Part II: Estimates of revenue	5-9
Detailed revenue estimates	5-9
Taxation revenue	5-11
Fringe benefits tax and other taxes	5-19
Non-taxation revenue	5-21
Appendices	
Appendix A: Changes in revenue estimates since MYEFO	5-24
Appendix B: Forward estimates of revenue	5-26
Appendix C: Revenue measures	5-28
Appendix D: Tax expenditures	5-33
Appendix E: Cash revenue statistics and history	5-35

STATEMENT 5: REVENUE

Part I: Overview

Relative to the Mid-Year Economic and Fiscal Outlook (MYEFO), the expected revenue outlook for 2000-01 has been revised upwards. This is consistent with recent strong collections of non-GST taxation revenue. Looking ahead, the temporary economic slowdown in 2000-01 is anticipated to result in lower revenue in 2001-02 than previously forecast.

TOTAL REVENUE

Revenue estimates¹ for the period from 2000-01 to 2004-05 are provided in Table 1.

Table 1: Estimates of total Commonwealth general government revenue

	2000-01		2001-02	2002-03	2003-04	2004-05
	Budget(a)	Revised	Estimate	Projection	Projection	Projection
Total tax revenue (\$b)	143.8	150.7	146.8	154.5	165.0	174.8
Real growth on previous year (%)	-8.6	-4.9	-4.0	2.8	4.2	3.4
Per cent of GDP	21.2	22.4	20.9	20.7	20.9	20.9
Non-tax revenue (\$b)	9.7	10.3	12.1	10.4	10.5	10.8
Real growth on previous year (%)	-32.9	-29.1	15.1	-16.2	-0.7	0.2
Per cent of GDP	1.4	1.5	1.7	1.4	1.3	1.3
Total revenue (\$b)	153.5	161.0	158.8	164.9	175.5	185.7
Real growth on previous year (%)	-10.7	-7.0	-2.8	1.3	3.9	3.2
Per cent of GDP	22.6	24.0	22.6	22.1	22.2	22.1

(a) As published in the 2000-01 MYEFO on a Government Financial Statistics (GFS) basis. The corresponding estimates reported in the 2000-01 Budget were on an Australian Accounting Standard No. 31 (AAS31) basis.

Over the period from 2000-01 to 2002-03, total revenue as a percentage of gross domestic product (GDP) is projected to fall from 24.0 per cent to 22.1 per cent. Total revenue as a share of GDP remains broadly unchanged from 2002-03 to 2004-05.

- The sizeable reduction in total Commonwealth general government revenue in 2001-02, relative to 2000-01, is due to a bring-forward in the timing of company and

1 All revenue estimates in this Statement are reported on an accrual basis unless otherwise specified. (Revenue estimates on a cash basis can be found in Box 1 and Appendix E.) The revenue estimates exclude GST revenue, which is collected by the Commonwealth and passed in full to the States and Territories. A discussion of GST revenue can be found in Statement 2 and *Budget Paper No. 3*.

superannuation tax liabilities under the new Pay As You Go (PAYG) system. This provides a once-off boost to revenue in 2000-01. (See Box 1 for further information.)

- The fall in the total revenue to GDP ratio in 2002-03 reflects lower non-tax revenue and continuing restrained tax revenue growth. Non-tax revenue is expected to decline from 2001-02 to 2002-03, due to a reduction in projected dividends from Government Business Enterprises (GBEs) and other associated entities.
- Tax revenue as a proportion of GDP is expected to remain broadly unchanged from 2001-02 to 2004-05 at around 20.9 per cent.

VARIATIONS IN REVENUE ESTIMATES

Table 2 reconciles this Budget's revenue estimates with those at the 2000-01 MYEFO and the 2000-01 Budget in terms of policy decisions, and economic parameter and other variations.

Table 2: Reconciliation of total Commonwealth general government revenue estimates from 2000-01 Budget to 2001-02 Budget^(a)

	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Revenue at 2000-01 Budget	153,475	158,570	168,272	180,464
Changes from 2000-01 Budget to MYEFO				
Effect of policy decisions	88	-66	-294	-276
Effect of economic parameter and other variations	4,066	2,579	1,512	1,540
Total variations	4,154	2,513	1,217	1,264
Revenue at 2000-01 MYEFO	157,630	161,083	169,490	181,728
Changes from MYEFO to 2001-02 Budget				
Effect of policy decisions	-164	-1,062	-1,664	-2,224
Effect of economic parameter and other variations	3,564	-1,181	-2,922	-3,956
Total variations	3,400	-2,243	-4,586	-6,180
Revenue at 2001-02 Budget	161,029	158,840	164,903	175,548

(a) The changes in the revenue estimates for 2000-01 and 2001-02 since the 2000-01 MYEFO are summarised by head of revenue at Appendix A.

Since MYEFO, estimated total Commonwealth general government revenue has been revised up in 2000-01, largely due to stronger collections of PAYG withholding revenue and company tax revenue. Estimated revenue in 2001-02 and the forward years has been revised down since MYEFO, largely as a result of lower expected profit growth, lower expected excise revenue and policy decisions.

Policy decisions

Policy decisions taken since MYEFO are expected to reduce revenue by around \$1.1 billion in 2001-02, growing to around \$2.2 billion in 2003-04. The major policy decisions include:

- a 1.5 cents per litre reduction in petrol and diesel excise from 2 March 2001, and the abolition of the semi-annual consumer price index (CPI) indexation of petroleum excise (estimated to cost around \$4.6 billion over the four years from 2001-02 to 2004-05);
- an increase in the effective tax free threshold and Medicare levy threshold for senior Australians and pensioners (estimated to cost around \$1.5 billion over the four years from 2001-02);
- the withdrawal of the entity tax exposure draft legislation — in response to concerns raised in public consultations that the existing draft legislation did not strike an appropriate balance between protecting legitimate small business and farming arrangements while addressing tax abuse in the trust area (estimated to cost \$1.1 billion over the four years from 2001-02);
- a reduction in draught beer excise (estimated to cost \$630 million over the four years from 2001-02);
- cost recovery arrangements that will partially fund measures to prevent foot and mouth disease and other quarantine risks, involving an increase in the passenger movement charge to \$38 and full cost recovery for containers (estimated to raise around \$400 million over the four years from 2001-02);
- the initiative announced in *Backing Australia's Ability* to introduce a 175 per cent tax concession for companies that improve their research and development effort (estimated to cost \$335 million over the four years from 2001-02);
- changes to simplify the Business Activity Statement (BAS) to allow eligible taxpayers the choice of paying their PAYG instalments annually, or use the instalment rate times instalment income method (estimated to cost \$230 million over the four years from 2001-02); and
- an increase in annual GSM 900 licence fees to align the license fees more closely with the market value of the mobile phone spectrum (estimated to raise \$128 million over the four years from 2001-02).

Parameter and other variations

The revenue estimate for 2000-01 has been revised up by around \$3.6 billion since MYEFO as a result of economic parameter and other variations. This is driven principally by:

- higher than anticipated collections of PAYG withholding revenue to end-March 2001 of around \$1.3 billion. This indicator of labour market performance is somewhat stronger than other employment and job vacancy data. It is also possible that some of the recent strength in PAYG withholding collections reflects increased compliance by taxpayers following the introduction of *The New Tax System*, as well as a possible trend away from remunerating employees through fringe benefits;
- higher than anticipated collections of company tax revenue to end-March 2001 of around \$0.6 billion and significantly higher expected collections for the remainder of 2000-01; and
- a higher estimate of petroleum resource rent tax (PRRT) revenue, which in part reflects timing factors relating to the utilisation of deductions, boosts revenue in 2000-01 and reduces revenue in 2001-02.

However, this increase to revenue in 2000-01 is partly offset by a lower estimate of petroleum excise revenue, reflecting weaker than expected collections since MYEFO (collections were around \$0.4 billion below expectations to end-March 2001).

In 2001-02, economic parameter and other variations have reduced estimated revenue by around \$1.2 billion since MYEFO. The major factors contributing to this overall decrease are:

- a lower estimate of gross other individuals revenue, reflecting downward revisions to unincorporated business profit growth and reduced dividend payments to individuals (consistent with downward revisions to forecast company profit growth);
- a reduction in estimated company tax revenue, mainly reflecting the lagged effect of expected weaker profit growth in 2000-01;
- a reduction in estimated PRRT revenue, due to the timing factors discussed above; and
- a lower estimate of tobacco excise revenue, reflecting both a revised outlook for tobacco consumption in the light of continued weakness in collections through 2000-01 and the increased use of the new anti-smoking drug Zyban.

These downwards revisions to forecast taxation revenue in 2001-02 are partly offset by an upwards revision of around \$1.8 billion to expected dividend revenue from GBES and other associated entities.

Furthermore, estimated PAYG withholding revenue in 2001-02 is broadly unchanged from MYEFO, with the positive effect of stronger collections in 2000-01 offsetting the negative impact of lower forecast growth in employment and wages.

Box 1: Cash taxation revenue estimates

A comparison of taxation revenue on cash and accrual bases is provided in the table below.

Total taxation revenue on cash and accrual bases

	2000-01	2001-02	2002-03	2003-04	2004-05
	\$b	\$b	\$b	\$b	\$b
Tax revenue (accrual)	150.7	146.8	154.5	165.0	174.8
Tax receipts (cash)	144.7	147.6	155.2	164.7	174.5
Difference (accrual less cash)	6.0	-0.8	-0.7	0.3	0.3

Accrual estimates are prepared using the *Tax Liability Method (TLM)* of revenue recognition, under which revenue is recognised when an assessment of a tax liability is made or cash payment is received by the Australian Tax Office (ATO). This method retains some elements of cash revenue recognition, for example, when assessment and payment occur at the same time.

The difference between the cash and accrual estimates of taxation revenue can be largely explained by the deferral of company and superannuation tax payments during the transition to the new PAYG system from 2000-01.

The new PAYG arrangements seek to better align company tax payments with the period in which income is earned. This has created an overlap of company tax payments for business, because payments of tax obligations for 1999-2000 and PAYG instalments for 2000-01 both arise during 2000-01.

- For a medium-sized company, for example, there would have been six payments due, instead of the usual four. However, the Government has implemented transitional arrangements to assist companies to move to the new system over a number of years.

Continued...

Box 1: Cash taxation revenue estimates (continued)

- The transitional arrangements reduce the cash impact of this overlap by allowing companies to spread some payments of the 1999-2000 tax obligations over the following 2½ to 5 years.
- The full amount of the overlap of company tax obligations is reflected in the accrual revenue estimate for 2000-01, as this is the year in which the liabilities are assessed. However, the same overlap is not fully reflected in the cash estimates for 2000-01 since companies do not have to actually pay the entire liability in that year. Companies can spread cash payments of the overlapping liabilities in interest free instalments over the following 2½ to 5 years.

Relative to expectations at MYEFO, there has been a lower take-up of the transitional arrangements to defer company and superannuation tax payments. This has boosted cash estimates of company and superannuation tax revenue in 2000-01 but has reduced cash revenue estimates in 2001-02 and the forward years. However, a lower than expected take-up of the option to defer company and superannuation tax payments has no effect on estimates of accrual revenue.

Part II: Estimates of revenue

DETAILED REVENUE ESTIMATES

Table 3 compares revenue estimates by head of revenue for 2001-02 with the corresponding estimates for 2000-01.

Table 3: Detailed estimates of Commonwealth general government revenue

	2000-01	2001-02	Change on 2000-01	
	Estimate \$m	Estimate \$m	\$m	%
Taxation revenue				
Income tax				
Individuals(a)				
Gross PAYG withholding	74,572	78,502	3,931	5.3
Gross other individuals	13,400	15,560	2,160	16.1
/less: Refunds	11,165	11,248	83	0.7
Total individuals	76,807	82,815	6,008	7.8
Companies	34,720	27,209	-7,512	-21.6
Superannuation funds(b)	5,210	4,312	-898	-17.2
Other withholding tax(c)	1,430	1,487	57	4.0
Petroleum resource rent tax	2,360	1,430	-931	-39.4
Total income tax	120,528	117,252	-3,276	-2.7
Indirect tax(d)				
Excise duty				
Petroleum products and crude oil	12,417	12,590	173	1.4
Other excise	6,550	6,460	-90	-1.4
Total excise duty	18,967	19,050	83	0.4
Customs duty	4,671	4,885	214	4.6
Other indirect taxes(e)	2,009	810	-1,199	-59.7
Total indirect tax	25,647	24,745	-902	-3.5
Fringe benefits tax(f)	3,290	3,500	210	6.4
Agricultural levies	556	573	17	3.0
Other taxes	671	698	27	4.1
Total tax revenue	150,692	146,768	-3,924	-2.6
Non-tax revenue	10,337	12,072	1,734	16.8
Total revenue	161,029	158,840	-2,190	-1.4

(a) Includes Medicare levy revenue.

(b) Includes the superannuation contributions surcharge.

(c) Includes amounts withheld for failure to quote a Tax File Number (TFN) or an Australian Business Number (ABN).

(d) Indirect taxes exclude surcharge revenue raised by the Commonwealth on an agency basis and paid to the States and Territories as Revenue Replacement Payments (RRPs) in 2000-01. While RRP's were abolished on 1 July 2000, the final RRP liability is collected and paid to the States in 2000-01.

(e) Includes the wine equalisation tax, luxury car tax and the final wholesale sales tax liability.

(f) Consistent with GFS reporting standards, excludes fringe benefits tax collected from Commonwealth government agencies (estimated at \$260 million in 2000-01 and \$270 million in 2001-02).

In 2001-02 total revenue is expected to decrease by \$2.2 billion, while taxation revenue is expected to decrease by \$3.9 billion, relative to estimated revenue in 2000-01. These decreases are primarily attributable to the bring forward of company and superannuation tax payments following the introduction of the new Pay As You Go (PAYG) system in 2000-01, which provide a one-off boost to revenue in 2000-01 (see Box 1 in Part I).

The major movements in taxation revenue heads between 2000-01 and 2001-02 include:

- a decrease in company tax revenue of around \$7.5 billion (or 22 per cent), largely reflecting the bring-forward of tax payments under the PAYG system in 2000-01 and a cut to the company tax rate to 30 per cent in 2001-02;
- an increase in PAYG withholding revenue from wages and salaries of around \$3.9 billion (or 5 per cent) which, while high in absolute terms, grows broadly in line with underlying growth in wages and employment;
- an increase in gross other individuals revenue of around \$2.2 billion (or 16 per cent), largely reflecting temporarily low collections in 2000-01 as a result of the introduction of the PAYG system;
- a decrease in PRRT revenue of around \$0.9 billion (or 39 per cent), mainly reflecting timing factors relating to the utilisation of deductions, which boost revenue in 2000-01 and reduce revenue in 2001-02;
- a decrease in superannuation tax revenue of around \$0.9 billion (or 17 per cent), largely reflecting the bring-forward of tax payments under the PAYG system in 2000-01; and
- significantly lower revenue from other indirect taxes, due to the abolition of wholesale sales tax (WST) from 1 July 2000 (the final WST tax liability of around \$1.3 billion is recognised in 2000-01).

The Budget revenue estimates are strongly influenced by forecast growth and the expected composition of economic activity. The 2001-02 revenue estimates are based on the following major economic assumptions:

- growth in nominal GDP of around 4½ per cent (revenue tends to be more sensitive to growth in nominal GDP than to growth in real GDP);
- average earnings growth of around 3¾ per cent;
- growth in wage and salary employment of around 1 per cent; and
- growth in company income of around 3½ per cent.

An analysis of the sensitivity of the revenue estimates to changes in the major economic parameters is provided at Statement 2, Appendix B.

TAXATION REVENUE

Individuals income tax

Table 4 provides estimates for 2000-01 and 2001-02 for the various income tax categories applying to individuals.

Table 4: Individuals income tax

	2000-01	2001-02	Change on 2000-01
	Estimate \$m	Estimate \$m	%
Individuals revenue			
Gross PAYG withholding	74,572	78,502	5.3
Gross other individuals	13,400	15,560	16.1
<i>less:</i> Refunds	11,165	11,248	0.7
Total individuals	76,807	82,815	7.8
<i>Includes Medicare levy revenue of:</i>			
Gross PAYG withholding	4,433	4,555	2.8
Gross other individuals	752	900	19.7
<i>less:</i> Refunds	580	600	3.4
Medicare levy component	4,605	4,855	5.4

Gross PAYG withholding

Gross PAYG withholding includes all taxes withheld from payments under the PAYG system, aside from amounts withheld because no TFN or ABN has been quoted. The bulk of gross PAYG withholding revenue arises from tax withheld from salary and wage income.

From 1 July 2000, the former Pay As You Earn (PAYE) system, prescribed payments system (PPS) and reportable payments system (RPS) were replaced by the integrated PAYG system.

Under the PAYG system, individuals who were in the PPS and qualified for an ABN could choose to enter into voluntary withholding arrangements. Tax withheld from such individuals (estimated to be around \$800 million in 2001-02) is recorded under gross PAYG withholding.

The remaining tax that would have been collected under the PPS is now being collected through the PAYG instalment system or as payment on assessment. These payments (estimated to be around \$1.9 billion in 2001-02) are recorded under the gross other individuals head of revenue.

Gross PAYG withholding revenue, inclusive of revenue from the Medicare levy, is expected to increase by around \$3.9 billion or 5 per cent in 2001-02, consistent with the combined effect of growth in wages and employment of around 5 per cent.

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 liability on assessment).

Taxpayers in this category derive their income from a number of sources, including unincorporated businesses, primary production, investments, salaries and wages (when PAYG withholding credits are insufficient) and capital gains.

Under *The New Tax System*, most gross other individuals revenue is collected through the PAYG instalment system. Individuals who are registered for the goods and services tax (GST) and individuals with tax liabilities of \$8,000 or more will generally make quarterly payments. 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.

Most tax payments formerly made under the PPS or RPS are now made as PAYG instalments, with the remainder expected to fall under PAYG withholding.

Gross other individuals revenue, inclusive of revenue from the Medicare levy, is expected to increase by \$2.2 billion (or 16 per cent) in 2001-02. This is largely attributable to revenue in 2000-01 being temporarily reduced as a result of the introduction of the PAYG system.

- The introduction of the PAYG system resulted in only three quarterly instalments in 2000-01 because the due date for the final payment falls into 2001-02.

Abstracting from the impact of the introduction of the PAYG system, underlying other individuals taxation revenue is expected to increase by around \$0.3 billion in 2001-02. (This estimate in part reflects expected growth in small business income of around 2.7 per cent.)

Individual 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 increase by around 1 per cent in 2001-02, a little lower than underlying growth in gross individuals taxation revenue, due to the impact of the substantial personal income tax cuts delivered on 1 July 2000. (Lower income

taxes paid by individuals in 2000-01 will begin to impact on refunds in 2001-02 when individuals lodge their tax returns for the 2000-01 income year.)

Medicare levy

Revenue from the Medicare levy is expected to rise from \$4,605 million in 2000-01 to \$4,855 million in 2001-02, mainly reflecting higher taxable incomes of individuals. (In Table 3, this revenue is included in the estimates of gross PAYG withholding, gross other individuals and refunds.)

Company and other income tax

Table 5 provides estimates for 2000-01 and 2001-02 for company and other income tax categories.

Table 5: Company and other income tax

	2000-01	2001-02	Change on 2000-01
	Estimate	Estimate	
	\$m	\$m	%
Companies	34,720	27,209	-21.6
Superannuation funds(a)	5,210	4,312	-17.2
Other withholding tax			
Resident(b)	210	210	0.0
Non-resident			
Interest	663	666	0.4
Dividend	163	187	14.2
Royalty	392	423	7.8
Mining	2	2	0.0
Total other withholding tax	1,430	1,487	4.0
Petroleum resource rent tax	2,360	1,430	-39.4
Total	43,721	34,437	-21.2

(a) Includes the superannuation contributions surcharge.

(b) This item includes amounts withheld for failure to quote a TFN or an ABN.

Company income tax

As part of *The New Tax System*, the general tax rate for companies was reduced 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 further to 30 per cent in the 2001-02 income year. The further reduction in the company tax rate is estimated to reduce revenue by around \$2 billion per annum from 2001-02.

Commencing in the 2000-01 income year, the new company tax payment arrangements under the PAYG system have brought forward payments of company tax. This has created an overlap of company tax payments relating to obligations for 1999-2000 and PAYG instalments for 2000-01. While the Government has allowed companies to defer some of the liabilities arising from the overlap of the new and existing payment arrangements, the full liability is recorded as having accrued as revenue in 2000-01.

Accordingly, the introduction of PAYG results in a one-off boost to company tax revenue in 2000-01.

Abstracting from this one-off factor, forecast growth in company profits is expected to add around \$210 million to company tax revenue in 2001-02. Consistent with lower forecast company profit growth, particularly in 2000-01, this increase is lower than forecast at MYEFO.

Superannuation funds tax

Superannuation funds are taxed at a concessional rate of 15 per cent in relation to investment income and contributions received. The tax payments of superannuation funds are made according to the schedule that applies to company income tax.

As for company tax, the decline in estimated superannuation tax revenue in 2001-02 largely reflects the bring-forward of superannuation tax payments under PAYG. This aside, expected growth in earnings is expected to add around \$30 million to superannuation tax revenue in 2001-02. Consistent with lower expected earnings growth, this increase is lower than forecast at MYEFO.

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 increase in 2001-02 by 4 per cent.

Petroleum resource rent tax

Petroleum resource rent tax (PRRT)² applies to offshore areas other than the North West Shelf production and associated exploration 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. A liability arises when a project's assessable receipts exceed deductible expenditure.

2 PRRT is levied under the Commonwealth's *Resource Rent Tax Assessment Act 1987*.

A company involved in a petroleum project is able to deduct exploration expenditure, plant and equipment spending and the direct administration costs associated with the project. (Provisions also allow for exploration expenditure incurred in the development of one project to be offset against the assessable receipts of another PRRT-liable project.)

PRRT revenue is expected to decrease by around 39 per cent in 2001-02. This is primarily due to timing factors relating to the utilisation of deductions, which boost revenue in 2000-01 and reduce revenue in 2001-02. To a lesser extent, the decrease in PRRT revenue also reflects the impact of recent declines in world oil prices and an anticipated decrease in domestic oil production in 2001-02. The world price of crude oil is assumed to be US\$26¼ per barrel in 2000-01 and US\$22½ per barrel in 2001-02.

Indirect tax

Table 6 provides estimates for 2000-01 and 2001-02 for the various categories of indirect taxation.

Table 6: Indirect tax^(a)

	2000-01	2001-02	Change on 2000-01
	Estimate	Estimate	
	\$m	\$m	%
Excise duty			
Petroleum products			
Unleaded petrol	6,417	7,025	9.5
Leaded petrol	466	2	-99.6
Diesel	4,908	5,035	2.6
Other(b)	115	128	11.5
Total petroleum products	11,907	12,190	2.4
Crude oil	510	400	-21.6
Other excise			
Beer	1,700	1,610	-5.3
Potable spirits	240	245	2.1
Tobacco products	4,610	4,605	-0.1
Total other excise	6,550	6,460	-1.4
Total excise	18,967	19,050	0.4
Customs duty(c)	4,671	4,885	4.6
Other indirect taxes			
Wine equalisation tax(d)	531	630	18.6
Luxury car tax	155	180	16.1
Wholesale sales tax (e)	1,323	0	-100.0
Total other indirect taxes	2,009	810	-59.7
Total	25,647	24,745	-3.5

(a) Excludes surcharge revenue raised by the Commonwealth on an agency basis and paid to the States and Territories as RRP in 2000-01. While RRP were abolished on 1 July 2000, the final RRP liability is collected and paid to the States in 2000-01.

(b) Includes aviation gasoline, aviation turbine fuel, fuel oil, heating oil and kerosene.

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

(d) Estimates of WET revenue include the offsetting revenue effects of the WET rebate for cellar door and other sales.

(e) WST was abolished on 1 July 2000; however, the final liability is recognised in 2000-01.

Excise

The major categories of excise revenue 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.

The growth in excise revenue from *unleaded petrol* in 2001-02 of around 10 per cent principally reflects the continued substitution of unleaded petrol for leaded petrol together with the phase-out of leaded petrol.

Leaded petrol has been largely phased out between December 2000 and February 2001 with the introduction of lead replacement petrol. As lead replacement petrol is classified as unleaded petrol, the contribution to excise revenue from leaded petrol is expected to be negligible in 2001-02.

Growth in the consumption of petrol (leaded and unleaded) in 2001-02 is expected to be 2.7 per cent.

Excise revenue from *diesel* is expected to grow moderately in 2001-02 relative to previous years, reflecting the decision of the Government to abolish excise indexation for petroleum products and the 1.5 cents per litre cut to the rate of diesel excise.

Other petroleum products excise includes excise revenue from aviation gasoline, aviation turbine fuel, fuel oil, heating oil and kerosene. All revenue from the excise duty on aviation gasoline and aviation turbine fuel contribute to the funding of aviation programmes. The rates of excise applying to aviation fuels are adjusted, as necessary, depending on the funding requirements of those programmes.

Crude oil excise includes excise collected from two sources: 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 is the only excise not to be levied on a volumetric basis (that is, where excise is applied per unit of quantity). Instead, the calculation of crude oil excise is based on both the quantity of crude oil sold and the sale price.

Estimated crude oil excise in 2000-01 has increased since MYEFO, reflecting strong collections this financial year. However, revenue from crude oil excise is expected to fall significantly in 2001-02 relative to 2000-01, due to lower world crude oil prices and lower production.

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

- on a per stick basis for cigarettes and a per kilogram basis for other tobacco products;
- on the alcohol content of draught and packaged beer; and

- on the alcohol content of other products, such as spirits and certain ready to drink products.

Wine is exempt from excise and is instead subject to the wine equalisation tax (WET).

Other excise revenue is expected to decrease by around 1 per cent, reflecting the first full year effect of the introduction of the concessional rate of excise for draught beer and an expected decline in tobacco consumption of around 4 per cent.

Estimated excise revenue from tobacco in 2000-01 is broadly consistent with the estimate at MYEFO. However, the tobacco estimate at MYEFO was revised down by in excess of \$500 million relative to the 2000-01 Budget. Collections of tobacco excise have been weak since 1 July 2000, which reflects a number of influences including:

- a possible consumer demand response to higher tobacco prices following the introduction of *The New Tax System*; and
- increased use of the anti-smoking drug Zyban.

There have been some suggestions that higher tobacco prices may have contributed to a growing illicit tobacco market (known as *chop-chop*). However, the Government has significantly increased the penalties for the sale of illicit product in 2000-01 and, together with increased enforcement activity, these measures have limited the size of any illegal activity.

Excise indexation

In the past, the rates of duty for excisable commodities (with the exception of crude oil) have been adjusted each August and February in line with half-yearly consumer price index (CPI) movements.

In March 2001, the Government announced that excise indexation would be abolished for all petroleum products. Beer, spirit and tobacco excise rates will continue to be indexed 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.

Excise rates since 1 July 2000 are shown in Table 7.

Table 7: Excise rates

Commodity	Rates applying from 1 Jul 2000 \$	Rates applying from 1 Aug 2000 \$	Rates applying from 1 Feb 2001 \$	Rates applying from 2 Mar 2001 \$	Rates applying from 4 Apr 2001 \$
Petroleum (per litre)					
Leaded petrol	0.39725	0.40400	0.42016	0.40516	0.40516
Unleaded petrol	0.37481	0.38118	0.39643	0.38143	0.38143
Diesel (gross)	0.37481	0.38118	0.39643	0.38143	0.38143
Aviation gasoline	0.02759	0.02806	0.02918	0.02808	0.02808
Aviation turbine fuel	0.02795	0.02843	0.02957	0.02845	0.02845
Fuel oil	0.07426	0.07552	0.07854	0.07557	0.07557
Heating oil	0.07426	0.07552	0.07854	0.07557	0.07557
Kerosene	0.07426	0.07552	0.07854	0.07557	0.07557
Beer (per litre of alcohol over 1.15 per cent)					
Draught beer, low strength	41.67	42.38	44.08	44.08	15.96
Draught beer, mid strength	35.38	35.98	37.42	37.42	17.33
Draught beer, high strength	30.46	30.98	32.22	32.22	22.68
Other beer, low strength	41.67	42.38	44.08	44.08	44.08
Other beer, mid strength	35.38	35.98	37.42	37.42	37.42
Other beer, high strength	30.46	30.98	32.22	32.22	32.22
Potable spirits (per litre of alcohol)					
Brandy	48.17	48.99	50.95	50.95	50.95
General rate for other spirits	51.58	52.46	54.56	54.56	54.56
Cigarettes (per stick)	0.19155	0.19481	0.20260	0.20260	0.20260
Tobacco products (per kg)	239.44	243.51	253.25	253.25	253.25

Customs duty

Customs duty is imposed either as a percentage of the value of the imported good or on a volumetric basis for excisable-like products (for example, dollars per litre).

Tariffs on passenger motor vehicles, and textile, clothing and footwear account for around one-third of the total duty collected. A further one-third of customs duty is duty imposed on imports of petroleum products, tobacco, beer and spirits, which is analogous to excise duty on these items. Other dutiable goods currently attract a general tariff rate of 5 per cent.

Customs duty revenue in 2001-02 is estimated to grow by around \$200 million or around 5 per cent.

Other indirect taxes

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

Consistent with the tax liability method of revenue recognition, the 2000-01 WST estimate (see Table 6) reflects the final WST liability.

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. To counter this, from 1 July 2000, all grape wine, wine products, fruit and vegetable wine, cider, perry, mead and sake became subject to the wine equalisation tax (WET). The WET is 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 luxury car tax (LCT) of 25 per cent was introduced from 1 July 2000. The LCT applies to the GST exclusive price of a car above the LCT threshold (\$55,134 in 2000-01). This was put in place to ensure that, when the higher WST rate of 45 per cent was removed from luxury cars and the GST was introduced, the price of luxury cars fell by about the same amount as other cars.

WET revenue is expected to increase by around 19 per cent in 2001-02, to a level reflecting the first full year effect of the tax. Most revenue from the WET is paid upon lodgement of the quarterly Business Activity Statement (BAS), of which there were only three in 2000-01. Luxury car tax revenue is expected to increase by around 16 per cent in 2001-02 for similar reasons.

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. Fringe benefits tax revenue is expected to increase by around 6 per cent in 2001-02, largely due to ongoing remuneration growth (see Table 3). FBT revenue is also expected to be boosted in 2001-02 by the modification of the FBT gross-up rate (to ensure neutrality of treatment between fringe benefits and cash salaries following the introduction of the GST on 1 July 2000), which has its first full year effect in 2001-02.

Agricultural levies and other taxes

Table 8 shows estimates of agricultural levies and other taxes for 2000-01 and 2001-02.

Table 8: Agricultural levies and other taxes

	2000-01	2001-02	Change on 2000-01
	Estimate	Estimate	
	\$m	\$m	%
Wool tax	79	56	-28.8
Agricultural production taxes - domestic	473	512	8.3
Agricultural production taxes - export	4	4	3.6
Levies, other than agricultural	73	73	0.0
Broadcasting licence fees	328	343	4.6
Other(a)	270	282	4.6
Total	1,227	1,271	3.6

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

Total revenue from agricultural levies and other taxes is forecast to increase in 2001-02 by about 4 per cent. This is largely due to an increase in *Agricultural production taxes — domestic* revenue administered by the Department of Agriculture, Forestry and Fisheries. These taxes are projected to increase from \$473 million in 2000-01 to \$512 million in 2001-02, largely due to expected growth in collections from the retail milk levy.

Wool tax revenue is estimated to fall in 2001-02 by around 29 per cent, due to the reduction in the wool tax rate. Revenue from *Agricultural production taxes — export* and non-agricultural levies are forecast to remain broadly unchanged. Broadcasting licence fees are forecast to increase by 5 per cent, due to the increase in mobile telephony licence fees for carriers.

The remaining category of other taxes, which is expected to increase by around 5 per cent, includes the coalmining long service leave levy, child support fees and fines, and a range of levies administered by the Department of Transport and Regional Services including aircraft noise, stevedoring and marine navigation levies.

NON-TAXATION REVENUE

Table 9 provides estimates for 2000-01 and 2001-02 of the various categories of non-taxation revenue.

Table 9: Non-taxation revenue

	2000-01	2001-02	Change on 2000-01
	Estimate	Estimate	
	\$m	\$m	%
Sales of goods and services	2,711	2,844	4.9
Interest			
Interest from other governments	263	243	-7.5
Interest from other sources	910	753	-17.3
Total interest	1,173	996	-15.1
Dividends			
Dividends from associated entities	2,172	4,628	113.1
Dividends from other sources	44	70	60.0
Total dividends	2,215	4,698	112.1
Petroleum royalties	796	458	-42.4
Other non-tax revenue(a)	3,442	3,076	-10.6
Total	10,337	12,072	16.8

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

Sales of goods and services

This category consists of revenue from the direct provision of goods and services by the general government sector.

The expected increase in sales of goods and services in 2001-02 is largely due to an increase in the passenger movement charge from \$30 to \$38. This will fund the increased cost of inspecting passengers, mail and cargo at Australia's borders to mitigate the risks of introducing foot and mouth disease into Australia.

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 General Purpose 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 2001-02 compared with 2000-01, reflecting the repayment of debt by the States in 2000-01.

Interest from other governments is expected to decrease in 2001-02, due to a reduction in the remaining stock of debt issued by the Commonwealth on behalf of the State and Territory governments.

Interest from other sources

This item includes interest income on Commonwealth cash balances and on other financial assets. It excludes swap transactions entered into as part of the Commonwealth's debt management strategy, as they are classified as financing transactions under Government Finance Statistics (GFS) standards. The Australian Office of Financial Management (AOFM) is responsible for the management and reporting of the Commonwealth's net debt portfolio.

Interest from other sources is projected to decrease between 2000-01 to 2001-02 by 17 per cent. In part, this reflects a reduction in interest payments from the Snowy Mountain Hydro Electricity Authority, following the decision to corporatise and refinance the Authority.

Dividends

The main sources of dividends are from the Commonwealth's Government Business Enterprises and the Reserve Bank of Australia (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 royalties from numismatic coin sales and annual dividends from profits the Mint makes as the manufacturer of these products.

Total dividends are projected to increase by around 112 per cent in 2001-02, largely due to higher dividends from the RBA.

Petroleum royalties

Petroleum royalties are paid by producers operating in the North-West shelf oil and gas fields off Western Australia.

These royalties are expected to decrease in 2001-02 by around 42 per cent, due to falling petroleum production and a forecast reduction in world oil prices. A substantial proportion of these royalties are paid to the Government of Western Australia.

Other sources of non-tax revenue

Other non-tax revenue includes Child Support Trust Revenue (collected by the Child Support Agency) and revenue from the State and Territory governments (to meet the cost to the ATO of administering the GST on their behalf). It also includes revenue from Higher Education Contribution Scheme (HECS) student loans and seigniorage from circulation coin production.

Other non-tax revenue is expected to decline by around 11 per cent in 2001-02. This mainly reflects a reduction in revenue from outstanding HECS debts owed to the Commonwealth and a reduction in revenue received from the States to meet the cost of administering the GST.

Appendix A: Changes in revenue estimates since MYEFO

Table A1: Reconciliation of 2000-01 revenue estimates

	2000-01			
	MYEFO \$m	Budget \$m	Change on MYEFO \$m	Change on MYEFO %
Taxation revenue				
Income tax				
Individuals(a)				
Gross PAYG withholding(b)	73,026	74,572	1546	2.1
Gross other individuals(b)	13,558	13,400	-158	-1.2
<i>less:</i> Refunds	11,230	11,165	-65	-0.6
Total individuals	75,354	76,807	1,453	1.9
Companies	33,197	34,720	1,523	4.6
Superannuation funds	5,087	5,210	123	2.4
Other withholding tax	1,426	1,430	5	0.3
Petroleum resource rent tax	1,760	2,360	600	34.1
Total income tax	116,824	120,528	3,704	3.2
Indirect tax				
Excise duty				
Petroleum products and crude oil	12,892	12,417	-476	-3.7
Other excise	6,491	6,550	59	0.9
Total excise duty	19,383	18,967	-416	-2.1
Customs duty	4,541	4,671	130	2.9
Other indirect taxes	1,956	2,009	53	2.7
Total indirect tax	25,880	25,647	-233	-0.9
Fringe benefits tax	3,405	3,290	-115	-3.4
Agricultural levies	644	556	-88	-13.7
Other taxes	589	671	81	13.8
Total tax revenue	147,343	150,692	3,349	2.3
Non-tax revenue	10,287	10,337	51	0.5
Total revenue	157,630	161,029	3,400	2.2

(a) Includes revenue from the Medicare levy.

(b) Part of the change since the Mid-Year Economic Fiscal Outlook (MYEFO) is due to a reallocation of \$295 million from gross other individuals revenue to Pay As You Go (PAYG) withholding revenue, due to a reassessment of the distribution of revenue from the former prescribed payments system (PPS) scheme. Accordingly, for 2000-01, the MYEFO estimates of PAYG withholding revenue should be increased by \$295 million, with a corresponding decrease in gross other individuals revenue, to be on a comparable basis to the current Budget estimates.

Table A2: Reconciliation of 2001-02 revenue estimates

	2001-02			
	MYEFO(a) \$m	Budget \$m	Change on MYEFO \$m	Change on MYEFO %
Taxation revenue				
Income tax				
Individuals(b)				
Gross PAYG withholding	78,532	78,502	-29	0.0
Gross other individuals	16,673	15,560	-1113	-6.7
<i>less:</i> Refunds	10,866	11,248	382	3.5
Total individuals	84,338	82,815	-1,524	-1.8
Companies	27,688	27,209	-479	-1.7
Superannuation funds	4,293	4,312	19	0.4
Other withholding tax	1,462	1,487	25	1.7
Petroleum resource rent tax	1,640	1,430	-210	-12.8
Total income tax	119,421	117,252	-2,169	-1.8
Indirect tax				
Excise duty				
Petroleum products and crude oil	13,561	12,590	-971	-7.2
Other excise	6,713	6,460	-253	-3.8
Total excise duty	20,273	19,050	-1223	-6.0
Customs duty	4,862	4,885	23	0.5
Other indirect taxes	813	810	-3	-0.4
Total indirect tax	25,948	24,745	-1,203	-4.6
Fringe benefits tax	3,625	3,500	-125	-3.4
Agricultural levies	629	573	-56	-8.9
Other taxes	610	698	88	14.4
Total tax revenue	150,233	146,768	-3,465	-2.3
Non-tax revenue	10,850	12,072	1,222	11.3
Total revenue	161,083	158,840	-2,243	-1.4

(a) Adjusted since MYEFO to reflect a reallocation of revenue across company tax, gross other individuals, superannuation funds tax and individual refunds. However, the MYEFO estimate for total income tax has not changed.

(b) Includes revenue from the Medicare levy.

Appendix B: Forward estimates of revenue

Forward estimates of the major categories of revenue, for the period from 2001-02 to 2004-05 are provided in Table B1.

Table B1: Forward estimates of revenue

	2001-02		2002-03		2003-04		2004-05	
	Estimate \$m	Change on 2000-01 %	Estimate \$m	Change on 2001-02 %	Estimate \$m	Change on 2002-03 %	Estimate \$m	Change on 2003-04 %
Individuals tax	82,815	7.8	88,893	7.3	96,625	8.7	103,347	7.0
<i>Per cent of GDP</i>	<i>11.8</i>		<i>11.9</i>		<i>12.2</i>		<i>12.3</i>	
Other income tax	34,437	-21.2	35,365	2.7	37,209	5.2	39,347	5.7
<i>Per cent of GDP</i>	<i>4.9</i>		<i>4.7</i>		<i>4.7</i>		<i>4.7</i>	
Total income tax	117,252	-2.7	124,257	6.0	133,835	7.7	142,694	6.6
<i>Per cent of GDP</i>	<i>16.7</i>		<i>16.7</i>		<i>16.9</i>		<i>17.0</i>	
Indirect tax	24,745	-3.5	25,378	2.6	26,113	2.9	26,937	3.2
<i>Per cent of GDP</i>	<i>3.5</i>		<i>3.4</i>		<i>3.3</i>		<i>3.2</i>	
Total tax(a)	146,768	-2.6	154,543	5.3	165,004	6.8	174,835	6.0
<i>Per cent of GDP</i>	<i>20.9</i>		<i>20.7</i>		<i>20.9</i>		<i>20.9</i>	
Non-tax revenue	12,072	16.8	10,361	-14.2	10,545	1.8	10,822	2.6
<i>Per cent of GDP</i>	<i>1.7</i>		<i>1.4</i>		<i>1.3</i>		<i>1.3</i>	
Total revenue	158,840	-1.4	164,903	3.8	175,548	6.5	185,657	5.8
<i>Per cent of GDP</i>	<i>22.6</i>		<i>22.1</i>		<i>22.2</i>		<i>22.1</i>	

(a) Includes FBT, agricultural levies and other taxes.

The forward estimates of revenue are underpinned by the conventional assumption of no change in current policy. Consequently, the forward estimates of revenue only reflect projected growth in economic parameters and policy measures contained in this and previous budgets, including those associated with *The New 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 (in particular, more sharply than nominal GDP growth).

Total revenue is expected to remain at around 22.1 per cent of GDP from 2002-03 to 2004-05. (Growth in all categories of total revenue in 2001-02 are explained in detail in Part II of this Statement.)

Total tax revenue is expected to remain at around 20.9 per cent of GDP across the forward estimates, with a slightly lower estimate in 2002-03. Lower tax revenue in 2002-03 in part reflects a one-off deferral in the timing of tax payments from annual Pay As You Go (PAYG) taxpayers that are not registered for the GST.

- A projected increase in income tax as a proportion of GDP over the forward years is offset, in contrast to last year, by a decline in indirect tax as a proportion of GDP, mostly reflecting the decision to abolish petroleum excise indexation.

Non-tax revenue is expected to decrease in 2002-03, reflecting lower projected dividends from GBEs and other associated entities (including the Reserve Bank of Australia). Non-tax revenue is expected to remain at around 1.3 per cent of GDP in 2003-04 and 2004-05.

Appendix C: Revenue measures

Table C1 provides a summary of the revenue measures introduced since the MYEFO. A full description of all 2001-02 Budget revenue measures can be found in Part I of *Budget Paper No. 2, Budget Measures 2001-02*.

Table C1: Revenue measures since the 2000-01 MYEFO^(a)

	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Agriculture, Fisheries and Forestry				
Australia's response to foot and mouth disease and other quarantine risks	17.2	18.0	18.0	18.0
Extension of dairy industry adjustment levy	-	-	-	-
Portfolio total	17.2	18.0	18.0	18.0
Attorney-General's				
Australia's response to foot and mouth disease and other quarantine risks	82.7	82.7	82.7	82.7
Government response to the Productivity Commission report on general tariffs	-	-40.5	-41.4	-42.4
Portfolio total	82.7	42.2	41.3	40.3
Communications, Information Technology and the Arts				
Increase in GSM 900 licence fees	32.1	32.1	32.1	32.1
Radiocommunications licensing arrangements	-1.6	-1.6	-1.6	-1.6
Strategy on electromagnetic public health issues	1.0	1.0	1.0	1.0
Portfolio total	31.5	31.5	31.5	31.5
Education, Training and Youth Affairs				
Backing Australia's Ability - 2,000 additional targeted university places	-	0.1	0.4	0.8
Backing Australia's Ability - Postgraduate Education Loans Scheme	-	2.4	8.1	12.1
Higher education places for regional universities and campuses	-	..	0.1	0.2
Income-contingent loans for bridging courses for overseas trained professionals	-	-	0.1	0.1
Portfolio total	-	2.5	8.7	13.2
Family and Community Services				
New social security arrangements between Australia and New Zealand	-	-16.3	-32.6	-49.2
Portfolio total	-	-16.3	-32.6	-49.2
Immigration and Multicultural Affairs				
Backing Australia's Ability - attracting information and communications technology workers	0.8	0.8	0.9	0.9
Increase in the permanent migrant intake	1.4	1.4	1.4	1.4
New social security arrangements between Australia and New Zealand	13.1	13.2	13.3	13.4
Onshore processing of students in points tested categories	2.4	2.5	2.7	2.8

Table C1: Revenue measures since the 2000-01 MYEFO^(a) (continued)

	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Immigration and Multicultural Affairs (continued)				
Reform of independent executives visa arrangements	1.5	2.4	2.4	2.5
Strategy to strengthen Australia's immigration services to priority areas - extension of Electronic Travel Authority arrangements	-0.3	-1.5	-1.5	-1.6
Portfolio total	18.9	18.9	19.2	19.4
Treasury				
Income tax				
Allowing participants in the Simplified Tax System to account for the value of stock under existing methods	*	*	*	*
Apportionment of deductions for donations of property	-	-	-2.0	-4.0
Backing Australia's Ability - 175 per cent 'premium' tax concession for additional research and development expenditure	-30.0	-90.0	-105.0	-110.0
Backing Australia's Ability - changes to the definition of research and development activities	*	*	*	*
Backing Australia's Ability - effective life write-off for research and development plant	25.0	95.0	115.0	95.0
Backing Australia's Ability - research and development tax offset for small companies	-	-6.0	-3.0	-2.0
Capital gains tax relief for shareholders of listed investment companies	-5.0	-20.0	-20.0	-20.0
Capital gains tax rollover relief for shares from insurance company demutualisations	-	-	-	-
Capital gains tax treatment of shares held in trust under employee share schemes	*	*	*	*
Changes to prepayment arrangements for non-business and small business taxpayers	-20.0	-	-	-
Changes to the overseas defence forces rebate and the United Nations (UN) armed forces rebate	*	*	*	*
Deductibility of certain gifts	*	*	*	*
Depreciation of second hand assets where the end user does not change	15.0	40.0	65.0	70.0
Extended lodgement date for Business Activity Statements	-	-	-	-
Extension of income tax exemption for not-for-profit organisations to include the information and communications technology industry
Foreign branch access to funds free of interest withholding tax	-9.0	-9.0	-9.0	-9.0
Fringe benefits reporting - exclusion of benefits associated with Australian Defence Force (ADF) removals	*	*	*	*
GDP-adjusted method for PAYG instalments for individuals and some companies and superannuation funds	-200.0	-10.0	-10.0	-10.0

Table C1: Revenue measures since the 2000-01 MYEFO^(a) (continued)

	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Treasury (continued)				
Increase in the Medicare levy low income thresholds	-35.0	-20.0	-20.0	-20.0
Increasing the depreciating assets threshold for the Simplified Tax System	-2.0	-5.0	-5.0	-10.0
Not proceeding with the early refunding of excess imputation credits	185.0	-	10.0	10.0
Pensioners below seniors age: increase in rebates	-35.0	-36.0	-33.0	-34.0
Reduction in surcharge on certain termination payments	-14.0	-21.0	-17.0	-21.0
Refining the uniform capital allowance system	*	*	*	*
Reformed debt/equity tax borderline	*	*	*	*
Reform of thin capitalisation - amendments to the proposed rules	-70.0	-45.0	-60.0	-70.0
Relaxing the 'grouping' rule for the Simplified Tax System	*	*	*	*
Retrospective changes to the exclusive use intention test for research and development	*	*	*	*
Revised business tax reform implementation timetable	215.0	255.0	-145.0	-95.0
Senior Australians and pensioners: increase in Medicare levy threshold	-44.0	-46.0	-43.0	-45.0
Senior Australians: increase in rebates	-306.0	-315.0	-298.0	-307.0
Taxation treatment of datacasting transmitter licences	*	*	*	*
Withdrawal of entity taxation exposure draft legislation	-110.0	-450.0	-265.0	-300.0
Indirect tax				
Abolition of petroleum fuels excise indexation	-150.0	-425.0	-785.0	-1135.0
Funding for Airservices Australia and aviation industry compliance	11.7	11.7	4.7	4.7
Reduced excise and customs duty on petroleum fuels	-485.0	-505.0	-525.0	-545.0
Reduction of excise on draught beer	-150.0	-160.0	-160.0	-160.0
Non-tax revenue				
Increase in financial sector levy for the Superannuation Complaints Tribunal	0.7	0.7	0.7	0.7
Portfolio total	-1212.6	-1760.6	-2309.6	-2716.6
Total impact of revenue measures(b)	-1062.3	-1663.8	-2223.5	-2643.4

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

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

(b) Measures may not add to total due to rounding.

Table C2: Revenue measures up to the 2000-01 MYEFO^{(a)(b)}

	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Agriculture, Fisheries and Forestry				
Wool Industry - changes in wool levy arrangements	-32.2	-33.0	-32.1	-32.1
Portfolio Total	-32.2	-33.0	-32.1	-32.1
Attorney-General's				
Extension of the Import Credit Scheme	-	-	-	-
Portfolio Total	-	-	-	-
Treasury				
Income tax				
Amendment to transitional measures for the merging of share premium and share capital accounts	-	-	-	-
Amendments to Pay As You Go instalments for certain beneficiaries of trusts	5.0	5.0	5.0	5.0
Change in the status of constitutionally protected superannuation funds	nfp	nfp	nfp	nfp
Changes to the Simplified Tax System	2.0	-2.0	-1.0	3.0
Deductibility of certain gifts	*	*	*	*
Double taxation agreements	*	*	*	*
Eligibility for immediate deductibility for GST-related expenditure	-	-	-	-
Entity taxation	10.0	-60.0	-25.0	-25.0
Exemption for artists from the non-commercial losses measures	-7.0	-7.0	-3.0	-3.0
Income tax exemption for local government businesses	-	-	-	-
Medicare levy surcharge - treatment of high front end deductibles	*	*	*	*
No Australian Business Number withholding on input taxed supplies	-	-	-	-
Removal of capital gains tax changes for life insurers and superannuation funds	-60.0	-70.0	-90.0	-100.0
Rollover relief for merger of companies under Part 9 of the <i>Life Insurance Act 1995</i>	-	-	-	-
Taxation aspects of the restructure of the Australian Wool Research and Promotion Organisation	-	-	-	-
Tax benefits for organisations promoting prevention or control of disease or illness in people	*	*	*	*
Indirect tax				
Excise concession for micro-breweries	-0.3	-0.3	-0.3	-0.3
Petrol and diesel excise reduction - increase in reduction to 6.7 cents per litre	-100.0	-102.0	-105.0	-109.0
Removing campervans, motor homes and commercial vehicles from luxury car tax	-5.0	-5.0	-5.0	-5.0
Removing the excise-free status of methanol blended with petrol	-	-	-	-

Table C2: Revenue measures up to the 2000-01 MYEFO^{(a)(b)}

	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Treasury (continued)				
Fringe benefits tax				
Converting rebates to a fringe benefits tax exemption for non-profit hospitals	-15.0	-15.0	-15.0	-15.0
Fringe benefits reporting - exclusion for emergency vehicles	*	*	*	*
Fringe benefits tax exemption for police housing in regional areas	*	*	*	*
Fringe benefits tax exemption for free travel on public transport by police officers	-5.0	-5.0	-5.0	-5.0
Non-tax revenue				
Additional payments from the States and Territories for GST administration	141.0	-	-	-
Superannuation Complaints Tribunal	-	-	-	-
Portfolio total	-34.3	-261.3	-244.3	-254.3
Decisions taken but not reported in MYEFO	nfp	nfp	nfp	nfp
Total impact of revenue measure(c)	-66.5	-294.3	-276.4	-286.4

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

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

(b) These estimates are as published in 2000-01 MYEFO. Descriptions of the measures are provided in the MYEFO publication.

(c) Measures may not add to total due to rounding.

Appendix D: Tax expenditures

This appendix provides a brief overview of the cost of tax concessions provided by the concessional tax treatment of specific activities and/or groups.

Tax concessions provide a benefit to a specified activity or class of taxpayer. Tax concessions can be delivered in a variety of ways, for example by a tax exemption, tax deduction, tax rebate, reduced tax rate or by deferring a tax liability. The Government can use tax 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*.

The data reported in this appendix are consistent with tax expenditure data reported in the *2000 Tax Expenditures Statement*. The Tax Expenditures Statement (TES) is an annual statement of Commonwealth tax expenditures.

Table D1 provides estimates of total tax expenditures for the period 1997-98 to 2004-05. There are several major considerations that need to be taken into account when analysing these data.

- These figures may understate the total cost of tax expenditures, as some identified tax expenditures have not been estimated due to a lack of data and the TES does not necessarily provide a comprehensive listing of all tax expenditures.
- Some caution should be exercised when using these tax expenditure estimates to measure the amount of tax revenue forgone. Tax expenditure estimates measure the benefit of the tax concession to the recipient, not the impact on the fiscal balance from the removal of that tax expenditure. The two might differ due to behavioural responses or for other reasons (see chapters 1.4 and 2.3 of the *2000 Tax Expenditures Statement*).
- Trends in aggregate tax expenditures over time will reflect both changes to the cost of individual tax expenditures and changes in the coverage of tax expenditures being costed.
- Tax expenditure aggregates are *net* aggregates as they include the offsetting effects of negative tax expenditures.
- Changes over time in methodology and data used to calculate the value of particular tax expenditures can result in large revisions to tax expenditure estimates. Therefore estimates that were provided in previous editions of the TES or in previous Budgets may not be strictly comparable to figures reported here.

Table D1: Aggregate tax expenditures 1997-98 to 2004-05

Year	Retirement and other employment termination benefits \$m	Other tax expenditures \$m	Total \$m	Tax expenditures as a proportion of GDP (%)
1997-98	9,915	15,555	25,470	4.5%
1998-99	9,420	16,368	25,788	4.3%
1999-00	9,530	17,781	27,311	4.3%
2000-01 (est)	8,845	20,139	28,984	4.3%
2001-02 (est)	9,595	19,345	28,940	4.1%
2002-03 (proj)	10,495	19,552	30,047	4.0%
2003-04 (proj)	11,495	19,769	31,264	4.0%
2004-05 (proj)	12,574	20,576	33,151	4.0%

Measured tax expenditures are projected to decline as a proportion of GDP from 4.5 per cent in 1997-98 to around 4.0 per cent in 2004-05. The largest single contributing factor to the decline in total measured tax expenditures is the removal of accelerated depreciation under *The New Tax System*.

Appendix E: Cash revenue statistics and history

Table E1: Commonwealth revenue (cash basis)^(a)

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01(b)	2001-02(b)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Tax revenue												
Income tax												
Individuals(c)												
Gross PAYGW	43979	43723	45350	47111	50928	56442	61191	65706	71157	76506	74222	78252
Gross other individuals	11357	9170	8320	8697	9481	10078	11820	12119	13103	13370	13000	15310
Gross PPS(d)	1693	1563	1674	1871	2169	2179	2250	2524	2794	3120	0	0
<i>less:</i> Refunds	6766	7771	7833	7103	7931	8285	8808	9525	10325	10946	11165	11248
Total individuals	50263	46685	47511	50575	54647	60414	66453	70822	76728	82050	76057	82315
Companies	14166	13419	13071	12700	15588	18252	19173	19406	20734	24345	30110	28299
Superannuation funds	1053	1139	1522	1191	1913	1634	2595	3093	3916	3820	4680	4492
Withholding tax	901	941	764	877	903	1349	1080	1137	1220	1428	1430	1487
Petroleum resource rent tax	293	876	1389	1072	865	791	1308	907	419	1184	2360	1430
Total income tax	66676	63060	64258	66416	73916	82440	90610	95366	103017	112828	114638	118022
Indirect tax(e)												
Excise duty												
Crude oil and LPG	1354	64	116	62	27	13	9	16	31	219	510	400
Petroleum products(f)	6642	7093	7200	8499	9406	10224	10543	10895	10974	11189	11907	12190
Other excise duty	2364	2324	2361	2253	2567	2612	2739	2663	2614	2670	6550	6460
Total excise duty	10360	9482	9677	10814	12001	12849	13291	13574	13619	14078	18967	19050
Customs duty	3319	3299	3331	3226	3474	3124	3289	3637	3634	3771	4671	4885
Sales taxes(g)	9365	9113	9252	10414	11624	12955	13308	14085	15162	15532	1969	810
Total indirect tax	23044	21893	22260	24455	27099	28928	29888	31296	32415	33381	25607	24745

Table E1: Commonwealth revenue (cash basis)^(a) (continued)

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01(b)	2001-02(b)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Tax revenue (continued)												
Fringe benefits tax(h)	1262	1327	1344	1417	2740	3031	3163	3168	3289	3373	3290	3500
Other taxes	2243	1690	1572	1736	1933	1988	2154	2390	2383	1113	1136	1291
Total tax revenue	93225	87970	89434	94024	105687	116386	125815	132219	141104	150695	144671	147558
Non-tax revenue												
Interest received	3309	2976	2477	2051	1790	1403	1126	1139	682	995	1245	925
Dividends and other	1558	2563	3150	4671	2952	3899	4089	3610	4659	14138	13201	14340
Total non-tax revenue	4867	5539	5627	6722	4743	5302	5216	4749	5341	15133	14447	15265
Total revenue	98093	93509	95062	100747	110430	121688	131031	136968	146444	165828	159118	162823
<i>Memorandum items:</i>												
Medicare levy receipts(i)	2480	2385	2415	2870	3030	3350	4150	3760	4100	4350	4605	4855
Diesel fuel rebate expense(j)	831	889	898	1034	1251	1307	1415	1407	1463	1514	1880	1980

(a) Figures up to and including 1998-99 are based on the old Commonwealth Budget Sector cash accounting framework. Figures from 1999-2000 are on a Commonwealth general government GFS basis, consistent with the Uniform Presentation Framework (UPF). As a result, the category 'Dividends and other' now includes many large items that were netted off revenue in outcomes prior 1999-2000, namely 'Receipts from sales of goods and services' (around \$3 billion from 1999-2000), 'Receipts from sales of non-financial assets' (around \$2.5 billion in 1999-2000 and 2000-01 and around \$1.7 billion in 2001-02), 'Other receipts' (around \$3 billion from 1999-2000) and 'GST receipts related to purchases/sales' (around \$2 billion from 2000-01).

(b) Estimates.

(c) Presented on a basis inclusive of the Medicare levy. See memorandum item for Medicare levy outcomes and estimates.

(d) PPS denotes prescribed payments system (which was replaced by the new PAYG system from 1 July 2000).

(e) These items are reported net of Revenue Replacement Payments (RRPs) to the States.

(f) Excludes the diesel fuel rebate (DFR) offset to revenue, which is classified as an expense.

(g) This item includes the wine equalisation tax and the luxury car tax from 2000-01.

(h) Consistent with GFS reporting standards, FBT is no longer classified as an income tax.

(i) 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.

(j) Outcomes and estimates of the DFR expense. Reported for informational purposes only.

Table E2: Major categories of revenue as a proportion of gross domestic product (cash basis)^(a)

	Taxation revenue															Non-taxation revenue			
	Income tax							Other taxation revenue								Interest	Dividends and other	Total non-tax revenue	Total revenue
	Individuals				Companies	Super funds	Total (c)	Petroleum products			Other excises	Customs duty	Sales tax(f)	FBT (g)	Total other tax (h)				
	Gross PAYGW	Gross other	Gross PPS	Total (b)				(d)	(e)	Total									
%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
1990-91	11.1	2.9	0.4	12.7	3.6	0.3	16.8	2.0	0.6	2.6	0.8	2.4	0.3	6.7	23.5	0.8	0.4	1.2	24.7
1991-92	10.8	2.3	0.4	11.5	3.3	0.3	15.5	1.8	0.6	2.3	0.8	2.2	0.3	6.1	21.7	0.7	0.6	1.4	23.0
1992-93	10.6	1.9	0.4	11.1	3.1	0.4	15.1	1.7	0.6	2.3	0.8	2.2	0.3	5.9	21.0	0.6	0.7	1.3	22.3
1993-94	10.5	1.9	0.4	11.3	2.8	0.3	14.8	1.9	0.5	2.4	0.7	2.3	0.3	6.1	20.9	0.5	1.0	1.5	22.4
1994-95	10.8	2.0	0.5	11.5	3.3	0.4	15.6	2.0	0.5	2.5	0.7	2.5	0.6	6.7	22.3	0.4	0.6	1.0	23.3
1995-96	11.1	2.0	0.4	11.9	3.6	0.3	16.3	2.0	0.5	2.5	0.6	2.6	0.6	6.7	23.0	0.3	0.8	1.0	24.0
1996-97	11.5	2.2	0.4	12.5	3.6	0.5	17.0	2.0	0.5	2.5	0.6	2.5	0.6	6.6	23.6	0.2	0.8	1.0	24.6
1997-98	11.6	2.1	0.4	12.5	3.4	0.5	16.9	1.9	0.5	2.4	0.6	2.5	0.6	6.5	23.4	0.2	0.6	0.8	24.3
1998-99	12.0	2.2	0.5	12.9	3.5	0.7	17.3	1.8	0.4	2.3	0.6	2.5	0.6	6.4	23.7	0.1	0.8	0.9	24.6
1999-00	12.1	2.1	0.5	13.0	3.8	0.6	17.8	1.8	0.4	2.2	0.6	2.5	0.5	6.0	23.8	0.2	2.2	2.4	26.2
2000-01(i)	11.0	1.9	0.0	11.3	4.5	0.7	17.1	1.8	1.0	2.8	0.7	0.3	0.5	4.5	21.5	0.2	2.0	2.1	23.7
2001-02(i)	11.1	2.2	0.0	11.7	4.0	0.6	16.8	1.8	0.9	2.7	0.7	0.1	0.5	4.2	21.0	0.1	2.0	2.2	23.2

(a) Figures up to and including 1998-99 are based on the old Commonwealth Budget Sector cash accounting framework. Figures from 1999-2000 are on a Commonwealth general government GFS basis, consistent with the Uniform Presentation Framework (UPF). As a result, the category 'Dividends and other' now includes many large items that were netted off revenue in outcomes prior 1999-2000, namely 'Receipts from sales of goods and services' (around \$3 billion from 1999-2000), 'Receipts from sales of non-financial assets' (around \$2.5 billion in 1999-2000 and 2000-01 and around \$1.7 billion in 2001-02), 'Other receipts' (around \$3 billion from 1999-2000) and 'GST receipts related to purchases/sales' (around \$2 billion from 2000-01).

(b) The total for the individuals category also includes refunds.

(c) The total for the income tax category also includes refunds, PRRT and other withholding tax.

(d) Petroleum products excise includes crude oil and liquid petroleum gas (LPG) excise, but excludes the DFR offset to revenue, which is now classified as an expense.

(e) Other excise comprises excise from beer, potable spirits and tobacco.

(f) This item also includes the wine equalisation tax and the luxury car tax from 2000-01.

(g) Consistent with GFS reporting standards, FBT is no longer classified as an income tax.

(h) The total for 'other taxation revenue' also includes agricultural levies and other taxes.

(i) Estimates.

Table E3: Major categories of revenue as a proportion of total revenue (cash basis)^(a)

	Taxation revenue														Non-taxation revenue			
	Income tax				Other taxation revenue													
	Individuals				Excises						Total other tax				Dividends and other		Total non-tax revenue	
	Gross PAYGW %	Gross other %	Gross PPS %	Total (b) %	Companies %	Super funds %	Total (c) %	Petroleum products (d) %	Other (e) %	Total excises %	Customs duty %	Sales tax(f) %	FBT (g) %	Total other tax (h) %	Total tax revenue %	Interest %	and other %	Total non-tax revenue %
1990-91	44.8	11.6	1.7	51.2	14.4	1.1	68.0	8.2	2.4	10.6	3.4	9.5	1.3	27.1	95.0	3.4	1.6	5.0
1991-92	46.8	9.8	1.7	49.9	14.4	1.2	67.4	7.7	2.5	10.1	3.5	9.7	1.4	26.6	94.1	3.2	2.7	5.9
1992-93	47.7	8.8	1.8	50.0	13.7	1.6	67.6	7.7	2.5	10.2	3.5	9.7	1.4	26.5	94.1	2.6	3.3	5.9
1993-94	46.8	8.6	1.9	50.2	12.6	1.2	65.9	8.5	2.2	10.7	3.2	10.3	1.4	27.4	93.3	2.0	4.6	6.7
1994-95	46.1	8.6	2.0	49.5	14.1	1.7	66.9	8.5	2.3	10.9	3.1	10.5	2.5	28.8	95.7	1.6	2.7	4.3
1995-96	46.4	8.3	1.8	49.6	15.0	1.3	67.7	8.4	2.1	10.6	2.6	10.6	2.5	27.9	95.6	1.2	3.2	4.4
1996-97	46.7	9.0	1.7	50.7	14.6	2.0	69.2	8.1	2.1	10.1	2.5	10.2	2.4	26.9	96.0	0.9	3.1	4.0
1997-98	48.0	8.8	1.8	51.7	14.2	2.3	69.6	8.0	1.9	9.9	2.7	10.3	2.3	26.9	96.5	0.8	2.6	3.5
1998-99	48.6	8.9	1.9	52.4	14.2	2.7	70.3	7.5	1.8	9.3	2.5	10.4	2.2	26.0	96.4	0.5	3.2	3.6
1999-00	46.1	8.1	1.9	49.5	14.7	2.3	68.0	6.9	1.6	8.5	2.3	9.4	2.0	22.8	90.9	0.6	8.5	9.1
2000-01(i)	46.6	8.2	0.0	47.8	18.9	2.9	72.0	7.8	4.1	11.9	2.9	1.2	2.1	18.9	90.9	0.8	8.3	9.1
2001-02(i)	48.1	9.4	0.0	50.6	17.4	2.8	72.5	7.7	4.0	11.7	3.0	0.5	2.1	18.1	90.6	0.6	8.8	9.4

(a) Figures up to and including 1998-99 are based on the old Commonwealth Budget Sector cash accounting framework. Figures from 1999-2000 are on a Commonwealth general government GFS basis, consistent with the Uniform Presentation Framework (UPF). As a result, the category 'Dividends and other' now includes many large items that were netted off revenue in outcomes prior 1999-2000, namely 'Receipts from sales of goods and services' (around \$3 billion from 1999-2000), 'Receipts from sales of non-financial assets' (around \$2.5 billion in 1999-2000 and 2000-01 and around \$1.7 billion in 2001-02), 'Other receipts' (around \$3 billion from 1999-2000) and 'GST receipts related to purchases/sales' (around \$2 billion from 2000-01).

(b) The total for the individuals category also includes refunds.

(c) The total for the income tax category also includes refunds, PRRT and other withholding tax.

(d) Petroleum products excise includes crude oil and liquid petroleum gas (LPG) excise, but excludes the DFR offset to revenue, which is now classified as an expense.

(e) Other excise comprises excise from beer, potable spirits and tobacco.

(f) This item also includes the wine equalisation tax and the luxury car tax from 2000-01.

(g) Consistent with GFS reporting standards, FBT is no longer classified as an income tax.

(h) As well as excises, customs duty, sales tax and FBT, 'other taxation revenue' includes agricultural levies and other taxes.

(i) Estimates.

STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

Contents

Introduction	6-3
Part I: General government expenses	6-4
Overview	6-4
Reconciliation of expenses since the 2000-01 Budget	6-4
Expenses by function.....	6-7
General public services	6-9
Defence	6-14
Public order and safety	6-16
Education	6-18
Health.....	6-22
Social security and welfare.....	6-27
Housing and community amenities.....	6-33
Recreation and culture.....	6-36
Fuel and energy	6-39
Agriculture, forestry and fishing.....	6-41
Mining and mineral resources.....	6-45
Transport and communication	6-47
Other economic affairs.....	6-50
Other purposes	6-54
Part II: General government net capital investment	6-59
Overview	6-59
Reconciliation of net capital investment since the 2000-01 Budget.....	6-59
Net capital investment by function.....	6-62
Appendices	
Appendix A: Expense Measures	6-64
Appendix B: Net Capital Investment Measures	6-83
Appendix C: Expenses Statistics.....	6-89

STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

Introduction

Statement 6 presents the 2001-02 Budget year and forward estimates of general government expenses and net capital investment on a Government Finance Statistics (GFS) accrual accounting basis. The Statement this year includes information on the allocation of Commonwealth funds to the various functions of government.

The GFS framework 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 functional classification system brings together expenses and net capital investment directed towards like objectives or purposes. It facilitates presentation of information on the basic purposes of government activities and of the resources devoted by the Commonwealth to those purposes.

Expenses represent the full costs of an activity, as opposed to the direct cash costs. Recording estimated expenses is in accord with international practice in government budgeting and consistent with worldwide private sector practices.

Part I provides information on trends in expenses whilst Part II presents trends in net capital investment estimates. Expense and net capital investment measures by portfolio are listed, in Appendices A and B, with estimates of Commonwealth general government expenses by function and sub-function, and by economic type in Appendix C.

Further information on portfolios' and agencies' expenses, capital movements, major outputs and administered items may be found in the respective Portfolio Budget Statements.

Part I: General government expenses

OVERVIEW

Expenses are estimated to increase by 0.7 per cent in real terms between 2000-01 and 2001-02, with an increase of 1.1 per cent in 2002-03, 1.3 per cent in 2003-04 and 0.9 per cent in 2004-05. These increases are largely due to policy decisions and economic parameter variations.

Table 1: Estimates of Commonwealth general government expenses

	2000-01		2001-02	2002-03	2003-04	2004-05
	MYEFO(a)	Revised	Estimate	Projection	Projection	Projection
Total expenses (\$b)	152.9	157.6	160.9	166.8	173.1	179.0
Real growth on previous year (%) (b)			0.7	1.1	1.3	0.9
Per cent of GDP	22.7	23.4	22.9	22.4	21.9	21.4

(a) As published in the *Mid-Year Economic and Fiscal Outlook 2000-01* on a GFS basis. The corresponding estimates reported in the 2000-01 Budget were on an Australian Accounting Standard No. 31 (AAS31) basis.

(b) Real growth is calculated using the non-farm gross domestic product (GDP) deflator.

RECONCILIATION OF EXPENSES SINCE THE 2000-01 BUDGET

Table 2 provides a reconciliation of the 2001-02 Budget, *Mid-Year Economic and Fiscal Outlook (MYEFO) 2000-2001* and 2000-01 Budget expenses estimates, showing the effect of policy decisions and economic parameter and other variations since the estimates were published in the 2000-01 Budget.

Table 2: Reconciliation of Commonwealth general government expense estimates

	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Expenses at 2000-01 Budget	150,279	156,485	160,089	165,455
Changes from 2000-01 Budget to MYEFO				
Effect of policy decisions(a)	596	321	254	297
Effect of economic parameter variations				
Unemployment benefits	-96	-129	-141	-145
Prices and wages	1	279	282	296
Interest and exchange rates	97	85	86	86
Total economic parameter variations	2	235	227	237
Public debt interest	-290	-292	-513	-772
Programme specific parameter variations	1,127	725	691	735
Slippage in 1999-2000 Budget decisions	-8	5	7	2
Defence weapons platforms reclassification	1,023	1,172	949	727
Other variations	139	-507	1,298	1,898
Total variations	2,589	1,659	2,913	3,124
Expenses at 2000-01 MYEFO	152,869	158,144	163,001	168,579
Changes from MYEFO to 2001-02 Budget				
Effect of policy decisions(a)(b)	1,467	2,767	3,303	4,569
Effect of economic parameter variations				
Unemployment benefits	108	968	976	907
Prices and wages	508	49	192	252
Interest and exchange rates	-55	175	236	279
Total economic parameter variations	560	1,192	1,404	1,438
Public debt interest	-80	-111	-137	-183
Programme specific parameter variations	553	983	1,983	2,574
Slippage in 1999-2000 Budget decisions	-46	-23	3	2
Other variations(c)	2,251	-2,077	-2,743	-3,863
Total variations	4,705	2,731	3,812	4,538
Expenses at 2001-02 Budget	157,573	160,875	166,813	173,117

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

(b) Includes additional defence expenditure announced in the December 2000 Defence White Paper (\$507 million in 2001-02, increasing to over \$2 billion in 2004-05). Provision for this expenditure was largely made in the Contingency Reserve at the 2000-01 MYEFO. The impact of this expenditure on the fiscal balance estimates is offset by a corresponding negative 'Other variations'.

(c) Includes the impact of the removal of additional Defence White Paper funding from the Contingency Reserve. Adjusting for this effect, other variations since the 2000-01 MYEFO reduce expenses by \$1.5 billion in 2001-02 and by around \$2.2 billion in 2003-04.

Policy decisions

The effect of decisions taken since the 2000-01 MYEFO has been to increase estimated expenses across all years. The increase is largely due to:

- the *Australians Working Together Package* of measures to build a more effective welfare system by providing new welfare services, incentives and obligations, at a gross cost of \$1.7 billion over four years;
- a decision to exempt superannuation assets from the Social Security means test for those aged over 55 but under pension age, at a cost of around \$400 million over four years;
- enhancements to quarantine and inspection arrangements in response to foot and mouth disease and other quarantine risks, totalling around \$600 million over five years;
- the Government's decision to extend the operation of the Natural Heritage Trust (NHT) by five years to 2006-07 with an additional allocation of over \$1 billion;
- an increase in budget balancing assistance payments of around \$670 million for the three years from 2000-01, largely as a result of lower goods and services tax (GST) revenue following the decision to allow full input tax credits for motor vehicles purchased by business from 23 May 2001;
- funding of \$1.6 billion over five years for the *Roads to Recovery* and *Roads to Outer Metropolitan Areas Packages*;
- additional funding of \$5.1 billion over four years to enhance Australia's military capabilities, as announced in the Defence White Paper; and
- the *Backing Australia's Ability — An Innovation Action Plan for the Future Package* of measures.

Offsetting these increases are:

- a package to prevent fraud and abuse of the social welfare system providing savings of \$143 million over the Budget and forward years; and
- \$104 million in savings from improving the use of cholesterol lowering medicines on the Pharmaceutical Benefits Scheme (PBS).

Parameter and other variations

Parameter and other variations since the 2000-01 MYEFO have increased estimated expenses across the Budget and forward years. The primary drivers include:

- increases in estimated unemployment benefit expenses due to an upward revision to the forecast number of unemployment benefit recipients in 2001-02;
- strong growth in estimated PBS expenses, driven by the increased use of newer and more expensive drugs;
- higher budget balancing assistance payments to the States and Territories due to lower than previously anticipated collections of GST revenue (see Box 1 in *Statement 2* for further information);
- indexation of expenses on schools, higher education and vocational and other education; and
- increases in interest expenses related to the Commonwealth's public sector superannuation, following a review.

These increases in expenses are partially offset by the regular draw down of the conservative bias allowance.

EXPENSES BY FUNCTION

Table 3 sets out the estimates of Commonwealth general government expenses by function for the period 2000-01 to 2004-05. As previously mentioned, expenses are estimated to increase in real terms from 2000-01 to 2001-02 and over the forward years.

Table 3: Estimates of Commonwealth general government expenses by function

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
General public services	9,402	9,449	9,217	9,410	9,685
Defence	11,599	12,212	13,072	13,725	14,407
Public order and safety	1,592	1,693	1,677	1,669	1,661
Education	10,998	11,474	12,076	12,694	13,215
Health(a)	25,162	26,812	28,545	30,002	31,655
Social security and welfare(a)	67,688	68,198	70,739	73,108	75,374
Housing and community amenities(b)	1,811	1,934	1,766	1,681	1,598
Recreation and culture(b)	2,150	1,957	1,892	1,973	1,956
Fuel and energy	2,729	2,987	3,066	3,128	3,166
Agriculture, forestry and fishing(b)	1,924	1,733	1,725	1,726	1,579
Mining and mineral resources (other than fuels); manufacturing and construction	881	1,062	1,054	1,058	995
Transport and communication	1,959	2,530	2,238	2,008	1,750
Other economic affairs	3,312	3,414	3,520	3,534	3,619
Other purposes(b)	16,367	15,419	16,226	17,402	18,300
Total expenses	157,573	160,875	166,813	173,117	178,959

(a) Expenses for assistance to the aged have been reclassified from *Health* to *Social security and welfare*.

(b) The estimates for the extension of the NHT, whilst formally in *Contingency Reserve* expenses, have been allocated to the *Housing and community amenities*, *Recreation and culture* and *Agriculture, forestry and fishing* functions.

Major movements within the estimates of expenses by function include increases in the following functions:

- *Defence*, due to the additional funding commitment identified in the Government's White Paper;
- *Health*, due to a steady increase in the use of medical and pharmaceutical services over the period, increasing costs for the provision of medical services, and a drift toward the use of newer and more expensive drugs under the PBS;
- *Social security and welfare*, largely due to the Government's *Australians Working Together* initiatives; and
- *Education* in Budget and forward years, due to the effects of indexation on the funding for schools, the introduction of a new funding arrangement for non-government schools announced in the 1999-2000 Budget, and initiatives from the *Backing Australia's Ability Package*.

These effects have been partially offset by decreases in expenses for the following functions:

- *General public services* in 2002-03, following the one-off additional funding provided to the Australian Taxation Office (ATO) to meet the start-up costs of administering *The New Tax System*;
- *Agriculture, forestry and fishing*, in 2001-02 as a result of the Commonwealth's divestment of its interest in the Australian Wool Research and Promotion Organisation (AWRAP) to Australian wool growers, a planned reduction in the wool levy from 1 July 2001 and cessation of programmes funded by the *Agriculture — Advancing Australia Package* in 2003-04; and
- *Transport and communications* from 2002-03, mainly due to the conclusion of the Upgrade of the Mainline Interstate Rail Track Programme in 2001-02. However, the Government will provide an equity injection for the Australian Rail Track Corporation subject to a business case being agreed.

Estimates presented in Table 3 above are more fully explained by individual functions later in this part of the Statement.

GENERAL PUBLIC SERVICES

Table 4: Summary of expenses

	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
Legislative and executive affairs	695	786	687	686	788
Financial and fiscal affairs	3,066	2,937	2,609	2,581	2,652
Foreign economic aid	2,021	1,996	2,118	2,102	2,132
General research	1,568	1,641	1,784	1,950	2,072
General services	575	531	530	539	537
Government superannuation benefits	1,477	1,558	1,488	1,553	1,505
Total general public services	9,402	9,449	9,217	9,410	9,685

This function includes expenses from the following portfolios:

- Attorney-General's;
- Education, Training and Youth Affairs;
- Finance and Administration;
- Foreign Affairs and Trade;
- Health and Aged Care;
- Industry, Science and Resources;
- Parliamentary Departments; and
- Treasury.

Nature of expenses and major trends

General public services include expenses on activities concerned with the organisation and operation of government. The function covers legislative and executive affairs, financial and fiscal affairs, foreign economic aid, general research, general services and government superannuation benefits.

The increase in expenses over the forward years is largely due to the recently announced *Backing Australia's Ability — An Innovation Action Plan for the Future*, which provides increased support for research and innovation.

The increase is partially offset by a fall in expenses following the one-off additional funding provided to the ATO to meet the start-up costs of administering *The New Tax System*.

Legislative and executive affairs

Expenses under this sub-function cover: support services for Senators and Members; the funding of elections; drafting of Bills by the Office of Parliamentary Counsel; and expenses of the Department of the Prime Minister and Cabinet (including support services for former Governors-General and the Prime Minister's official residences), the Commonwealth Ombudsman, the Office of the Official Secretary to the Governor-General and the Public Service and Merit Protection Commission.

Expenses for the Parliamentary Departments' component of this sub-function are expected to remain stable from 2001-02 to 2004-05.

The higher estimates in 2001-02 and 2004-05 reflect the expenses of the Australian Electoral Commission in relation to the cost of Federal elections expected in these years.

The Department of Prime Minister and Cabinet's expenses decline in 2002-03 and 2003-04 reflecting the conclusion of the Commonwealth Heads of Government Meeting, and the current Partnership Against Domestic Violence Programme, respectively.

Financial and fiscal affairs

These expenses are related to the collection of taxes, including customs duties, management of public funds and public debt, monetary and fiscal policy, and formulation and review of government budgets. They exclude expenses related to the collection of licenses, fees and fines that are associated with a specific function, and interest payments classified to the *Public debt interest* sub-function.

Expenses are projected to decrease in 2002-03, mainly following the one-off additional funding provided to the ATO to meet the start-up costs of administering *The New Tax System* (\$324 million over 2000-01 and 2001-02). Expenses over the remainder of the forward years are projected to be relatively steady.

Foreign economic aid

Foreign economic aid expenses include both aid and non-aid components. The overseas aid component covers expenses for which the primary purpose is to fund concessional and non-concessional assistance to other countries. The Foreign Affairs non-aid component covers expenses used for the conduct of foreign and international trade relations (excluding trade promotion activities), contributions to international organisations such as the United Nations (UN) not resulting in the recognition of a financial asset, including for its peacekeeping operations, and the operations of the foreign service.

The fall in expenses in 2001-02 arises from a one-off increase in contributions to the UN in 2000-01.

The increase in *Foreign economic aid* between 2001-02 and 2002-03 results from expected commitments to be made by the Commonwealth to the Global Environment Facility. The Facility is designed to meet growing environmental concerns in developing countries, such as the conservation of biological diversity, ozone layer depletion and the protection of international waters. The smaller variations in expenses in 2003-04 and 2004-05 result from a revision to the accounting treatment applied to payments to the International Development Association and Asian Development Fund, and indexation of the aid budget by movements in non-farm GDP, respectively.

General research

The *General research* sub-function covers expenses associated with scientific knowledge and its application. This includes the expenses incurred by Commonwealth research authorities such as the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and the Australian Nuclear Science and Technology Organisation (ANSTO). Also included are elements of the national research infrastructure and general research programmes, including grants for higher education research, both directly and through the Australian Research Council, and contributions to Cooperative Research Centres.

General research expenses increase by \$1.2 billion cumulated over the next four years, which represents an average annual real growth of 4.9 per cent. This increase is primarily attributable to *Backing Australia's Ability — An Innovation Action Plan for the Future* — a plan announced in January 2001 to foster research and enhance the commercialisation and diffusion of applied research to improve business productivity. The major components of the increase in research expenses, as a result of *Backing Australia's Ability*, are an additional:

- \$460 million for competitive research grants administered by the Australian Research Council;
- \$233 million for Project Specific Research Infrastructure;
- \$105 million for Major National Research Facilities; and
- \$112 million for Cooperative Research Centres.

The balance of the increase in this sub-function is due to increases in the expenses of CSIRO and ANSTO of \$183 million and \$39 million, respectively, over the next four years. These increases maintain expenses in real terms. They reflect the impact of price adjustments negotiated under triennial funding agreements and efforts to increase revenues from commercial sources.

Programmes supporting research in specific sectors are generally included under the relevant function, for example health research is included in the *Health* function.

General services

The *General services* sub-function covers expenses relating to the administrative processes of government not classified elsewhere including the provision of real property, centralised employee compensation (provided by Comcare) and centralised insurance arrangements for Commonwealth departments and agencies.

Comcare's expenses relate to the management of occupational health and safety, compensation claims management and rehabilitation. Annual premiums collected are expected to cover the full cost of all compensation liabilities expected to be incurred in that premium year for the full life of each claim. Expenses increase marginally in real terms over the forward years to reflect a small increase in expected workers' compensation claim costs.

The Department of Finance and Administration's management of Australian real property owned by the Commonwealth for non-defence purposes is included in the *General services* sub-function. The fall in expenses in 2001-02 reflects the decline in expenses of the Department of Finance and Administration arising from reduced interest on borrowings, reduced operating lease costs and some one-off payments in 2000-01. Estimates from 2001-02 onward are fairly stable.

This sub-function also covers expenses relating to the provision of services and infrastructure to Christmas Island and Cocos (Keeling) Island in the Indian Ocean Territories. These expenses are relatively stable over the forward years with the small increase reflecting adjustments for price changes.

Government superannuation benefits

This *Government superannuation benefits* sub-function covers the Commonwealth's superannuation schemes for its employees, military personnel and Senators and Members of Parliament. The expenses include the accruing liability in relation to current year employment and the administration of the schemes.

The major Commonwealth civilian superannuation schemes are the Public Sector Superannuation Scheme (PSS) and the Commonwealth Superannuation Scheme (CSS), and the Parliamentary Contributory Superannuation Scheme for Parliamentarians. The Military Superannuation and Benefits Scheme and the Defence Force Retirement and Death Benefits Scheme cover military personnel. The movement in expenses between 2000-01 and 2001-02 represents an increase in superannuation costs in line with general growth in Commonwealth employee costs.

Expenses under this sub-function are estimated to decline in 2002-03 based on the assumed start date for the closure of the PSS to new entrants and the introduction of choice for existing contributors to Commonwealth civilian schemes who may elect to transfer to private sector superannuation arrangements.

This sub-function does not include the nominal interest on the unfunded liabilities of the superannuation schemes. These expenses are included under the *Other purposes* function, *Nominal superannuation interest* sub-function.

DEFENCE

Table 5: Summary of expenses

	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
Defence	11,599	12,212	13,072	13,725	14,407
Total defence	11,599	12,212	13,072	13,725	14,407

This function includes expenses from the following portfolio:

- Defence

Nature of expenses and major trends

Expenses in this function are within the Defence portfolio and support the specific portfolio outcome of 'The defence of Australia and its National Interests'. Real growth of 3.8 per cent from 2000-01 to 2001-02 reflects the provision of the first phase of the additional funding commitment identified in the Government's White Paper: *Defence 2000 — Our Future Defence Force*. In 2001-02 and the three forward years there is a projected average real growth of 3.3 per cent per annum associated with further capability enhancements arising from the White Paper commitment. This commitment is projected to average approximately 3 per cent per annum in real growth over the next decade.

The main contribution to real growth is employee expenses that average an increase of 1.3 per cent per annum over the period, largely due to increasing per capita salary costs and the flow-on effect of increased superannuation.

The Defence Capability Plan for the development of the armed forces over this period provides for an additional two permanent army battalion groups, maintenance of an air combat capability comparable with any in the region and maintenance of a naval fleet capable of securing our maritime approaches and beyond. The real growth in resourcing will allow Defence to commence implementation of the Capability Plan by investing in: an initial four Airborne Early Warning and Control Aircraft with the possibility of acquiring a further three later in the decade; an increase in the number of battalions at high readiness from four to six, the introduction of two extra squadrons of Armed Reconnaissance Helicopters by 2004-05; and an upgrade of the ANZAC ships to provide a reasonable level of anti-ship missile defences. In addition, all six Collins class submarines will be brought to a high level of capability through major improvements to both the platform and combat systems.

Defence

The *Defence* function covers expenses on personnel and related benefits, military equipment and technology, stores and Defence administration.

The main components of these expenses are:

- personnel costs, which include the payments of salaries and allowances to Defence military and civilian staff (totaling \$5.5 billion in 2001-02). Expenses related to the accruing superannuation liability in relation to current year employment for staff are shown in the *General public services* function, *Government superannuation benefits* sub-function;
- a capital acquisition programme that complements the priorities of the Defence Capability Plan. Broadly, these acquisitions are intended to deliver a capability to protect our regional interests, ensure the defence of Australia, promote stability in the immediate region and contribute to the maintenance of stability in the broader Asia Pacific region;
- the acquisition of stores, including ammunition and fuel, required to maintain the operations of the Australian Defence Force (ADF); and
- the development of bases, airfields, communications, training and other facilities including housing for eligible ADF personnel and their families, largely through payment of rent to the Defence Housing Authority.

PUBLIC ORDER AND SAFETY

Table 6: Summary of expenses

	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
Courts and legal services	481	515	555	563	569
Other public order and safety	1,111	1,178	1,122	1,106	1,092
Total public order and safety	1,592	1,693	1,677	1,669	1,661

This function includes expenses from the following portfolio:

- Attorney-General's.

Nature of expenses and major trends

Expenses for *Public order and safety* support the administration of the Federal legal system and the provision of legal services, including legal aid, to the community. *Public order and safety* expenses also include law enforcement activities and the protection of Commonwealth property. Expenses are forecast to remain relatively constant from 2001-02 to 2004-05.

Expenses increase in 2001-02 as a result of the expansion of the activities of the Australian Customs Service (ACS) to combat the introduction and spread of foot and mouth disease in Australia.

Courts and legal services

Expenses under this sub-function include payments for the Federal courts and tribunals. They also include expenses for the administration of bankruptcies by the Insolvency and Trustee Service Australia, and operational expenses of the Australian Government Solicitor, the Office of the Director of Public Prosecutions and the Commonwealth's contribution to funding for State legal aid commissions.

An increase in expenses between 2001-02 and 2002-03 reflects additional funds for the Native Title Tribunal and the Federal Court to improve the processing of native title claims, the anticipated implementation of the Administrative Review Tribunal and accrued expenses for legal aid including Expensive Commonwealth Criminal Cases.

Expenses for the *Courts and legal services* sub-function remain steady from 2002-03 to 2004-05.

Other public order and safety

This sub-function incorporates all other expenses on public order and safety activities.

Included under this sub-function are the operations of the Australian Security Intelligence Organisation, the Australian Secret Intelligence Service, the Office of National Assessments, and the operations of the Office of the Inspector-General of Intelligence and Security. These agencies collect and assess information relevant to protect Australia against threats to its national interests and provide security at overseas posts, counter-terrorist training and equipment.

Other activities which are part of this sub-function are the Australian Federal Police, the Bureau of Criminal Intelligence, the Australian Institute of Criminology, the National Crime Authority and the Australian Transaction Reports and Analysis Centre.

Other public order and safety also incorporates the Coastwatch unit of the ACS which is responsible for the aerial surveillance of Australian Coastal and Fishing Zone areas to enable detection of smuggling, illegal entry, unauthorised fishing and quarantine breaches.

Expenses increase in 2001-02 as a result of the expansion of the activities of the ACS to combat the introduction and spread of foot and mouth disease in Australia. This expanded activity will enable the increased inspection of passengers, cargo and mail at Australia's borders.

The decline in expenses between 2001-02 and 2002-03 is a result of deferred funding for both crime prevention and for CrimTrac, an initiative that will enable the establishment of a range of national databases to enhance police capacity.

Expenses between 2002-03 and 2003-04 remain relatively stable. A decline in expenses is expected in 2004-05 due primarily to the completion of a programme related to the Continued Australian Police Presence in The United Nations Transitional Administration in East Timor.

EDUCATION

Table 7: Summary of expenses

	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
Higher education	3,823	3,888	4,035	4,141	4,233
Vocational and other education	1,157	1,238	1,296	1,366	1,397
Non-government schools	3,359	3,605	3,886	4,217	4,484
Government schools	1,949	2,039	2,122	2,226	2,344
<i>Schools</i>	<i>5,307</i>	<i>5,645</i>	<i>6,008</i>	<i>6,444</i>	<i>6,828</i>
Student assistance	558	549	564	583	595
General administration	43	41	41	42	43
School education - specific funding	109	114	133	119	119
Total education	10,998	11,474	12,076	12,694	13,215

This function includes expenses from the following portfolios:

- Education, Training and Youth Affairs;
- Family and Community Services;
- Immigration and Multicultural Affairs; and
- Veteran's Affairs.

Nature of expenses and major trends

Education expenses support the delivery of education services through higher education institutions; vocational education and training providers including technical and further education institutions; and government (State and Territory) and non-government schools.

Expenses under this function also include the ABSTUDY scheme, Assistance for Isolated Children, income support for students aged twenty-five years and over through Austudy and departmental costs associated with the *Education* function within the Education, Training and Youth Affairs portfolio.

Total expenses under the *Education* function are estimated to increase by 15.2 per cent in nominal terms over the period from 2001-02 to 2004-05; that is by over \$0.5 billion or 4.8 per cent annually on average. The major drivers of this growth are:

- indexation of Commonwealth Government spending on schools (both government and non-government), vocational education and training and higher education (further explained under individual sub-functions);

- the effect of previously announced decisions, in particular the introduction of a new funding arrangement for non-government schools announced in the 1999-2000 Budget context (which provided an additional \$800 million over a five year period from 2000-01 to 2004-05);
- the effect of new decisions, contained in *Backing Australia's Ability — An Innovation Action Plan for the Future* (of which approximately \$505 million over a five-year period from 2000-01 to 2004-05 relates to the *Education* function); and
- growth funding under the Australian National Training Authority Agreement (\$231 million over three years from 2001-02).

Higher education

Higher education funding rises by about 8.9 per cent from 2001-02 to 2004-05. This primarily reflects indexation of Commonwealth funding, using a Cost Adjustment Factor that takes account of movement in both salary (Safety Net Adjustment) and non-salary (CPI) costs, and increased funding arising from measures in *Backing Australia's Ability*. This package commences in 2001-02, and includes additional funding for research and training infrastructure in universities, funding for 2,000 additional targeted university places and a new loans scheme for postgraduates.

Vocational and other education

The Commonwealth's funding for vocational education and training is primarily provided to the States and Territories through the Australian National Training Authority under the Commonwealth, State and Territory Australian National Training Authority Agreement.

Growth in this sub-function (averaging about 4.1 per cent per annum) is driven by additional funding associated with a proposed new Australian National Training Authority Agreement. The additional funding will be available to those States and Territories that endorse the proposed agreement, including a requirement that States and Territories match additional Commonwealth funding on a dollar-for-dollar basis. Growth in this sub-function is also driven by indexation of Commonwealth funding to the Authority to maintain real base funding levels over time. The indexation takes account of movement in both salary (Safety Net Adjustment) and non-salary (CPI) costs. *Australians Working Together*, announced in the 2001-02 Budget, also contributes to growth in this sub-function. It provides for additional vocational education and training places, including around 5,200 additional places for people with disabilities.

Schools

Commonwealth specific purpose grants represent about 12 per cent of total spending on government schools with the balance being met by State and Territory governments from their own revenue sources. The Commonwealth provides about 40 per cent of

total support for non-government schools with the balance being met by other governments (17 per cent) and private sources (43 per cent).

Commonwealth targeted programmes for government and non-government schools are grouped into two priority areas:

- improving learning outcomes for educationally disadvantaged students. For example, the Strategic Assistance for Improving Student Outcomes Programme aims to improve learning outcomes for educationally disadvantaged students, particularly in literacy and numeracy, and the educational participation and outcomes of students with disabilities; and
- improving outcomes in specific targeted teaching and learning areas. For example, the Languages Other Than English Programme seeks to help schools and school communities to improve the learning outcomes of students who are learning languages other than English.

The other major element within the sub-function is the Indigenous Education Strategic Initiatives Programme which provides supplementary funding assistance to pre-schools, government and non-government school systems, vocational education and training authorities and independent indigenous education providers to improve educational outcomes for indigenous people.

Expenses under the *Schools* sub-function rise by more than 6 per cent a year in nominal terms over the period to 2004-05, reflecting primarily the impact of new needs-based funding arrangements (based on the socio-economic status of the school community) for non-government schools recurrent funding announced in the 1999-2000 Budget context, and the effects of indexation arrangements for both government and non-government schools. Since 1993, government and non-government schools' funding has been indexed by a sector-specific index, the Average Government Schools Recurrent Cost Index, which is based on the year-on-year change in the recurrent cost of educating a child in a government school. Additional funding of \$184 million over the period from 2001-02 to 2005-06 has been provided to foster scientific, mathematical and technological skills and innovation in government schools, as part of *Backing Australia's Ability*.

Student assistance

Expenses under the *Student assistance* sub-function include payments for Austudy (income support for students aged twenty-five years and over), the Student Financial Supplement Scheme (a voluntary loan scheme which gives some tertiary students the option of borrowing money to help cover expenses while studying), ABSTUDY (assistance to Aboriginal and Torres Strait Islander full-time secondary and tertiary students and some primary school students), and the Assistance to Isolated Children programme (assistance to the families of students who do not have reasonable daily access to an appropriate government school).

The one-off reduction in expenses in 2001-02 relative to 2000-01 is due to an adjustment to the Student Financial Supplement Scheme of \$15 million reflecting a change in the method by which the expenses associated with the scheme are estimated to more accurately reflect the financial transactions of the scheme. Expenses rise from 2002-03 as a result of indexation.

General administration

Expenses under this sub-function consist almost entirely of departmental expenses associated with the administration of the Department of Education, Training and Youth Affairs. Expenses are relatively stable over the forward years.

School education — specific funding

Expenses under this sub-function consist of programmes that target specific initiatives or are designed specifically for the benefit of certain groups, such as grants to primary school libraries and text book subsidies under the Book Industry Assistance Plan, information for indigenous students and/or their parents on career and education options and activities aimed at improving access, participation and outcomes for indigenous school and pre-school students.

The majority of expenses arise from the Quality Outcomes Programme, which seeks to improve student learning outcomes in schools, for example through the National School Drug Education Strategy, civics and citizenship education, and training to enhance the professional role of principals and teachers. The rise in expenses in 2002-03 is a consequence of a delayed start-up for the Quality Teacher Programme contained in the 1999-2000 Budget.

HEALTH

Table 8: Summary of expenses

	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
Medical services and benefits	10,375	10,884	11,590	12,110	12,717
Hospital services	1,270	1,315	1,332	1,258	1,261
Health care agreements	6,341	6,691	7,090	7,474	7,921
<i>Hospital services & health care agreements</i>	<i>7,611</i>	<i>8,006</i>	<i>8,422</i>	<i>8,732</i>	<i>9,182</i>
Pharmaceutical services and benefits	4,729	5,085	5,610	6,149	6,675
Aboriginal and Torres Strait Islander health	179	203	226	252	259
Health services	484	509	520	534	601
Other health services	770	986	1,025	1,055	1,040
<i>Other health services</i>	<i>1,254</i>	<i>1,495</i>	<i>1,544</i>	<i>1,589</i>	<i>1,641</i>
General administration	953	1,078	1,091	1,105	1,112
Health assistance to the aged (a)	61	62	61	65	69
Total health	25,162	26,812	28,545	30,002	31,655

(a) Expenses for assistance to the aged have been reclassified from *Health* to *Social security and welfare*.

This function includes expenses from the following portfolios:

- Health and Aged Care; and
- Veterans' Affairs.

Nature of expenses and major trends

The major purpose of Commonwealth health expenditure is to ensure that all Australians have access to necessary health services through a choice of providers and without excessive price barriers.

Health function expenses are expected to total around \$27 billion in 2001-02 and grow on average by around 3.6 per cent per annum in real terms over the forward years. This growth reflects a steady per capita increase in use of medical and pharmaceutical services over the period, increasing costs for the provision of medical services, and a drift toward the use of newer and more expensive drugs under the Pharmaceutical Benefits Scheme (PBS). It also reflects increased funding from major Government initiatives including the *Regional Health Package* announced in the 2000-01 Budget, and the *Health and Medical Research Boost* in response to the Wills Review announced in the 1999-2000 Budget.

Medical services and benefits

This sub-function includes Medicare Benefits Schedule (MBS) rebates for general practitioner (GP) and specialist attendances (\$7.7 billion in 2001-02) and the 30 per cent Private Health Insurance Rebate (\$1.9 billion in 2001-02). It also includes

funding (\$0.9 billion in 2001-02) for the provision of health services to veterans and their dependants by the Department of Veterans' Affairs (DVA). Commonwealth programmes under this sub-function are intended to provide high quality health outcomes for people by enabling access to timely and appropriate health care services at reasonable cost (or, in the case of eligible veterans and their dependants, no cost).

Expenses for this sub-function are forecast to increase from \$10.9 billion in 2001-02 to \$12.7 billion in 2004-05 or just over 2.9 per cent per annum in real terms. This growth is largely explained by the increasing costs of medical services funded through Medicare, increasing per capita utilisation of medical services and general population growth. Measures announced in the 2001-02 Budget, in response to the MBS Relative Value Study, increase expenses by \$645 million (\$613 million in this function) over the Budget and forward years. In combination with other measures affecting GPs announced in this Budget, these initiatives will increase the income of a full-time GP by an average of around \$13,900 per annum.

The underlying growth in veteran expenditure in this sub-function is largely driven by the ageing of the veteran population and the resultant increase in demand for specialist and dental services as well as rehabilitation and surgical aids. This growth is masked to some extent in 2000-01 and 2001-02 by the gradual increase in flow-on savings as a result of the 2000-01 *Veterans' home care* measure which peak in 2002-03 and plateau thereafter.

Health care agreements

To support free public hospital care under Medicare, the Commonwealth will provide \$6.7 billion in 2001-02 to the States and Territories under the Australian Health Care Agreements (AHCA). The current Agreements cover the period 1 July 1998 to 30 June 2003, and focus on increasing public patient access and improving the efficiency and effectiveness of service delivery. AHCA funding is forecast to grow by around 3.4 per cent per annum in real terms as a result of expected movements in the cost of medical services, growth in hospital utilisation, and expected population changes. Ongoing adjustments to funding resulting from movements in these cost drivers are incorporated in the current Agreements with the States and Territories.

Hospital services

The *Hospital services* sub-function includes funding for the provision of in-hospital treatment to eligible veterans and their dependants, and grants to public and not-for-profit hospitals to ease the costs of transition to new FBT arrangements (announced in the 2000-01 Budget). Expenses are forecast to be relatively stable over the Budget and forward years.

The moderate increase in expenses under this sub-function in 2001-02 is explained by a one-off payment by DVA of around \$27 million to eliminate accumulated liabilities against a hospital as well as an increase in projected demand for hospital services driven by the ageing and increased frailty of the veteran population. The decline from 2002-03 to 2003-04 reflects the cessation of the FBT transitional arrangements.

Pharmaceutical services and benefits

Expenses for this sub-function include the PBS administered by the Department of Health and Aged Care (DHAC), and the Repatriation Pharmaceutical Benefits Scheme (RPBS) administered by DVA. Under these schemes, the Commonwealth provides assistance towards the cost of a wide range of pharmaceuticals.

Expenses for this sub-function are forecast to grow from \$5.1 billion to \$6.7 billion over the forward years or an average of around 6.6 per cent per annum in real terms. This strong growth is driven primarily by the increased availability and utilisation of newer and more expensive drugs. While these factors have been evident for some time their impact has become more pronounced in recent years, and is expected to continue to be significant over the forward years. This growth has been driven by increases in expenses for the following five categories of drugs in particular: musculo-skeletal (mainly arthritis); antineoplastics (cancer and chemotherapy); blood and blood forming organs (mainly anti-stroke); cardiovascular; and central nervous system.

Significant patient demand for new classes of drugs is also a major contributor to increasing expenses for this sub-function. Recent examples include Celebrex, a drug for the treatment of arthritis and Zyban, an anti-smoking drug. The introduction of new classes of drugs has exacerbated the general trend towards the use of newer and more expensive drugs.

A number of initiatives have been implemented to reduce growth in expenses for this sub-function. Changes to the package size and unit price of Celebrex are estimated to reduce expenses by around \$20 million per annum. The Government has also decided to clarify and improve the wording of the prescribing conditions for cholesterol-lowering drugs (statins), which is estimated to save \$104 million over four years.

Aboriginal and Torres Strait Islander health

The Commonwealth funds a network of community controlled primary health care services for Aboriginal and Torres Strait Islander people. Commonwealth funding also supports a range of specialist services including mental and sexual health, and hearing services. The Commonwealth also works with State and Territory Governments and other stakeholders in the planning and funding of Aboriginal and Torres Strait Islander specific health services.

Building on increases to funding announced in the 1999-2000 Budget, the Commonwealth is providing additional resources for Aboriginal and Torres Strait Islander primary health care initiatives in this Budget. An additional \$20 million will be provided on an ongoing basis from 2003-04, taking total Commonwealth funding in this area to \$259 million in 2004-05.

Health services

Expenses under the *Health services* sub-function include funding for the provision of blood and blood products through the Australian Red Cross Blood Service (ARCBS) and Commonwealth Serum Laboratories Limited, population health programmes, and development of Mental Health Care strategies.

The increase in funding from 2001-02 reflects increased funding to the ARCBS, spending on the Q Fever vaccination programme and an increase in funding for the Victorian Cytology Service. The increasing expenses across the forward years are due in part to new spending on mental health initiatives announced as part of the response to the MBS Relative Value Study. Increases in expenses are in part offset by savings resulting from clarifying the funding arrangements for the provision of methadone to private patients.

Other health services

Expenses under the *Other health services* sub-function include medical research grants administered by the National Health and Medical Research Council (NHMRC), and funding for promotion of public health under the Public Health Outcome Funding Agreements between the Commonwealth and the States and Territories.

The increase in expenses for this sub-function is largely due to increased funding for health and medical research through the NHMRC. The increase arises from the Government's response to the Wills Review contained in the 1999-2000 Budget, in which the Government committed an additional \$600 million over six years to health and medical research.

General administration — health

Expenses under this sub-function include programmes to support training and education of health workers and the development of acute and primary care strategies administered by DHAC, as well as part of the general departmental expenses of DHAC, DVA, and the Health Insurance Commission (HIC).

The HIC operates under a purchaser-provider relationship with DHAC, DVA and other client agencies. It is responsible for the management of Medicare and other payments to the public, and collates and publishes data on the MBS, PBS and RPBS. The HIC also has a monitoring and enforcement role, for example ensuring that providers of services are billing Medicare correctly, or that pharmaceuticals are being prescribed in accordance with PBS criteria.

Expenses under this sub-function increase significantly from 2000-01 to 2001-02 largely reflecting the stepping-up of funding under the *Regional Health Package* announced in the 2000-01 Budget, and new spending on nurse education and after-hours medical services in the 2001-02 Budget.

Health assistance to the aged

Expenses under this sub-function include the Community Nursing Programme and Community Care Seeding Grants administered by DVA. The Community Nursing Programme provides support for veterans, war widow(er)s and their dependants in improving their health and in regaining and maintaining an optimal level of independence in their homes. The growth in expenses reflects increasing demand due to the frailty of the veteran population, and the trend towards shorter hospital stays.

Expenses previously reported against this sub-function for residential aged care subsidies for DVA and DHAC are reported under the *Assistance to the aged* sub-function in the *Social security and welfare* function.

SOCIAL SECURITY AND WELFARE

Table 9: Summary of expenses

	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
Assistance to the aged(a)	25,489	24,078	25,503	26,838	28,112
Assistance to veterans and dependants	5,566	5,426	5,516	5,588	5,571
Assistance to people with disabilities	7,322	7,834	8,143	8,632	9,033
Assistance to families with children	17,788	18,730	19,247	19,761	20,323
Assistance to the unemployed	5,762	5,983	5,901	5,746	5,730
Assistance to the sick	94	93	93	95	97
<i>Assistance to the unemployed and sick</i>	<i>5,856</i>	<i>6,077</i>	<i>5,993</i>	<i>5,841</i>	<i>5,827</i>
Common Youth Allowance	2,097	2,259	2,324	2,389	2,422
Other welfare programmes	282	314	354	384	403
Aboriginal advancement nec	1,181	1,299	1,347	1,393	1,428
General administration	2,107	2,182	2,313	2,283	2,255
Total social security and welfare	67,688	68,198	70,739	73,108	75,374

(a) Expenses for assistance to the aged have been reclassified from *Health* to *Social security and welfare*.

This function includes expenses from the following portfolios:

- Attorney-General's;
- Family and Community Services;
- Health and Aged Care;
- Immigration and Multicultural Affairs;
- Prime Minister and Cabinet;
- Reconciliation, Aboriginal and Torres Strait Islander Affairs; and
- Veterans' Affairs.

Nature of expenses and major trends

Social security and welfare expenses primarily support the promotion of a fair and cohesive society while improving the capacity of families, communities and individuals to support themselves. The function includes services to the aged, assistance to people with disabilities, a variety of assistance to families with children, income support and compensation for veterans and their dependants, and advancement programmes for reconciliation and more generally for Aboriginal and Torres Strait Islander people.

Priorities within the *Social security and welfare* function have moved away from universal provision of benefits to developing an approach to welfare assistance that

emphasises prevention, early intervention, and mutual obligation in the provision of assistance to recipients.

The *Australians Working Together Package* announced in this Budget continues the move to a more active system tailored to addressing individual circumstances and maintaining participation in work, education and training.

Social security and welfare expenses are expected to total around \$68 billion in 2001-02 and grow moderately (around 3.5 per cent per annum) over the forward years. The major factors contributing to this growth are assistance to the aged, assistance to veterans and their dependants, assistance to families with children and assistance to people with disabilities. Growth in these expense categories is due primarily to the indexation of payments, such as maintaining the single rate of age pension and disability pension at 25 per cent of MTAW. To a lesser extent, growth is also driven by demographic and social factors that are altering the age, family and community profile and affecting demand-driven programmes.

Assistance to the aged

Expenses within this sub-function provide income support for aged people and their dependants as well as funding for residential aged care, community care for older Australians, support for carers and flexible care services for older Australians who live in regional, rural or remote areas.

The main contributor to growth in this sub-function is the Age Pension, with smaller growth in residential and community care expenses. The substantial annual growth in Age Pension is primarily due to the Government's commitment to maintain the single pension rates to at least 25 per cent of MTAW and, to a lesser extent, increases in recipient numbers. The estimates for 2000-01 include the *Acknowledging older Australians — one-off payment to the aged* measure announced in this Budget. The estimates for 2000-01 and 2001-02 also include the one-off Aged Persons Savings Bonus and Self-Funded Retirees Supplementary Bonus paid in those years. These payments were provided to help maintain the value of older Australians' investments following the introduction of *The New Tax System* in July 2000. The combination of these payments in 2000-01 drives the higher expenses in that year. The growth in residential care expenses is driven by the ageing of the population and associated costs of providing appropriate care for older Australians in a range of care settings.

Assistance to veterans and dependants

The expenses in this sub-function provide income support and compensation, in the form of pensions, to veterans and their dependants for incapacity or death resulting from war or defence service. The main contributors to expenses in this sub-function are the Service Pension, War Widows Pension and the Disability Pension administered by the Department of Veterans' Affairs.

Expenses for this sub-function exhibit small growth over the forward years to 2003-04 and a subsequent decline in expenses from 2004-05 onwards. This is consistent with

the increase in War Widows and Disability Pensions expenses which more than offset the fall in Service Pension expenses in the short term, as more widows become eligible due to increased mortality of the veteran population and as Disability Pension recipients move to higher rates of disability due to ageing and increased frailty. In 2004-05 this trend is reversed as the effects of higher expected rates of mortality impact on expenses.

The higher expenses in 2000-01 are driven by the inclusion of measures announced in this Budget, in particular, *Make a one-off payment of \$25,000 to those former PoWs and civilian internees and detainees of the Japanese or their surviving widows/ers and Acknowledging older Australians — one-off payment to the aged* measures.

For other significant expenses on veterans see the *Health* function.

Assistance to people with disabilities

Expenses under this sub-function provide means-tested income support to people with disabilities as well as partners, parents and other carers of people with disabilities, assistance with employment-related transport costs, and services which increase the independence and employment opportunities of people with disabilities. This sub-function includes payments such as the Disability Support Pension, the Wife Disability Support Pension, disability employment assistance and contributions to the States under the Commonwealth State Disability Agreement.

The expenses in this sub-function grow steadily over the Budget and forward years due largely to Disability Support Pension expenses increasing moderately. This is driven largely by increases in the number of recipients and indexation to 25 per cent of MTAW. This pension payment has historically experienced strong growth in the number of recipients, which continues at a moderate level across the forward years, in line with the ageing of the population, as the incidence of disability increases with age.

Assistance to families with children

Expenses under this sub-function ensure that families with children receive financial assistance towards the support of their children. The majority of these expenses are paid through the Family Tax Benefit Parts A and B, Parenting Payments and Child Care Benefit.

Family Tax Benefit Parts A and B provide means-tested financial assistance to families with the cost of raising children while the Parenting Payment provides means-tested financial assistance for people who are primary carers of children. The Child Care Benefit payment provides assistance with the cost of child care for long day care, family day care, occasional care, outside school hours care, vacation care and registered care.

The \$0.9 billion (5.3 per cent) growth in expenses from 2000-01 to 2001-02 is due to indexation of Family Tax Benefit and Child Care Benefits by the CPI. The growth in later years (2001-02 onwards) is driven by increasing Parenting Payment (Single)

expenses. These expenses are increasing due to indexation of the payment in line with the 25 per cent of MTAWWE commitment, and growth in new claims for this payment, which is partially offset by the expected impact of the *Helping parents return to work* measure in *Australians Working Together*.

Assistance to the unemployed and the sick

Income support is provided to persons who are unemployed, or unable to work because of temporary incapacity, and who have limited alternative means of support. The major payments made under this sub-function are Newstart Allowance, Partner Allowance Benefit, Mature Age Allowance and Sickness Allowance.

Expenses increase in 2001-02 relative to 2000-01 due to changes in the forecast number of unemployment beneficiaries, consistent with forecast economic conditions. These increases are partially offset by the impact of previous Budget measures reducing unemployment benefit expenses (for example *Introduction of a preparing for work agreement* and the *Compliance strategy* from the 2000-01 Budget).

Expenses fall from 2002-03 onwards, as the weaker labour market conditions in 2001-02 are expected to be temporary, with labour demand expected to strengthen in 2002-03, reducing the number of unemployment recipients. The full reduction in expenses associated with this trend is not evident in the estimates, as they are partly offset by increases in payment rates in line with the CPI and growth in recipients of Mature Age Allowance and Partner Allowance Benefit.

Expenses in 2003-04 and 2004-05 are also affected by changes in payment structure due to the *Australians Working Together Package*. The consolidation of payments for income support recipients over 50 years old results in some people moving from Partner Allowance Pension (located in the *Assistance to the aged* sub-function) to Newstart Allowance.

Common youth allowance

Expenses under this sub-function relate to the Youth Allowance, which is designed to provide income support payments to students under twenty-five years of age and unemployed people under twenty-one years of age and requires recipients to engage in education, training, job search or other activities that contribute to society.

The increase in expense growth for this sub-function in 2001-02 is driven primarily by indexation of the Youth Allowance by the CPI as well as forecasts of youth unemployment for 2001-02. Unemployment numbers are estimated to increase marginally in 2001-02 and decline from 2002-03 onwards, consistent with current economic forecasts.

The small growth in Youth Allowance expenses over the forward years is again due to indexation as well as changes in the composition of the student population. As more students over time meet employment and income criteria they move in to the 'independent' category, which does not require parental means testing, increasing the

average rate of payment. The forecasts of the number of students receiving payments, on average, are relatively flat over the forward years.

Other welfare programmes

The major expenses for this sub-function relate to Special Benefit payments, Widow B Pension and Emergency Relief payments. Widow B Pension is payable to previously married women who do not have dependent children and who were aged 50 years or more, or were sole parent pensioners aged 45 years or more, at 1 July 1987. The Emergency Relief Programme provides grants to non-government community welfare agencies for distribution as short-term emergency assistance to people in financial crisis.

Increases in 2001-02 and across the forward years are due to increased expenses for Special Benefit, which provides income support payments to those in severe financial need who do not satisfy eligibility requirements for other payments. The number of Special Benefit recipients is expected to increase strongly over the forward years, as residency requirements are tightened for other payments and as the number of temporary protection visa holders increases.

This increase is partially offset by the trend in expenses for Widow B Pension, which was closed to new claims in 1997, as existing recipients become eligible for other payments such as Age Pension.

Aboriginal advancement (nec)

A wide range of programmes targeting economic, social and cultural outcomes for indigenous people are delivered within this sub-function. Many of the programmes are intended to supplement, support or accelerate the delivery of services to indigenous people where prime responsibility for service delivery rests within Commonwealth agencies and/or State, Territory and local governments.

The majority of expenses relate to programmes delivered by the Aboriginal and Torres Strait Islander Commission, in particular the Community Development Employment Projects scheme (\$466 million in 2001-02) and the Community Housing and Infrastructure Programme (\$230 million in 2001-02).

Expenses are expected to increase over the Budget and forward years. Measures announced in the 2001-02 Budget targeting housing, native title and FBT supplementation for Aboriginal and Torres Strait Islander organisations are a driver for much of the increase in the forward years. Growth within the Community Development Employment Projects Scheme of 550 participants per annum, together with the addition of 1,500 participant places provided in the 2000-01 Budget, contributes to approximately half of the increased expenses within this sub-function.

For other significant expenses on Aboriginal programmes see the following sub-functions: *Schools*, *Aboriginal and Torres Strait Islander health*, *Housing*, and *Labour market assistance to jobseekers*.

General administration

Expenses within this sub-function consists almost entirely of administration costs associated with the *Social security and welfare* function spread across agencies, mainly Centrelink, Family and Community Services, and a proportion of the Health and Aged Care and Veterans' Affairs portfolios.

The Government's *Australians Working Together Package* announced in this Budget will be implemented predominantly through the Department of Family and Community Services and Centrelink over the 2001-02 and 2002-03 period. The increased expenses in those years are related to one-off implementation costs.

HOUSING AND COMMUNITY AMENITIES

Table 10: Summary of expenses

	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
Housing	1,292	1,383	1,302	1,214	1,209
Urban and regional development	67	88	71	58	27
Environment and protection (a)	452	463	392	409	362
Total housing and community amenities	1,811	1,934	1,766	1,681	1,598

(a) Estimates for the extension of the NHT, whilst formally in *Contingency Reserve* expenses, have been allocated to relevant sub-functions in Statement 6.

This function includes expenses from the following portfolios:

- Agriculture, Fisheries and Forestry;
- Defence;
- Environment and Heritage;
- Family and Community Services;
- Industry, Science and Resources;
- Transport and Regional Services;
- Treasury; and
- Veterans' Affairs.

Nature of expenses and major trends

Housing and community amenities expenses support the Commonwealth's housing policies, regional development and environmental protection.

Total expenses are projected to peak at \$1.9 billion in 2001-02, reflecting the one-off increase in grants under the First Home Owners Scheme in the *Housing* sub-function. The *Environment protection* sub-function also contributes to the high level of total expenses in 2001-02 due to NHT expenses in this year and the peak in expenses for the *Measures for a Better Environment Package*.

The contraction in expenses from this peak in the forward years results from the completion of several programmes within the sub-functions, such as the Flood Recovery Programme under the *Urban and regional development* sub-function.

Housing

This sub-function includes grants under the Commonwealth State Housing Agreements (CSHA) as well as the operations of the Defence Housing Authority (DHA). For 2001-02 this sub-function will include the additional component of the grant paid to first homeowners who purchase or build a new dwelling. The CSHA, in conjunction with contributions from the States, assists in the expansion and maintenance of the public rental housing stock by State governments. The DHA provides housing services for members of the Australian Defence Force and their families to meet operational requirements.

Expenses on *Housing* are projected to increase in 2001-02 as a result of the Government's decision to temporarily increase the First Home Owners Scheme grants from \$7,000 per eligible recipient to \$14,000 per eligible recipient if they purchase or build a new dwelling. The increased grant is available until 31 December 2001. Expenses in 2003-04 and onwards are projected to decline moderately overall due to the lapsing agreements for GST compensation to the States for the net increase in public housing costs as a result of taxation reform.

Urban and regional development

This sub-function covers programmes that aim to support sustainable economic development of communities. It also includes the Federal Flood Mitigation Programme and the Flood Recovery Fund.

Expenses increase in 2001-02 from 2000-01 mainly due to additional expenses of \$11 million for the Regional Solutions Programme and \$8 million for the Rural Transaction Centre Programme. The Regional Solutions Programme will provide targeted support to regional, rural and remote areas experiencing high unemployment and social and economic dislocation. Under the Rural Transaction Centre Programme, assistance is available to communities to establish centres that provide access to basic transaction services such as banking, postal services, Medicare Easyclaim facilities, telephone and fax. The \$10 million Flood Recovery Fund, established in 2000-01, was extended into 2001-02 to provide assistance to communities in the flood affected regions of north-eastern New South Wales.

Expenses decline in 2002-03 onwards mainly due to the completion of a number of programmes including the Flood Recovery Fund, the *Structural Adjustment Package* for the South-West Forests Region of Western Australia and the clean-up of the Maralinga nuclear test site in 2001-02, and the Regional Solutions Programme and the Rural Transaction Centres Programme in 2003-04.

Environment protection

This sub-function includes funding for the environment primarily provided through the *Measures for a Better Environment Package*, which commenced in 2000-01, and through the NHT. Programmes within the *Environment protection* sub-function are

administered by the Department of Agriculture, Fisheries and Forestry, the Department of the Environment and Heritage and the Australian Greenhouse Office and provide for the sustainable management of the environment including greenhouse gas abatement, protection of the marine environment and promotion of sustainable development of environmental resources.

The investment of \$250 million from the second partial sale of Telstra extended the operation of the NHT an additional year to 2001-02. Examples of major programmes funded through the NHT include the Bushcare programme which is addressing the decline in the quality and extent of vegetation cover and the Coasts and Clean Seas programme which is targeting waterways and the marine environment as well as the implementation of the Government's *Ocean Policy*.

Expenses in 2002-03 show a decline from 2001-02 before increasing again reflecting the Government's decision to further extend the operation of the NHT by five years to 2006-07. The current estimates for this sub-function allocate \$49 million in 2002-03 and \$114 million in 2003-04 to 2006-07 for NHT-related expenditure. This increase in expenditure is partially offset by the conclusion of the *Measures for a Better Environment Package* at the end of 2003-04.

For other significant expenses on conservation and sustainable use and repair of Australia's natural environment see the *National estate and parks* and *Natural resources development* sub-functions.

RECREATION AND CULTURE

Table 11: Summary of expenses

	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
Broadcasting	935	975	994	1,009	1,033
Arts and cultural heritage	834	685	629	619	603
Sport and recreation	209	141	144	204	178
National estate and parks(a)	172	155	126	140	141
Total recreation and culture	2,150	1,957	1,892	1,973	1,956

(a) Estimates for the extension of the NHT, whilst formally in *Contingency Reserve* expenses, have been allocated to relevant sub-functions in Statement 6.

This function includes expenses from the following portfolios:

- Communication, Information Technology and the Arts;
- Environment and Heritage;
- Industry, Science and Resources; and
- Veterans' Affairs.

Nature of expenses and major trends

Recreation and culture expenses support public broadcasting, the regulatory framework for Australia's broadcasting sector, cultural institutions, funding for the arts and the film industry, assistance to sport and recreation activities, and the protection of the natural environment. Expenses are expected to decline in 2001-02, due mainly to falling expenses in the *Arts and cultural heritage* and *Sport and recreation* sub-functions, and then remain relatively stable over the forward years.

Broadcasting

The majority of expenses on broadcasting fund the Australian Broadcasting Corporation (ABC) and the Special Broadcasting Service (SBS). The ABC (\$745 million in 2001-02) provides domestic and overseas radio services and a national television network. The SBS (\$133 million in 2001-02) provides a multilingual radio network and a multicultural television service. The Australian Broadcasting Authority (\$16 million in 2001-02) issues radio and television broadcast licences, and formulates and monitors broadcast standards.

Expenses in the *Broadcasting* sub-function are essentially stable, largely as a result of three-year funding agreements with the ABC and SBS, which began in 2000-01.

Arts and cultural heritage

The most significant component of this sub-function is the funding provided for the collecting institutions such as the National Library of Australia, the National Gallery of Australia, the Australian National Maritime Museum, the National Museum of Australia and the Australian War Memorial.

The Government also provides direct financial support for a wide range of arts, cultural and heritage organisations. These include the Australia Council, the Australian National Opera, the Symphony Orchestras, the Australian Film, Television and Radio School, the Office of Australian War Graves, the Australian Film Finance Corporation Limited, the Australian Film Commission and Film Australia Pty Limited.

The level of expenses for the *Arts and cultural heritage* sub-function will decline in 2001-02 following the cessation of the Federation Fund expenditure. The slight decline in funding over the forward years reflects the conclusion of a number of small arts and cultural support programmes.

Sport and recreation

The Commonwealth provides financial assistance to encourage community interest and participation in sport and recreational activities and to facilitate preparation by Australian athletes for major sporting events such as the Olympic Games, Paralympic Games and Commonwealth Games. The Australian Sports Commission, which incorporates the Australian Institute of Sport, promotes and facilitates the pursuit of excellence in sport, sports development and participation.

Funding for *Backing Australia's Sporting Ability — A More Active Australia* will maintain expenses at above pre-Olympic levels. The increased base funding will promote continued achievement in high performance sport, greater grass roots participation in sport for all ages, excellence in sport management and new anti-drugs research and increased drug testing. Expenses are higher in 2003-04 and 2004-05 due to assistance being provided for the redevelopment of the Melbourne Cricket Ground for the 2006 Commonwealth Games.

Expenses in 2000-01 were higher due to the additional one-off funding associated with the 2000 Sydney Olympic and Paralympic Games.

National estate and parks

This sub-function covers funding provided for the management and protection of national parks and world heritage areas including Uluru-Kata Tjuta and Kakadu National Parks and the Great Barrier Reef. These activities are delivered by agencies within the Environment and Heritage portfolio, which include the Director of National Parks, the Great Barrier Reef Marine Park Authority and the Australian Heritage Commission. The NHT has provided additional funding for programmes addressing the management and protection of national wetlands and reserve systems and world

heritage areas above and beyond funds committed on an ongoing basis by the Government for these activities.

Expenses in 2002-03 reflect the reduction in NHT funding from 2001-02 levels. Expenses increase again in 2003-04 reflecting the Government's decision to allocate additional funding of over \$1 billion to extend the operation of the NHT by five years to 2006-07. The current estimates for this sub-function allocate \$10 million in 2002-03 and \$23 million in each year from 2003-04 to 2006-07 for NHT-related expenditure.

For other significant expenses on conservation and sustainable use and repair of Australia's natural environment see the *Environment protection* and *Natural resources development* sub-functions.

FUEL AND ENERGY

Table 12: Summary of expenses

	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
Fuel and energy	2,729	2,987	3,066	3,128	3,166
Total fuel and energy	2,729	2,987	3,066	3,128	3,166

This function includes expenses from the following portfolios:

- Environment and Heritage;
- Industry, Science and Resources; and
- Treasury.

Nature of expenses and major trends

This function includes expenses on the Diesel Fuel Rebate Scheme, the Diesel and Alternative Fuels Grant Scheme and the Fuels Sales Grants Scheme as administered by the ATO. This function also includes a large portion of funding from the *Measures for a Better Environment Package*.

Total expenses are projected to increase from 2001-02 to 2004-05 by \$179 million. This represents an average rate of growth of 1.6 per cent per annum in real terms, and primarily reflects increased demand for diesel and alternative fuels, leading to additional rebate payments.

Fuel and energy

The Diesel Fuel Rebate Scheme provides a rebate to off-road users of diesel fuel. Recipients of the grants include the farming and mining industries, rail and shipping and remote power generation units that use diesel. The Diesel and Alternative Fuels Grants Scheme pays grants for the business related, on-road users of diesel and alternative fuels. The Fuel Sales Grants Scheme is a tiered grant scheme paid to distributors and retailers of petrol and diesel in non-metropolitan and remote regions. The grant scheme was introduced to address the difference in fuel prices between city and regional areas.

Also included in this function is a large portion of funding from the *Measures for a Better Environment Package* that commenced in 2000-01. This funding covers programmes administered by the Australian Greenhouse Office, including the Renewable Energy Commercialisation Programme, the Alternative Fuels Conversion Programme, and the Renewable Remote Power Generation Programme and is forecast to peak in 2001-02. These programmes are designed to assist in meeting national

environmental objectives through promoting energy efficiency initiatives that will benefit industry and the community, including research into and development of the use of alternative fuels and renewable energy as well as energy conservation.

AGRICULTURE, FORESTRY AND FISHING

Table 13: Summary of expenses

	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
Wool industry	183	70	72	78	79
Grains industry	112	111	112	112	112
Dairy industry	294	271	274	274	256
Cattle, sheep and pig industry	131	103	102	101	94
Fishing, horticulture and other agriculture	144	119	125	129	136
General assistance not allocated to specific industries	296	342	333	339	339
Rural assistance	303	190	130	139	30
Natural resources development (a)	360	407	461	436	413
General administration	101	119	116	119	121
Total agriculture, forestry and fishing	1,924	1,733	1,725	1,726	1,579

(a) Estimates for the extension of the NHT, whilst formally in *Contingency Reserve* expenses, have been allocated to relevant sub-functions in *Statement 6*.

This function includes expenses from the following portfolios:

- Agriculture, Fisheries and Forestry; and
- Environment and Heritage.

Nature of expenses and major trends

Agriculture, forestry and fishing expenses support forestry, fishing, land and water resources management, quarantine services and contributions to research and development. Approximately half of the expenses in this function are funded by levies and charges collected by the Government on behalf of industry.

Expenses are projected to peak at approximately \$1.9 billion in 2000-01 and then decline progressively over the forward years primarily due to declining expenses within the *Wool industry* and *Rural assistance* sub-functions.

Wool industry

This sub-function consists of payments to Australian Wool Services Ltd for research and development, commercial branding and technical assistance activities. These expenses are funded by a wool levy on producers, with a matching Government contribution for research and development of up to 0.5 per cent of the gross value of wool production per annum.

The change in expenses from 2000-01 to 2001-02 is a result of the Commonwealth's divestment of its interest in the Australian Wool Research and Promotion Organisation (AWRAP) to Australian wool growers (forming Australian Wool Service

Ltd) in 2000-01 and a planned reduction in the wool levy from 1 July 2001. Expenses gradually increase from 2001-02 due to a projected rise in production and the subsequent increase in Government contributions for research and development.

Grains industry

Expenses in this sub-function predominantly relate to Government support of the wheat industry. The wheat levy funds the commercial and regulatory activities of the Australian Wheat Board (International) Ltd, the Wheat Export Authority and the Grains Research and Development Corporation (GRDC). The Government also provides a matching contribution for research and development to the GRDC of up to 0.5 per cent of the gross value of wheat production per annum.

Expenses are forecast to remain relatively stable over the forward years.

Dairy industry

The Government supports dairy industry promotion, administration, market support, and research and development. The bulk of the expenses in this sub-function relate to levy-funded grants paid to the Australian Dairy Corporation (ADC) for the \$1.78 billion *Dairy Structural Adjustment Package*.

Expenses peak in 2000-01 due to residual payments of levies to the ADC associated with the Commonwealth Domestic Market Support Scheme which concluded on 30 June 2000. Expenses are forecast to remain relatively stable over the forward years.

Cattle, sheep and pig industry

Expenses in this sub-function consist of contributions to the meat, livestock, lamb and pork industries, through Meat and Livestock Australia and Australian Pork Limited, for market promotion, research and development, and the control of cattle diseases. These expenses are funded primarily through industry levies, with the Government providing a matching contribution for research and development of up to 0.5 per cent of the gross value of meat and livestock production per annum.

The decrease in expenses from 2000-01 to 2001-02 is mainly the result of the Commonwealth's divestment of its interest in the Australian Pork Corporation and the Pig Research and Development Corporation to the Australian pork industry forming Australian Pork Limited. Expenses gradually decrease from 2001-02 due to the completion of a number of animal disease and industry development programmes.

Fishing, horticulture and other agriculture

This sub-function includes expenses associated with the Australian Fisheries Management Authority (AFMA), the Fisheries Research and Development Corporation, the Grape and Wine Research and Development Corporation, and

Horticulture Australia Limited. AFMA recovers costs attributable to the industry while the Government funds community service obligations and fisheries research.

Industry levies fund the activities of the Fisheries Research and Development Corporation, the Grape and Wine Research and Development Corporation and Horticulture Australia Limited. The Government provides a matching contribution for research and development activities in these industries.

The decrease in expenses from 2000-01 to 2001-02 is primarily driven by the Commonwealth's divestment of the Australian Horticultural Corporation, the Horticultural Research and Development Corporation and the Australian Dried Fruits Board to the Australian horticultural industry forming Horticulture Australia Limited. Expenses also decline from 2000-01 to 2001-02 due to the conclusion of the Queensland East Coast Trawl Restructure Programme. Research, development and promotional expenses gradually increase from 2001-02, funded by a projected rise in production-driven levy collections.

General assistance not allocated to specific industries

The expenses in this sub-function predominately relate to the operations of the Australian Quarantine and Inspection Service (AQIS). AQIS conducts inspection services for the export and import of animals, animal products, plant and plant products, and the quarantine surveillance of arriving vessels, persons and goods.

The increase in expenses from 2000-01 to 2001-02 reflects the recent Government decision to implement a heightened quarantine inspection regime against foot and mouth disease and other quarantine risks. Expenses are relatively stable over the forward years.

Rural assistance

This sub-function includes expenses for Government support of rural producers and rural industry adjustment initiatives. The key expense in this sub-function are the *Agriculture — Advancing Australia* (AAA) programmes, complemented by rural industry assistance programmes, which provide funding to address specific events adversely affecting farmers. These programmes provide assistance to farmers through a variety of means such as income support, interest rate subsidies, grants for structural adjustment, financial counseling, training and innovation grants.

Expenses peak in 2000-01 because of the level of exceptional circumstance assistance to rural communities in addition to the *Flood Assistance* and *Sugar Industry Assistance Packages*. Further declines in the forward years for this sub-function are expected with the conclusion of the AAA programmes in 2003-04.

Natural resources development

Expenses in this sub-function include water, land and forest management programmes, which are administered by the Department of Agriculture, Fisheries and Forestry and largely funded through the NHT, such as the National Landcare Programme, Murray-Darling Basin 2001 and the Farm Forestry Programme.

The increase in expenses from 2000-01 for this sub-function also reflects the \$700 million in funding provided over seven years for the National Action Plan for Dry Land Salinity and Water Quality.

The investment of \$250 million from the second partial sale of Telstra extended the life of the NHT an additional year to 2001-02. The maintenance of high levels of funding across the forward years reflects the Government's decision to allocate additional funding of over \$1 billion to further extend the operation of the NHT by five years to 2006-07. The current estimates for this sub-function allocate \$41 million in 2002-03 and \$96 million in each year from 2003-04 to 2006-07 for NHT-related expenditure.

The decrease in expenses in 2004-05 reflects the funding profile for the National Action Plan for Dry Land Salinity and Water Quality.

General administration

This sub-function comprises expenses relating to the administration of relevant programmes in the Department of Agriculture, Fisheries and Forestry. The increase in expenses from 2000-01 reflects an expansion of services delivered to industry including the National Action Plan for Dry Land Salinity and Water Quality and enhanced quarantine capabilities. Expenses remain relatively stable over the forward years.

MINING AND MINERAL RESOURCES

Table 14: Summary of expenses

	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
Mining and mineral resources other than fuel; manufacturing and construction	881	1,062	1,054	1,058	995
Total mining and mineral resources	881	1,062	1,054	1,058	995

This function includes expenses from the following portfolios:

- Foreign Affairs and Trade; and
- Industry, Science and Resources.

Nature of expenses and major trends

Expenses under this function relate to the mining, manufacturing and export sectors, and are designed to improve the efficiency and competitiveness of Australian industries. Commonwealth assistance to exporters includes direct financial assistance for the development of export markets, information and promotional assistance, finance and insurance services, and the development of trade policy.

Expenses increase by 19 per cent in real terms in 2001-02 reflecting the commencement of major funding under the Textile Clothing and Footwear Strategic Investment Programme. Expenses are then stable until 2004-05 when there is a real reduction of 8 per cent due to the conclusion of the Pharmaceutical Industry Investment Programme.

All activities relating to mineral fuels, and manufacturing relating to the production of fuel and energy, are classified to the *Fuel and energy* function.

Mining and mineral resources (other than fuel), manufacturing and construction

The main drivers of change in these expenses are as follows:

- The *Textile Clothing and Footwear (TCF) post 2000 Development Package* is designed to promote investment and innovation in the industry and the development of sustainable jobs. Payments to firms under the major element of the package, the TCF Strategic Investment Programme, will increase from \$10 million in 2000-01 to around \$140 million a year from 2001-02 to 2005-06.
- The Pharmaceutical Industry Investment Programme is a competitive grants programme designed to promote greater investment in pharmaceutical research and development in Australia. This is a five year \$300 million programme operating from 1999-2000 to 2003-04.

TRANSPORT AND COMMUNICATION

Table 15: Summary of expenses

	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
Communication	252	453	396	256	159
Rail transport	156	135	6	9	0
Air transport	151	156	130	125	104
Road transport	1,067	1,460	1,409	1,319	1,183
Sea transport	193	182	159	161	163
Other transport and communication	139	145	140	138	141
Total transport and communication	1,959	2,530	2,238	2,008	1,750

This function includes expenses from the following portfolios:

- Communication, Information Technology and the Arts; and
- Transport and Regional Services.

Nature of expenses and major trends

Transport and communication expenses support the infrastructure and regulatory framework for Australia's transport and communications sectors. Expenses are expected to peak in 2001-02 and then decline over the forward years due mainly to falling expenses in the *Communication*, *Road transport*, and *Rail transport* sub-functions.

Communication

This sub-function includes grants from the Telstra Social Bonus programmes and the operations of the Australian Communications Authority. Grants from the Telstra Social Bonus programmes flow from the two sales of Telstra shares in 1996 and 1998. Funding of \$250 million was allocated to these programmes over five years from 1997-98 and a further \$670 million over five years was allocated in 1999-2000. About half of the total of \$920 million will have been committed to projects by the end of 2000-01. These programmes are designed to improve telecommunications service standards and broaden access to telephone and internet services in rural, regional and remote Australia. The Australian Communications Authority is responsible for telecommunications planning and regulation (apart from competition regulation) and radiocommunications spectrum planning and allocation.

Communication expenses are forecast to increase in 2001-02, largely due to increased expenses through Telstra Social Bonus programmes. In the years following 2001-02, expenses on *Communication* are forecast to decline due to the conclusion of the Regional Telecommunications Infrastructure Fund and a number of Telstra Social Bonus programmes. This is partially offset by funding for new programmes announced as part of *Backing Australia's Ability* initiatives to improve innovation in

information technology and through the Government's response to the Telecommunications Service Inquiry (Besley Report) which will further strengthen telecommunications performance in Australia, particularly in rural and regional areas.

Rail transport

Expenses decline mainly due to the conclusion of the Upgrade of the Mainline Interstate Rail Track Programme in 2001-02. However, the Government will provide an equity injection for the Australian Rail Track Corporation for rail track initiatives subject to a business case being agreed. The decline in expenses is also due to the initial funding for the Alice Springs to Darwin Railway in 2000-01 and 2001-02. Further funding of \$26 million for the Alice Springs to Darwin Railway will be provided over the period 2002-03 to 2006-07.

Air transport

This sub-function includes the operations of the Civil Aviation Safety Authority, the provision of aviation infrastructure, and the implementation of environmental standards.

Funding declines from 2001-02 onwards mainly due to the completion of the Sydney Airport Noise Amelioration Programme in 2001-02 and the conclusion of the Adelaide Airport Noise Amelioration Programme in 2003-04.

Air safety operations will be strengthened through additional funding of \$24 million from 2001-02 to 2004-05 to the Civil Aviation Safety Authority. A pricing subsidy for the provision of location-specific air traffic control tower services will be continued in 2001-02 and 2002-03 to support affordable transport access in regional Australia.

Road transport

The Government funds the National Highway System and contributes to the capital cost of State/Territory roads that have been identified to be of national importance.

Expenses increase in 2001-02 mainly due to the provision of significant additional funding for local roads and for outer metropolitan roads. Special assistance of \$1.2 billion over five years is being provided directly to local councils through the Roads to Recovery Programme for the construction, upgrade and maintenance of local roads. Funding of \$440 million over four years will also be provided through the National Highway and Roads of National Importance Programme to improve road infrastructure in outer metropolitan areas.

Expenses decrease in 2002-03 mainly due to completion of the Road Safety Black Spot Programme in 2001-02. The completion of a number of large projects funded by the National Highway and Roads of National Importance Programme and the Federation Fund in 2002-03 result in a fall in expenses in 2003-04. The decrease in expenses

in 2004-05 is mainly due to the conclusion of the Roads to Recovery Programme in that year.

The Government also provides local road grants to local government through Financial Assistance Grants (see the *General purpose inter-government transactions* sub-function).

Sea transport

The key components of this sub-function include the Tasmanian Freight Equalisation Scheme, the Bass Strait Passenger Vehicle Equalisation Scheme and funding for the Australian Maritime Safety Authority. The slight increase over the forward years reflects price indexation.

Expenses fall after 2001-02 following final Commonwealth contributions from the Federation Fund for the development of marine facilities in Jervoise Bay, Western Australia.

Additional funding of \$4 million over four years will be provided to improve the Australian Maritime Safety Authority's capability to respond to search and rescue incidents.

Other transport and communication

This sub-function covers expenses relating to the administration of relevant programmes in the Transport and Regional Services and the Communications, Information Technology and the Arts portfolio. Expenses are relatively stable over the four years.

OTHER ECONOMIC AFFAIRS

Table 16: Summary of expenses

	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
Tourism and area promotion	130	129	112	114	116
Vocational and industry training	391	413	440	441	459
Labour market assistance to job seekers and industry	1,508	1,605	1,718	1,773	1,820
Industrial relations	166	185	181	140	141
Immigration	680	642	652	652	665
<i>Total labour and employment affairs</i>	<i>2,745</i>	<i>2,845</i>	<i>2,992</i>	<i>3,007</i>	<i>3,086</i>
Other economic affairs nec	438	440	415	413	417
Total other economic affairs	3,312	3,414	3,520	3,534	3,619

This function includes expenses from the following portfolios:

- Education, Training and Youth Affairs;
- Employment, Workplace Relation and Small Business;
- Environment and Heritage;
- Immigration and Multicultural Affairs;
- Industry, Science and Resources;
- Treasury; and
- Veterans' Affairs.

Nature of expenses and major trends

The *Other economic affairs* function includes expenses on tourism and area promotion, labour market assistance, immigration and other economic affairs not elsewhere classified (nec). Expenses are projected to increase over the Budget and forward years due mainly to increases in the *Labour and employment affairs* sub-function relating to labour market assistance to job seekers and industry. Growth in this area is mainly attributable to additional activity under the Job Network programme, the *Dairy Structural Adjustment Package* and the Government's *Australians Working Together* initiatives.

Tourism and area promotion

Commonwealth expenses contribute to tourism research and analysis, policy development, international tourism marketing and funding for specific tourism

programmes and projects. The decline in expenses is due to the completion in 2001-02 of the Australian Tourist Commission's four-year marketing and promotions campaign to maintain visitor numbers through the Asian economic crisis.

Labour and employment affairs

Vocational and industry training

Expenses largely cover wage subsidies and incentive payments to employers, and allowances to apprentices and trainees. Expenses also cover pre-apprenticeship and traineeship training for people who are disadvantaged in the labour market.

The increase in expenses of 4.2 per cent in real terms in 2001-02 and 3.9 per cent in real terms in 2002-03 is driven by a higher number of incentive payments to employers for completions of apprenticeships/traineeships, reflecting the strong rise in apprenticeship/traineeship commencements in 1997-98 and 1998-99. The increase in commencements was due in part to the introduction of the New Apprenticeship System from 1 January 1998, and the introduction of new flexibilities such as user choice in training providers. Growth over subsequent years is driven by estimated increases in New Apprentices commencements and the take-up by employers of incentive payments.

Expenses on vocational education and training (mainly relating to the national Technical and Further Education system) are recorded under the *Education* function.

Labour market assistance to job seekers and industry

The majority of expenses under this sub-function covers programmes aimed at helping people gain employment. This includes expenses under the following programmes: Job Network, Work for the Dole, Regional Assistance, Indigenous Employment, Area Consultative Committees and Return to Work.

The sub-function includes programmes to assist young people make the transition into employment, including language, literacy and numeracy, *Jobs Pathway Programme*, Green Corps, the *Job Placement, Employment and Training Programme* and Career Counseling. It also includes expenses incurred in New Apprentice Centres that provide information on New Apprenticeships options to job seekers and employers.

Overall expenses are expected to increase, in real terms, by 5.0 per cent in 2001-02 and 4.4 per cent in 2002-03. This growth is mainly attributable to additional activity under the Job Network programme and the *Dairy Structural Adjustment Package*. The *Australians Working Together* initiatives announced in this Budget, including *Helping people find jobs*, *A fair go for mature age workers* and *Promoting self reliance for indigenous people*, will add to this sub-function a net \$12 million in 2001-02, \$68 million in 2002-03, \$74 million in 2003-04 and \$83 million in 2004-05.

Measures announced in this Budget as part of the Government's initial response to the Prime Minister's Youth Pathways Action Plan Taskforce Report, *Footprints to the*

Future, provide increased funding for the *Jobs Pathway Programme* and the *Job Placement Employment and Training Programme*. These contribute \$64 million to this sub-function over four years from 2001-02.

Industrial relations

The *Industrial relations* sub-function includes expenses associated with improving the industrial framework and its operation. These include the costs of advice by the Department of Employment, Workplace Relations and Small Business, and the operations of the Australian Industrial Relations Commission and the Australian Industrial Registry. The sub-function also includes levy-funded arrangements for employee entitlements in the stevedoring and coal mining industries, and expenses incurred by the National Occupational Health and Safety Commission.

The higher level of expenses in 2001-02 and 2002-03 reflects the estimated costs of the Employee Entitlement Support Scheme, which was introduced in 2000-01 to assist people who suffer a loss of employee entitlements due to employer insolvency. Funding is to be reviewed in 2002-03.

Immigration

The *Immigration* sub-function covers a significant proportion of the expenses incurred by the Department of Immigration and Multicultural Affairs (DIMA) in administering Australia's immigration programme. This includes the management of the Migration and Humanitarian Programmes, temporary entry programmes, and the enforcement of immigration law and citizenship programmes.

The decrease in expenses from 2000-01 to 2001-02 is predominantly due to the carryover of expenses from 1999-2000 to 2000-01, the completion of the Safehaven programme in 2000-01 and savings identified from the pricing review of DIMA's departmental outputs. The increase in expenses from 2001-02 to 2002-03 is due mainly to the commencement of operations of the Darwin and Brisbane detention centres.

Other expenses incurred by DIMA associated with migrant settlement and foreign aid are reported under the *Vocational and other education*, *Other welfare programmes* and *Foreign economic aid* sub-functions.

Other economic affairs (nec)

This sub-function covers economic services provided by the Commonwealth which are not included in other function classifications. Expenses mainly comprise the operational costs of a number of advisory and regulatory agencies, including the Productivity Commission, the Australian Competition and Consumer Commission, the Australian Securities and Investments Commission (ASIC), Standards Australia, Australian Surveying and Land Information Group, Australian Government Analytical Laboratories, IP Australia, the National Competition Council, the Bureau of Meteorology, and the Ionospheric Prediction Service.

Expenses in this sub-function increase between 2000-01 and 2001-02 as a result of the additional funding the Government has provided to the Australian Securities and Investments Commission (ASIC). These funds were provided to implement financial sector regulatory reform, to continue transitional funding for the regulation of managed investment schemes prior to a review of the *Managed Investments Act 1998*, scheduled to occur during 2001-02.

Expenses are projected to be steady over the forward years. The expenses include additional funding of \$67 million over four years to allow the Australian Competition and Consumer Commission to maintain service delivery standards and improve service delivery in priority areas such as e-commerce and regional and rural issues.

OTHER PURPOSES

Table 17: Summary of expenses

	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
Interest on Commonwealth behalf	5,619	5,061	4,849	4,366	3,996
Interest on behalf of States and Territories	53	38	32	20	11
Interest received on Commonwealth stock	0	0	0	0	0
<i>Public debt interest</i>	<i>5,672</i>	<i>5,098</i>	<i>4,880</i>	<i>4,386</i>	<i>4,007</i>
Nominal Superannuation Interest	4,480	4,287	4,454	4,609	4,594
General revenue assistance - States & Territories	3,432	3,174	2,294	1,699	1,208
General capital assistance - States & Territories	0	0	0	0	0
Debt assistance	0	0	0	0	0
Local government assistance	1,330	1,374	1,425	1,475	1,528
Revenue assistance to the States & Territories	139	148	151	155	159
Assistance to other governments	494	285	262	238	232
<i>General purpose inter-government transactions</i>	<i>5,395</i>	<i>4,981</i>	<i>4,132</i>	<i>3,567</i>	<i>3,127</i>
Natural disaster relief	116	101	81	81	81
Contingency reserve(a)	670	919	2,680	4,541	6,274
Asset sales	34	33	0	218	218
Total other purposes	16,367	15,419	16,226	17,402	18,300
<i>Memorandum item:</i>					
Natural Heritage Trust Extension(a)	0.0	0.0	100.0	233.0	233.0

(a) The estimates for the extension of the NHT, whilst formally in Contingency Reserve expenses, have been allocated to the *Housing and community amenities, Recreation and culture* and *Agriculture, forestry and fishing* functions in Statement 6.

This function includes expenses from the following portfolios:

- Finance and Administration;
- Industry, Science and Resources;
- Transport and Regional Services; and
- Treasury.

Nature of expenses and major trends

The *Other purposes* function includes expenses incurred in the servicing of public debt interest, and assistance to the States, the Northern Territory, the Australian Capital Territory and local government. The function also includes items classified to natural disaster relief, the Contingency Reserve, and costs of asset sales.

The decrease in expenses from 2000-01 to 2001-02 is largely due to reductions in interest expenses on the Commonwealth's public debt.

The increase in expenses over the forward years is largely due to growth in the *Contingency Reserve* sub-function expenses. The increase in the Contingency Reserve from 2002-03 over the forward years is largely due to growth in the conservative bias allowance — an allowance that compensates for the trend in expenses on existing Commonwealth programmes to be underestimated by agencies in the forward years.

This increase is partially offset by reductions in interest expenses on the Commonwealth's public debt, due to projected reductions in the volume of public debt, and by reductions in the Budget Balancing Assistance (BBA) payments to the States to ensure their budgets are no worse off as a result of tax reform. The reductions reflect projected increases to GST revenue that goes to the States and Territories.

Public debt interest

This sub-function includes expenses relating to the cost of servicing the stock of Commonwealth debt incurred to meet budget financing and other borrowing requirements. All expenses relating to public debt interest are expenses of the Australian Office of Financial Management, which is responsible for managing and reporting on the Commonwealth's net debt portfolio. This sub-function does not include interest on instalment purchase of buildings, overpayment of tax, and other interest not associated with borrowings, which are included in the function relevant to the associated borrowings.

Expenses on public debt interest are governed by the volume of outstanding Commonwealth debt, and the average cost of debt service (the net effect of interest and exchange rate movements), which is in turn influenced by the mix of debt instruments and the term structure of the debt. The balance of influence of these factors on total public debt interest expenses will vary over time.

Public debt interest expenses also include interest expenses on debt issued by the Commonwealth on behalf of the State and Territory governments. Since 1990 the State and Territory governments have been borrowing on their own behalf. These interest expenses are offset by payments from the State and Territory governments. Interest expenses on debt issued by the Commonwealth on behalf of the State and Territory governments is projected to decline as the debt is extinguished.

Expenses in this sub-function are forecast to decrease over 2001-02 and the forward years, due largely to projected reductions in the volume of Commonwealth debt on issue.

Nominal superannuation interest

The *Nominal superannuation interest* sub-function includes expenses relating to the cost of the accumulated unfunded liability of the superannuation schemes provided by the Government for its civilian and defence personnel — including the PSS, the CSS, the Military Superannuation and Benefits Scheme and the Defence Force Retirement and Death Benefits Scheme. The interest expense reflects the cost of not fully funding the

superannuation liability. The Government is viewed as compulsorily borrowing the funds and incurs a nominal interest expense.

Nominal superannuation interest expenses are estimated to increase over time in line increases in the unfunded liability of the superannuation schemes. Year-by-year fluctuations reflect the nominal interest rate assumptions in the particular years.

Superannuation expenses relating to current year employment in relation to these schemes are included in the *General public services* function, *Government superannuation benefits* sub-function.

General purpose inter-government transactions

This sub-function includes grants and advances to the States and Territories and local government authorities, which are not classifiable to other functions. Detailed information on the Commonwealth's financial relations with State, Territory and local governments is provided in *Budget Paper No. 3, Federal Financial Relations 2001-02*.

General revenue assistance to the States and Territories comprises payments made by the Commonwealth to the State and Territory governments. These include BBA paid to ensure that State and Territory budgets are no worse off as a result of taxation reform, and National Competition Payments which are paid subject to satisfactory progress with the implementation of specified National Competition Policy and related reforms.

The Government provides assistance to local government authorities through general purpose Financial Assistance Grants and identified local road grants. The increase in expenses for this sub-function each year reflects the application of an escalation factor determined by the Treasurer in light of the underlying movements in the CPI and population.

Revenue assistance to the States and Territories includes payments to compensate the States and Territories for the loss of companies' fees and fines that are now collected by the Commonwealth.

Assistance to other governments consists primarily of the payment of Offshore Petroleum Royalties/Fees to Western Australia for administration of petroleum exploration and production leases within Commonwealth jurisdiction. This payment drops from 2000-01 to 2001-02 and has a slight decline thereafter, due to the forecast reduction in world oil prices from 2001-02 and a gradual decline in petroleum production on the North West Shelf.

The Commonwealth's estimates do not include GST payments to the States and Territories, as accrued GST revenues and associated payments to the States and Territories are treated as a state tax.

This sub-function also includes compensation to the Australian Capital Territory for municipal expenditure arising from Canberra's status as the National Capital.

Expenses for *General purpose inter-government transactions* are projected to decrease in 2001-02 and the forward years largely due to projected increases in GST revenue causing corresponding decreases in Budget Balancing Assistance.

Natural disaster relief

This sub-function comprises expenses of the Finance and Administration portfolio associated with natural disaster relief.

Under the Natural Disaster Relief Arrangements (NDRA), the Commonwealth reimburses part of the States' expenses on restoration payments and payments for other eligible disaster relief measures where the expenses exceed certain funding thresholds. A large part of NDRA payments is made as partial reimbursement for the relief of personal hardship and distress and the repair and restoration of essential State and local government assets.

Commonwealth assistance towards natural disaster relief reflects the unpredictability of these events in terms of incidence and severity. Increases in expenses for 2000-01 and 2001-02 were driven by severe flooding in New South Wales and Queensland in November 2000. The forward estimates are based on a broad average of annual net payments over recent years.

Drought assistance is included within the *Agriculture, forestry and fishing* function, *General assistance not allocated to specific industries* sub-function.

Contingency Reserve

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

While the reserve ensures that aggregate estimates are as close as possible to expected outcomes, it is not appropriated in the Budget. Allowances that are included in the reserve can only be drawn upon once they have been appropriated by Parliament.

The Contingency Reserve makes allowance in the Budget and forward years for anticipated events including 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 the estimates of administered expenses for some specific agencies or functions to be overstated in the Budget year;
- commercial-in-confidence and national security-in-confidence items that cannot be disclosed separately;

- decisions made late in the budget process, of which by far the largest is:
 - the Government's decision to allocate additional funding of over \$1 billion to further extend the operation of the NHT by five years to 2006-07. Current estimates of allocations to individual functions are:
 - : *Housing and community amenities* of \$49 million in 2002-03 and \$114 million in each year from 2003-04 to 2006-07;
 - : *Recreation and culture* of \$10 million in 2002-03 and \$23 million in each year from 2003-04 to 2006-07; and
 - : *Agriculture, forestry and fishing* of \$41 million in 2002-03 and \$96 million in each year from 2003-04 to 2006-07;
 - The estimates for the extension of the NHT, whilst formally in *Contingency Reserve* expenses, have been allocated to the individual functions according to this estimated allocation; and
- the effect of economic parameter revisions for the Budget and forward estimates received late in the process and hence not able to be allocated to individual agencies or functions.

The increase in the Contingency Reserve largely reflects the conservative bias allowance that is based on the trend for expenses on existing Commonwealth programmes to be underestimated by agencies in the forward years.

Asset sales

The *Asset sales* sub-function includes expenses associated with the Government's major asset sales and the administration costs of the Office of Asset Sales and Commercial Support (previously known as the Office of Asset Sales and Information Technology Outsourcing). Estimates for the forward years are not included until resources required for specific sales are decided.

The estimates for 2000-01 and 2001-02 reflect funding for a range of previously announced sales including Kingsford Smith Airport in Sydney and Essendon Airport in Melbourne. The costs in the later years relate to the assumed timing of the proposed sale of Telstra.

Part II: General government net capital investment

OVERVIEW

In 2001-02, forecast net capital investment has fallen by \$856 million since the 2000-01 MYEFO, largely reflecting delays in property sales of \$362 million from 2000-01 into 2001-02 and a reallocation of capital expenditure to expenses by the Department of Defence. New policy decisions since the 2000-01 MYEFO have led to a reduction in estimated net capital investment of \$136 million in 2001-02.

Net capital investment estimates for the period from 2000-01 to 2004-05 are provided in Table 18.

Net capital investment reflects the change in the balance sheet value of non-financial assets (for example: property, plant and equipment), excluding investment in specialist military equipment which is disclosed as an expense.

Table 18: Estimates of total Commonwealth general government net capital investment

	2000-01		2001-02	2002-03	2003-04	2004-05
	MYEFO(a)	Revised	Estimate	Projection	Projection	Projection
Total net capital investment (\$m)	-3,646	-1,968	-1,201	-364	-266	-236
Real growth on previous year(%) ^(b)			-40	-70	-29	-13
Per cent of GDP	-0.5	-0.3	-0.2	0.0	0.0	0.0

(a) As published in the 2000-01 MYEFO on a GFS basis. The corresponding estimates reported in the 2000-01 Budget were on an Australian Accounting Standard No. 31 (AAS31) basis.

(b) Real growth is calculated using the non-farm gross domestic product (GDP) deflator.

Net capital investment is expected to decrease by around \$1.2 billion in 2001-02 and fall by a further \$866 million over the forward years, largely reflecting the Department of Defence's ongoing property sales programme.

The change in estimated net capital investment from 2000-01 to 2001-02 largely reflects the sale of telecommunications spectrum licenses by the Australian Communications Authority in 2000-01 partly offset by a slippage of Defence property sales from 2000-01 to 2001-02.

RECONCILIATION OF NET CAPITAL INVESTMENT SINCE THE 2000-01 BUDGET

Table 19 provides a reconciliation of the 2001-02 Budget, 2000-01 MYEFO and 2000-01 Budget net capital investment estimates, showing the effect of policy decisions and economic parameter and other variations since the estimates were published in the 2000-01 Budget.

Table 19: Reconciliation of Commonwealth general government net capital investment

	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Change in net capital investment at 2000-01 Budget	-2,240	1,013	574	1,125
Changes between 2000-01 Budget and MYEFO				
Effect of policy decisions	1	6	0	0
Effect of economic parameter and other variations	-1,407	-1,364	-854	-805
Total variations	-1,406	-1,359	-854	-805
Change in net capital investment at 2000-01 MYEFO	-3,646	-346	-280	320
Changes between MYEFO and 2001-02 Budget				
Effect of policy decisions	18	-136	-111	-33
Effect of economic parameter and other variations	1,661	-720	27	-554
Total variations	1,678	-856	-84	-587
Change in net capital investment at 2001-02 Budget	-1,968	-1,201	-364	-266

Policy decisions

Policy decisions since the 2000-01 MYEFO affecting net capital investment estimates include:¹

- \$98 million to fund the Health Insurance Commission's (HIC) modernisation of its claims and payments business, ensuring the efficient operation of all government health programmes administered by the HIC;
- a \$50 million loan to the Commonwealth Scientific and Industrial Research Organisation (CSIRO) to facilitate the commercialisation of new production technology for the light metals sector, in partnership with the Australian Magnesium Corporation;
- a loan to the Australian Broadcasting Corporation (ABC) to fund construction of a new building in Perth at a total cost of \$29 million. The building will accommodate the ABC's head office in Western Australia and television facilities;
- the investment of \$43 million by the National Gallery of Australia on building refurbishment and enhancement;

¹ In the calculation of net capital investment, proceeds from the sale of non-financial assets are subtracted from the 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.

- \$16 million in 2001-02 to Centrelink for the development of software to support *Australians Working Together*;
- the Department of Finance and Administration construction of new chancery facilities in Colombo and New Delhi at a cost of \$25 million;
- \$36 million to the Department of Foreign Affairs and Trade to fund the replacement of the existing diplomatic communications network with the proposed Secure Australian Telecommunications and Information Network;
- \$12 million over the Budget and forward years to the Civil Aviation Safety Authority for the development of new systems to implement updated regulations that will improve aviation safety; and
- \$6 million in 2001-02 to the Australian Customs Service for infrastructure changes to support risk mitigation of foot and mouth disease in Australia.

These new policy initiatives will be offset in 2001-02 by an expansion of the Department of Defence's property sales programme, which will increase sales revenue in 2001-02. This additional sales revenue will be offset, in part, by rental supplementation for those properties leased back by Defence.

Parameter and other variations

Since the 2000-01 MYEFO, parameter and other variations have led to a reduction in estimated net capital investment of around \$720 million in 2001-02. Variations in the Budget and forward years are largely due to:

- slippage in the Department of Defence's Pre-existing Property Sales Programme, which will increase sales revenue in 2001-02;
- a reallocation of capital expenditure to expenses in Defence;
- an extension in the Defence Housing Authority's Sale and Leaseback Programme;
- the removal of the capital conservative bias allowance;² and
- lower than estimated proceeds from the sale of telecommunications spectrum licenses in 2000-01.

2 An adjustment had previously been made in the Contingency Reserve to reflect an initial conservative bias in agencies' forward net capital investment. However, with the bedding down of the accrual budgeting framework, agencies have now developed robust asset replacement strategies that remove the need for this adjustment.

NET CAPITAL INVESTMENT BY FUNCTION

Table 20 provides estimates of Commonwealth general government net capital investment by function for the period 2000-01 to 2004-05.

Table 20: Estimates of Commonwealth net capital investment by function

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
General public services	-80	-28	14	40	-86
Defence	-403	-1,097	-510	-193	-399
Public order and safety	59	19	-2	-9	-4
Education	0	0	-3	0	6
Health	35	26	45	48	12
Social security and welfare	19	45	8	-5	3
Housing and community amenities	-189	-130	-79	-79	6
Recreation and culture	-106	108	58	-2	-10
Fuel and energy	3	0	0	0	0
Agriculture, forestry and fishing	-5	-2	-3	-3	-4
Mining and mineral resources (other than fuels); manufacturing and construction	31	-2	3	-3	3
Transport and communications	-1,345	16	6	6	5
Other economic affairs	-5	15	-19	-17	-8
Other purposes	17	-169	118	-48	238
Net capital investment	-1,968	-1,201	-364	-266	-236

The movement in net capital investment from 2000-01 to 2001-02 largely reflects the sale of telecommunications spectrum by the Australian Communications Authority in 2000-01 (*Transport and communications*) and a re-phasing and acceleration of Defence's property sale programme in 2001-02 (*Defence*). Other contributors to movements in net capital investment include:

- a number of largely offsetting movements in the *General public services* function including:
 - ANSTO's investment in a new nuclear reactor at Lucas Heights; investment by the Australian Taxation Office in IT infrastructure; and by Department of Foreign Affairs and Trade in an updated secure communications system; CSIRO's investment in the commercialisation of new magnesium production technology for the light metals sector; and the ABS's fitout for its new headquarters;
 - offset by property sales by the Department of Finance and Administration and the CSIRO;
- *Public order and safety*, the purchase of border related technologies such as x-ray equipment and software by the Australian Customs Service in 2000-01 and the

establishment of the CrimTrac DNA database by the Attorney-General's Department;

- *Social security and welfare and Health*, the investment in IT infrastructure by Centrelink, the Department of Veterans' Affairs and the Health Insurance Commission;
- *Recreation and culture*, the construction of additional purpose-built facilities at the ABC headquarters at Ultimo, NSW, the National Museum of Australia, and the ongoing digital TV conversion programme at the ABC and SBS, offset, in 2000-01, by the sale of FM radio licenses by the Australian Broadcasting Authority;
- *Mining and mineral resources*, a \$30 million licence agreement between the Department of Industry, Science and Resources and the Syntroleum Corporation boosted investment in 2000-01; and
- *Other purposes*, further telecommunications spectrum and FM radio license sales in the forward years.

Appendix A: Expense Measures

Table A1: Expense measures since the 2000-01 MYEFO

	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m
AGRICULTURE, FISHERIES AND FORESTRY				
<i>Department of Agriculture, Fisheries and Forestry</i>				
Additional assistance to dairy farmers	-	-	-	-
Agricultural Development Partnerships	3.7	6.6	7.7	8.4
Australia's response to Foot and Mouth Disease and other quarantine risks	61.9	73.5	73.5	73.5
Backing Australia's Ability - New Industries Development Programme Mark II	5.1	5.2	5.2	5.2
Commonwealth contribution to the Murray Darling Basin Commission	-	-	-	-
Commonwealth Flood Assistance Package for central and northern New South Wales and southern Queensland	29.5	-	-	-
Continuation of Nairn funding for quarantine activities	5.3	13.8	13.8	13.8
Exceptional Circumstances - Western Australia	6.1	4.1	-	-
Flood assistance for dairy farmers in northern New South Wales	-	-	-	-
National Food Industry Strategy	1.5	-	-	-
Pricing review of the Department of Agriculture, Fisheries and Forestry	7.0	-	-	-
Rural Financial Counselling Services	5.8	5.8	5.8	-
Savings from Farmbis - Skilling Farmers for the Future programme	-6.7	-12.4	-13.5	-8.4
Portfolio total	119.2	96.6	92.5	92.5
ATTORNEY-GENERAL'S				
<i>Attorney General's Department</i>				
Additional resourcing for Native Title	5.5	5.1	3.3	2.0
Diplomatic guarding	7.8	8.0	-	-
Improving security within the Australian intelligence community	0.7	0.6	0.6	0.6
Pricing review of the Attorney-General's Department	-1.0	-1.0	-1.0	-1.0
Pro Bono secretariat	0.3	0.3	0.3	0.3
Protection of the National Information Infrastructure	0.6	-	-	-
<i>Australian Customs Service</i>				
Australia's response to Foot and Mouth Disease and other quarantine risks	53.7	56.5	59.4	62.5
<i>Australian Federal Police</i>				
Australian Federal Police Reform Programme Stage 2	28.3	28.7	28.2	25.3
Back-capture of DNA samples from federal prisoners	-	-	-	-
Payment for Australian Federal Police East Timor Peacekeepers	3.1	-	-	-
Protection of the National Information Infrastructure	0.2	-	-	-

Table A1: Expense measures since the 2000-01 MYEFO (continued)

	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m
ATTORNEY-GENERAL'S (continued)				
<i>Australian Security Intelligence Organisation</i>				
Improving security within the Australian intelligence community	2.5	1.8	1.9	1.9
Protection of the National Information Infrastructure	0.6	-	-	-
<i>Federal Court of Australia</i>				
Additional resourcing for Native Title	5.3	4.6	4.1	3.0
<i>National Native Title Tribunal</i>				
Additional resourcing for Native Title	6.0	10.5	10.3	8.9
Portfolio total	113.5	115.1	107.0	103.4
COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS				
<i>Australia Council</i>				
Renewed support to the Regional Arts Fund, Young and Emerging Artists Initiative, and the Major Festivals Initiative	4.5	2.5	2.6	-
Reprioritisation of expenditure - Australia Council	-1.5	-1.5	-1.5	-1.5
<i>Australian Broadcasting Corporation</i>				
Australian Broadcasting Corporation - additional funding	17.8	17.8	17.8	17.8
<i>Australian Communications Authority</i>				
Radiocommunications licensing arrangements	-0.7	-0.7	-0.7	-0.7
<i>Department of Communications, Information Technology and the Arts</i>				
Additional funding for the National Council for the Centenary of Federation for promoting Federation Fund projects	-	-	-	-
Australian Film Finance Corporation - continuation of funding	-	-	-	-
Australia's response to Foot and Mouth Disease and other quarantine risks	20.0	13.2	8.0	8.2
Backing Australia's Ability - Innovation Access Programme	1.0	3.0	3.0	3.0
Backing Australia's Ability - National Innovation Awareness Strategy	0.7	1.2	1.2	0.6
Backing Australia's Ability - World Class Centres of Excellence	4.5	8.8	12.0	17.7
Department of Communications, Information Technology and the Arts - reallocation of surplus funds	-	-5.0	-5.0	-5.0
Digital interference subsidy	10.0	-	-	-
Maintenance of the base funding of elements of the Cultural Development Programme	7.4	5.7	4.9	1.4
Pricing review of the Department of Communications, Information Technology and the Arts	-	-	-	-
Savings from the National Transmission Network residual pool	-2.0	-2.0	-2.0	-2.0

Table A1: Expense measures since the 2000-01 MYEFO (continued)

	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m
COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS (continued)				
Telecommunications Service Inquiry response - Contribution to a national Online Technical Assistance Programme	0.4	1.8	3.8	-
Telecommunications Service Inquiry response - extend mobile phone coverage to communities of less than 500 people	4.5	17.1	19.9	-
Telecommunications Service Inquiry response - Extend mobile phone coverage to communities of more than 500 people	15.5	12.2	10.0	-
Telecommunications Service Inquiry response - Funding consumer representation and research	-	0.9	0.9	0.9
Telecommunications Service Inquiry response - Improving community awareness	6.7	0.2	-	-
Telecommunications Service Inquiry response - Improving Services for Aboriginal and Torres Strait Islander Communities	0.4	-	-	-
Telecommunications Service Inquiry response - National Communications Fund	0.7	13.4	25.4	12.7
Telecommunications Service Inquiry response - Savings from the Telstra Social Bonus	nfp	nfp	nfp	nfp
Portfolio total	89.9	88.6	100.3	53.1
DEFENCE				
<i>Department of Defence</i>				
Defence and surplus East Timor funds	100.0	70.0	-	-
Defence Capital Investment Programme	-	-	-	-
Defence White Paper	507.0	1039.4	1464.7	2042.1
Enhancement of the Australian Defence Force Cadets	-	-	-	-
Improving security within the Australian Intelligence Community	-	-	-	-
Protection of the National Information Infrastructure	0.5	-	-	-
Supplementation for commercial rents	16.0	16.0	16.0	16.0
Portfolio total	623.5	1125.4	1480.7	2058.1
EDUCATION, TRAINING AND YOUTH AFFAIRS				
<i>Australians Working Together</i>				
A better deal for people with disabilities - Better access to education and training	-	7.3	14.6	15.0
A fair go for mature age workers - More assistance	0.2	1.6	4.9	7.4
Getting people the right help - Improved information technology	0.3	-	-	-
Helping parents return to work	1.2	7.7	18.0	22.4
Helping people to find jobs - Better employment services	-	1.7	3.4	3.5
Promoting self-reliance for indigenous people - Increased educational and training assistance	0.2	3.5	4.3	2.2

Table A1: Expense measures since the 2000-01 MYEFO (continued)

	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
EDUCATION, TRAINING AND YOUTH AFFAIRS (continued)				
<i>Department of Education, Training and Youth Affairs</i>				
Adjustment to Department of Education, Training and Youth Affairs resourcing	-2.1	-2.2	-2.2	-2.3
Backing Australia's Ability - 2,000 additional targeted university places	13.9	24.8	33.4	40.3
Backing Australia's Ability - Additional funding for project-specific research infrastructure	26.8	47.7	68.7	89.3
Backing Australia's Ability - Additional funding for systemic research and research training infrastructure in universities	26.3	53.2	54.4	55.5
Backing Australia's Ability - Double funding for national competitive research grants	19.2	92.5	142.8	205.4
Backing Australia's Ability - Fostering scientific, mathematical and technological skills and innovation in government schools	33.1	34.9	36.8	38.7
Backing Australia's Ability - Online curriculum content	4.5	7.2	7.4	7.5
Backing Australia's Ability - Postgraduate Education Loan Scheme	0.7	0.4	0.4	0.4
Career and Transitions pilots - enhancing young peoples' transition from school to further education or work	-	-	-	-
Expand the geographic coverage of enterprise and career education foundation work-placement coordinators	1.2	2.7	3.1	2.6
Fringe Benefits Tax supplementation for Aboriginal and Torres Strait Islander organisations	1.0	0.8	0.8	0.8
Higher Education places for regional Universities and campuses	4.3	7.8	10.5	12.6
Improving schooling outcomes	-	-	-	-
Income-contingent loans for bridging courses for overseas trained professionals	-	-2.1	-2.1	-2.2
Increase in the permanent migrant intake	11.2	14.7	18.4	22.4
Innovative and collaborative pilots for youth-related programmes	-	-	-	-
Job Placement, Employment and Training Programme - Employment support for homeless young people	4.2	4.0	4.1	4.5
Jobs Pathway Programme - support for the transition from school to work	12.1	10.9	11.2	12.6
The Mentor Marketplace	-	-	-	-
Training for Innovation - growth funding for the Australian National Training Authority Agreement	50.0	76.5	104.1	-
Portfolio total	208.4	395.6	536.9	538.6

Table A1: Expense measures since the 2000-01 MYEFO (continued)

	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m
EMPLOYMENT, WORKPLACE RELATIONS AND SMALL BUSINESS				
<i>Australians Working Together</i>				
A Fair Go for Mature Age Workers - More encouragement to participate	0.4	0.4	-	-
Getting people the right help - Improved information technology	0.4	-	-	-
Getting people the right help - Personal Support Programme	-	-29.1	-28.0	-26.7
Helping people to find jobs - Better employment services	7.9	55.6	55.8	57.7
Helping people to find jobs - Training credits	0.3	36.4	36.7	37.5
Promoting self-reliance for indigenous people - Better support to get a job	2.6	4.6	9.7	14.2
<i>Department of Employment, Workplace Relations and Small Business</i>				
Development and enhancement of the Business Entry Point internet site	8.2	8.4	8.5	8.7
Expansion of the Dairy Regional Assistance Programme	10.0	10.0	-	-
Pricing review of the Department of Employment, Workplace Relations and Small Business	-8.2	-8.4	-8.5	-8.7
<i>Equal Opportunity for Women in the Workplace Agency</i>				
Equal Opportunity for Women in the Workplace Agency on-line services	1.1	0.9	0.7	0.4
<i>National Occupational Health and Safety Commission</i>				
Relocation of the National Occupational Health and Safety Commission	-1.2	-1.1	-0.8	-0.1
Portfolio total	21.5	77.7	74.1	83.0
ENVIRONMENT AND HERITAGE				
<i>Australian Greenhouse Office</i>				
Domestic greenhouse policy development	-	-	-	-
Greenhouse international policy and reporting, and greenhouse sinks	-	-	-	-
Pricing review of the Australian Greenhouse Office	-0.7	-0.6	-	-
<i>Department of the Environment and Heritage</i>				
Administration of the fuel quality legislation	-	-	-	-
Conservation of rural and regional historic hotels	5.0	-	-	-
Goondiwindi Serpentine Water Park	5.0	-	-	-
Greenhouse Gas Abatement Programme	-	-	-	-
National Pollutant Inventory	1.2	1.3	1.3	1.3
Natural Heritage Trust extension (a)	-	100.0	233.0	233.0
Pricing review of the Australian Antarctic Division	-	-	-	-
Pricing review of the Bureau of Meteorology	-	-	-	-
Queensland East Coast Trawl Restructure Programme	-	-	-	-
Sydney Harbour Federation Trust	-	-	-	-
Wildlife programmes and biodiversity conservation responsibilities	0.8	0.7	0.7	0.6

Table A1: Expense measures since the 2000-01 MYEFO (continued)

	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
ENVIRONMENT AND HERITAGE (continued)				
<i>Great Barrier Reef Marine Park Authority</i>				
Funding to offset the reduction in revenue related to the Environmental Management Charge	0.5	0.6	0.3	0.3
Management of aquaculture impacts	0.5	0.5	0.4	0.4
Townsville Aquarium - Reef Headquarters	1.8	0.5	0.5	0.5
Portfolio total	14.1	103.0	236.2	236.1
FAMILY AND COMMUNITY SERVICES				
<i>Australians Working Together</i>				
A Fair Go for Mature Age Workers - More encouragement to participate	1.7	17.6	40.4	42.0
A Fair Go for Mature Age Workers - More assistance	0.3	2.4	10.9	16.2
Helping people find jobs - Mutual obligation requirements	3.0	10.6	7.3	7.2
Helping parents return to work	5.7	50.8	64.5	69.6
Getting people the right help - Personal Support Programme	2.7	36.8	45.7	60.5
Getting people the right help - Better assessments	0.2	10.1	10.6	10.7
Getting people the right help - Improved information technology	2.9	16.5	15.0	15.0
A better deal for people with disabilities - Better assessment	2.3	34.1	14.3	13.9
A better deal for people with disabilities - Better access to employment assistance	0.7	13.2	20.3	22.8
A better deal for people with disabilities - Quality assurance of employment assistance	3.2	4.7	5.3	5.3
Promoting self-reliance for indigenous people - Community Participation Agreements and capacity building	-	0.5	0.6	0.6
Promoting self-reliance for indigenous people - Remote area servicing	0.6	2.0	2.9	3.7
Help to participate - Working Credit	8.9	125.6	176.8	189.0
Help to participate - Literacy and Numeracy Training Supplement	0.8	5.8	6.8	7.0
More child care places	2.3	5.4	4.2	4.4
Community and Business Engagement	9.0	7.7	2.6	2.7
Planning for the Future	1.0	1.0	2.0	1.0
<i>Department of Family and Community Services</i>				
Acknowledging Older Australians - exempt superannuation from Social Security Means Test for people aged between 55 and Age Pension age	88.8	88.2	89.9	91.7
Acknowledging Older Australians - Extend eligibility for the Commonwealth Seniors Health Card	1.5	-	-	-
Acknowledging Older Australians - One-off payment to the aged	10.1	-	-	-
Acknowledging Older Australians - telephone allowance to Commonwealth Seniors Health Card holders	30.5	23.8	24.5	24.9

Table A1: Expense measures since the 2000-01 MYEFO (continued)

	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
FAMILY AND COMMUNITY SERVICES (continued)				
Compliance package - detection	-19.3	-37.9	-35.1	-33.4
Compliance package - prevention	0.8	-2.6	-0.3	-0.3
Compliance package - research and development	-3.7	-10.2	-1.1	-
Department of Family and Community Services pricing review of services delivered through Non-Government Organisations	-	-	-	-
Exceptional Circumstances - Western Australia	0.4	0.4	0.1	-
Expanding the supply of healthy Indigenous housing	3.0	23.0	24.5	24.5
Family homelessness and early intervention pilots	1.2	2.3	1.3	-
Family Tax Benefit shared care and Child Support Agency liability	2.6	0.2	-	-
Further simplification of international payments	-0.3	-6.1	-6.6	-7.3
Increase in the permanent migrant intake	11.7	29.9	60.4	94.5
Introduce discretion for parents who have shared care to waive eligibility for Family Tax Benefit	1.1	0.6	0.6	0.6
National research and education strategy to prevent problem gambling	2.2	5.0	0.6	0.6
New and revised international social security agreements	4.1	3.4	2.5	2.6
New social security arrangements between Australia and New Zealand	-22.9	-57.3	-164.9	-269.5
Provide Health Care Cards to foster children	0.4	-	-	-
Restore War Widows pensions relinquished upon remarriage prior to 1984	-5.6	-23.8	-26.0	-27.7
Supplementation for employment assistance and other services	2.7	-	-	-
The Mentor Marketplace	-	0.9	1.5	2.3
Transition to Independent Living Allowance	-	1.0	2.6	2.6
Portfolio total	154.5	385.5	404.9	377.9
FINANCE AND ADMINISTRATION				
<i>Department of Finance and Administration</i>				
Early payout of AvSuper superannuation liabilities	-4.0	-5.0	-	-
Establishing a private financing unit	2.0	1.9	1.9	1.9
Indexation of Commonwealth superannuation benefits	30.0	30.0	30.0	30.0
Information Technology upgrade in electorate offices	4.0	3.0	3.0	3.0
Mapping of the Australian Antarctic Territory extended continental shelf	11.8	0.8	0.1	0.1
<i>Office of Asset Sales and Commercial Support</i>				
Continuation of Office of Asset Sales and Commercial Support resourcing for the asset sales programme	5.8	-	-	-
Deferral of the further sale of the Commonwealth's shareholding of Telstra Corporation - sale costs	-218.0	-218.0	218.0	-
Sale of Kingsford Smith Airport - sale costs	16.5	-	-	-
Scoping study for the future ownership of Sydney Airports Corporation Limited	-	-	-	-
Portfolio total	-152.0	-187.3	253.0	35.0

Table A1: Expense measures since the 2000-01 MYEFO (continued)

	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m
FOREIGN AFFAIRS AND TRADE				
<i>Australian Agency for International Development</i>				
Commitment to Polio Eradication	2.5	2.5	2.5	2.5
<i>Australian Secret Intelligence Service</i>				
Improving security within the Australian intelligence community	0.9	0.7	0.7	0.8
<i>Australian Trade Commission</i>				
Opening of Australian Consulate-General in Chicago	0.8	0.7	0.7	0.7
<i>Department of Foreign Affairs and Trade</i>				
Opening of Australian Consulate-General in Chicago	3.1	2.4	2.5	2.7
Portfolio total	7.3	6.3	6.4	6.7
HEALTH AND AGED CARE				
<i>Australian Radiation Protection and Nuclear Safety Agency</i>				
Strategy on electromagnetic public health issues	-	-	-	-
<i>Department of Health and Aged Care</i>				
Acknowledging Older Australians - exempt superannuation from Social Security Means Test for people aged between 55 and Age Pension age	9.7	10.6	11.6	12.6
Acknowledging Older Australians - Extend eligibility for the Commonwealth Seniors Health Care Card	22.5	24.7	27.0	29.3
Additional Practice Nurses for rural Australia and other areas of need	15.1	27.8	29.6	31.8
After hours/emergency primary medical care	8.8	10.4	11.6	12.6
Alcohol Education and Rehabilitation Foundation	10.4	24.1	40.1	41.1
Better targeting of medical workforce reform	-	-6.1	-6.2	-6.4
Carers information and support	-	-	-	-
Cervical screening incentives for general practitioners	5.1	15.6	23.1	27.7
Clarifying the funding arrangements for the provision of methadone to private patients	-21.8	-22.3	-22.7	-23.2
Dementia Education and Support Programme	-	-	-	-
Electronic commerce for Medicare claiming	-	-	-	-
Ensuring Quality Care for Older Australians - Checks of aged care homes	5.0	5.0	-	-
Ensuring Quality Care for Older Australians - Community Visitors Scheme and the Residential Aged Care Advocacy Services Programme	0.6	1.5	1.6	1.6
Ensuring Quality Care for Older Australians - Complaints Resolution Scheme	0.7	1.0	1.0	1.1
Ensuring Quality Care for Older Australians - Information management for quality care	0.6	2.4	2.3	2.3
Ensuring Quality Care for Older Australians - Quality Care Communication Strategy	0.5	1.5	-	-
Exceptional Circumstances - Western Australia	0.2	0.1	-	-
Fringe Benefits Tax supplementation for Aboriginal and Torres Strait Islander organisations	4.6	3.6	3.7	3.8

Table A1: Expense measures since the 2000-01 MYEFO (continued)

	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m
HEALTH AND AGED CARE (continued)				
Funding for the Office of the Gene Technology Regulator	7.9	8.0	-	-
Greater scrutiny of aged care homes' funding claims	-10.7	-16.4	-16.8	-17.2
Health and Other Services (Compensation) Act 1995 review implementation	-5.2	-6.5	-6.7	-6.8
HealthConnect: A Health Information Network for Australia - Development Phase	8.3	7.5	-	-
Hospital Innovation	3.7	3.7	-	-
Hospital safety initiatives	6.2	6.6	6.6	6.6
Improved primary health care for Aboriginal and Torres Strait Islander communities	-	-	19.7	20.5
Improving the use of cholesterol lowering medicines on the Pharmaceutical Benefits Scheme	-18.8	-23.9	-26.6	-29.0
Increase in the permanent migrant intake	4.2	12.4	20.6	28.9
Increases in patient funding for general practitioner services	49.3	82.6	82.6	86.1
Increasing care and diversity for older Australians - culturally appropriate (ethnic) care	1.5	1.5	1.5	1.6
Increasing care and diversity for older Australians - Day Therapy Centres	0.3	1.3	1.4	1.3
Increasing care and diversity for older Australians - Extended aged care at home	0.3	1.6	-	-
Increasing care and diversity for older Australians - Safe at Home Pilot	0.3	0.3	0.3	0.3
Increasing care and diversity for older Australians - The Continence Aids Assistance Scheme	0.7	3.0	3.1	4.1
Integrated National Diabetes Programme	9.3	12.5	12.6	15.4
Investment to upgrade the Health Insurance Commission technical infrastructure to improve service	-	2.0	-13.0	-19.7
Mental Health - More Options, Better Services	4.1	24.4	39.7	51.5
National Immunisation Strategy	-	-	-	-
National Rural and Remote Health Support Programme	-	-	-	-
New Medicare items for Domiciliary Medication Management Review	1.8	4.3	5.5	6.5
Pricing review of the Department of Health and Aged Care	-	-2.0	-4.0	-6.0
Proactive GP management of asthma - the 3+ Visit Plan	7.5	12.2	13.9	14.2
Provide full access to the Repatriation Pharmaceutical Benefits Scheme for British, Commonwealth and Allied Veterans aged 70 years and over with World War II qualifying service	-12.1	-25.3	-25.8	-27.2
Provide Health Care Cards to Foster children	0.4	0.8	1.4	1.5
Quality Use of Medicines Package - Consumer education	2.0	4.0	4.2	4.4

Table A1: Expense measures since the 2000-01 MYEFO (continued)

	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m
HEALTH AND AGED CARE (continued)				
Quality Use of Medicines Package - Enhancement of the National Prescribing Service	-8.6	-8.0	-8.0	-8.0
Quality Use of Medicines Package - National Medicines Disposal Programme	1.3	1.3	1.3	1.3
Reduction in wholesalers' remuneration under the Pharmaceutical Benefits Scheme	nfp	nfp	nfp	nfp
Replacement of speech processors for children with cochlear implants	-	-	-	-
Restore War Widows pensions relinquished upon remarriage prior to 1984	-2.3	-10.4	-12.7	-14.1
Restructuring rural and urban fringe aged care homes	5.0	-	-	-
Rural Nursing Scholarships	1.8	2.9	4.1	4.2
Safety of Australia's blood supply	2.0	-	-	-
Strategy on electromagnetic public health issues	-	-	-	-
The National Childhood Pneumococcal Vaccination Programme	7.4	7.4	4.2	4.2
Westmead Childrens Hospital	-	-	-	-
Portfolio total	129.5	207.8	231.9	258.8
IMMIGRATION AND MULTICULTURAL AFFAIRS				
<i>Department of Immigration and Multicultural Affairs</i>				
Backing Australia's Ability - attracting information and communication technology workers	0.3	0.3	0.3	0.3
Citizenship - media campaign	2.0	-	-	-
Extension of Living in Harmony Programme	2.5	-	-	-
Funding for the New Agenda for Multicultural Australia	1.0	1.0	-	-
Increase in the permanent migrant intake	2.1	3.9	3.9	3.9
New social security arrangements between Australia and New Zealand	8.4	7.9	7.7	7.4
Onshore processing of students in points tested categories	0.8	0.8	0.8	0.9
Pricing Review of the Department of Immigration and Multicultural Affairs	-6.2	-12.8	-11.6	-12.9
Reform of Independent Executive visa arrangements	0.8	1.2	1.2	1.2
Strategy to strengthen Australia's immigration services to priority areas - extension of Electronic Travel Authority arrangements	-	-0.2	-0.2	-0.2
Strategy to strengthen Australia's immigration services to priority areas - increased Australia-based representation in Brasilia	0.7	0.3	0.3	0.3
Unauthorised boat arrivals - review of processing and detention arrangements	24.9	32.8	40.8	49.2
Portfolio total	37.3	35.2	43.2	50.1

Table A1: Expense measures since the 2000-01 MYEFO (continued)

	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m
INDUSTRY, SCIENCE AND RESOURCES				
<i>Australian Nuclear Science and Technology Organisation</i>				
Pricing review of the Australian Nuclear Science Technology Organisation	8.4	9.3	9.4	8.9
<i>Australian Sports Commission</i>				
Backing Australia's Sporting Ability - a more active Australia	36.5	38.8	38.8	40.1
<i>Department of Industry, Science and Resources</i>				
Assistance for the Melbourne 2006 Commonwealth Games	-	-	60.0	30.0
Backing Australia's Ability - 175 per cent premium rate - R&D tax concession	1.0	2.8	3.3	3.5
Backing Australia's Ability - Biotechnology Innovation Fund	5.0	5.0	10.0	-
Backing Australia's Ability - business advice on regulatory environment	-	-	-	-
Backing Australia's Ability - expansion of the COMET Program	10.0	10.0	10.0	10.0
Backing Australia's Ability - expansion of the Cooperative Research Centres Programme	-	-	55.0	57.0
Backing Australia's Ability - improvements to the management awareness of intellectual property	-	-	-	-
Backing Australia's Ability - Innovation Access Programme	-	16.6	19.2	24.3
Backing Australia's Ability - major national research facilities	5.0	20.0	30.0	50.0
Backing Australia's Ability - monitoring Venture Capital Investments	-	-	-	-
Backing Australia's Ability - National Innovation Awareness Strategy	4.3	5.8	5.8	6.4
Backing Australia's Ability - Pre-seed Fund	6.4	16.9	21.8	21.8
Backing Australia's Ability - R&D Start	-	33.9	102.6	159.7
Backing Australia's Ability - rebate for small companies	-	0.2	0.1	0.1
Backing Australia's Ability - World Class Centres of Excellence	1.5	3.8	5.0	6.2
Backing Australia's Sporting Ability - a more active Australia	1.9	1.9	1.9	1.9
Commonwealth contribution to the Bradman Memorial Fund	-	-	-	-
Commonwealth support of the Prime Minister's XI vs the Aboriginal and Torres Strait Islander Commission Chairman's XI cricket match	-	-	-	-
Commonwealth support for the 2001 Goodwill Games	-	-	-	-
Continued resourcing for the Australian Building Codes Board	-	-	-	-
Continued Support for National Recreation Safety Organisations	0.4	0.4	0.4	0.4

Table A1: Expense measures since the 2000-01 MYEFO (continued)

	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
INDUSTRY, SCIENCE AND RESOURCES (continued)				
Corporatisation of the Snowy Mountains Hydro-Electric Authority and environmental flows into the Snowy and Murray Rivers	-	7.5	7.5	7.5
Facilitation of small and medium enterprises - Supplier access to major projects	-	-	-	-
Support for training of automotive industry employees and the development of industry relevant technology	4.0	4.0	-	-
Government response to Productivity Commission's report on general tariffs	-	5.0	4.7	4.0
The Indigenous Communities / Mining Industry Regional Partnership Programme	-	-	-	-
<i>National Standards Commission</i>				
Pricing review of the National Standards Commission	2.2	2.4	2.4	2.5
Portfolio total	86.5	184.3	387.9	434.3
PARLIAMENTARY DEPARTMENTS				
<i>Department of the House of Representatives</i>				
Additional funding for the Citizenship Visits Programme	0.1	-
Additional two Members in Parliament	0.5	0.4	0.4	0.4
<i>Department of the Senate</i>				
Additional funding for the Citizenship Visits Programme	0.1	-
Portfolio total	0.6	0.4	0.4	0.4
PRIME MINISTER AND CABINET				
<i>Department of the Prime Minister and Cabinet</i>				
Informed choices for Australian women	1.0	1.5	1.5	1.5
National initiative to combat sexual assault	2.1	4.8	4.8	4.8
Women's Development Programme	1.4	1.4	1.4	1.4
Women's National Leadership Initiative	0.6	0.6	0.6	0.6
<i>Office of National Assessments</i>				
Improving security within the Australian intelligence community	-	-	-	-
<i>Office of the Commonwealth Ombudsman</i>				
Enhanced complaint management for the New Tax System	-	-	-	-
Portfolio total	5.1	8.4	8.4	8.4
RECONCILIATION AND ABORIGINAL AND TORRES STRAIT ISLANDER AFFAIRS				
<i>Aboriginal and Torres Strait Islander Commission</i>				
Additional resourcing for Native Title	2.9	4.7	6.1	3.7
Fringe Benefits Tax supplementation for Aboriginal and Torres Strait Islander organisations	7.1	5.7	5.8	6.0
Improvement of major infrastructure in the Torres Strait	-5.0	-5.1	-5.2	-
Pricing Review of the Aboriginal and Torres Strait Islander Affairs Commission	-1.5	-1.0	-0.7	-

Table A1: Expense measures since the 2000-01 MYEFO (continued)

	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
RECONCILIATION AND ABORIGINAL AND TORRES STRAIT ISLANDER AFFAIRS (continued)				
<i>Australians Working Together</i>				
Promoting self reliance for Indigenous people - Community Participation Agreements and capacity building	1.0	4.5	10.0	15.0
<i>Department of Reconciliation and Aboriginal and Torres Strait Islander Affairs</i>				
Extension of support for Community Housing Infrastructure Programme and Native Title claimants	-	-	-	-
Separated Indigenous families - Government response to 'Bringing Them Home'	-	-	-	-
<i>Torres Strait Regional Authority</i>				
Improvement of major infrastructure in the Torres Strait	5.0	5.1	5.2	-
Portfolio total	9.5	13.9	21.2	24.7
TRANSPORT AND REGIONAL SERVICES				
<i>Australian Maritime Safety Authority</i>				
Improvements in search and rescue arrangements	1.2	1.1	0.7	0.7
<i>Civil Aviation Safety Authority</i>				
Aviation industry compliance	5.7	5.7	5.7	7.1
<i>Department of Transport and Regional Services</i>				
Airservices Australia - extension of location specific pricing subsidy	7.0	7.0	-	-
Alice Springs - Darwin Railway	-	5.1	8.9	-
Australia's response to Foot and Mouth Disease and other quarantine risks	19.4	-	-	-
Commonwealth Flood Assistance Package for central and northern New South Wales and southern Queensland	-	-	-	-
Construction of a new Scorseby Freeway	5.3	14.4	13.3	7.0
East Coast Very High Speed Train Scoping Study	15.0	5.0	-	-
Federal Flood Mitigation Programme	0.8	10.0	10.0	10.0
Flood Recovery Fund	-	-	-	-
Newcastle Structural Adjustment Fund	-	-	-	-
Roads in outer metropolitan areas	50.0	100.0	125.0	125.0
Roads to Recovery Programme	300.0	300.0	300.0	150.0
Roads to Recovery Programme funding for the Indian Ocean Territories and unincorporated areas	2.2	2.2	2.2	2.1
Savings from the Upgrade of Mainline Interstate Railway Track Programme	-111.0	-	-	-
Telecommunications Service Inquiry response - extend mobile phone coverage to communities of less than 500 people	-	-	-	-
Upgrade of Canberra Airport	-	-	-	-
Portfolio total	295.5	450.4	465.7	301.8

Table A1: Expense measures since the 2000-01 MYEFO (continued)

	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m
TREASURY				
<i>Australian Competition and Consumer Commission</i>				
Pricing Review of the Australian Competition and Consumer Commission	21.4	16.6	11.8	17.0
<i>Australian Securities and Investments Commission</i>				
ASIC supplementary funding for HIH investigations	2.5	2.5	-	-
Financial Services Reform Implementation	2.6	-	-	-
Managed Investment	2.9	-	-	-
Superannuation Complaints Tribunal	0.7	0.7	0.7	0.7
<i>Australian Taxation Office</i>				
Backing Australia's Ability - 175 per cent premium rate - R&D tax concession	-	-	-	-
Education campaign and other information initiatives for choice of superannuation fund and related measures				
Simplification of Business Activity Statements	38.0	-	-	-
<i>Department of the Treasury</i>				
Additional funding for the First Home Owners Scheme	90.0	-	-	-
Consumer Information Programme	-	-	-	-
Renewed Funding of Axiss Australia	3.8	3.8	3.8	-
Funding for secretariat support to the fuel tax inquiry	4.0	-	-	-
GST - Allowing entities with substituted accounting periods to lodge GST returns quarterly	80.0	5.0	5.0	5.0
GST - Allowing full input tax credits for motor vehicles	570.0	80.0	-	-
GST - Flexible administration of GST errors	-	-	-	-
GST - GDP-adjusted method for calculating GST remittances	140.0	5.0	15.0	15.0
HIH Policyholder Hardship Assistance	nfp	nfp	nfp	nfp
Information and implementation of 1 July 2001 tax changes	5.0	-	-	-
<i>National Competition Council</i>				
Continued funding for legal matters relation to Part IIIA of the Trade Practices Act 1974	0.3	0.3	0.3	0.3
National Competition Policy communication and education	0.2	0.2	0.2	0.2
Portfolio total	961.4	114.1	36.8	38.2

Table A1: Expense measures since the 2000-01 MYEFO (continued)

	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m
VETERANS' AFFAIRS				
<i>Department of Veterans' Affairs</i>				
Acknowledging Older Australians - One-off payment to the aged	-	-	-	-
Australian Memorials in London and Crete	4.1	2.1	0.1	0.1
Cervical screening incentives for general practitioners	0.1	0.1	0.1	0.1
Greater scrutiny of aged care homes' funding claims	-2.0	-2.7	-2.7	-2.8
Improving the use of cholesterol lowering medicines on the Pharmaceutical Benefits Scheme	-1.1	-1.3	-1.5	-1.7
Maintain Rural and Remote Service Delivery arrangements	0.5	0.5	0.5	0.5
Make a one-off payment of \$25,000 to those former PoWs, civilian detainees of the Japanese or their surviving widows/ers	-	-	-	-
Mental Health - More Options, Better Services	0.1	0.1	0.2	0.2
Output Pricing Review - reduction in treatment population	-0.3	-1.9	-3.6	-5.6
Output Pricing Review - review of efficient delivery of outputs	2.4	-2.5	-7.0	-7.0
Proactive GP management of asthma - the 3+ Visit Plan	0.1	0.2	0.2	0.2
Provide full access to the Repatriation Pharmaceutical Benefits Scheme for British, Commonwealth and Allied Veterans aged 70 years and over with World War II qualifying service	19.5	33.1	31.6	30.2
Quality Use of Medicines Package - Enhancement of the National Prescribing Service	-1.1	-1.1	-1.1	-1.1
Reduce overpayments and improve debt recovery	-0.7	-1.4	-1.3	-1.3
Residential Care Development Scheme	6.0	-	-	-
Restore war widows pensions relinquished upon remarriage prior to 1984	14.3	56.9	66.4	71.6
Portfolio total	41.9	82.1	81.9	83.4
Total expense measures	2767.4	3303.0	4569.3	4784.4

Table A2: Expense measures up to the 2000-01 MYEFO

	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
AGRICULTURE, FISHERIES AND FORESTRY				
<i>Department of Agriculture, Fisheries and Forestry</i>				
Creation of a single pork industry company	-	-	-	-
Exceptional Circumstances assistance for farmers in Tasmania - Central Highlands	1.0	-	-	-
Exceptional Circumstances assistance for farmers in Tasmania - Southern Midlands	-	-	-	-
Exceptional Circumstances assistance in Monaro B and C, and East Gippsland	-	-	-	-
Forest and Wood Products Industry Action Agenda	-	-	-	-
Inland Marketing Corporation	-	-	-	-
National Action Plan for dryland salinity and water quality(a)	65.0	150.0	190.0	170.0
Sugar Industry Assistance Package	17.0	-	-	-
West 2000 Plus	-	-	-	-
Wool Industry - Changes in Wool Levy Arrangements	-32.2	-33.0	-32.1	-
Wool Industry - Establishment of Australian Wool	-	-	-	-
Portfolio total	50.8	117.0	157.9	170.0
ATTORNEY-GENERAL'S				
<i>Attorney General's Department</i>				
Protective security for Diplomatic and Consular missions	-	-	-	-
<i>Australian Customs Service</i>				
Storage of imported handguns prior to sale	0.4	0.4	0.4	0.4
<i>Department of the House of Representatives</i>				
Citizenship Visits Programme	-	-	-	-
<i>Department of the Senate</i>				
Citizenship Visits Programme	-	-	-	-
<i>High Court of Australia</i>				
Additional funding for the High Court	0.1	0.1	0.1	0.1
<i>National Native Title Tribunal</i>				
Increased National Native Title Tribunal workload in the Northern Territory and Queensland	-	-	-	-
Portfolio total	0.5	0.5	0.5	0.5
COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS				
<i>Australian Broadcasting Corporation</i>				
Strengthening Radio Australia's shortwave and Internet services to the Asia-Pacific region	2.8	2.9	0.2	0.2
<i>Australian Communications Authority</i>				
Advice and promotion of the third generation mobile phone and datacasting spectrum auctions	-	-	-	-
<i>Department of Communications, Information Technology and the Arts</i>				
Additional funding for the Centre for Quantum Computer Technology	-	-	-	-
Centenary of Federation	-	-	-	-
St John's Cathedral Completion Fund	-	-	-	-
Portfolio total	2.8	2.9	0.2	0.2

Table A2: Expense measures up to the 2000-01 MYEFO (continued)

	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m
DEFENCE				
<i>Department of Defence</i>				
Acquisition of the Australian Submarine Corporation	-	-	-	-
Additional funding for the Centre for Quantum Computer Technology	-	-	-	-
Portfolio total	-	-	-	-
EDUCATION, TRAINING AND YOUTH AFFAIRS				
<i>Department of Education, Training and Youth Affairs</i>				
Additional funding for the Centre for Quantum Computer Technology	-	-	-	-
Education Services for Overseas Students Assurance Fund	-	-	-	-
Eligibility of distance education students at non-government schools for General Recurrent Grant Funding	-	-	-	-
Establishment grants for new non-government schools	1.4	1.5	1.6	1.7
Funding for students with disabilities attending non-government schools	4.1	4.3	4.6	4.8
Portfolio total	5.5	5.8	6.2	6.5
EMPLOYMENT, WORKPLACE RELATIONS AND SMALL BUSINESS				
<i>Department of Employment, Workplace Relations and Small Business</i>				
Regional Solutions Programme	-10.0	-12.0	-	-
Portfolio total	-10.0	-12.0	-	-
ENVIRONMENT AND HERITAGE				
<i>Department of the Environment and Heritage</i>				
National Action Plan for dryland salinity and water quality	-	-	-	-
Portfolio total	-	-	-	-
FAMILY AND COMMUNITY SERVICES				
<i>Department of Family and Community Services</i>				
A ceiling on the rate of Australian pension paid under International Social Security Agreements	-0.3	-0.4	-0.4	-0.4
Aged Persons Savings Bonus 'Top-Up'	-	-	-	-
Ex Gratia payments and savings provisions for Department of Veterans' Affairs pensioners receiving Family Tax Benefit A and Child Care Benefit	0.5	0.5	0.5	0.6
Exceptional Circumstances assistance for farmers in Tasmania - Central Highlands	0.1	..	-	-
Exceptional Circumstances assistance for farmers in Tasmania - Southern Midlands	-	-	-	-
Exceptional Circumstances assistance in Monaro B and C, and East Gippsland	-	-	-	-
Increase the maximum rate of Rent Assistance to 10%	33.5	34.0	34.7	35.3
Social Security Agreement with Germany	0.4	1.4	0.3	0.3
Portfolio total	34.1	35.5	35.1	35.7

Table A2: Expense measures up to the 2000-01 MYEFO (continued)

	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m
FINANCE AND ADMINISTRATION				
<i>Department of Finance and Administration</i>				
Commonwealth Property Strategic Alliance	-	-	-	-
Contribution to Childers Memorial Fund	-	-	-	-
Sugar Industry Assistance Package	0.1	-	-	-
<i>Office of Asset Sales and Information Technology</i>				
<i>Outsourcing</i>				
Australian Submarine Corporation - acquisition, restructuring and sale	-	-	-	-
Extension of Information Technology Outsourcing Initiative	-	-	-	-
Sale costs - Divestment of Commonwealth interest in Australian Technology Group Limited	-	-	-	-
Sale costs - Essendon Airport Limited	-	-	-	-
Wool Industry - Establishment of Australian Wool Services Ltd	-	-	-	-
Portfolio total	0.1	-	-	-
FOREIGN AFFAIRS AND TRADE				
<i>Australian Agency for International Development</i>				
Increase the contribution to the United Nations Relief and Works Agency	1.0	1.0	1.0	1.0
<i>Department of Foreign Affairs and Trade</i>				
Continuation of Export Market Development Grants scheme	-	-	-	-
Solomon Islands: International Peace Monitoring Team	-	-	-	-
Portfolio total	1.0	1.0	1.0	1.0
HEALTH AND AGED CARE				
<i>Department of Health and Aged Care</i>				
Establishment of the Office of the Commissioner for Complaints	-	-	-	-
Exceptional Circumstances assistance for farmers in Tasmania - Central Highlands	-	-	-	-
Exceptional Circumstances assistance for farmers in Tasmania - Southern Midlands	-	-	-	-
Exceptional Circumstances assistance in Monaro B and C, and East Gippsland	-	-	-	-
Increased Medicare Rebate for Other Medical Practitioners	8.5	9.3	9.9	-
Introduction of Parity Pricing by Australian Hearing Services	8.5	8.9	8.9	8.9
List celecoxib on the Pharmaceutical Benefits Scheme	49.6	63.0	65.5	65.5
Measles, mumps and rubella vaccine for young adults	-	-	-	-
Modified Clawback Arrangements under the Australian Health Care Agreements	-	-	-	-
New Community Pharmacy Agreement	-3.0	-3.3	-12.3	2.3
Prevention of Q Fever in Meat and Agricultural Workers	3.0	0.5	-	-
Research Bio21	-	-	-	-
Subsidy of Medical Foods	2.7	2.7	2.8	-
Portfolio total	69.3	81.0	74.9	76.7

Table A2: Expense measures up to the 2000-01 MYEFO (continued)

	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m
INDUSTRY, SCIENCE AND RESOURCES				
<i>Australian Sports Drug Agency</i>				
Tough on Drugs in Sport - blood tests as part of our anti-doping programme	-	-	-	-
<i>Department of Industry, Science and Resources</i>				
Additional funding for the Centre for Quantum Computer Technology	-	-	-	-
Assistance for the Sydney Paralympic Organising Committee	-	-	-	-
Commonwealth Contribution to Olympic Aid	-	-	-	-
Investment Incentive for IBM Australia	-	-	-	-
Olympic and Paralympic Games goods and services tax Liability Payments	-	-	-	-
Paralympic Games Entry Fees	-	-	-	-
Payment of Gas Royalty Commitment to Western Australia	-18.5	-21.3	-21.6	-26.4
Reduction in funding for the Textiles, Clothing and Footwear Strategic Investment Programme	-	-	-	-
School Children Attending the Paralympic Games	-	-	-	-
Portfolio total	-18.5	-21.3	-21.6	-26.4
TRANSPORT AND REGIONAL SERVICES				
<i>Department of Transport and Regional Services</i>				
Inland Marketing Corporation	-	-	-	-
Regional Solutions Programme	25.0	25.0	25.1	-
Special Structural Adjustment Package for the South West Forests Region of Western Australia	-	-	-	-
Portfolio total	25.0	25.0	25.1	-
TREASURY				
<i>Australian Securities and Investments Commission</i>				
Superannuation Complaints Tribunal	-	-	-	-
<i>Australian Taxation Office</i>				
Additional fuels sales grants in remote areas	5.0	5.0	5.0	-
Additional funding for the ATO to cover the increased costs of administering the GST	141.0	-	-	-
Extension of Diesel and Alternative Fuels Sales Grants Scheme	17.3	17.7	18.0	-
<i>Department of the Treasury</i>				
Inquiry into charitable and related organisations	-	-	-	-
Portfolio total	163.3	22.7	23.0	-
VETERANS' AFFAIRS				
<i>Department of Veterans' Affairs</i>				
New Community Pharmacy Agreement	-2.9	-4.1	-5.2	-6.4
Portfolio total	-2.9	-4.1	-5.2	-6.4
Total expense measures	321.1	254.1	297.1	257.8

(a) All funding for this measure, including funding for the Agriculture, fisheries and Forestry portfolio, is listed under the Environment and Heritage portfolio.

Appendix B: Net Capital Investment Measures

Table B1: Net capital investment measures since the 2000-01 MYEFO

	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m
AGRICULTURE, FISHERIES AND FORESTRY				
<i>Department of Agriculture, Fisheries and Forestry</i>				
Pricing review of the Department of Agriculture, Fisheries and Forestry	-	-	-	-
Portfolio total	-	-	-	-
ATTORNEY-GENERAL'S				
<i>Attorney General's Department</i>				
Improving security within the Australian intelligence community	-	-	-	-
Protection of the National Information Infrastructure	-	-	-	-
<i>Australian Customs Service</i>				
Australia's response to Foot and Mouth Disease and other quarantine risks	5.8	-0.9	-0.9	-0.9
<i>Australian Federal Police</i>				
Protection of the National Information Infrastructure	-	-	-	-
<i>Australian Security Intelligence Organisation</i>				
Improving security within the Australian intelligence community	1.3	0.1	-	-
Protection of the National Information Infrastructure	-	-	-	-
Portfolio total	7.1	-0.8	-0.9	-0.9
COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS				
<i>Australian Broadcasting Corporation</i>				
Australian Broadcasting Commission - East Perth building works	16.0	-0.4	-0.4	-0.4
<i>Department of Communications, Information Technology and the Arts</i>				
Deferral of the further sale of the Commonwealth's shareholding of Telstra Corporation	-	-	-	-
<i>National Gallery of Australia</i>				
National Gallery of Australia Building refurbishment and enhancement	4.8	30.0	7.9	0.2
Portfolio total	20.8	29.6	7.5	-0.2

**Table B1: Net capital investment measures since the 2000-01 MYEFO
(continued)**

	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
CROSS PORTFOLIO				
Revision to the Capital Use Charge	-	-	-	-
Portfolio total	-	-	-	-
DEFENCE				
<i>Department of Defence</i>				
Defence asset sales	-263.2	-213.7	-109.9	-147.8
Improving security within the Australian intelligence community	-	-	-	-
Protection of the National Information Infrastructure	0.1	-	-	-
Portfolio total	-263.1	-213.7	-109.9	-147.8
EMPLOYMENT, WORKPLACE RELATIONS AND SMALL BUSINESS				
<i>Equal Opportunity for Women in the Workplace Agency</i>				
Equal Opportunity for Women in the Workplace Agency on-line Services	0.7	0.5	-	-
Portfolio total	0.7	0.5	-	-
ENVIRONMENT AND HERITAGE				
<i>Great Barrier Reef Marine Park Authority</i>				
Townsville Aquarium - Reef Headquarters	3.1	-	-	-
Portfolio total	3.1	-	-	-
FAMILY AND COMMUNITY SERVICES				
<i>Department of Family and Community Services</i>				
Help to Participate	5.8	-0.6	-0.6	-0.6
Helping Parents Return to Work	10.0	-0.3	-1.1	-1.1
Portfolio total	15.8	-0.9	-1.7	-1.7
FINANCE AND ADMINISTRATION				
<i>Department of Finance and Administration</i>				
Construction of new chancery facilities in Colombo and New Delhi	2.0	7.7	11.5	3.4
<i>Office of Asset Sales and Commercial Support</i>				
Sale of Sydney Airports Corporation Limited	-	-	-	-
Portfolio total	2.0	7.7	11.5	3.4
FOREIGN AFFAIRS AND TRADE				
<i>Australian Secret Intelligence Service</i>				
Improving security within the Australian intelligence community	2.0	2.1	2.1	2.1
<i>Department of Foreign Affairs and Trade</i>				
Replacement of Secure Diplomatic Communications Network	16.0	14.0	5.9	-
Portfolio total	18.0	16.1	8.0	2.1

**Table B1: Net capital investment measures since the 2000-01 MYEFO
(continued)**

	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
CROSS PORTFOLIO				
Revision to the Capital Use Charge	-	-	-	-
Portfolio total	-	-	-	-
DEFENCE				
<i>Department of Defence</i>				
Defence asset sales	-263.2	-213.7	-109.9	-147.8
Improving security within the Australian intelligence community	-	-	-	-
Protection of the National Information Infrastructure	0.1	-	-	-
Portfolio total	-263.1	-213.7	-109.9	-147.8
EMPLOYMENT, WORKPLACE RELATIONS AND SMALL BUSINESS				
<i>Equal Opportunity for Women in the Workplace Agency</i>				
Equal Opportunity for Women in the Workplace Agency on-line Services	0.7	0.5	-	-
Portfolio total	0.7	0.5	-	-
ENVIRONMENT AND HERITAGE				
<i>Great Barrier Reef Marine Park Authority</i>				
Townsville Aquarium - Reef Headquarters	3.1	-	-	-
Portfolio total	3.1	-	-	-
FAMILY AND COMMUNITY SERVICES				
<i>Department of Family and Community Services</i>				
Help to Participate	5.8	-0.6	-0.6	-0.6
Helping Parents Return to Work	10.0	-0.3	-1.1	-1.1
Portfolio total	15.8	-0.9	-1.7	-1.7
FINANCE AND ADMINISTRATION				
<i>Department of Finance and Administration</i>				
Construction of new chancery facilities in Colombo and New Delhi	2.0	7.7	11.5	3.4
<i>Office of Asset Sales and Commercial Support</i>				
Sale of Sydney Airports Corporation Limited	-	-	-	-
Portfolio total	2.0	7.7	11.5	3.4
FOREIGN AFFAIRS AND TRADE				
<i>Australian Secret Intelligence Service</i>				
Improving security within the Australian intelligence community	2.0	2.1	2.1	2.1
<i>Department of Foreign Affairs and Trade</i>				
Replacement of Secure Diplomatic Communications Network	16.0	14.0	5.9	-
Portfolio total	18.0	16.1	8.0	2.1

**Table B1: Net capital investment measures since the 2000-01 MYEFO
(continued)**

	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
HEALTH AND AGED CARE				
<i>Department of Health and Aged Care</i>				
HealthConnect - a health information network for Australia - development phase	0.2	-	-	-
<i>Health Insurance Commission</i>				
Investment to upgrade the Health Insurance Commission technical infrastructure to improve service	15.0	32.0	52.0	14.1
Portfolio total	15.2	32.0	52.0	14.1
IMMIGRATION AND MULTICULTURAL AFFAIRS				
<i>Department of Immigration and Multicultural Affairs</i>				
New social security arrangements between Australia and New Zealand	0.8	-0.2	-0.7	-0.7
Unauthorised boat arrivals - review of processing and detention arrangements	0.7	-1.4	-1.4	-1.4
Portfolio total	1.5	-1.5	-2.1	-2.1
INDUSTRY, SCIENCE AND RESOURCES				
<i>Commonwealth Scientific and Industrial Research Organisation</i>				
Support for the commercialisation of production technology in the light metals sector	32.8	17.1	-0.4	-0.8
Portfolio total	32.8	17.1	-0.4	-0.8
PRIME MINISTER AND CABINET				
<i>Office of National Assessments</i>				
Improving security within the Australian intelligence community	0.4	0.1	0.1	0.1
Portfolio total	0.4	0.1	0.1	0.1
TRANSPORT AND REGIONAL SERVICES				
<i>Australian Maritime Safety Authority</i>				
Improvements in Search and Rescue Arrangements	1.7	-	-	-
<i>Civil Aviation Safety Authority</i>				
Aviation industry compliance	3.3	3.3	3.3	1.9
<i>Department of Transport and Regional Services</i>				
Australian Rail Track Corporation - equity funding	-	-	-	-
<i>National Capital Authority</i>				
Commonwealth Place	5.0	-	-	-
Portfolio total	10.0	3.3	3.3	1.9
TREASURY				
<i>Australian Bureau of Statistics</i>				
Fitout of the Australian Bureau of Statistics new national office building	-	-	-	-
Portfolio total	-	-	-	-

**Table B1: Net capital investment measures since the 2000-01 MYEFO
(continued)**

	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
VETERANS' AFFAIRS				
<i>Department of Veterans' Affairs</i>				
Output Pricing Review - Conversion of Loan to Equity	-0.3	-0.1	-	-
Output Pricing Review - Review of efficient delivery of Outputs	-	-	-	-
Reduce overpayments and improve debt recovery	-	-	-	-0.1
Portfolio total	-0.3	-0.1	-	-0.1
Total capital measures	-135.8	-110.7	-32.5	-131.8

Table B2: Net capital investment measures up to the 2000-01 MYEFO

	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m
ATTORNEY-GENERAL'S				
<i>High Court of Australia</i>				
Additional funding for the High Court	-	-	-	-
Portfolio total	-	-	-	-
DEFENCE				
<i>Department of Defence</i>				
Loan to the Defence Housing Authority	-	-	-	-
Portfolio total	-	-	-	-
FINANCE AND ADMINISTRATION				
<i>Office of Asset Sales and Information Technology</i>				
<i>Outsourcing</i>				
Sale of shares in Essendon Airport Limited	-	-	-	-
Portfolio total	-	-	-	-
INDUSTRY, SCIENCE AND RESOURCES				
<i>Department of Industry, Science and Resources</i>				
Divestment of Commonwealth interest in Australian Technology Group Limited	-	-	-	-
Portfolio total	-	-	-	-
TRANSPORT AND REGIONAL SERVICES				
<i>National Capital Authority</i>				
National Emergency Services Memorial	0.9	-	-	-
Reconciliation Place	4.8	-	-	-
Portfolio total	5.7	-	-	-
Total capital measures	5.7	-	-	-

Appendix C: Expenses Statistics

Table C1: Estimates of Commonwealth general government expenses by function and sub-function

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
General public services					
Legislative and executive affairs	695	786	687	686	788
Financial and fiscal affairs	3,066	2,937	2,609	2,581	2,652
Foreign economic aid	2,021	1,996	2,118	2,102	2,132
General research	1,568	1,641	1,784	1,950	2,072
General services	575	531	530	539	537
Government superannuation benefits	1,477	1,558	1,488	1,553	1,505
Total general public services	9,402	9,449	9,217	9,410	9,685
Defence	11,599	12,212	13,072	13,725	14,407
Public order and safety					
Courts and legal services	481	515	555	563	569
Other Public order and safety	1,111	1,178	1,122	1,106	1,092
Total public order and safety	1,592	1,693	1,677	1,669	1,661
Education					
Higher education	3,823	3,888	4,035	4,141	4,233
Vocational and other education	1,157	1,238	1,296	1,366	1,397
Non-government schools	3,359	3,605	3,886	4,217	4,484
Government schools	1,949	2,039	2,122	2,226	2,344
<i>Schools</i>	<i>5,307</i>	<i>5,645</i>	<i>6,008</i>	<i>6,444</i>	<i>6,828</i>
Student assistance	558	549	564	583	595
General administration	43	41	41	42	43
School education - specific funding	109	114	133	119	119
Total education	10,998	11,474	12,076	12,694	13,215
Health					
Medical services and benefits	10,375	10,884	11,590	12,110	12,717
Hospital services	1,270	1,315	1,332	1,258	1,261
Health care agreements	6,341	6,691	7,090	7,474	7,921
<i>Hospital services and health care agreements</i>	<i>7,611</i>	<i>8,006</i>	<i>8,422</i>	<i>8,732</i>	<i>9,182</i>
Pharmaceutical services and benefits	4,729	5,085	5,610	6,149	6,675
Aboriginal and Torres Strait Islander health	179	203	226	252	259
Health services	484	509	520	534	601
Other health services	770	986	1,025	1,055	1,040
<i>Other health services</i>	<i>1,254</i>	<i>1,495</i>	<i>1,544</i>	<i>1,589</i>	<i>1,641</i>
General administration	953	1,078	1,091	1,105	1,112
Health assistance to the aged (a)	61	62	61	65	69
Total health	25,162	26,812	28,545	30,002	31,655
Social security and welfare					
Assistance to the aged (a)	25,489	24,078	25,503	26,838	28,112
Assistance to veterans and dependants	5,566	5,426	5,516	5,588	5,571
Assistance to people with disabilities	7,322	7,834	8,143	8,632	9,033
Assistance to families with children	17,788	18,730	19,247	19,761	20,323
Assistance to the unemployed	5,762	5,983	5,901	5,746	5,730
Assistance to the sick	94	93	93	95	97

Table C1: Estimates of Commonwealth general government expenses by function and sub-function (continued)

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Social security and welfare (continued)					
<i>Assistance to the unemployed and the sick</i>	5,856	6,077	5,993	5,841	5,827
Common youth allowance	2,097	2,259	2,324	2,389	2,422
Other welfare programmes	282	314	354	384	403
Aboriginal advancement nec	1,181	1,299	1,347	1,393	1,428
General administration	2,107	2,182	2,313	2,283	2,255
Total social security and welfare	67,688	68,198	70,739	73,108	75,374
Housing and community amenities					
Housing	1,292	1,383	1,302	1,214	1,209
Urban and regional development	67	88	71	58	27
Environment protection(b)	452	463	392	409	362
Total housing and community amenities	1,811	1,934	1,766	1,681	1,598
Recreation and culture					
Broadcasting	935	975	994	1,009	1,033
Arts and cultural heritage	834	685	629	619	603
Sport and recreation	209	141	144	204	178
National estate and parks(b)	172	155	126	140	141
Total recreation and culture	2,150	1,957	1,892	1,973	1,956
Fuel and energy	2,729	2,987	3,066	3,128	3,166
Agriculture, forestry and fishing					
Wool industry	183	70	72	78	79
Grains industry	112	111	112	112	112
Dairy industry	294	271	274	274	256
Cattle, sheep and pig industry	131	103	102	101	94
Fishing, horticulture and other agriculture	144	119	125	129	136
General assistance not allocated to specific industries	296	342	333	339	339
Rural assistance	303	190	130	139	30
Natural resources development(b)	360	407	461	436	413
General administration	101	119	116	119	121
Total agriculture, forestry and fishing	1,924	1,733	1,725	1,726	1,579
Mining and mineral resources (other than fuels), manufacturing and construction	881	1,062	1,054	1,058	995
Transport and communication					
Communication	252	453	396	256	159
Rail transport	156	135	6	9	0
Air transport	151	156	130	125	104
Road transport	1,067	1,460	1,409	1,319	1,183
Sea transport	193	182	159	161	163
Other transport and communication	139	145	140	138	141
Total transport and communication	1,959	2,530	2,238	2,008	1,750

Table C1: Estimates of Commonwealth general government expenses by function and sub-function (continued)

	Estimates		Projections		
	2000-01		2002-03		
	\$m	\$m	\$m	\$m	\$m
Other economic affairs					
Tourism and area promotion	130	129	112	114	116
Vocational and Industry training	391	413	440	441	459
Labour market assistance to job seekers and industry	1,508	1,605	1,718	1,773	1,820
Industrial relations	166	185	181	140	141
Immigration	680	642	652	652	665
<i>Total Labour and Employment Affairs</i>	<i>2,745</i>	<i>2,845</i>	<i>2,992</i>	<i>3,007</i>	<i>3,086</i>
Other Economic Affairs nec	438	440	415	413	417
Total other economic affairs	3,312	3,414	3,520	3,534	3,619
Other purposes					
Interest on Commonwealth behalf	5,619	5,061	4,849	4,366	3,996
Interest on behalf of States and Territories	53	38	32	20	11
Interest received on Commonwealth stock	0	0	0	0	0
<i>Public debt interest</i>	<i>5,672</i>	<i>5,098</i>	<i>4,880</i>	<i>4,386</i>	<i>4,007</i>
Nominal Superannuation Interest	4,480	4,287	4,454	4,609	4,594
General revenue assistance - States and Territories	3,432	3,174	2,294	1,699	1,208
General capital assistance - States and Territories	0	0	0	0	0
Debt assistance	0	0	0	0	0
Local government assistance	1,330	1,374	1,425	1,475	1,528
Revenue assistance to the States and Territories	139	148	151	155	159
Assistance to other governments	494	285	262	238	232
<i>General purpose inter-government transactions</i>	<i>5,395</i>	<i>4,981</i>	<i>4,132</i>	<i>3,567</i>	<i>3,127</i>
Natural disaster relief	116	101	81	81	81
Contingency reserve(b)	670	919	2,680	4,541	6,274
Asset sales	34	33	0	218	218
Total other purposes	16,367	15,419	16,226	17,402	18,300
Total expenses	157,573	160,875	166,813	173,117	178,959

- (a) Expenses for assistance to the aged have been reclassified from *Health* to *Social security and welfare*.
- (b) The estimates for the extension of the NHT, whilst formally in *Contingency Reserve* expenses, have been allocated to the *Housing and community amenities*, *Recreation and culture* and *Agriculture, forestry and fishing* functions in *Statement 6*.

Table C2: Estimates of Commonwealth general government expenses by economic type

	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
GFS expenses					
Gross operating expenses					
Depreciation	1,418	1,441	1,513	1,578	1,581
Superannuation	1,477	1,558	1,488	1,553	1,505
Salaries and wages	9,038	9,380	9,357	9,489	9,856
Payments for supply of goods and services	34,143	35,721	37,190	38,998	40,657
Other operating expenses	1,892	2,077	2,217	2,271	2,184
Total gross operating expenses	47,968	50,177	51,765	53,890	55,782
Other expenses					
Nominal superannuation interest expense	4,480	4,287	4,454	4,609	4,594
Other interest expenses	5,984	5,385	5,169	4,674	4,292
Other property expenses	0	0	0	0	0
Total other expenses	10,464	9,672	9,623	9,283	8,885
Current transfers					
Grant expenses	31,601	32,398	32,857	33,562	34,060
Subsidy expenses	3,579	3,902	4,102	4,186	4,257
Personal benefit payments in cash	61,036	61,412	65,450	69,354	73,117
Other current transfers	0	0	0	0	0
Total current transfers	96,216	97,713	102,409	107,102	111,433
Capital transfers	2,925	3,314	3,017	2,842	2,858
Total GFS expenses	157,573	160,875	166,813	173,117	178,959

STATEMENT 7: BUDGET FUNDING

Contents

Net Funding Requirement	7-3
Debt Issuance Programme	7-4

STATEMENT 7: BUDGET FUNDING

The Government's net debt reduction programme, which commenced in 1996, will continue in 2001-02.

NET FUNDING REQUIREMENT

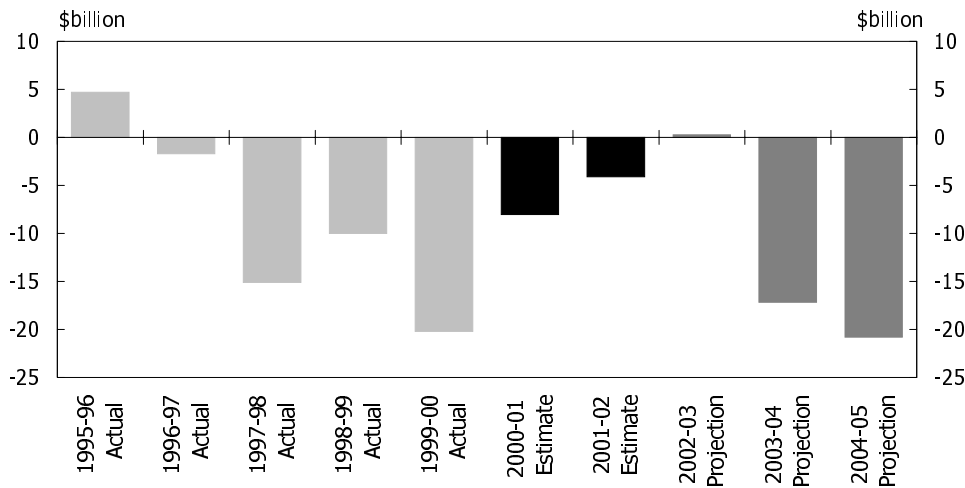
Commonwealth general government net debt is expected to be reduced by \$5.1 billion in the year ahead.

The Commonwealth has not borrowed, in net terms since 1995-96.

Aggregate net debt reduction since 1996-97, including the estimate for 2001-02, will total around \$60 billion. Trends in Commonwealth general government net debt are discussed in Statement 2.

The surplus funds available to reduce debt (sometimes referred to as the negative net funding requirement) are estimated to be \$4.1 billion in 2001-02.¹ This represents the funds the Commonwealth has over and above what is required to meet its budget obligations. Chart 1 depicts the net funding requirement in recent years and that projected for each year to 2004-05. The funds projected to be available to reduce net debt over the period 2001-02 to 2004-05 total over \$40 billion.

Chart 1: Net funding requirement



¹ This amount differs from the estimated fall in Commonwealth general government net debt, as the latter measure incorporates components such as net non-equity policy advances (such as the Higher Education Contribution Scheme) and the revaluation of selected financial assets and liabilities.

Consistent with the approach of recent years, the reduction in net debt will continue to be managed in line with the objective of maintaining the viability of the Commonwealth Government Securities (CGS) market and its supporting infrastructure. CGS outstandings will be maintained at levels consistent with this objective.

Maintenance of a liquid and efficient CGS market offers a number of 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.

Surplus budget proceeds not applied to the redemption of CGS will continue to be held as financial assets.

DEBT ISSUANCE PROGRAMME

In line with the objective of maintaining a viable CGS market, a modest gross issuance programme is planned for 2001-02. The programme will primarily focus on maintenance of the length and efficiency of the yield curve and the build up and maintenance of liquidity in key benchmark stocks.

One further tender of Treasury Bonds is expected to be conducted prior to the end of the current financial year. Gross new Treasury Bond issuance is expected to be around \$2 billion to \$3 billion in 2001-02. As has been the case in recent years, issuance is expected to be weighted to the long-end of the curve.

A tender for the issue of \$75 million of Treasury Indexed Bonds is planned for 24 May 2001. Indexed issuance of \$200 million is planned for 2001-02. Further details concerning indexed issuance, including expected dates for the conduct of indexed bond tenders in 2001-02, will be announced prior to the start of the new financial year.

Treasury Notes will continue to be issued primarily to fund within-year mismatches in expenditure and receipts.

STATEMENT 8: TRENDS IN PUBLIC SECTOR FINANCES

Contents

Introduction	8-3
Fiscal balance	8-6
Cash surplus	8-9
Net debt and net worth	8-15
Net debt.....	8-15
Net worth.....	8-18
Net interest outlays	8-20
Appendices	
Appendix A: Size and structure of the public sector	8-21
Appendix B: Non-financial public sector — supplementary cash tables.....	8-22

STATEMENT 8: TRENDS IN PUBLIC SECTOR FINANCES

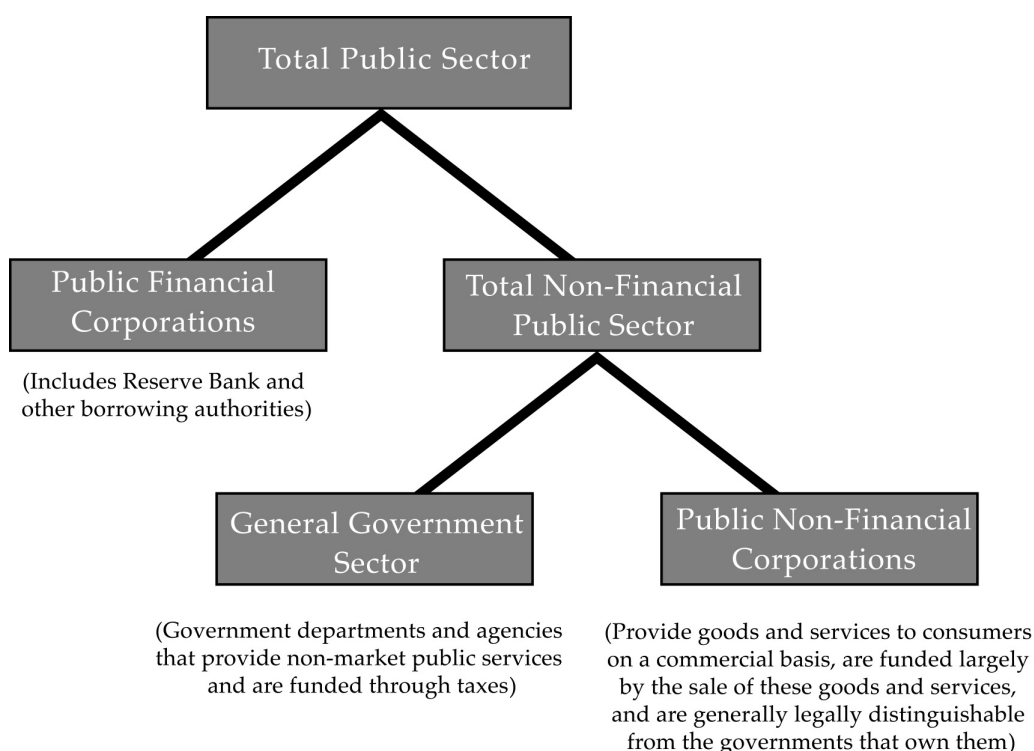
This statement examines trends in finances for the Commonwealth, State/local levels of government and the consolidated public sector and therefore provides a broader context in which to consider developments in the Commonwealth's Budget.

Introduction

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. When combined the Commonwealth, State/local governments and universities are referred to as the 'consolidated government'. Figure 1 shows the institutional structure of the public sector.

Figure 1: Institutional structure of the Public Sector



The **non-financial public sector** is comprised of the **general government sector** and the **public non-financial corporations** sector.

The **general government sector**, through government departments and agencies, provides public services that are mainly non-market in nature, and for the collective consumption of the community, or involve the transfer or redistribution of income. These services are largely financed through taxes and other compulsory levies, although user charging and external funding have increased in recent years.

The **public non-financial corporations (PNFC) sector** comprises bodies that 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 that own them.

Public financial corporations (PFCs) are public sector bodies that engage in financial intermediation services or auxiliary financial services. They are able to incur financial liabilities on their own account (such as taking deposits, issuing securities or providing insurance services). This sector includes the Reserve Bank of Australia (RBA) and other central borrowing authorities. Information on PFCs is not included in this statement as PFCs undertake financial intermediation, which is a fundamentally different function from that performed by other public entities. Jurisdictions are only required to report PFC information in their outcome statements.

Commonwealth, State and Territory governments present common fiscal information in their budget reports as required by the *Accrual Uniform Presentation Framework (UPF)*, agreed by the Australian Loan Council in March 2000. The majority of States and Territories now report on an accrual UPF basis, while the remaining jurisdictions have until the 2002-03 budget year to make the transition from cash UPF reporting.

The Commonwealth revenue, outlays and expenses measures included in this Statement 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 Arrangements*, 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. However, 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 Statement 9 are presented on a basis that is consistent with the ABS GFS standards, including the classification of GST revenue.

This Statement looks at recent trends in Commonwealth and State/local accrual measures (including revenue, expenses and fiscal balance), cash measures (such as outlays, revenue and cash surplus), and balance sheet measures (such as 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 data on revenue, outlays, cash surplus, net interest outlays and net debt.

Fiscal balance

This section looks at fiscal balance data for the Commonwealth and State/local non-financial public sectors, including medium term projections for the Commonwealth general government sector.

Concept

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 approximates a government's contribution to the current account deficit.

Fiscal balance includes net capital expenditure, but not the use of capital (depreciation). The fiscal balance is a good measure of the impact of a government's budget on the economy because it includes the full amount of investment by a government in a given period.

Data

As not all States and Territories have made the transition to accrual accounting, fiscal balance data for the consolidated public non-financial corporations and non-financial public sector are currently available for 1998-99 through 2000-01, while consolidated general government data is available through 2001-02. Tables 1, 2 and 3 show general government, public non-financial corporations and non-financial public fiscal balance data respectively by level of government.

Trends

The Commonwealth general government fiscal balance is expected to move from a surplus of 0.8 per cent of gross domestic product (GDP) in 2000-01 to a deficit of 0.1 per cent of GDP in 2001-02, and to return to surplus in 2003-04. This is largely the result of transitional issues associated with the move to the Pay As You Go (PAYG) system which recognises some revenue as accruing in 2000-01 even though payments by companies can be spread over 2½ to 5 years.

The State/local general government sector is expected to have a small fiscal deficit in 2000-01 and 2001-02 (although the latter estimate should be treated with some caution as the majority of States and Territories have yet to bring down their 2001-02 budgets).

The consolidated PNFC sector is expected to be in a fiscal surplus position in 1999-2000 and 2000-01. The decrease in consolidated PNFC revenue and expenses as a share of GDP in recent years is partly attributable to the privatisation of PNFCs by both the Commonwealth and State/local governments.

Table 1: General government fiscal balance by level of government (per cent of GDP)^(a)

	Commonwealth			State/local			Consolidated ^(b)		
	Revenue	Expenses	Fiscal balance ^(c)	Revenue	Expenses	Fiscal balance ^(c)	Revenue	Expenses	Fiscal balance ^(c)
1996-97	26.6	27.4	-0.8	na	na	na	na	na	na
1997-98	26.0	26.3	-0.3	na	na	na	na	na	na
1998-99	25.5	24.6	0.6	18.3	17.4	0.4	38.1	36.2	1.0
1999-2000	26.3	24.4	2.1	17.8	16.9	0.3	38.5	35.5	2.4
2000-01 ^(e)	24.0	23.4	0.8	17.4	17.0	-0.1	38.2	37.2	0.7
2001-02^(e)	22.6	22.9	-0.1	16.8	16.4	-0.1	36.2	36.1	-0.2
2002-03 ^(p)	22.1	22.4	-0.2	na	na	na	na	na	na
2003-04 ^(p)	22.2	21.9	0.3	na	na	na	na	na	na
2004-05 ^(p)	22.1	21.4	0.8	na	na	na	na	na	na

(a) Data are sourced from the ABS *2000-01 Government Financial Estimates* and Treasury estimates.

(b) Consolidated government includes Commonwealth and State/local governments and universities.

(c) The fiscal balance is equal to revenue less expenses less net capital investment which is not shown in this table.

(e) Estimates.

(p) Projections.

na Data not available.

Table 2: Public non-financial corporations fiscal balance by level of government (per cent of GDP)^(a)

	Commonwealth			State/local			Consolidated(b)		
	Revenue	Expenses	Fiscal balance(c)	Revenue	Expenses	Fiscal balance(c)	Revenue	Expenses	Fiscal balance(c)
1996-97	5.2	4.9	-0.1	na	na	na	na	na	na
1997-98	5.2	4.8	0.4	na	na	na	na	na	na
1998-99	4.7	4.4	-0.1	6.1	6.3	-0.6	10.8	10.7	-0.7
1999-2000	4.0	3.7	0.2	5.5	5.3	0.4	9.5	9.0	0.6
2000-01(e)	4.1	3.3	0.5	5.0	4.9	0.0	9.1	8.3	0.5
2001-02(e)	3.9	3.2	0.6	na	na	na	na	na	na

(a) Data are sourced from the ABS *2000-01 Government Financial Estimates* and Treasury estimates.

(b) Consolidated government includes Commonwealth and State/local governments and universities.

(c) The fiscal balance is equal to revenue less expenses less net capital investment which is not shown in this table.

(e) Estimates.

na Data not available.

Table 3: Non-financial public sector fiscal balance by level of government (per cent of GDP)^(a)

	Commonwealth			State/local			Consolidated(b)		
	Revenue	Expenses	Fiscal balance(c)	Revenue	Expenses	Fiscal balance(c)	Revenue	Expenses	Fiscal balance(c)
1996-97	na	na	-0.9	na	na	na	na	na	na
1997-98	na	na	0.1	na	na	na	na	na	na
1998-99	29.5	28.4	0.5	22.1	21.4	-0.2	45.9	44.0	0.3
1999-2000	29.8	27.4	2.3	21.4	20.2	0.7	45.4	41.7	3.0
2000-01(e)	27.4	26.1	1.3	20.6	20.1	-0.1	44.8	43.0	1.2
2001-02(e)	26.0	25.6	0.5	na	na	na	na	na	na

(a) Data are sourced from the ABS *2000-01 Government Financial Estimates* and Treasury estimates.

(b) Consolidated government includes Commonwealth and State/local governments and universities.

(c) The fiscal balance is equal to revenue less expenses less net capital investment which is not shown in this table.

(e) Estimates.

na Data not available.

Cash surplus

This section reviews trends in Commonwealth and State/local cash measures of revenue, outlays and cash surplus.

Concept

The cash surplus is conceptually equivalent under a cash and an accrual framework and 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 cash surplus is calculated as revenue less outlays, adjusted for net increase in provisions. Under an accrual GFS framework, the cash surplus is calculated as net cash received from operating activities plus net cash inflow from sales and purchases of non-financial assets, adjusted for finance leases and similar arrangements.

There is more historical cash data available, hence this section provides a longer term perspective than the previous section. 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. In this section cash surpluses are calculated on a cash GFS basis until 1997-98 and on a accrual GFS basis for 1998-99 onwards, except where jurisdictions have yet to make the transition to accrual accounting.

Data

Data is sourced from the ABS *1997-98 Government Finance Statistics* (Cat. No. 5512.0), *2000-01 Government Financial Estimates* (Cat. No. 5501.0), jurisdictions' 1999-2000 budget outcomes, 2000-01 mid year reports and 2001-02 budgets where available. For those jurisdictions that have moved to accrual budget reporting, cash surplus data from their cash flow statements are used. For these jurisdictions, cash revenues are proxied by receipts from operating activities and sales of non-financial assets, and outlays are proxied by payments for operating activities and purchases of non-financial assets.

Following changes to the Australian National Accounts standards, the general government surplus measures in this statement, from 1998-99 onwards, incorporate net payments by the Commonwealth general government sector in respect of accumulated PNFC superannuation liabilities. Payments prior to 1998-99 do not incorporate these payments.

Trends in total non-financial public sector

The general government sector comprises the majority of the non-financial public sector. The PNFC sector 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. Data for the consolidated public non-financial corporations and non-financial public sector are only available through 2000-01, while general government data is available through 2003-04.

Chart 1 illustrates that the non-financial public sector was generally in a deficit position during the late 1980s and most of the 1990s. The deficit peaked at 4.3 per cent of GDP in 1992-93 before moving 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.

Chart 1 also shows the declining importance of PNFCs to the non-financial public sector surplus, with the privatisation of government businesses since the late 1980s.

Chart 1: Consolidated non-financial public sector cash surplus by sector

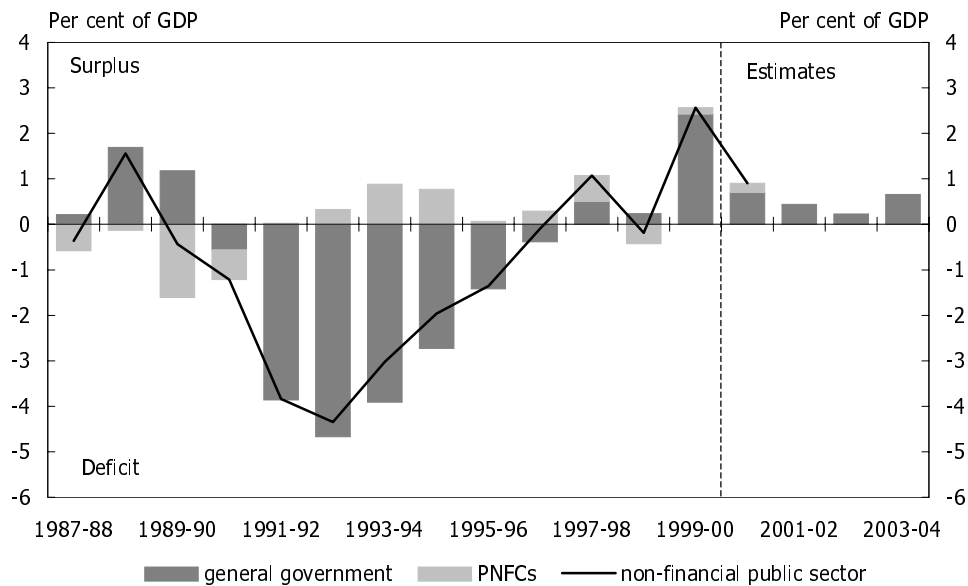
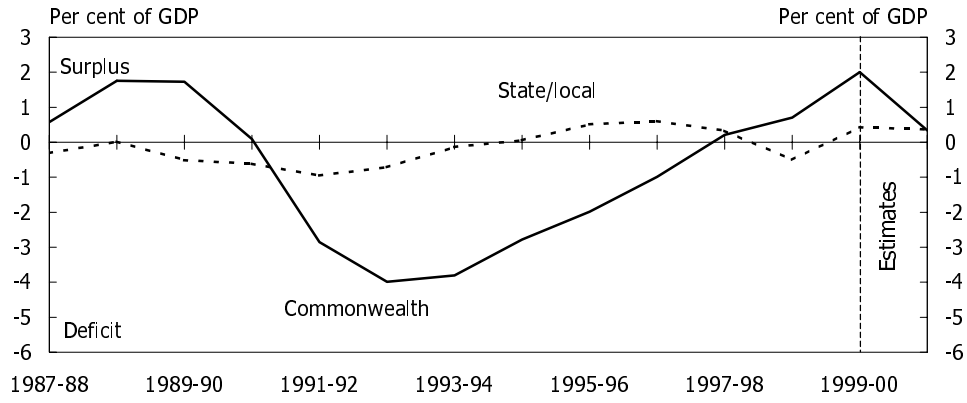


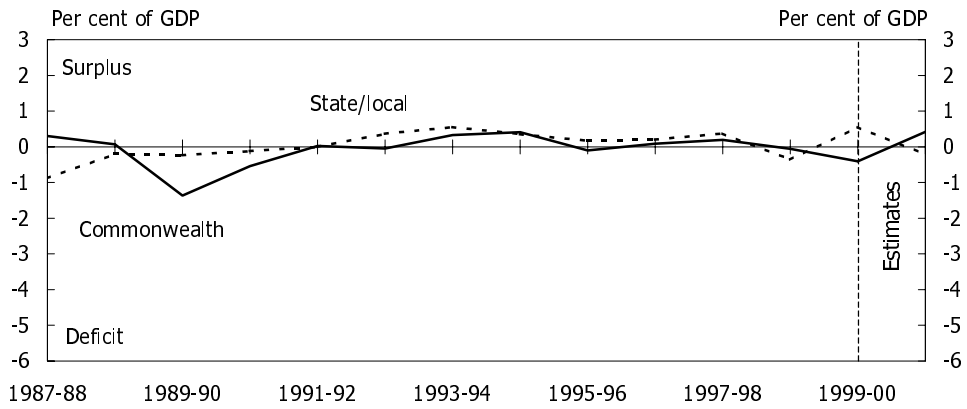
Chart 2 disaggregates by level of government the sectoral surpluses presented in Chart 1. It shows the large contribution of past Commonwealth general government cash deficits to the non-financial public sector cash deficit. It also illustrates the improvement in the Commonwealth general government sector 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

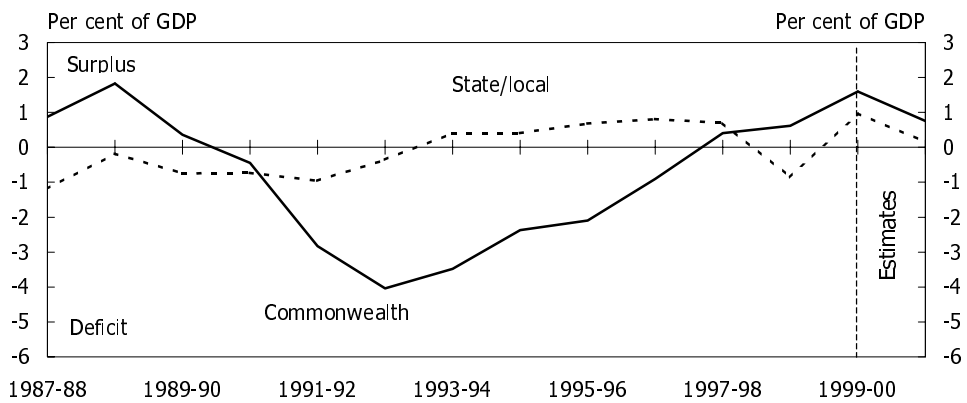


Chart 2 also shows the consolidated PNFC sector is close to balance in 1999-2000, and likely to remain so in 2000-01 (the latest year for which data is currently available for this sector). The State/local general government sector fell into deficit in 1998-99, primarily because of several jurisdictions taking steps to fund previously unfunded superannuation liabilities in this year.

Trends in general government sector

Due to its size, the general government sector is the appropriate focus for an assessment of public sector revenues and outlays and is the sector through which governments primarily affect the level of private sector activity.

Chart 3 shows trends in general government cash outlays and revenue at the Commonwealth and State/local levels through 2000-01. Panel A shows the countercyclical relationship between Commonwealth outlays and cash revenues. 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 following the early 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 has been in surplus since 1997-98, with a cash surplus of 0.3 per cent of GDP expected in 2000-01. 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*.

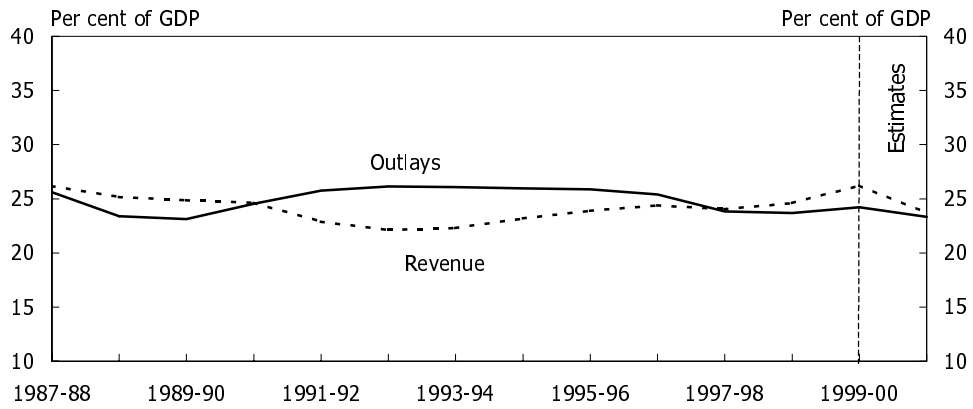
State/local governments predominantly provide outlays in the form of services (such as health and education) rather than income support, and are less sensitive to the economic cycle than Commonwealth finances. Panel A of Chart 2 shows the sustained improvement in State/local general government balances 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 largely reflected outlays' restraint, helped by lower debt servicing charges, with State/local revenue broadly stable as a share of GDP.

In 1998-99 the State/local general government sector recorded a cash deficit of 0.5 per cent of GDP. This reflected the allocation by New South Wales 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.

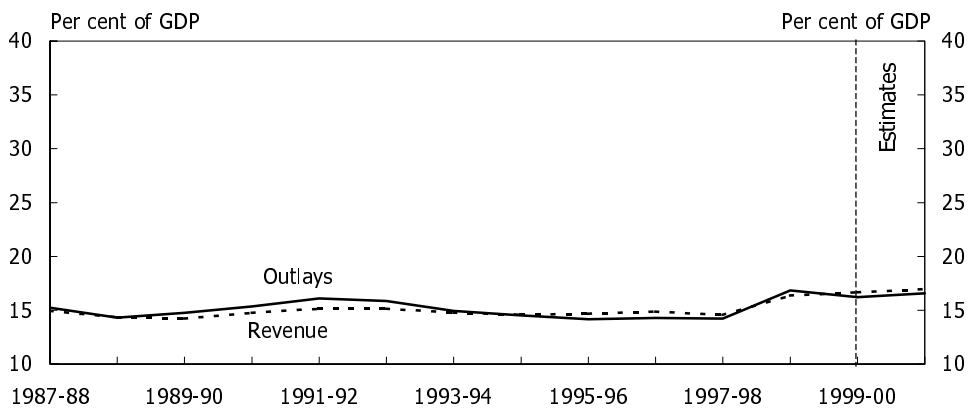
The State/local general government sector is expected to be in surplus in 2000-01.

Chart 3: General government revenue and outlays by level of government

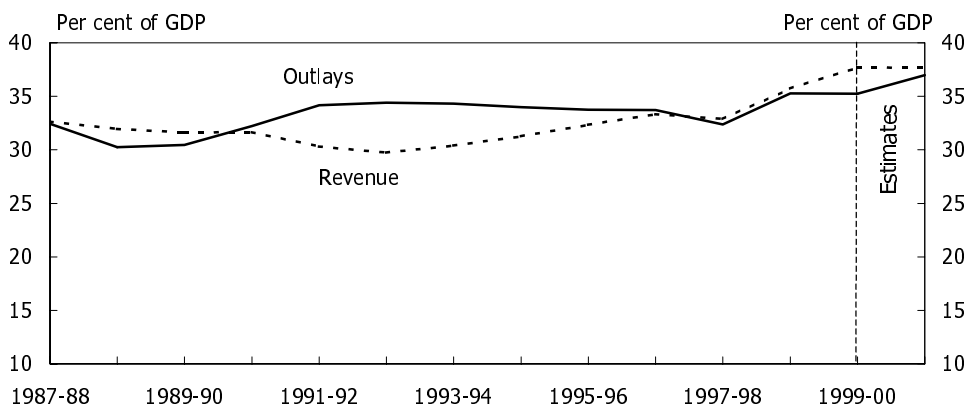
A: Commonwealth



B: State/local



C: Consolidated general government^(a)



(a) Consolidated government includes Commonwealth and State/local governments and universities.

Trends in public non-financial corporations

The PNFC sector is an important provider of economic infrastructure and contributes significant revenue to the general government sector, mainly in the form of dividends. State/local governments account for around 60 per cent of total PNFC sector outlays, reflecting State responsibility for infrastructure and service provision in areas such as electricity, gas, water and public transport.

During the 1980s the PNFC sector incurred significant deficits, with associated growth in debt levels and interest costs. However, since the late 1980s there has been greater emphasis on PNFC operating efficiency, profitability and market orientation 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 (such as Victoria's and South Australia's electricity assets), and transport and communications (such as the partial sale of Telstra). Proceeds of asset sales have largely been used to reduce, or contain the growth of, government net debt, resulting in ongoing savings in public debt interest.

As shown in Chart 1 of this Statement, the PNFC sector has maintained a cash surplus position through much of the 1990s. Following a small cash deficit in 1998-99, the sector is projected to return to surplus in 1999-2000 and 2000-01.

Net debt and net worth

NET DEBT

Concept

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.

A limitation of the net debt measure is that it does not include accrued employee liabilities. In addition, net debt does not provide information on whether 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 the sustainability of policy.

Despite these limitations, net debt still provides useful information for examining the soundness of a government's fiscal position.

Data

In this section, 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), data from 1994-95 to 1997-98 are from the ABS *1999-2000 Government Financial Estimates* publication (ABS Cat. No. 5501.0) and data for 1998-99 is from the ABS *2000-01 Government Financial Estimates*. Net debt numbers for 1999-2000 are from jurisdictions' final budget outcomes, data for 2000-01 onwards are derived from jurisdictions' 2000-01 mid year reports and 2001-02 budgets where available.

Trends

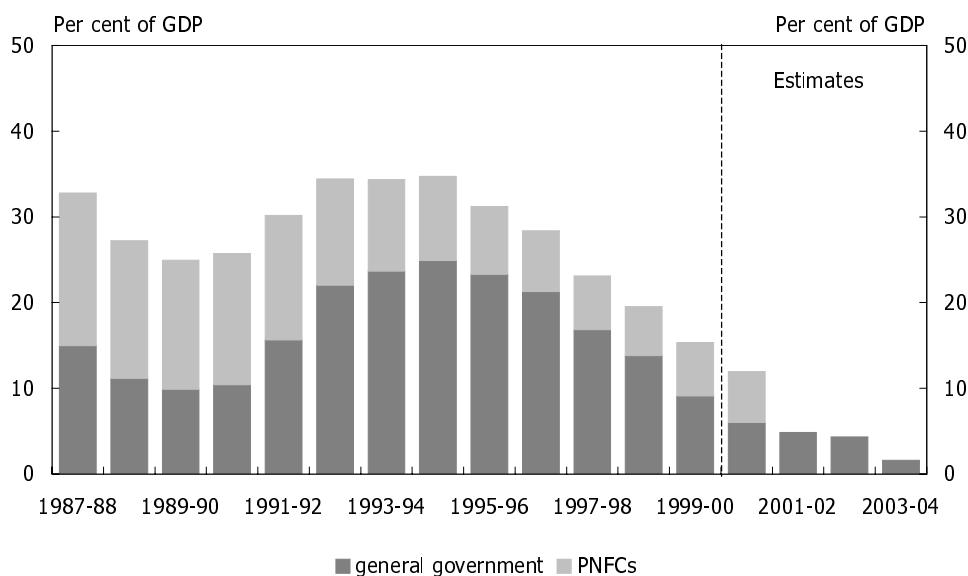
Chart 4 shows non-financial public sector net debt as a percentage of GDP, and the respective contributions of the general government and PNFC sectors, since the late 1980s. Data for the consolidated public non-financial corporations and non-financial public sector are only available through 2000-01, while general government data is available through 2004-05 (general government data for 2001-02 to 2004-05 is provided in Table B4 in Appendix B).

Looking at Charts 1 and 4 together indicates the broad relationship between cash deficits and net debt levels. The financing of Commonwealth cash deficits resulted in a substantial increase in general government net debt as a share of GDP over the early 1990s. Chart 4 also shows 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 non-financial public sector 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)



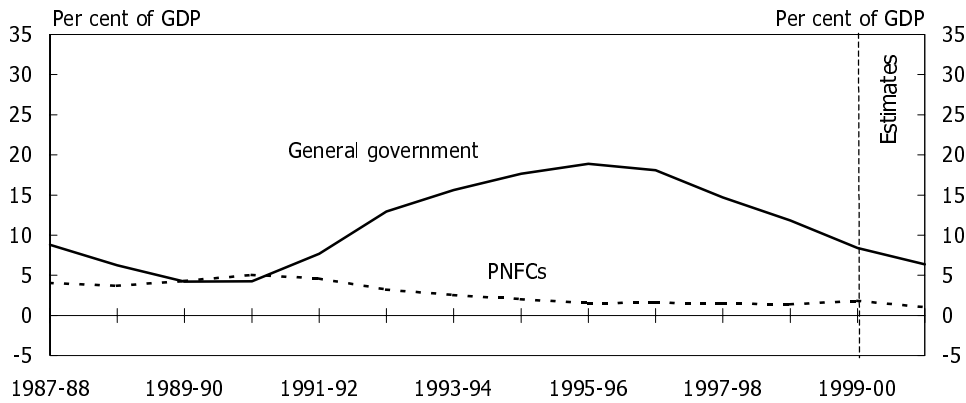
General government net debt as a share of GDP is expected to decline further over the projection period. Consolidated non-financial public sector net debt is estimated to be 12 per cent of GDP in 2000-01, compared with the most recent peak of 34.7 per cent in 1994-95.

Chart 5 shows trends in net debt by sector and level of government. Most Commonwealth net debt is held by the general government sector whereas almost all State/local net debt is held in the PNFC sector.

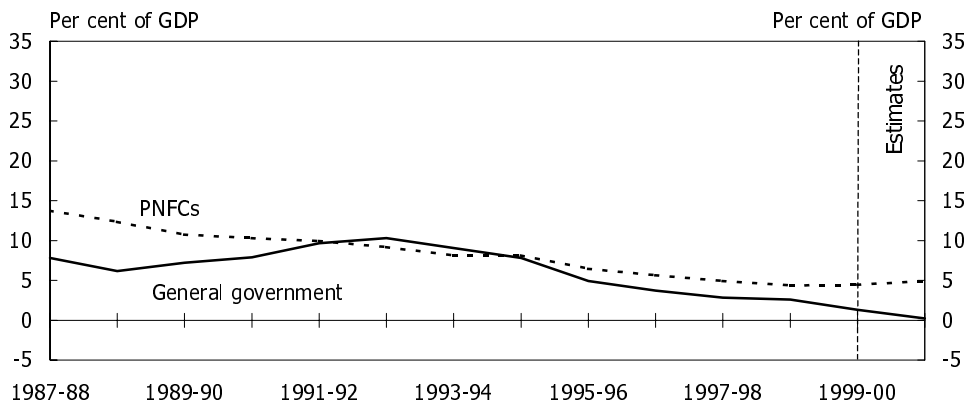
As shown in Panel A of Chart 5, Commonwealth general government net debt as a share of GDP grew from low levels in the late 1980s to a peak of 18.9 per cent in 1995-96. Successive cash surpluses and asset sales (most notably the partial sale of Telstra) have reduced Commonwealth general government sector net debt to an expected 6.4 per cent of GDP in 2000-01.

Chart 5: Non-financial public sector net debt by level of government and sector (outstanding stock as at end of financial year)

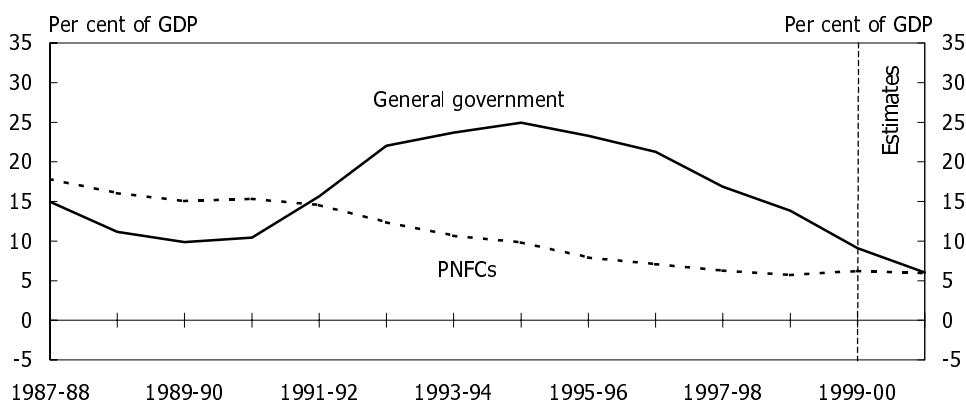
A: Commonwealth



B: State/local



C: Consolidated non-financial public sector^(a)



(a) Consolidated government includes Commonwealth and State/local governments and universities.

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 0.2 per cent in 2000-01, 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. However, some individual States continue to face substantial net debt burdens (see Budget Paper No. 3 — Federal Financial Relations for more information).

NET WORTH

Concept

The net worth 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 and other fixed assets, as well as certain financial assets and liabilities not captured by the net debt measure, most notably accrued employee superannuation liabilities.

A limitation of the net debt measure is that the sale of physical assets decreases net debt, with proceeds from sales increasing financial assets. Net worth recognises that the increase in financial assets has been funded by a decrease in physical assets.

Data

As there are unresolved methodological issues involved in consolidating non-financial public sector data and with some jurisdictions yet to make the transition to accrual accounting this section presents consolidated general government net worth data through 2001-02. Table 4 shows general government net worth data by level of government.

Trends

The State/local general government sector has an estimated positive net worth of 55.4 per cent of GDP in 2001-02. The Commonwealth general government sector has historically recorded negative net worth. This difference primarily reflects the significant funding provided by the Commonwealth to the States for capital works, with the resultant assets recorded in the States' balance sheets.

Table 4: General government net worth by level of government (as at end of financial year)^(a)

	Commonwealth		State/local		Consolidated ^(b)	
	\$m	Per cent of GDP	\$m	Per cent of GDP	\$m	Per cent of GDP
1996-97	-74,354	-14.0	na	na	na	na
1997-98	-68,544	-12.1	na	na	na	na
1998-99	-76,150	-12.8	362,682	60.9	286,532	48.1
1999-2000	-39,922	-6.3	376,498	59.5	336,576	53.2
2000-01(e)	-32,659	-4.9	382,851	57.0	350,191	52.1
2001-02(e)	-33,915	-4.8	389,178	55.4	355,262	50.5
2002-03(p)	-35,367	-4.7	na	na	na	na
2003-04(p)	-33,288	-4.2	na	na	na	na
2004-05(p)	-27,118	-3.2	na	na	na	na

(a) Data are sourced from the ABS *2000-01 Government Financial Estimates*, State and Territory 1999-2000 budget outcomes, 2000-01 mid year updates and 2001-02 budgets where available, and Treasury estimates.

(b) Consolidated government includes Commonwealth and State/local governments and universities.

(e) Estimates.

(p) Projections.

na Data not available.

NET INTEREST OUTLAYS

Concept

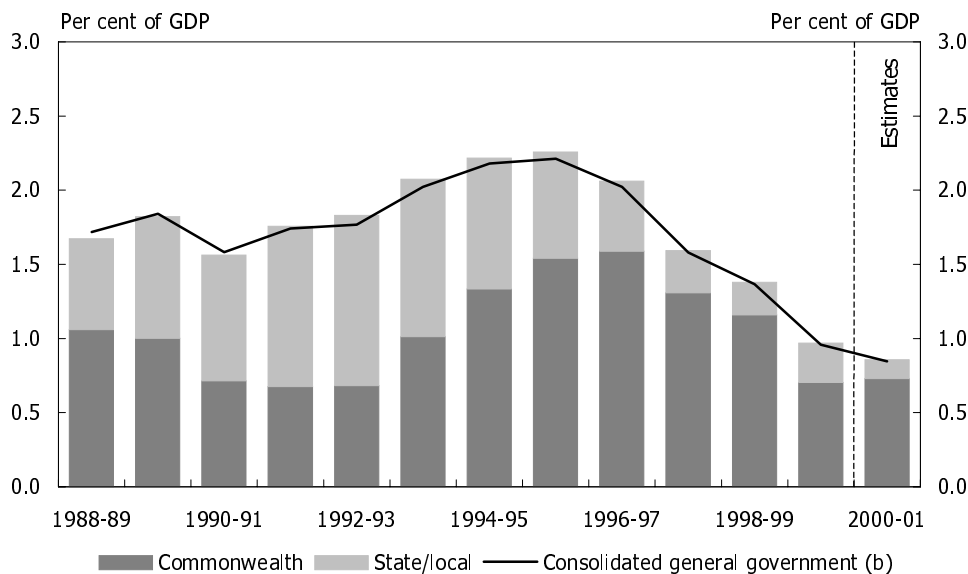
Net interest outlays is a cash measure that is defined as interest payments on gross debt less interest received on loans and advances, and is affected by the volume of net debt on issue and by interest rates.

Trends

Chart 6 shows the trend in general government net interest payments by level of government. Total general government net interest outlays peaked in 1995-96 at 2.2 per cent of GDP due to the increased level of Commonwealth general government net debt. Net interest outlays have since decreased to an expected 0.8 per cent in 2000-01 due to lower interest rates and reduced Commonwealth and State/local general government net debt.

The contribution of the PNFC sector to non-financial public sector net interest outlays has decreased significantly in recent years, as reduced capital outlays, improved PNFC performance and privatisations have reduced PNFC sector net debt as a share of GDP.

Chart 6: General government net interest outlays^(a)

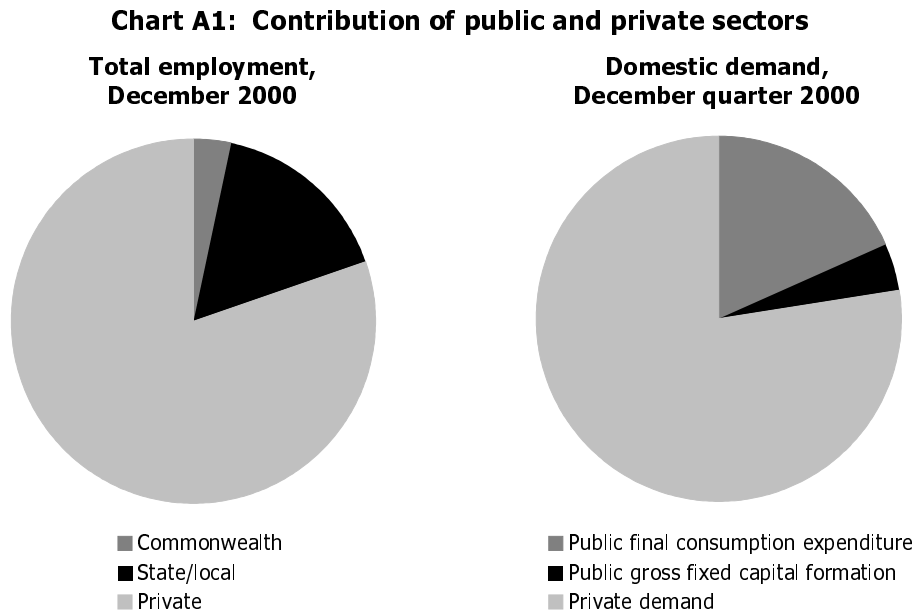


(a) Data are sourced from the ABS *1997-98 Government Finance Statistics*, *2000-01 ABS Government Finance Estimates* and Treasury estimates.

(b) Consolidated government includes Commonwealth and State/local governments and universities.

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.



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.¹ The State/local level accounts for 83 per cent of total public sector civilian employment and 17 per cent of total employment, reflecting its major responsibilities for service delivery in the areas of education, health, transport, and public order and safety.

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.

¹ 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 cash 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	32.7	32.4	0.2	4.0	5.9	-0.6	35.6	37.2	-0.4
1988-89	31.9	30.3	1.7	3.8	5.4	-0.1	34.8	34.7	1.6
1989-90	31.6	30.4	1.2	3.7	6.7	-1.6	34.2	36.0	-0.4
1990-91	31.7	32.2	-0.6	3.8	5.9	-0.7	34.3	36.9	-1.2
1991-92	30.3	34.2	-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	32.0	38.1	-4.3
1993-94	30.4	34.3	-3.9	3.7	4.3	-0.9	32.5	37.1	-3.0
1994-95	31.3	34.0	-2.7	3.4	4.5	0.8	33.2	37.0	-2.0
1995-96	32.3	33.8	-1.4	3.0	4.5	0.1	33.6	36.6	-1.4
1996-97	33.3	33.7	-0.4	3.1	4.1	0.3	34.3	35.8	-0.1
1997-98	32.9	32.4	0.5	2.9	3.6	0.6	34.2	34.5	1.1
1998-99	35.7	35.3	0.2	na	na	-0.4	na	na	-0.2
1999-00	37.7	35.3	2.4	na	na	0.1	na	na	2.6
2000-01(e)	37.7	37.0	0.7	na	na	0.2	na	na	0.9
2001-02(e)	36.5	36.0	0.4	na	na	na	na	na	na
2002-03(p)	35.6	35.4	0.2	na	na	na	na	na	na
2003-04(p)	35.2	34.6	0.7	na	na	na	na	na	na

(a) Data are sourced from the ABS *1997-98 Government Finance Statistics, 2000-01 Government Financial Estimates*, State and Territory 1999-2000 budget outcomes, 2000-01 mid year updates and 2001-02 budgets where available, and Treasury estimates.

(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. Prior to 1998-99 these payments are not incorporated.

(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	-0.8	-0.4
1990-91	-0.4	-0.7	-1.2
1991-92	-2.8	-1.0	-3.8
1992-93	-4.0	-0.4	-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	1.6	1.0	2.6
2000-01(e)	0.8	0.2	0.9
2001-02(e)	0.7	na	na

(a) Data are sourced from the ABS *1997-98 Government Finance Statistics, 2000-01 Government Financial Estimates*, State and Territory 1999-2000 budget outcomes, 2000-01 mid year updates and 2001-02 budgets where available, and Treasury estimates.

(b) Consolidated government includes Commonwealth and State/local governments and universities.

(e) Estimates.

na Data not available.

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	1,034	0.6
1983-84	1,327	0.7	1,347	0.7
1984-85	2,462	1.1	1,405	0.6
1985-86	3,626	1.5	1,159	0.5
1986-87	4,387	1.6	1,493	0.5
1987-88	4,019	1.3	2,127	0.7
1988-89	3,722	1.1	2,158	0.6
1989-90	3,848	1.0	3,153	0.8
1990-91	2,834	0.7	3,364	0.8
1991-92	2,739	0.7	4,397	1.1
1992-93	2,912	0.7	4,901	1.1
1993-94	4,549	1.0	4,771	1.1
1994-95	6,310	1.3	4,182	0.9
1995-96	7,812	1.5	3,636	0.7
1996-97	8,449	1.6	2,515	0.5
1997-98	7,381	1.3	1,617	0.3
1998-99	6,901	1.2	1,307	0.2
1999-00	4,454	0.7	1,675	0.3
2000-01(e)	4,908	0.7	851	0.1
2001-02(e)	4,512	0.6	na	na
2002-03(p)	4,223	0.6	na	na
2003-04(p)	3,704	0.5	na	na
2004-05(p)	2,603	0.3	na	na

(a) Data are sourced from the ABS *1997-98 Government Finance Statistics* and *2000-01 Government Financial Estimates*.

(e) Estimates.

(p) Projections.

Table B4: Non-financial public sector net debt^(a)

	General government						PNFCs		Non-financial public sector	
	Commonwealth		State/local		Consolidated(b)		Consolidated(b)		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	15.0	55,293	17.8	101,703	32.8
1988-89	21,982	6.3	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	9.1	106,439	23.7	48,021	10.7	154,460	34.4
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	23.3	40,135	7.9	158,188	31.2
1996-97	96,281	18.1	19,757	3.7	113,236	21.3	37,748	7.1	150,984	28.4
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	11.8	15,441	2.6	82,293	13.8	34,074	5.7	116,367	19.5
1999-00	53,106	8.4	8,284	1.3	57,625	9.1	39,410	6.2	97,034	15.3
2000-01(e)	42,785	6.4	1,394	0.2	40,441	6.0	39,895	5.9	80,336	12.0
2001-02(e)	37,660	5.4	39	0.0	34,097	4.9	na	na	na	na
2002-03(p)	36,571	4.9	-803	-0.1	32,349	4.3	na	na	na	na
2003-04(p)	17,912	2.3	-2,179	-0.3	12,578	1.6	na	na	na	na
2004-05(p)	-4,660	-0.6	na	na	na	na	na	na	na	na

(a) Data are sourced from the ABS *1998 Public Sector Financial Assets and Liabilities, 1997-98 Government Finance Statistics, 1999-2000* and *2000-01 Government Financial Estimates*, State and Territory 1999-2000 budget outcomes, 2000-01 mid year updates and 2001-02 budgets where available, and Treasury estimates.

(b) Consolidated government includes Commonwealth and State/local governments and universities.

(e) Estimates.

(p) Projections.

na Data not available.

**STATEMENT 9: GOVERNMENT FINANCE STATISTICS
STATEMENTS**

Contents

Government Finance Statistics Statements.....9-3

STATEMENT 9: GOVERNMENT FINANCE STATISTICS STATEMENTS

The financial tables presented in this Statement are prepared in accordance with the Australian Bureau of Statistics (ABS) accrual Government Finance Statistics (GFS) framework.

Under the *Uniform Presentation Framework* (UPF) — an agreement between the Commonwealth, States and Territories — all jurisdictions are required to publish a common core of GFS consistent financial information in their budget papers. This Statement presents Commonwealth data on a GFS basis, as required by the UPF.

The statistical tables that are presented below include an operating statement, balance sheet and cash flow statement for the Commonwealth general government, public non-financial sector corporations (PNFC) and total non-financial public sectors.

The clear policy intent of the *Intergovernmental Agreement on Commonwealth-State Financial Arrangements* is that GST is collected by the Commonwealth, as an agent for the States and Territories, and appropriated to the States. As such, it is not shown as Commonwealth revenue elsewhere throughout this Budget paper. However, the tables in this Statement are presented consistent with ABS standards, on an accrual UPF reporting basis, and show GST as revenue in and expenses out.

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 total non-financial sector tables as they are transactions internal to that sector.

Transactions between the Commonwealth public financial corporations (PFC) sector and the general government and PNFC sectors are included in the relevant 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.

Statement 11 provides reconciliations between key GFS aggregates and their Australian Accounting Standard No. 31 (AAS31) counterparts.

Government Finance Statistics Statements

Table 1: General government sector operating statement

	General Government				
	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
GFS revenue					
Taxation revenue	174,572	174,248	183,713	195,834	207,435
Current grants and subsidies	0	0	0	0	0
Sales of goods and services	2,711	2,844	2,884	2,904	2,931
Interest income	1,173	996	972	1,195	1,951
Dividend income	2,215	4,698	3,169	3,067	2,613
Other	4,238	3,534	3,335	3,379	3,327
Total GFS revenue	184,909	186,320	194,073	206,378	218,257
GFS expenses					
Gross operating expenses					
Depreciation	1,418	1,441	1,513	1,578	1,581
Superannuation	1,477	1,558	1,488	1,553	1,505
Salaries and wages	9,038	9,380	9,357	9,489	9,856
Payment for supply of goods and services	34,143	35,721	37,190	38,998	40,657
Other operating expenses	1,892	2,077	2,217	2,271	2,184
Total gross operating expenses	47,968	50,177	51,765	53,890	55,782
Nominal superannuation interest expense	4,480	4,287	4,454	4,609	4,594
Other interest expenses	5,984	5,385	5,169	4,674	4,292
Other property expenses	0	0	0	0	0
Current transfers					
Grant expenses	55,481	59,878	62,027	64,392	66,660
Subsidy expenses	3,579	3,902	4,102	4,186	4,257
Direct personal benefit payments	61,036	61,412	65,450	69,354	73,117
Other current transfers	0	0	0	0	0
Total current transfers	120,096	125,193	131,579	137,932	144,033
Capital transfers(a)	2,925	3,314	3,017	2,842	2,858
Total GFS expenses	181,453	188,355	195,983	203,947	211,559
Net operating balance	3,456	-2,035	-1,910	2,431	6,699
Net acquisition of non-financial assets					
Gross fixed capital formation	960	231	1,251	1,298	1,169
<i>less</i> Depreciation	1,418	1,441	1,513	1,578	1,581
<i>plus</i> Change in inventories	118	86	56	363	311
<i>plus</i> Other movements in non-financial assets	-1,628	-76	-158	-348	-135
Total net acquisition of non-financial assets	-1,968	-1,201	-364	-266	-236
Net lending/fiscal balance(b)	5,424	-834	-1,546	2,697	6,935

(a) Grants that are ultimately used for capital projects. This is the first Budget where all such grants have been identified and separated from current grants.

(b) GFS net lending also equals net transactions in financial assets less net transactions in liabilities. The term 'fiscal balance' is not used by the ABS.

Table 2: General government sector balance sheet

	General Government				
	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
GFS assets					
Financial assets					
Cash and deposits	1,400	785	594	424	190
Advances paid	18,300	18,352	19,144	19,696	21,020
Investments, loans and placements	9,140	9,335	9,575	9,773	9,910
Other non-equity assets	13,024	11,702	10,533	10,301	10,170
Equity	63,422	60,607	60,626	45,585	30,544
Total financial assets	105,285	100,782	100,472	85,779	71,833
Non-financial assets					
Land	4,241	3,849	3,733	3,673	3,614
Buildings	11,250	10,579	10,576	10,532	10,452
Plant, equipment and infrastructure	9,926	10,075	10,489	10,434	10,356
Inventories	2,995	3,080	3,136	3,498	3,809
Other non-financial assets	2,865	3,103	2,962	2,889	2,857
Total non-financial assets	31,277	30,686	30,896	31,026	31,088
Total GFS assets	136,562	131,468	131,368	116,805	102,921
GFS liabilities					
Deposits held	11	10	10	10	10
Advances received	0	0	0	0	0
Government securities	56,938	52,426	52,673	35,485	14,266
Loans	14,359	13,506	13,050	12,182	12,073
Other borrowing	317	191	152	129	110
Superannuation liability	77,905	79,458	80,846	82,290	83,542
Other employee entitlements and provisions	5,789	5,860	5,948	6,024	5,994
Other non-equity liabilities	13,904	13,932	14,056	13,974	14,044
Total GFS liabilities	169,222	165,383	166,735	150,093	130,039
Net worth(a)	-32,659	-33,915	-35,367	-33,288	-27,118
Net financial worth(b)	-63,937	-64,601	-66,262	-64,314	-58,206
Net debt(c)	42,785	37,660	36,571	17,912	-4,660

(a) Net worth is calculated as assets less liabilities.

(b) Net financial worth equals total financial assets less total liabilities.

(c) Net debt equals the sum of deposits held, advances received and borrowing, less the sum of cash and deposits, advances paid, and investments, loans and placements.

Table 3: General government sector cash flow statement^(a)

	General government				
	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
Cash receipts from operating activities					
Taxes received	168,851	175,038	184,381	195,564	207,114
Receipts from sales of goods and services	2,679	2,750	2,998	3,012	2,947
Grants/subsidies received	0	0	0	0	0
Interest receipts	1,245	925	898	1,065	1,849
Dividends	2,891	4,698	3,169	3,067	2,613
GST receipts related to purchases/sales	1,702	1,956	1,953	1,940	1,961
Other receipts	3,439	3,196	3,011	2,973	2,910
Total receipts	180,809	188,563	196,409	207,620	219,393
Cash payments for operating activities					
Payments for goods and services	-29,557	-30,988	-32,151	-33,896	-35,457
Grants and subsidies paid	-61,283	-66,908	-68,713	-71,192	-73,346
Interest paid	-6,153	-5,437	-5,120	-4,770	-4,452
Direct personal benefit payments	-60,629	-61,264	-65,294	-69,199	-73,610
Salaries, wages and other entitlements	-15,401	-15,813	-16,181	-16,545	-17,063
GST receipts related to purchases/sales	-1,836	-1,943	-1,954	-1,936	-1,958
Other payments for operating activities	-4,403	-4,698	-4,758	-4,957	-5,050
Total payments	-179,262	-187,050	-194,171	-202,494	-210,935
Cash flows from operating activities	1,547	1,513	2,238	5,126	8,458
Cash flows from investments in non-financial assets					
Sales of non-financial assets	2,489	1,740	658	705	581
<i>less</i> Purchases of new and secondhand non-financial assets	-1,787	-1,821	-1,845	-1,728	-1,636
Net cash flows from investments in non-financial assets	702	-81	-1,187	-1,023	-1,055
Net cash flows from investments in financial assets for policy purposes	6,228	3,154	-1,127	13,459	13,293
Cash flows from investments in financial assets for liquidity purposes					
Increase in investments	8,780	-261	-270	-444	-352
Net cash flows from investments in financial assets for liquidity purposes	8,780	-261	-270	-444	-352
Cash flows from financing activities					
Advances received (net)	0	0	0	0	0
Borrowing (net)	-19,012	-4,535	203	-17,236	-21,221
Deposits received (net)	1	-1	0	0	0
Other financing (net)	-401	-404	-48	-52	644
Net cash flows from financing activities	-19,413	-4,939	155	-17,288	-20,577
Net increase/decrease in cash held	-2,156	-615	-191	-170	-234
Net cash from operating activities and investments in non-financial assets					
	2,249	1,432	1,051	4,103	7,403
<i>less</i> Finance leases & similar arrangements(b)	-4	-88	-12	0	0
Equals surplus(+)/deficit(-)	2,253	1,520	1,063	4,103	7,403

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

(b) Finance leases are deducted in compiling the surplus/deficit.

Table 4: Public non-financial corporations sector operating statement^(a)

	Public non-financial corporations	
	2000-01	2001-02
	\$m	\$m
GFS revenue		
Current grants and subsidies	227	228
Sales of goods and services	27,136	27,332
Interest income	87	81
Other	36	40
Total GFS revenue	27,486	27,680
GFS expenses		
Gross operating expenses		
Depreciation	3,646	4,264
Other operating expenses	13,978	14,033
Total gross operating expenses	17,625	18,298
Interest expenses	1,053	1,086
Other property expenses	1,156	1,284
Current transfers		
Tax expenses	2,593	2,128
Other current transfers	0	0
Total current transfers	2,594	2,128
Capital transfers	0	0
Total GFS expenses	22,427	22,795
Net operating balance	5,059	4,885
Net acquisition of non-financial assets		
Gross fixed capital formation	5,142	4,843
<i>less</i> Depreciation	3,646	4,264
<i>plus</i> Change in inventories	50	-4
<i>equals</i> Total net capital formation	1,546	576
<i>plus</i> Other movements in non-financial assets	337	-30
Total net acquisition of non-financial assets	1,882	546
Net lending/fiscal balance(b)	3,177	4,339

(a) For a list of major PNFCs, see Statement 11.

(b) GFS net lending also equals net transactions in financial assets less net transaction in liabilities. The term 'fiscal balance' is not used by the ABS.

Table 5: Public non-financial corporations sector balance sheet

	Public non-financial corporations	
	2000-01	2001-02
	\$m	\$m
GFS assets		
Financial assets		
Cash and deposits	1,350	1,317
Advances paid	3	3
Investments, loans and placements	9,124	9,115
Other non-equity assets	3,438	3,598
Equity	0	0
Total financial assets	13,915	14,033
Non-financial assets		
Land and fixed assets	36,903	34,549
Other non-financial assets	1,966	1,854
Total non-financial assets	38,869	36,403
Total GFS assets	52,784	50,436
GFS liabilities		
Deposits held	0	0
Advances received	56	0
Borrowing	17,226	15,078
Provisions (other than depreciation and bad debts)	6,633	7,134
Other non-equity liabilities	4,471	3,999
Total GFS liabilities	28,386	26,211
Shares and contributed capital	96,372	94,349
Net worth(a)	-71,974	-70,124
Net financial worth(b)	-110,842	-106,527
Net debt(c)	6,805	4,643

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

(b) Net financial worth equals total financial assets less total liabilities less shares and other contributed capital.

(c) Net debt equals the sum of deposits held, advances received and borrowing, less the sum of cash and deposits, advances paid, and investments, loans and placements.

Table 6: Public non-financial corporations sector cash flow statement^(a)

	Public non-financial corporations	
	2000-01	2001-02
	\$m	\$m
Cash receipts from operating activities		
Receipts from sales of goods and services	26,872	27,307
Grants and subsidies received	228	228
Other receipts	110	111
Total receipts	27,210	27,646
Cash payments for operating activities		
Payment for goods and services	-16,230	-16,202
Interest paid	-1,060	-1,086
Other payments for operating activities(b)	-3,094	-3,090
Total payments	-20,384	-20,377
Net cash flows from operating activities	6,826	7,270
Cash flows from investments in non-financial assets		
Sales of non-financial assets	1,123	314
<i>less</i> Purchases of new and secondhand non-financial assets	-6,265	-5,158
Net cash flows from investments in non-financial assets	-5,142	-4,843
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	-5,031	0
Net cash flows from investments in financial assets for liquidity purposes	-5,031	0
Cash flows from financing activities		
Advances received (net)	-40	-30
Borrowing (net)	4,687	-829
Deposits received (net)	0	0
Distributions paid (net)(c)	-1,156	-1,284
Other financing (net)	-323	-319
Net cash flows from financing activities	3,168	-2,462
Net increase/decrease in cash held	-179	-36
Net cash from operations and investments in non-financial assets	1,683	2,426
<i>less</i> Finance leases and similar arrangements(d)	0	0
<i>plus</i> Distributions paid	1,156	1,284
Equals surplus(+)/deficit(-)	2,839	3,710

(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' comprise PNFC dividends to external shareholders.

(d) Finance leases are deducted in compiling the surplus/deficit.

Table 7: Total non-financial public sector operating statement

	Total non-financial public sector	
	2000-01	2001-02
	\$m	\$m
GFS revenue		
Taxation revenue	171,978	172,120
Current grants and subsidies	0	0
Sales of goods and services	29,847	30,176
Interest income	1,205	1,021
Dividend income	805	3,196
Other	4,274	3,574
Total GFS revenue	208,109	210,087
GFS expenses		
Gross operating expenses		
Depreciation	5,064	5,705
Superannuation	1,480	1,559
Salaries and wages	9,038	9,380
Payment for supply of goods and services	34,143	35,721
Other operating expenses	14,457	14,607
Total gross operating expenses	64,182	66,972
Nominal superannuation interest expense	4,480	4,287
Other interest expenses	6,981	6,415
Other property expenses	1,156	1,284
Current transfers		
Grant expenses	55,481	59,878
Subsidy expenses	3,351	3,674
Personal benefit payments in cash	61,036	61,412
Other current transfers	0	0
Total current transfers	119,869	124,964
Capital transfers	2,925	3,314
Total GFS expenses	199,594	207,237
Net operating balance	8,515	2,850
Net acquisition of non-financial assets		
Gross fixed capital formation	6,103	5,074
<i>less</i> Depreciation	5,064	5,705
<i>plus</i> Change in inventories	168	82
<i>plus</i> Other movements in non-financial assets	-1,292	-106
Total increase in net non-financial assets	-86	-655
Net lending/fiscal balance(a)	8,600	3,505

(a) GFS net lending also equals net transactions in financial assets less net transaction in liabilities. The term 'fiscal balance' is not used by the ABS.

Table 8: Total non-financial public sector balance sheet

	Total Non-financial	Public Sector
	2000-01	2001-02
	\$m	\$m
GFS assets		
Financial assets		
Cash and deposits	2,750	2,102
Advances paid	18,343	18,385
Investments, loans and placements	18,264	18,451
Other non-equity assets	16,462	15,300
Equity	11,992	11,201
Total financial assets	67,812	65,438
Non-financial assets		
Land and fixed assets	65,315	62,132
Other non-financial assets	4,831	4,957
Total non-financial assets	70,146	67,089
Total GFS assets	137,958	132,528
GFS liabilities		
Deposits held	11	10
Advances received	96	30
Government securities	56,938	52,426
Loans	14,359	13,506
Other borrowing	17,543	15,269
Superannuation liability	77,905	79,458
Other employee entitlements and provisions	12,421	12,995
Other non-equity liabilities	18,374	17,931
Total GFS liabilities	197,648	191,624
Shares and other contributed capital	44,943	44,943
Net worth(a)	-104,633	-104,039
Net financial worth(b)	-174,779	-171,129
Net debt(c)	49,590	42,303

(a) Net worth is calculated as assets less liabilities less shares and other contributed capital.

(b) Net financial worth equals total financial assets less total liabilities less shares and other contributed capital.

(c) Net debt equals the sum of deposits held, advances received and borrowing, less the sum of cash and deposits, advances paid, and investments, loans and placements.

Table 9: Total non-financial public sector cash flow statement^(a)

	Total non-financial public sector	
	2000-01	2001-02
	\$m	\$m
Cash receipts from operating activities		
Taxes received	166,258	172,910
Receipts from sales of goods and services	29,551	30,057
Grants and subsidies received	0	0
Interest receipts	1,190	925
Dividends	1,481	3,196
GST receipts related to purchases/sales	1,702	1,956
Other receipts	3,549	3,252
Total receipts	203,731	212,296
Cash payments for operating activities		
Payments for goods and services	-45,787	-47,190
Grants and subsidies paid	-61,055	-66,680
Interest paid	-7,158	-6,468
Personal benefit payments	-60,629	-61,264
Salaries, wages and other entitlements	-15,401	-15,813
GST receipts related to purchases/sales	-1,836	-1,943
Other payments for operating activities	-3,493	-4,157
Total payments	-195,359	-203,514
Net cash flows from operating activities	8,373	8,782
Cash flows from investments in non-financial assets		
Sales of non-financial assets	3,612	2,054
<i>less</i> purchases of new and secondhand non-financial assets	-8,053	-6,978
Net cash flows from investments in non-financial assets	-4,440	-4,924
Net cash flows from investments in financial assets for policy purposes	6,188	3,124
Cash flows from investments in financial assets for liquidity purposes		
Increase in investments	3,749	-261
Net cash flows from investments in financial assets for liquidity purposes	3,749	-261
Cash flows from financing activities		
Advances received (net)	0	0
Borrowing (net)	-14,325	-5,364
Deposits received (net)	1	-1
Distributions paid (net)(b)	-1,156	-1,284
Other financing (net)	-725	-723
Net cash flows from financing activities	-16,204	-7,371
Net increase/decrease in cash held	-2,335	-651
Net cash from operating activities and investments in non-financial assets	3,932	3,858
<i>less</i> Finance leases and similar arrangements(c)	-4	-88
<i>plus</i> Distributions paid	1,156	1,284
Equals surplus(+)/deficit(-)	5,091	5,231

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

(b) 'Distributions paid' comprise PNFC dividends to external shareholders.

(c) Finance leases are deducted in compiling the surplus/deficit.

Table 10: General government sector taxation revenue by source

	General government sector	
	2000-01	2001-02
	\$m	\$m
Taxes on income, profits and capital gains		
Income and capital gains levied on individuals	77,017	83,025
Income and capital gains levied on enterprises	42,291	32,951
Income taxes levied on non-residents	1,220	1,277
Total	120,528	117,252
Taxes on employers' payroll and labour force	3,290	3,500
Taxes on property	12	13
Taxes on the provision of goods and services		
Sales/goods and services tax	25,889	28,290
Excises and levies	19,523	19,623
Taxes on international trade	4,671	4,885
Other	0	0
Total	50,083	52,798
Taxes on use of goods and performance of activities	659	685
Total GFS taxation revenue	174,572	174,248

The UPF also requires the publication of data on general government sector expenses by function. The data are not shown in this Statement, as they have been published earlier, in Statement 6. However, the data in Statement 6 treat the GST as a State tax, and hence exclude GST payments to the States.

**STATEMENT 10: AUSTRALIAN ACCOUNTING
STANDARD No. 31
BUDGET FINANCIAL STATEMENTS**

Contents

Budget Financial Statements	10-3
Statistics, concepts and notes to the AAS31 Financial Statements	10-7
Appendices	
Appendix A: Additional agency statistics	10-16
Appendix B: Statement of Risks.....	10-33

Budget Financial Statements

The financial tables presented 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 where departures from the standard are identified in Note 1.

A reconciliation between the Commonwealth's general government AAS31 and Government Finance Statistics (GFS) revenue, expenses and operating results is provided in Statement 11.

Table 1: Statement of revenue and expenses for the Commonwealth general government sector — AAS31

	Note	Estimates		Projections		
		2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Revenues						
Taxation						
Income tax	3	120,528	117,252	124,257	133,835	142,694
Indirect tax	4	25,647	24,745	25,378	26,113	26,937
Fringe Benefits Tax		3,290	3,500	3,620	3,740	3,870
Other taxes		2,064	1,771	1,748	1,731	1,696
Total taxation revenue		151,529	147,268	155,003	165,418	175,197
Non-taxation						
Sales of goods and services		2,670	2,802	2,841	2,859	2,884
Interest and dividends	5	5,745	8,111	6,513	6,451	6,679
Net foreign exchange gains		0	41	0	0	0
Net gains from sales of assets		1,640	179	70	296	133
Other sources of non-tax revenue	6	3,582	3,211	3,059	3,152	3,159
Total non-tax revenue		13,638	14,345	12,483	12,757	12,855
Total revenue		165,167	161,613	167,486	178,176	188,052
Expenses						
Goods and services						
Employees	7	17,269	17,438	17,656	18,065	18,285
Suppliers	8	12,870	13,385	12,987	13,059	13,384
Depreciation and amortisation	9	3,071	3,421	3,695	3,890	3,951
Net write down of assets		1,922	1,190	1,150	1,165	1,158
Net foreign exchange losses		1,896	0	0	0	0
Net losses from the sale of assets		48	7	2	2	0
Other goods and services expenses		5,580	5,693	5,870	6,099	6,219
Total goods and services		42,657	41,134	41,361	42,280	42,998
Subsidies benefits and grants						
Personal benefits		71,653	72,695	77,597	82,276	86,888
Subsidies		6,877	7,507	7,888	8,111	8,349
Grants	10	33,599	34,796	34,567	35,057	36,119
Total subsidies benefits and grants		112,129	114,998	120,052	125,443	131,356
Interest and other financing costs						
Interest		8,697	7,393	7,114	6,460	6,029
Other Financing Costs		43	34	27	21	19
Total interest and other financing costs		8,740	7,427	7,141	6,480	6,048
Total expenses		163,526	163,559	168,554	174,203	180,402
Operating result		1,641	-1,946	-1,068	3,973	7,650
Extraordinary items	24		112	0	12,420	12,420
Operating result after extraordinary items		1,665	-1,834	-1,068	16,393	20,070

Table 2: Balance sheet for the Commonwealth general government sector — AAS31

	Note	Estimates		Projections		
		2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Assets						
Financial assets						
Cash		1,400	785	594	424	190
Receivables		27,303	25,668	25,301	25,604	26,245
Investments	14	30,401	27,546	27,801	26,377	24,842
Accrued revenue		497	493	489	504	539
Other financial assets		15	20	28	28	27
Total financial assets		59,617	54,513	54,213	52,936	51,843
Non-financial assets						
Land and buildings	11	15,491	14,428	14,309	14,205	14,066
Infrastructure		41,179	41,332	42,253	43,197	44,227
Intangibles		1,012	1,169	1,150	1,157	1,130
Inventories		2,995	3,080	3,136	3,498	3,809
Other non-financial assets		1,341	1,421	1,294	1,202	1,160
Total non-financial assets		62,018	61,429	62,142	63,258	64,392
Total assets		121,635	115,942	116,356	116,194	116,235
Liabilities						
Debt						
Government securities	14	56,938	52,426	52,673	35,485	14,266
Loans		6,904	6,880	6,836	6,789	6,787
Leases		309	185	147	125	107
Deposits		11	10	10	10	10
Overdrafts		0	0	0	0	0
Other debt		4,588	3,700	3,148	2,337	2,136
Total debt		68,749	63,201	62,815	44,745	23,305
Provisions and payables						
Employees	12	83,693	85,319	86,794	88,314	89,536
Suppliers		1,427	1,357	1,332	1,323	1,311
Personal benefits payable		2,635	2,793	2,944	3,089	2,588
Subsidies payable		332	310	277	242	215
Grants payable	13	8,320	8,399	8,437	8,271	8,891
Other provisions and payables		4,898	4,838	4,970	4,942	5,026
Total provisions and payables		101,306	103,015	104,753	106,181	107,568
Total liabilities		170,055	166,216	167,568	150,926	130,873
Net assets		-48,420	-50,274	-51,212	-34,733	-14,637
Equity						
Accumulated results		-81,187	-81,954	-83,022	-64,978	-43,248
Reserves		32,767	31,680	31,810	30,246	28,610
Capital		0	0	0	0	0
Total equity		-48,420	-50,274	-51,212	-34,733	-14,637

Table 3: Statement of cash flows for the Commonwealth general government sector — AAS31

	Note	Estimates		Projections		
		2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Operating activities						
Cash received						
Taxes	15	145,508	148,058	155,671	165,149	174,876
Sales of goods and services		2,638	2,708	2,955	2,967	2,900
Interest		3,597	3,374	3,310	3,333	3,995
Dividends		2,891	4,698	3,169	3,067	2,613
Other		4,345	4,694	4,547	4,543	4,555
Total operating cash received		158,980	163,532	169,651	179,058	188,940
Cash used						
Payments to employees		15,401	15,813	16,181	16,545	17,063
Payments to suppliers		12,808	13,279	12,712	12,909	13,230
Subsidies paid		7,159	7,540	7,921	8,145	8,377
Personal benefits		71,246	72,547	77,440	82,120	87,381
Grant payments		32,457	34,674	34,529	35,223	35,499
Interest and other financing costs		8,644	7,371	7,003	6,490	5,953
Other		7,295	7,707	7,818	8,039	8,181
Total operating cash used		155,011	158,930	163,604	169,472	175,684
Net cash from operating activities		3,969	4,602	6,046	9,586	13,255
Investing activities						
Cash received						
Proceeds from asset sales program		6,329	3,273	11	14,299	14,289
Proceeds from sales of property, plant and equipment and intangibles		2,489	1,740	658	705	581
Net loans, advances and HECS		133	128	0	0	0
Other net investing cash received		0	50	0	0	0
Total investing cash received		8,951	5,190	669	15,004	14,870
Cash used						
Purchase of property, plant and equipment and intangibles		4,652	4,641	5,351	5,651	5,782
Net loans, advances and HECS		0	0	910	612	785
Other net investing cash paid	14	-8,780	311	270	445	353
Total investing cash used		-4,128	4,952	6,532	6,708	6,919
Net cash from investing activities		13,079	238	-5,863	8,296	7,951
Financing activities						
Cash received						
Net cash received from currency issues		0	0	0	0	0
Other		1	0	203	0	0
Total financing cash received		1	0	203	0	0
Cash used						
Net repayments of borrowings	14	19,012	4,535	0	17,236	21,221
Other		192	920	577	816	219
Total financing cash used		19,204	5,455	577	18,052	21,440
Net cash from financing activities		-19,204	-5,455	-375	-18,052	-21,440
Net increase/decrease in cash held		-2,156	-615	-191	-170	-234

Statistics, concepts and notes to the AAS31 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 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). 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 occurs. Consistent with AAS31, an operating statement, a balance sheet and a statement of cash flows have been prepared using estimates for the 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 is therefore recognised at the time a taxpayer makes a self-assessment or when the Australian Taxation Office (ATO) or the Australian Customs Service (ACS) raises a tax assessment.

The Commonwealth collected 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 (GST). 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 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		
	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
Operating result (revenues less expenses)	1,641	-1,946	-1,068	3,973	7,650
less Revenues not providing cash					
Foreign exchange gains	0	41	0	0	0
Gains from asset sales programme	0	0	0	0	0
Gains from sale of assets	1,640	179	70	296	133
Other	361	193	186	252	273
Total revenues not providing cash	2,001	413	256	548	406
plus Expenses not requiring cash					
Increase/(Decrease) in employee entitlements	1,868	1,625	1,475	1,520	1,222
Depreciation/amortisation expense	3,071	3,421	3,695	3,890	3,951
Provision for bad and doubtful debts	274	281	304	312	309
Provision for diminution in value of assets	588	174	90	80	77
Losses from asset sales programme	0	0	0	0	0
Losses from sale of assets	48	7	2	1	0
Foreign exchange losses	1,896	0	0	0	0
Other	81	0	0	0	0
Total expenses not requiring cash	7,827	5,509	5,566	5,804	5,560
plus Cash provided by working capital items					
Decrease in inventories	257	174	296	158	163
Decrease in receivables	0	1,268	1,123	213	118
Decrease in other financial assets	126	0	0	0	0
Decrease in other non-financial assets	102	0	126	93	42
Increase in benefits subsidies and grants payable	1,443	280	189	144	620
Increase in suppliers' liabilities	0	0	0	0	0
Increase in other provisions and payables	46	0	132	0	84
Total cash provided by working capital items	1,974	1,722	1,866	608	1,026
less Cash used by working capital items					
Increase in inventories	0	0	0	0	0
Increase in receivables	5,179	0	0	0	0
Increase in other financial assets	0	1	4	14	36
Decrease in other non-financial assets	0	104	0	0	0
Decrease in benefits subsidies and grants payable	283	32	33	200	527
Decrease in other provisions and payables	0	62	0	27	0
Decrease in suppliers' liabilities	10	70	26	9	12
Total cash used by working capital items	5,471	270	62	250	575
equals <i>Net cash from/(to) operating activities</i>	3,969	4,602	6,046	9,586	13,255
<i>Net cash from/(to) investing activities</i>	13,079	238	-5,863	8,296	7,951
Net cash from operating activities and investment	17,048	4,840	183	17,882	21,207
<i>Net cash from/(to) financing activities</i>	-19,204	-5,455	-375	-18,052	-21,440
equals Net (decrease)/increase in cash	-2,156	-615	-191	-170	-234

Note 3: Income tax

	Estimates		Projections		
	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
Income tax					
Individuals -					
Gross PAYG withholding	74,572	78,502	84,719	91,300	97,945
Gross Other individuals	13,400	15,560	15,887	17,854	19,176
/ess: Refunds	11,165	11,248	11,713	12,528	13,774
Total individuals	76,807	82,815	88,893	96,625	103,347
Companies	34,720	27,209	28,185	29,888	31,765
Superannuation funds	5,210	4,312	4,509	4,815	5,111
Other withholding tax	1,430	1,487	1,547	1,571	1,571
Petroleum resource rent tax	2,360	1,430	1,125	935	900
Total income tax	120,528	117,252	124,257	133,835	142,694

Note 4: Indirect tax

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Petroleum excise duty	12,670	12,590	12,730	12,870	13,090
<i>Of which revenue replacement</i>	253	0	0	0	0
<i>Less transfer to States and Territories in relation to revenue replacement</i>	253	0	0	0	0
Petroleum excise duty revenue	12,417	12,590	12,730	12,870	13,090
Other excise duty	6,611	6,460	6,510	6,605	6,690
<i>Of which revenue replacement</i>	61	0	0	0	0
<i>Less transfer to States and Territories in relation to revenue replacement</i>	61	0	0	0	0
Other excise duty revenue	6,550	6,460	6,510	6,605	6,690
Total excise duty	19,281	19,050	19,240	19,475	19,780
<i>Of which revenue replacement</i>	315	0	0	0	0
<i>Less transfer to States and Territories in relation to revenue replacement</i>	314	0	0	0	0
Total excise duty revenue	18,967	19,050	19,240	19,475	19,780
Customs duty	4,675	4,885	5,285	5,760	6,255
<i>Of which revenue replacement</i>	4	0	0	0	0
<i>Less transfer to States and Territories in relation to revenue replacement</i>	4	0	0	0	0
Customs duty revenue	4,671	4,885	5,285	5,760	6,255
Other indirect taxes	2,127	810	853	878	902
<i>Of which revenue replacement</i>	118	0	0	0	0
<i>Less transfers to States and Territories in relation to revenue replacement</i>	118	0	0	0	0
Other indirect tax revenue	2,009	810	853	878	902
GST revenue	23,880	27,480	29,170	30,830	32,600
<i>Less transfers to States and Territories in relation to GST revenue</i>	23,880	27,480	29,170	30,830	32,600
GST revenue	0	0	0	0	0
Mirror taxes	214	207	216	227	238
<i>Less transfers to States and Territories in relation to mirror revenue</i>	214	207	216	227	238
Mirror tax revenue	0	0	0	0	0
Indirect tax revenue	25,647	24,745	25,378	26,113	26,937

Note 5: Interest and dividends

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Interest					
Interest from other governments					
State and Territory debt	75	59	52	39	29
housing agreements	188	185	181	178	174
Total interest from other governments	263	243	233	216	203
Interest from other sources					
Swap interest	2,357	2,418	2,371	2,189	2,115
Advances	44	49	53	53	53
Deposits	375	7	7	7	7
Bills receivable	6	6	6	6	6
Bank deposits	74	147	159	161	168
Other	411	544	515	753	1,515
Total interest from other sources	3,267	3,170	3,111	3,168	3,863
Total interest	3,530	3,413	3,344	3,384	4,066
Dividends					
Dividends from associated entities	2,172	4,628	3,144	3,038	2,577
Other dividends	44	70	25	29	35
Total dividends	2,215	4,698	3,169	3,067	2,613
Total interest and dividends	5,745	8,111	6,513	6,451	6,679

Note 6: Other sources of non-taxation revenue

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Industry contributions	43	45	39	39	39
Indexation of HECS receivable and other student loans	323	193	186	252	273
International Monetary Fund related revenue	83	79	79	79	79
Other	3,133	2,895	2,755	2,782	2,768
Total other sources of non-taxation revenue	3,582	3,211	3,059	3,152	3,159

Note 7: Employees expenses

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Salaries and wages(a)	9,038	9,380	9,357	9,489	9,856
Leave and other entitlements	337	353	341	347	356
Separations and redundancies	32	22	16	16	17
Workers compensation premiums	0	0	0	0	0
Other including superannuation	7,862	7,683	7,943	8,213	8,057
Total employees expenses	17,269	17,438	17,656	18,065	18,285

(a) Salaries and wages do not include superannuation.

Note 8: Suppliers expenses

	Estimates		Projections		
	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
Supply of goods and services	9,925	10,512	10,303	10,410	10,709
Operating lease rental expenses	954	946	942	933	931
Other	1,991	1,928	1,742	1,716	1,744
Total suppliers expenses	12,870	13,385	12,987	13,059	13,384

Note 9: Depreciation and amortisation

	Estimates		Projections		
	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
Depreciation					
Specialist military equipment	1,653	1,980	2,182	2,312	2,370
Buildings	474	453	447	458	446
Other infrastructure, plant and equipment	741	732	779	819	828
Total depreciation	2,868	3,165	3,408	3,589	3,644
Total amortisation	203	256	287	301	307
Total depreciation and amortisation	3,071	3,421	3,695	3,890	3,951

Note 10: Grants

	Estimates		Projections		
	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
State and Territory governments	22,688	23,396	23,043	23,240	23,674
Non-profit organisations	988	1,073	1,105	1,144	1,160
Overseas	575	576	311	222	798
Private sector	881	760	809	841	773
Local governments	280	433	432	437	290
Other	8,187	8,557	8,867	9,173	9,425
Total grants	33,599	34,796	34,567	35,057	36,119

Note 11: Non-financial assets

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Land and buildings					
Land	4,241	3,849	3,733	3,673	3,614
Buildings	11,250	10,579	10,576	10,532	10,452
Total land and buildings	15,491	14,428	14,309	14,205	14,066
Infrastructure					
Specialist military equipment	31,253	31,257	31,764	32,763	33,871
Other	9,926	10,075	10,489	10,434	10,356
Total infrastructure	41,179	41,332	42,253	43,197	44,227
Intangibles					
Computer software	895	957	943	972	967
Other	117	212	207	184	164
Total intangibles	1,012	1,169	1,150	1,157	1,130
Inventories	2,995	3,080	3,136	3,498	3,809
Total inventories	2,995	3,080	3,136	3,498	3,809
Other non-financial assets					
Prepayments	1,160	1,151	1,143	1,133	1,127
Other	181	270	152	69	33
Total other non-financial assets	1,341	1,421	1,294	1,202	1,160
Total non-financial assets	62,018	61,429	62,142	63,258	64,392

Note 12: Employee liabilities

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Superannuation	77,905	79,458	80,846	82,290	83,542
Leave and other entitlements	3,014	3,042	3,059	3,079	3,094
Accrued salaries and wages	254	269	291	288	254
Workers compensation claims	1,148	1,107	1,070	1,036	1,004
Separations and redundancies	29	25	25	25	25
Workers compensation premiums	0	0	0	0	0
Other	1,343	1,417	1,503	1,596	1,617
Total employee liabilities	83,693	85,319	86,794	88,314	89,536

Note 13: Grants payable

	Estimates		Projections		
	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
State and Territory governments	3,043	3,238	3,461	3,659	3,880
Non-profit organisations	34	31	31	31	31
Private sector	0	0	0	0	0
Overseas	1,159	1,241	1,072	818	1,154
Local governments	1	1	1	1	1
Other	4,083	3,888	3,871	3,761	3,825
Total grants payable	8,320	8,399	8,437	8,271	8,891

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 net investing cash paid* category excludes 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.

Note 15: Taxes

	Estimates		Projections		
	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
Total taxes	170,142	176,353	185,056	196,205	207,714
Less payments to States and Territories in relation to revenue replacement	436	0	0	0	0
Less payments to States and Territories in relation to GST revenue	24,180	27,480	29,170	30,830	32,600
Less payments to States and Territories in relation to mirror tax revenue	18	815	216	227	238
Taxes	145,508	148,058	155,671	165,149	174,876

Appendix A: Additional agency statistics

Table A1: General government expenses by agency

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Agriculture, Fisheries and Forestry					
Department of Agriculture, Fisheries and Forestry	1,440	1,472	1,466	1,519	1,372
Australian Wool Research and Promotion Organisation	138	0	0	0	0
Grains Research and Development Corporation	110	110	110	110	110
Total	1,688	1,582	1,576	1,629	1,482
Attorney-General's					
Attorney-General's Department	413	435	433	421	419
Australian Customs Service	625	692	700	712	734
Australian Federal Police	375	383	377	380	352
Family Court of Australia	114	113	115	113	115
Total	1,526	1,623	1,626	1,626	1,620
Communications, Information Technology and the Arts					
Department of Communications, Information Technology and the Arts	681	707	594	442	336
Australian Broadcasting Corporation	685	756	779	797	822
Special Broadcasting Service Corporation	165	147	149	147	146
Total	1,531	1,610	1,523	1,386	1,304
Defence					
Department of Defence	14,083	14,869	15,202	15,760	16,215
Defence Housing Authority	253	270	283	295	301
Total	14,336	15,139	15,485	16,055	16,516
Education, Training and Youth Affairs					
Department of Education, Training and Youth Affairs	11,590	12,151	12,825	13,472	14,033
Australian Research Council	248	277	357	415	486
Total	11,838	12,428	13,183	13,887	14,519
Employment, Workplace Relations and Small Business					
Department of Employment, Workplace Relations and Small Business	1,532	1,655	1,760	1,764	1,807
Comcare	165	177	184	192	198
Total	1,697	1,832	1,944	1,956	2,005
Environment and Heritage					
Department of Environment and Heritage	926	794	572	444	451
Australian Greenhouse Office	87	228	212	183	130
Total	1,013	1,022	784	627	582
Family and Community Services					
Department of Family and Community Services	57,441	57,484	59,598	61,539	63,507
Centrelink	1,727	1,799	1,898	1,868	1,842
Total	59,168	59,284	61,496	63,407	65,349

Table A1: General government expenses by agency (continued)

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Finance and Administration					
Department of Finance and Administration	5,284	4,791	4,751	4,824	4,840
Australian Electoral Commission	108	190	97	100	195
Office of Asset Sales and IT Outsourcing	34	33	0	0	0
Total	5,425	5,014	4,848	4,923	5,035
Foreign Affairs and Trade					
Department of Foreign Affairs and Trade	819	853	810	841	843
Australian Agency for International Development	1,544	1,590	1,364	1,318	1,922
Australian Trade Commission	337	340	335	335	337
Total	2,701	2,784	2,509	2,494	3,101
Health and Aged Care					
Department of Health and Aged Care	27,164	29,044	30,863	32,433	34,280
Health Insurance Commission	389	391	391	401	392
Total	27,553	29,435	31,254	32,833	34,672
Immigration and Multicultural Affairs					
Department of Immigration and Multicultural Affairs	886	849	887	885	902
Total	886	849	887	885	902
Industry, Science and Resources					
Department of Industry, Science and Resources	1,309	1,148	1,123	1,225	1,143
Australian Nuclear Science and Technology Organisation	124	118	137	142	138
Australian Sports Commission	101	127	134	136	139
Australian Tourist Commission	122	121	105	106	108
Commonwealth Scientific and Industrial Research Organisation	784	802	824	839	854
Total	2,440	2,316	2,323	2,448	2,383
Prime Minister and Cabinet					
Department of Prime Minister and Cabinet	85	87	74	63	64
Total	85	87	74	63	64
Reconciliation and ATSI Affairs					
Aboriginal and Torres Strait Islander Commission	1,091	1,155	1,197	1,238	1,280
Total	1,091	1,155	1,197	1,238	1,280
Transport and Regional Services					
Department of Transport and Regional Services	3,333	3,404	3,231	3,174	3,033
Civil Aviation Safety Authority	93	100	99	104	105
Total	3,426	3,505	3,331	3,278	3,138

Table A1: General government expenses by agency (continued)

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Treasury					
Department of the Treasury	4,242	3,583	2,608	2,018	1,528
Australian Bureau of Statistics	277	366	272	263	284
Australian Securities and Investment Commission	164	169	164	162	162
Australian Taxation Office	5,633	5,502	5,364	5,421	5,500
Australian Office of Financial Management	9,935	7,183	6,889	6,235	5,823
Total	20,250	16,802	15,297	14,098	13,298
Veterans' Affairs					
Department of Veterans' Affairs	8,682	8,752	9,023	9,210	9,272
Total	8,682	8,752	9,023	9,210	9,272
Small agencies	3,382	3,542	3,524	3,597	3,639
Whole of government and inter-agency amounts(a)	-5,191	-5,201	-3,328	-1,437	240
Total expenses	163,526	163,559	168,554	174,203	180,402

(a) Estimates of inter-agency transactions are included in the Whole of Government and inter-agency amounts. The entry for each portfolio does not include eliminations for inter-agency transactions within that portfolio.

Table A2: Departmental expenses by agency

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Agriculture, Fisheries and Forestry					
Department of Agriculture, Fisheries and Forestry	354	411	399	404	409
Australian Wool Research and Promotion Organisation	138	0	0	0	0
Grains Research and Development Corporation	110	110	110	110	110
Total	602	521	509	514	519
Attorney-General's					
Attorney-General's Department	169	179	182	168	167
Australian Customs Service	625	692	700	712	734
Australian Federal Police	375	383	377	380	352
Family Court of Australia	114	113	115	113	115
Total	1,282	1,367	1,374	1,373	1,368
Communications, Information Technology and the Arts					
Department of Communications, Information Technology and the Arts	186	159	139	139	140
Australian Broadcasting Corporation	685	756	779	797	822
Special Broadcasting Service Corporation	165	147	149	147	146
Total	1,035	1,062	1,068	1,083	1,109
Defence					
Department of Defence	12,378	13,068	13,310	13,714	14,253
Defence Housing Authority	253	270	283	295	301
Total	12,631	13,338	13,593	14,009	14,554
Education, Training and Youth Affairs					
Department of Education, Training and Youth Affairs	222	211	213	217	223
Australian Research Council	0	7	7	7	7
Total	222	218	220	224	230
Employment, Workplace Relations and Small Business					
Department of Employment, Workplace Relations and Small Business	386	393	405	408	416
Comcare	165	177	184	192	198
Total	551	570	589	600	614
Environment and Heritage					
Department of Environment and Heritage	482	469	438	441	448
Australian Greenhouse Office	84	175	173	148	83
Total	566	644	611	589	531
Family and Community Services					
Department of Family and Community Services	2,164	2,222	2,327	2,282	2,253
Centrelink	1,727	1,799	1,898	1,868	1,842
Total	3,891	4,022	4,224	4,150	4,096
Finance and Administration					
Department of Finance and Administration	327	310	317	318	318
Australian Electoral Commission	108	150	97	100	150
Office of Asset Sales and IT Outsourcing	34	33	0	0	0
Total	468	493	414	418	469

Table A2: Departmental expenses by agency (continued)

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Foreign Affairs and Trade					
Department of Foreign Affairs and Trade	653	689	683	714	716
Australian Agency for International Development	68	68	68	69	69
Australian Trade Commission	186	190	185	185	187
Total	907	948	935	968	972
Health and Aged Care					
Department of Health and Aged Care	732	745	734	729	726
Health Insurance Commission	389	391	391	401	392
Total	1,121	1,137	1,126	1,129	1,118
Immigration and Multicultural Affairs					
Department of Immigration and Multicultural Affairs	727	686	727	728	742
Total	727	686	727	728	742
Industry, Science and Resources					
Department of Industry, Science and Resources	245	254	228	245	246
Australian Nuclear Science and Technology Organisation	124	118	137	142	138
Australian Sports Commission	101	127	134	136	139
Australian Tourist Commission	122	121	105	106	108
Commonwealth Scientific and Industrial Research Organisation	784	802	824	839	854
Total	1,376	1,422	1,429	1,468	1,485
Prime Minister and Cabinet					
Department of Prime Minister and Cabinet	59	59	46	46	47
Total	59	59	46	46	47
Reconciliation and ATSI Affairs					
Aboriginal and Torres Strait Islander Commission	1,007	1,070	1,111	1,151	1,192
Total	1,007	1,070	1,111	1,151	1,192
Transport and Regional Services					
Department of Transport and Regional Services	195	187	179	177	181
Civil Aviation Safety Authority	93	100	99	104	105
Total	288	287	279	281	286
Treasury					
Department of the Treasury	116	112	105	107	106
Australian Bureau of Statistics	277	366	272	263	284
Australian Securities and Investment Commission	141	147	142	143	143
Australian Taxation Office	2,115	1,913	1,680	1,667	1,706
Australian Office of Financial Management	5	6	6	6	6
Total	2,654	2,542	2,204	2,185	2,245
Veterans' Affairs					
Department of Veterans' Affairs	257	262	253	254	263
Total	257	262	253	254	263
Small agencies	3,382	3,542	3,524	3,597	3,639
Whole of government and inter-agency amounts(a)	0	4	4	1	1
Total departmental expenses	33,025	34,194	34,239	34,769	35,480

(a) Estimates of inter-agency transactions are included in the Whole of Government and inter-agency amounts.

Table A3: Net capital investment by agency

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Agriculture, Fisheries and Forestry					
Department of Agriculture, Fisheries and Forestry	1.2	0.0	0.0	0.0	0.0
Australian Wool Research and Promotion Organisation	-42.9	0.0	0.0	0.0	0.0
Grains Research and Development Corporation	-0.1	0.3	-0.2	-0.2	-0.1
Total	-41.8	0.3	-0.2	-0.2	-0.1
Attorney-General's					
Attorney-General's Department	-1.6	19.1	11.1	-2.7	-3.4
Australian Customs Service	67.7	-17.5	-18.3	-12.5	-0.9
Australian Federal Police	-1.4	8.6	-1.7	1.6	-0.1
Family Court of Australia	2.3	0.1	0.2	0.2	0.3
Total	67.0	10.4	-8.7	-13.3	-4.2
Communications, Information Technology and the Arts					
Department of Communications, Information Technology and the Arts	-130.8	-0.1	-1.4	-1.8	-1.6
Australian Broadcasting Corporation	20.4	92.7	25.1	-9.0	-6.9
Special Broadcasting Service Corporation	22.0	5.0	2.6	4.0	-2.8
Total	-88.3	97.6	26.3	-6.8	-11.3
Defence					
Department of Defence	1,577.4	-680.8	500.0	902.4	812.8
Defence Housing Authority	-531.5	-115.2	-45.4	-50.4	34.0
Total	1,045.9	-796.0	454.6	851.9	846.7
Education, Training and Youth Affairs					
Department of Education, Training and Youth Affairs	-0.5	-0.8	-5.0	1.2	9.6
Australian Research Council	0.0	0.0	0.0	0.0	0.0
Total	-0.5	-0.8	-5.0	1.2	9.6
Employment, Workplace Relations and Small Business					
Department of Employment, Workplace Relations and Small Business	-5.9	4.2	1.7	2.0	2.2
Comcare	0.0	0.5	0.0	0.0	0.0
Total	-5.9	4.7	1.7	2.0	2.2
Environment and Heritage					
Department of Environment and Heritage	-9.5	-3.4	-4.6	-9.3	-9.5
Australian Greenhouse Office	0.0	0.0	0.1	0.0	0.0
Total	-9.6	-3.5	-4.5	-9.3	-9.5
Family and Community Services					
Department of Family and Community Services	1.9	5.1	2.5	2.0	1.8
Centrelink	5.4	32.8	1.1	-10.3	1.2
Total	7.3	37.9	3.6	-8.3	3.0
Finance and Administration					
Department of Finance and Administration	-35.0	-168.6	-38.4	-6.0	-42.7
Australian Electoral Commission	0.2	-5.2	-3.3	-3.3	-3.8
Office of Asset Sales and IT Outsourcing	17.9	-23.5	0.0	0.0	0.0
Total	-16.8	-197.3	-41.7	-9.3	-46.5

Table A3: Net capital investment by agency (continued)

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Foreign Affairs and Trade					
Department of Foreign Affairs and Trade	0.0	15.8	10.2	-3.1	-9.1
Australian Agency for International Development	-8.3	0.0	0.8	0.0	-0.7
Australian Trade Commission	-3.1	0.4	0.4	0.4	0.4
Total	-11.4	16.1	11.4	-2.7	-9.3
Health and Aged Care					
Department of Health and Aged Care	1.7	-2.4	-4.4	-5.0	-4.0
Health Insurance Commission	5.4	24.3	44.9	48.8	14.9
Total	7.2	21.9	40.5	43.8	10.9
Immigration and Multicultural Affairs					
Department of Immigration and Multicultural Affairs	13.6	12.4	-16.0	-15.6	-11.4
Total	13.6	12.4	-16.0	-15.6	-11.4
Industry, Science and Resources					
Department of Industry, Science and Resources	36.2	-2.9	3.1	-4.1	2.9
Australian Nuclear Science and Technology Organisation	38.3	100.4	109.4	72.4	25.0
Australian Sports Commission	-4.1	-4.3	-5.1	-5.1	-4.4
Australian Tourist Commission	2.1	-0.5	-2.3	0.3	-1.3
Commonwealth Scientific and Industrial Research Organisation	70.1	25.6	-20.8	-18.1	4.0
Total	142.6	118.2	84.3	45.4	26.2
Prime Minister and Cabinet					
Department of Prime Minister and Cabinet	-0.3	-0.1	-0.2	-0.2	-0.2
Total	-0.3	-0.1	-0.2	-0.2	-0.2
Reconciliation and ATSI Affairs					
Aboriginal and Torres Strait Islander Commission	-0.9	-0.9	-0.9	0.0	0.0
Total	-0.9	-0.9	-0.9	0.0	0.0
Transport and Regional Services					
Department of Transport and Regional Services	-19.9	1.3	1.1	-3.6	1.2
Civil Aviation Safety Authority	1.4	8.3	4.5	2.0	4.0
Total	-18.5	9.6	5.6	-1.6	5.2
Treasury					
Department of the Treasury	-1.7	-2.2	-2.7	0.2	-0.2
Australian Bureau of Statistics	13.5	15.4	-9.3	-11.6	2.3
Australian Securities and Investment Commission	-6.8	1.3	1.0	0.0	1.3
Australian Taxation Office	85.6	-3.3	-33.9	7.5	-26.3
Australian Office of Financial Management	1.3	3.3	-0.1	-0.1	-0.1
Total	92.0	14.4	-45.0	-4.0	-23.0
Veterans' Affairs					
Department of Veterans' Affairs	4.3	7.7	8.0	7.7	2.0
Total	4.3	7.7	8.0	7.7	2.0
Small agencies	912.7	38.1	41.7	18.0	6.4
Whole of government and inter-agency amounts(a)	492.5	20.0	157.8	216.8	337.9
Total net capital investment	2,591.1	-589.1	713.3	1,115.5	1,134.5

(a) Estimates of inter-agency transactions are included in the Whole of Government and inter-agency amounts.

Table A4: Capital appropriations by portfolio

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Agriculture, Fisheries and Forestry					
Department of Agriculture, Fisheries and Forestry	0.0	25.8	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	0.0	25.8	0.0	0.0	0.0
Attorney-General's					
Attorney-General's Department	0.0	15.0	0.0	0.0	0.0
Australian Customs Service	4.7	11.1	4.1	3.9	3.6
Australian Federal Police	36.1	10.0	0.0	0.0	0.0
Family Court of Australia	0.0	0.0	0.0	0.0	0.0
Attorney-General's Portfolio	40.8	36.1	4.1	3.9	3.6
Communications, Information Technology and the Arts					
Department of Communications, Information Technology and the Arts	1.8	1.1	0.1	0.1	0.1
Australian Broadcasting Corporation	141.3	34.6	72.9	20.0	0.0
Special Broadcasting Service Corporation	23.4	8.0	8.0	6.8	4.8
Communications, Information Technology and the Arts Portfolio	166.6	43.7	81.0	26.9	4.9
Defence					
Department of Defence	397.5	10.6	525.6	803.0	1,043.4
Defence Housing Authority	0.0	0.0	0.0	0.0	0.0
Defence Portfolio	397.5	10.6	525.6	803.0	1,043.4
Education, Training and Youth Affairs					
Department of Education, Training and Youth Affairs	0.0	0.0	0.0	0.0	0.0
Australian Research Council	0.0	0.0	0.0	0.0	0.0
Education, Training and Youth Affairs Portfolio	0.0	0.0	0.0	0.0	0.0
Employment, Workplace Relations and Small Business					
Department of Employment, Workplace Relations and Small Business	0.0	0.0	0.0	0.0	0.0
Comcare	0.0	0.0	0.0	0.0	0.0
Employment, Workplace Relations and Small Business Portfolio	0.0	0.0	0.0	0.0	0.0
Environment and Heritage					
Department of Environment and Heritage	60.2	38.5	36.6	18.2	19.1
Australian Greenhouse Office	0.0	0.0	0.0	0.0	0.0
Environment and Heritage Portfolio	60.2	38.5	36.6	18.2	19.1
Family and Community Services					
Department of Family and Community Services	311.2	301.6	291.0	303.0	316.5
Centrelink	20.9	24.3	8.7	7.9	0.0
Family and Community Services Portfolio	332.2	325.9	299.7	310.9	316.5

Table A4: Capital appropriations by portfolio (continued)

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Finance and Administration					
Department of Finance and Administration	884.3	908.8	944.4	956.0	989.1
Australian Electoral Commission	0.0	0.0	0.0	0.0	0.0
Office of Asset Sales and IT Outsourcing	0.0	0.0	0.0	0.0	0.0
Finance and Administration Portfolio	884.3	908.8	944.4	956.0	989.1
Foreign Affairs and Trade					
Department of Foreign Affairs and Trade	0.0	16.0	14.1	5.9	0.0
Australian Agency for International Development	211.5	232.6	207.7	169.6	92.2
Australian Trade Commission	0.0	0.0	0.1	0.0	0.0
Foreign Affairs and Trade Portfolio	211.6	248.6	221.9	175.4	92.2
Health and Aged Care					
Department of Health and Aged Care	65.7	57.3	57.0	57.0	0.0
Health Insurance Commission	0.0	6.3	36.2	55.2	18.5
Health and Aged Care Portfolio	65.7	63.6	93.2	112.1	18.5
Immigration and Multicultural Affairs					
Department of Immigration and Multicultural Affairs	99.5	2.0	1.9	0.0	0.0
Immigration and Multicultural Affairs Portfolio	99.5	2.0	1.9	0.0	0.0
Industry, Science and Resources					
Department of Industry, Science and Resources	105.5	66.4	57.8	54.4	45.1
Australian Nuclear Science and Technology Organisation	55.0	91.0	100.7	74.2	26.5
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	32.8	17.2	0.0	0.0
Industry, Science and Resources Portfolio	160.5	190.2	175.6	128.6	71.6
Prime Minister and Cabinet					
Department of Prime Minister and Cabinet	0.0	0.0	0.0	0.0	0.0
Prime Minister and Cabinet Portfolio	0.0	0.0	0.0	0.0	0.0
Reconciliation and ATSI Affairs					
Aboriginal and Torres Strait Islander Commission	87.4	88.8	91.2	93.4	0.0
Reconciliation and ATSI Affairs Portfolio	87.4	88.8	91.2	93.4	0.0

Table A4: Capital appropriations by portfolio (continued)

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Transport and Regional Services					
Department of Transport and Regional Services	8.4	0.0	0.0	0.0	0.0
Civil Aviation Safety Authority	0.0	0.0	0.0	0.0	0.0
Transport and Regional Services Portfolio	8.4	0.0	0.0	0.0	0.0
Treasury					
Department of the Treasury	82.2	16.2	11.9	11.9	11.9
Australian Bureau of Statistics	0.0	13.2	0.0	0.0	0.0
Australian Securities and Investment Commission	0.0	0.0	0.0	0.0	0.0
Australian Taxation Office	63.6	78.9	22.5	0.0	0.0
Australian Office of Financial Management	0.0	3.4	0.0	0.0	0.0
Treasury Portfolio	145.8	111.8	34.3	11.9	11.9
Veterans' Affairs					
Department of Veterans' Affairs	17.8	11.4	6.6	4.5	0.1
Veterans' Affairs Portfolio	17.8	11.4	6.6	4.5	0.1
Small agencies	0.0	0.0	0.0	0.0	0.0
Whole of government and inter-agency amounts(a)	0.0	50.0	50.0	100.0	0.0
Total	2,678.1	2,155.7	2,566.2	2,744.9	2,570.9

(a) Estimates of inter-agency transactions are included in the Whole of Government and inter-agency amounts.

Table A5: Estimates of average staffing level (ASL) of agencies in the Commonwealth general government sector

	Average staffing levels		
	2000-01	2001-02	Change
Agriculture, Fisheries and Forestry			
Department of Agriculture, Fisheries and Forestry	3,016.0	3,655.0	639.0
Australian Fisheries Management Authority	104.0	110.0	6.0
Australian Wine and Brandy Corporation	35.0	37.0	2.0
Cotton Research and Development Corporation	9.0	10.0	1.0
Dairy Research and Development Corporation	21.0	24.0	3.0
Fisheries Research and Development Corporation	5.4	6.0	0.6
Forest and Woods Products Research and Development Corporation	7.0	7.0	-
Grains Research and Development Corporation	36.0	38.0	2.0
Grape and Wine Research and Development Corporation	6.0	6.0	-
Land and Water Resources Research and Development Corporation	28.0	28.0	-
National Registration Authority for Agriculture and Veterinary Chemicals	120.0	120.0	-
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	6.0	-
Total	3,416.9	4,070.5	653.6
Attorney-General's			
Attorney-General's Department	1,214.0	1,212.6	-1.4
Administrative Appeals Tribunal	168.0	174.0	6.0
Australian Customs Service	4,354.0	4,990.0	636.0
Australian Federal Police	2,820.0	2,748.0	-72.0
Australian Institute of Criminology	38.4	41.2	2.8
Australian Law Reform Commission	21.0	22.0	1.0
Australian Secret Intelligence Organisation	538.8	563.1	24.3
Australian Transaction Reports Analysis Centre (Austrac)	59.0	65.0	6.0
Criminology Research Council	0.8	1.0	0.2
Family Court of Australia	715.0	705.0	-10.0
Federal Court of Australia	210.0	213.0	3.0
Federal Magistrates Service	36.0	74.0	38.0
High Court of Australia	83.0	84.0	1.0
Human Rights and Equal Opportunity Commission	95.0	95.0	-
Insolvency Trustee Service Australia	240.0	240.0	-
National Crime Authority	277.0	280.0	3.0
National Native Title Tribunal	220.0	233.0	13.0
Office of Film and Literature Classification	50.0	50.0	-
Office of Parliamentary Counsel	42.0	45.0	3.0
Office of the Privacy Commissioner	35.0	35.0	-
Office of the Director of Public Prosecutions	405.0	410.0	5.0
Total	11,622.0	12,280.9	658.9

Table A5: Estimates of average staffing level (ASL) of agencies in the Commonwealth general government sector (continued)

	Average staffing levels		
	2000-01	2001-02	Change
Communication, Information Technology and the Arts			
Department of Communications, Information Technology and the Arts	1,033.0	1,018.0	-15.0
Australia Council	124.0	128.0	4.0
Australian Broadcasting Authority	150.0	150.0	-
Australian Broadcasting Corporation	4,200.0	4,200.0	-
Australian Communications Authority	429.0	426.0	-3.0
Australian Film Commission	52.0	55.0	3.0
Australian Film Television and Radio School	145.0	145.0	-
Australian National Maritime Museum	95.0	100.0	5.0
National Archives of Australia	335.0	340.0	5.0
National Gallery	233.0	230.0	-3.0
National Library of Australia	532.0	516.0	-16.0
National Museum of Australia	138.0	175.0	37.0
National Science and Technology Centre	110.0	115.0	5.0
Special Broadcasting Service Corporation	728.0	730.0	2.0
Total	8,304.0	8,328.0	24.0
Defence			
Department of Defence	16,278.0	15,901.0	-377.0
Military Reserves	2,603.0	2,871.0	268.0
Permanent Military	50,303.0	50,781.0	478.0
Defence Housing Authority	373.0	460.0	87.0
Total	69,557.0	70,013.0	456.0
Education, Training and Youth Affairs			
Department of Education, Training and Youth Affairs	1,350.0	1,324.0	-26.0
Australian National Training Authority	106.0	103.0	-3.0
Australian Research Council	-	51.0	51.0
Total	1,456.0	1,478.0	22.0
Employment, Workplace Relations and Small Business			
Department of Employment, Workplace Relations and Small Business	2,108.0	2,169.0	61.0
Australian Industrial Registry	243.0	244.0	1.0
Comcare	295.0	295.0	-
National Occupational Health and Safety Commission	153.0	119.0	-34.0
Equal Opportunity for Women in the Workplace Agency	21.0	21.0	-
Total	2,820.0	2,848.0	28.0
Environment and Heritage			
Department of Environment and Heritage	2,600.6	2,586.9	-13.7
Australian Greenhouse Office	169.0	169.0	-
Australian Heritage Commission	79.4	79.4	-
Director of National Parks	261.0	261.0	-
Great Barrier Reef Marine Park Authority	167.0	170.0	3.0
National Oceans Office	15.0	22.5	7.5
Total	3,292.0	3,288.8	-3.2
Family and Community Services			
Department of Family and Community Services	5,598.5	5,658.7	60.2
Australian Institute of Family Studies	36.8	37.6	0.8
Centrelink	21,180.0	21,430.0	250.0
Total	26,815.3	27,126.3	311.0

Table A5: Estimates of average staffing level (ASL) of agencies in the Commonwealth general government sector (continued)

	Average staffing levels		
	2000-01	2001-02	Change
Finance and Administration			
Department of Finance and Administration	768.2	703.4	-64.8
Australian Electoral Commission	881.0	1,611.0	730.0
Commonwealth Grants Commission	65.1	54.6	-10.5
Commonwealth Superannuation Administration (ComSuper)	353.0	348.0	-5.0
Office of Asset Sales and IT Outsourcing	63.0	47.0	-16.0
Total	2,130.3	2,764.0	633.7
Foreign Affairs and Trade			
Department of Foreign Affairs and Trade	3,348.0	3,259.0	-89.0
AusAID	557.0	550.0	-7.0
Australia-Japan Foundation	6.5	6.5	-
Australian Centre for International Agricultural Research	52.0	53.0	1.0
Australian Trade Commission	1,042.0	1,022.0	-20.0
Total	5,005.5	4,890.5	-115.0
Health and Aged Care			
Department of Health and Aged Care	3,249.0	3,301.6	52.6
Aged Care Standards and Accreditation Agency	174.0	174.0	-
Australia New Zealand Food Authority	101.0	103.0	2.0
Australian Institute of Health and Welfare	74.0	74.0	-
Australian Radiation Protection and Nuclear Safety Agency	126.0	126.0	-
Health Insurance Commission	3,980.0	4,080.0	100.0
Private Health Insurance Administration Council	7.5	7.5	-
Private Health Insurance Ombudsman	8.5	8.5	-
Professional Services Review	21.0	30.0	9.0
Total	7,741.0	7,904.6	163.6
Immigration and Multicultural Affairs			
Department of Immigration and Multicultural Affairs	3,966.0	4,020.0	54.0
Migration Review Tribunal	170.0	143.0	-27.0
Refugee Review Tribunal	194.0	198.0	4.0
Total	4,330.0	4,361.0	31.0
Industry Science and Resources			
Department of Industry, Science and Resources	1,580.0	1,621.0	41.0
Australian Geological Survey Organisation	428.6	430.0	1.4
Australian Institute of Marine Science	154.9	155.0	0.1
Australian Nuclear Science and Technology Organisation	793.0	800.0	7.0
Australian Sports Commission	365.3	389.9	24.6
Australian Sports Drug Agency	44.8	49.5	4.7
Australian Tourist Commission	198.0	219.0	21.0
Commonwealth Scientific and Industrial Research Organisation	5,985.0	5,875.0	-110.0
IP Australia	774.0	799.0	25.0
National Standards Commission	30.0	34.0	4.0
Total	10,353.6	10,372.4	18.8
Parliament			
Department of the Senate	251.0	251.0	-
Department of the House of Representatives	239.0	239.0	-
Department of the Parliamentary Library	181.0	161.0	-20.0
Department of Parliamentary Reporting Staff	285.0	285.0	-
Joint Houses of Parliament	267.4	267.4	-
Total	1,223.4	1,203.4	-20.0

Table A5: Estimates of average staffing level (ASL) of agencies in the Commonwealth general government sector (continued)

	Average staffing levels		
	2000-01	2001-02	Change
Prime Minister and Cabinet			
Department of Prime Minister and Cabinet	380.0	352.0	-28.0
Australian National Audit Office	255.0	265.0	10.0
Office of the Inspector-General of Intelligence and Security	4.6	4.6	-
Office of National Assessments	54.0	55.0	1.0
Office of the Commonwealth Ombudsman	82.0	82.0	-
Office of the Official Secretary to the Governor-General	73.8	74.2	0.4
Public Service and Merit Protection Commission	125.0	130.0	5.0
Total	974.4	962.8	-11.6
Reconciliation and Aboriginal and Torres Strait			
Islander Affairs			
Department of Reconciliation and Aboriginal and Torres Strait			
Islander Affairs	25.0	29.0	4.0
Aboriginal and Torres Strait Islander Commission	1,117.0	1,050.0	-67.0
Aboriginal Hostels Ltd	412.0	412.0	-
Australian Institute of Aboriginal and Torres Strait			
Islander Studies	71.5	81.0	9.5
Indigenous Business Australia	21.0	21.0	-
Indigenous Land Corporation	102.6	113.8	11.2
Torres Strait Regional Authority	36.0	36.0	-
Total	1,785.1	1,742.8	-42.3
Transport and Regional Services			
Department of Transport and Regional Services	981.6	980.3	-1.3
Airservices Australia	2,958.0	2,944.0	-14.0
Australian Maritime Safety Authority	269.0	244.0	-25.0
Civil Aviation Safety Authority	628.0	680.0	52.0
National Capital Authority	73.2	73.6	0.4
Total	4,909.8	4,921.9	12.1
Treasury			
Department of the Treasury	532.0	545.0	13.0
Australian Bureau of Statistics	3,137.0	3,647.0	510.0
Australian Competition and Consumer Council	437.0	480.0	43.0
Australian Office of Financial Management	26.0	40.0	14.0
Australian Prudential Regulation Authority	396.0	417.0	21.0
Australian Securities and Investment Commission	1,230.0	1,270.0	40.0
Australian Taxation Office	19,000.0	17,500.0	-1,500.0
Companies and Securities Advisory Committee	4.0	4.0	-
National Competition Council	21.0	21.0	-
Productivity Commission	200.0	195.0	-5.0
Total	24,983.0	24,119.0	-864.0
Veterans' Affairs			
Department of Veteran's Affairs	2,400.0	2,359.0	-41.0
Australian War Memorial	250.0	279.0	29.0
Total	2,650.0	2,638.0	-12.0

(a) There are no ASL figures for the financial year 2000-01 for the Australia Research Council as it was part of the Department of Education Training and Youth Affairs

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.

ESTIMATES OF GENERAL GOVERNMENT SECTOR AGENCY CAPITAL USE CHARGE AND DIVIDEND PAYMENTS

The Commonwealth introduced, as part of the accrual budgeting reforms in 1999-00, a Capital Use Charge (CUC). The CUC is paid annually by general government sector agencies on their net assets. The CUC is an internal government transaction and therefore does not affect the budget balances.

The CUC was implemented to:

- improve agency resource allocation, by ensuring that the full cost of competing activities are shown and the cost of capital is reflected in the pricing structures of equivalent outputs produced by the public or private sectors; and
- improve asset management in agencies, by providing an incentive to manage under performing or surplus assets.

The Government will reduce the CUC levied on agencies' net assets from 12 percent to 11 percent from 1 July 2001, reflecting recent movements in domestic capital and equity markets.

As well as CUC payments, some agencies or part thereof, which operate on a fully commercial basis, pay annual dividends to the government, which are set having reference to private sector benchmarks. Also, a separate return to government in the form of a special dividend may be made by an agency to return surplus cash. These surpluses can arise where an agency has rationalised non-financial assets, reduced activity or become more efficient.

Table A6: Capital user charge by agency

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Material agencies					
Aboriginal and Torres Strait Islander Commission	51.5	17.4	17.4	17.4	17.4
Attorney-Generals Department	2.6	2.1	2.0	2.0	2.0
AusAid (a)	0.0	0.0	0.0	0.0	0.0
Australian Broadcasting Corporation	61.6	59.3	62.6	69.1	70.9
Australian Bureau of Statistics	7.1	6.2	6.2	6.2	6.2
Australian Customs Service	11.7	13.2	14.6	15.1	15.6
Australian Electoral Commission	2.8	2.4	2.4	2.5	2.3
Australian Federal Police	0.0	3.7	3.7	3.7	3.7
Australian Greenhouse Office(a)	0.0	0.0	0.0	0.0	0.0
Australian Nuclear Science and Technology Organisation	40.2	45.8	56.9	65.0	67.9
Australian Office of Financial Management	0.3	0.3	0.3	0.3	0.3
Australian Securities and Investment Commission(a)	0.0	0.0	0.0	0.0	0.0
Australian Sports Commission	13.1	12.0	12.0	12.0	12.0
Australian Taxation Office(a)	0.0	0.0	0.0	0.0	0.0
Australian Tourist Commission	0.2	0.2	0.2	0.2	0.2
Australian Trade Commission(b)	14.5	8.6	8.6	8.6	8.6
Centrelink(c)	0.0	0.0	0.0	0.0	0.0
Civil Aviation Safety Authority	1.6	2.9	3.4	3.6	3.6
Comcare Australia	0.6	0.6	0.6	0.6	0.6
Commonwealth Scientific and Industrial Research Organisation(b)	156.0	137.9	120.6	99.6	99.6
Defence Housing Authority(d)	44.1	37.7	32.6	30.9	31.3
Department of Agriculture, Fisheries and Forestry	0.1	0.2	1.5	0.0	0.0
Department of Communications, Information Technology and the Arts	26.8	27.6	27.7	27.8	28.0
Department of Defence	4,954.6	4,771.7	4,766.0	4,866.4	5,000.2
Department of Education, Training and Youth Affairs	4.8	4.3	4.3	4.3	4.3
Department of Employment, Workplace Relations and Small Business	8.9	3.2	3.2	3.2	3.2
Department of Environment and Heritage	42.2	39.7	39.9	40.6	41.9
Department of Family and Community Services(a)(b)	7.9	7.7	0.0	0.0	0.0
Department of Finance and Administration(d)	117.3	129.7	133.6	143.3	148.5
Department of Foreign Affairs and Trade	12.5	16.1	17.7	18.3	18.3
Department of Health and Aged Care	2.3	0.2	0.4	0.6	0.8
Department of Immigration and Multicultural Affairs	8.4	8.7	8.2	9.3	12.0
Department of Industry, Science and Resources	4.3	4.1	4.1	4.1	4.1
Department of Prime Minister and Cabinet	0.3	1.0	1.0	1.1	1.1
Department of the Treasury	3.4	1.7	1.5	1.5	1.5
Department of Transport and Regional Services	27.6	22.7	22.7	22.7	22.7
Department of Veterans Affairs(a)	0.0	0.0	0.0	0.0	0.0

Table A6: Capital user charge by agency (continued)

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Material agencies (continued)					
Grains Research and Development Corporation(e)	0.0	0.0	0.0	0.0	0.0
Health Insurance Commission(c)	0.0	0.0	0.0	0.0	0.0
Office of Asset Sales and Commercial Support	0.6	0.5	0.0	0.0	0.0
Special Broadcasting Service Corporation	9.3	9.5	9.8	10.3	10.8
Small agencies	0.0	0.0	0.0	0.0	0.0
Australian National Maritime Museum	9.3	9.0	9.2	9.2	9.2
Australian War Memorial	73.2	62.7	62.8	62.9	63.1
Director of National Parks	7.4	10.7	10.7	10.7	10.7
High Court of Australia	15.8	14.6	14.6	14.6	14.6
National Archives of Australia	8.2	84.3	84.3	84.3	84.3
National Gallery of Australia	138.9	128.3	129.2	130.2	131.2
National Library of Australia	177.3	162.4	162.6	162.8	163.0
National Museum of Australia	15.1	29.3	29.2	29.0	28.8
Other	58.1	59.0	59.4	60.7	61.4
Total	6,143.7	5,959.7	5,948.4	6,055.3	6,206.8

- (a) Agency has negative equity and, therefore, does not make a CUC payment.
(b) Agency pays a special dividend.
(c) Agency does not pay a CUC.
(d) Agency makes a dividend payment only.
(e) Agency is exempt from the CUC as its revenue is generated from industry levies.

Appendix B: Statement of Risks

INTRODUCTION

The forward estimates of revenue and expenses in the 2001-02 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 of Statement 2.

Differences in non-economic (programme-specific) parameter forecasts and outcomes have been biased towards an understatement of expenses in recent years. 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 the 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 and the Export Finance and Insurance Corporation) and the now fully privatised Commonwealth Bank of Australia.

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 2001. In general, information on contingent liabilities is based on information provided by departments and agencies and is current to 31 March 2001 (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 that there is often greater variability in the timing of income received and deductions taken for these taxpayers than other taxpayers.

The Superannuation tax base is also subject to significant forecasting uncertainty as a result of considerable variability in annual investment returns and in the realisation of capital gains.

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 on 22 March 2001 a revised implementation timeline for the remainder of its business taxation reform programme. The revised timetable will allow an orderly phasing of the further reforms, assisting business to adjust to the reforms to date and ensure that the benefits of *The New Tax System* and business tax arrangements can be fully captured, as well as allowing further time for consultation on remaining issues. While the Government is fully committed to the new timetable, there will be an impact on the Budget should the remaining legislation not be passed.

General risks

The forward estimates of revenue are subject to a number of general pressures that can adversely affect revenue collections. These general pressures include: tax avoidance, including the exploitation of tax expenditures; 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 avoidance involves the use of provisions and 'loopholes' in the tax law, which were not intended by policymakers. Without an appropriate policy or compliance response, the revenue base will shrink relative to that projected in the forward estimates. The Government is undertaking a fundamental tax reform programme that has, as one of its aims, the formation of a simpler and fairer tax system that will also reduce the revenue risk associated with such activity.

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 that challenges traditional tax allocation rules between countries and mechanisms for tax collection. The Organisation for Economic Cooperation and Development (OECD) has developed a framework of taxation principles to apply to electronic commerce, and is working on options for implementing those principles. Australia is contributing actively to this work. The ATO has sought to raise awareness of these issues in its publications on Tax and the Internet.

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 may 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 is undertaking 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, superannuation funds 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 significant effect on company tax collections and the revenue forgone through tax expenditures. Generally, such factors can not, by their nature, 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.

Renegotiation of double tax agreements (DTAs) with the United States and the United Kingdom

Tax treaties promote closer economic cooperation between Australia and other countries by eliminating possible barriers to trade and investment. They reduce or eliminate double taxation of income flows between the treaty partner countries caused by overlapping tax jurisdictions. They also establish greater legal and fiscal certainty within which cross-border trade and investment can be carried on and promoted. Another purpose is to create a framework for the exchange of information and cooperation between the respective tax administrations as a means of combating international tax avoidance and evasion.

Australia has commenced negotiations with both the United Kingdom and the United States to revise the current DTAs Australia has with those countries (which have been in effect since 1967, with amendment in 1980, and 1983 respectively). The aim of the negotiations is to modernise the DTAs to take account of changes in the tax systems and tax policies of each country because these DTAs do not properly reflect modern

tax treaty policy and commercial practices. Depending on the negotiated outcome, changes to the DTAs could have positive as well as negative revenue effects, and implications for DTAs Australia has with other countries.

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 be subject to the terms of financial assistance agreements being negotiated with the States and Territories and liabilities arising from the Wik amendments to the *Native Title Act 1993*. The Commonwealth's liability cannot be quantified due to uncertainty about the number and effect of compensable acts, both in the past and in the future, and the value of native title affected by those acts. Similarly, it is not possible to quantify the liability for compensable acts for which the Commonwealth 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 many cases covering a wide range of litigation where either the cases are yet to be 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 asbestos claims, and alleged defective administration by the Department. In total there are 350 claims, with a value of around \$80 million.

Finance and Administration

Member Choice and Commonwealth Superannuation Arrangements

New superannuation arrangements for Commonwealth employees have been provided for in the forward estimates. These arrangements were intended to commence 1 July 1999 although the arrangements have been deferred subject to the passage of legislation currently before the Parliament. These new arrangements provide for the closure of the Public Sector Superannuation Scheme (PSS) to new

employees and would allow new employees 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. Subject to a Government decision for a start date, Budget estimates have assumed a start date of 1 July 2002 for both new and existing employees. A later start date would improve the underlying cash balance from 2002-03.

Commonwealth civilian superannuation liability

Valuations of the Commonwealth's civilian superannuation liability, including the unfunded liability for the PSS and the CSS, are based on a range of financial and experience assumptions. These valuations are subject to revision based on variations between outcomes and assumptions, and the reassessment of the long term assumptions used in actuarial valuations. The next full actuarial review of the Public Sector Superannuation Scheme and the Commonwealth Superannuation Scheme will be undertaken in 2002-03 based on data at 30 June 2002.

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.

Asset sales — Telstra

The forward estimates include the effect of the sale of the Commonwealth's shareholding in Telstra, noting that the level of proceeds will depend, *inter alia*, on the prevailing levels of world equity markets at the time of the sale. The sale of the Commonwealth's remaining shareholding in Telstra is dependent on the passage of legislation through the Parliament. The Government has committed not to introduce such legislation until it is satisfied arrangements exist to deliver adequate services, in particular to rural and regional Australia. The Government's immediate priority is to get more services into rural and regional areas. At the present time, the Government is not satisfied that such arrangements are in place and believes more work needs to be done, including in the context of the response to the Telecommunications Service Inquiry into the adequacy of service levels in rural and regional areas.

Natural 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

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 vaccines 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. Fiscal risks are expected to be small to moderate.

Immigration and Multicultural Affairs

Unauthorised boat arrivals

Unauthorised boat arrival numbers are volatile and difficult to predict. The number of unauthorised boat arrivals to Australia in 2000-01 has not to date reached the unprecedented levels experienced in 1999-2000. The Government's measures to reduce unauthorised boat arrivals appear to be having an impact on people smuggling operations, resulting in a reduction in arrival numbers. If the reduced arrivals level is sustained, the forward estimates will be reduced.

Industry, Science and Resources

Corporatisation of the Snowy Mountains Hydro-Electric Authority (SMHEA) and environmental flows into the Snowy and Murray Rivers

The Commonwealth is providing \$75 million over 10 years until 2011-12 as its contribution to water savings projects as part of a commitment with the NSW and Victorian governments to increasing environmental water flows in the Snowy and Murray Rivers. The establishment of a joint government entity to oversee the investment in the water savings projects will not occur until after SMHEA is corporatised. The timing of the expenditure on water savings projects will be driven by the corporatisation process and on how quickly a program of works can be developed and implemented by the joint government entity. There may be a need to bring forward Commonwealth expenditure.

Repayment of Snowy Mountains Hydro-Electric Scheme debt

Corporatisation of the Scheme is expected to occur shortly and will involve the refinancing and early repayment of debt to the Commonwealth. The market value of the debt was estimated to be \$922 million as at 1 January 2001. Detailed arrangements are to be finalised between the Commonwealth, New South Wales and Victorian Governments, as shareholders in the new company. The amount and timing of repayments will be influenced by the date of corporatisation and market conditions.

Reconciliation and Aboriginal and Torres Strait Islander Affairs

Hindmarsh Island Bridge damages claim

Judgement is awaited in a substantial damages claim brought by the developers of a marina associated with the proposed Hindmarsh Island Bridge 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.

Treasury

International Monetary Fund (IMF) assistance to Thailand

Australia's offer to provide bilateral financing of up to \$1 billion in support of the IMF programme in Thailand was taken up in the form of a series of currency swaps between the Reserve Bank of Australia (RBA) and the Bank of Thailand. Under the swap arrangements, the RBA provided \$US862 million to the Bank of Thailand in exchange for Thai baht. Repayments of swaps drawn under the facility began in March 2001, with a repayment of \$US100 million. Repayment in full is scheduled to occur no later than July 2004. In the event of default, the ability of the RBA to maintain the dividend stream projected in the forward estimates may be affected.

Transitional arrangements for reforms to Commonwealth-State financial relations

The Commonwealth has guaranteed that in each of the transitional years following the introduction of *The New Tax System*, each State's budgetary position will be no worse off than had the reforms to Commonwealth-State financial relations not been implemented.

To meet this guarantee, the Commonwealth pays the States transitional assistance (known as Budget Balancing Assistance) to cover any shortfall of GST revenue below the Guaranteed Minimum Amount (GMA). The GMA calculates the amount of funding each State would have had available to it under the previous tax system.

As a result of this transitional arrangement, a shortfall in estimated GST revenue may result in increased expenses to the Commonwealth. (Further details are in *Budget Paper No. 3*.)

Veterans' Affairs

Payments to Prisoners of War of the Japanese

The Government has committed to make a one-off payment of \$25,000 to certain former Australian Prisoners of War of the Japanese on their surviving spouse. The intention is to make this payment in the 2000-01 financial year, and an amount has been included in the estimates for these payments. However, the actual level of payments will be dependent upon the response from claimants and the claims assessment process. Those claims not paid in the 2000-01 financial year will be assessed and paid in the 2001-02 financial year.

CONTINGENT LIABILITIES — QUANTIFIABLE

Communications, Information Technology and the Arts

Australian Broadcasting Corporation (ABC)

The Commonwealth has guaranteed loans by the ABC. These loans were largely used to meet costs relating to the construction of premises for the ABC at Southbank in Melbourne and Ultimo in Sydney. The principal amount covered by the guarantee as at 31 March 2001 was \$90 million, a decrease of \$53 million since the 2000-01 Budget.

Special Broadcasting Service Corporation (SBS)

The Commonwealth has guaranteed a loan taken out by the SBS. The principal amount covered by the guarantee as at 31 March 2001 was \$39 million. The loan was used to

pay for the refurbishment and enhancement of the Service's premises at Artarmon in Sydney.

Art Indemnity Australia

The amount indemnified for artworks on loan to galleries participating in exhibitions under the Scheme is \$1.5 billion as at 31 March 2001. 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 \$27 million. The total 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*.

Australian Defence Industries Limited (ADI) – Warranty on sale.

On completion of the sale of ADI Ltd 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. Since last Budget the purchaser, Thomson CSF Pty, has lodged 11 claims against the Defence Force for breach of warranty on sale. The total value of the claims is between \$18.8 million and \$50 million.

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 of 31 March 2001, two Commonwealth Loan Guarantees for \$175,000 each were issued by the Commonwealth.

Finance and Administration

ComLand Limited

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

Foreign Affairs and Trade

Export Finance and Insurance Corporation (EFIC)

The Commonwealth guarantees the due payments by EFIC of money that is, or may at any time become, payable by EFIC to any body other than the Commonwealth. As at 31 March 2001, the Commonwealth's total contingent liability was \$8.1 billion, comprising EFIC's balance sheet liabilities (\$1.4 billion), contracts of insurance and guarantees (\$3.6 billion) and national interest account liabilities (\$3.2 billion).

Industry Science and Resources

Australian Industry Development Corporation (AIDC)

As at 31 March 2001, the Corporation's contingent liabilities were approximately \$126 million in respect of guarantees and credit risk facilities. The Corporation's other guaranteed borrowings totalled approximately \$1.50 billion as at 31 March 2001. 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).

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 to finance capital works of the Scheme. The borrowings are subject to explicit Commonwealth guarantees. As at 31 March 2001, the face value of guaranteed borrowings was \$182 million, having a net value of \$122 million after adjustment for the unamortised discount.

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. Outstanding borrowings covered by the guarantee as at 31 March 2001 were \$148 million.

Treasury

Guarantees under the Commonwealth Bank Sale Act 1995

Under the terms of the *Commonwealth Bank Sale Act 1995*, the Commonwealth has guaranteed various liabilities of the Commonwealth Bank of Australia (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, 40 per cent involves off-balance sheet liabilities. As at 30 June 2000 (the latest available figures), the balance of the guarantee was \$19.2 billion, a reduction of \$74.9 billion 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 2000 have been valued at \$3.7 billion following an actuarial review. The outstanding value subject to the guarantee is estimated to be \$3.7 billion.

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 \$20.3 million as at 30 June 2000 .

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 (that is, 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. As at 25 April 2001, Notes on Issue totalled \$27.3 billion. In total, the guarantee for the Reserve Bank was \$54.8 billion as at 25 April 2001, reflecting an increase of around \$12.4 billion since the 2000-01 Budget.

Uncalled capital subscriptions — international financial institutions

The liability relates to the value of the uncalled portion of the Commonwealth's shares at 30 March 2001 in the International Bank for Reconstruction and Development (\$US2.8 billion — estimated value \$A5.6 billion), the Asian Development Bank (\$US2.4 billion — estimated value \$A5.0 billion), the European Bank for Reconstruction and Development (EBRD) (\$US82 million plus EUR77.5 million — estimated value \$A306 million), and the Multilateral Investment Guarantee Agency (MIGA) (\$US26 million — estimated value \$A54 million). The values of the uncalled capital portions for the EBRD and MIGA include Australia's subscriptions to the general capital increases for both of these institutions, as announced in the 2000-01 Budget. These subscriptions did 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, HMAS VOYAGER and HMAS STALWART damages claims

Some former crew members of HMAS MELBOURNE have instituted legal proceedings against the Commonwealth claiming damages for injuries relating to the collision with HMAS VOYAGER on 10 February 1964. To date, 107 claims remain current. A number of dependency claims arising from that collision have also been made or foreshadowed by the dependants of deceased members of the crew of HMAS VOYAGER. To date a number of claims from dependants have been settled and 33 additional claims have been foreshadowed. There is a possibility that further claims will be made by former members of crew of HMAS MELBOURNE and the dependants of deceased members of the crew of HMAS VOYAGER.

There is also a claim against the Commonwealth for damages for injuries allegedly sustained as a result of the HMAS MELBOURNE/USS FRANK E EVANS collision of 3 June 1969. It is possible that further claims will be made by former crew members of HMAS MELBOURNE arising out of that collision.

Twenty-five claims for damages for injuries allegedly arising out of an incident aboard HMAS STALWART that occurred on 22 October 1985 have been settled. Another five claims are currently the subject of legal proceedings. It is possible that former crew of HMAS STALWART and the dependants of deceased members of the crew will make further claims.

Environment and Heritage

Newcrest Mining (WA) Limited and BHP Minerals Limited v the Commonwealth of Australia and the Director of National Parks and Wildlife

In August 1997, the High Court of Australia found that the declarations of Stage 3 Kakadu National Park in 1987, 1989 and 1991 were technically invalid with respect to 23 small areas in the south-east of the park covered by existing mineral leases held by the Newcrest group of companies. The reason for this decision was that the declaration over these areas had, with the absolute prohibition on mining activities in Kakadu under the *National Parks and Wildlife Conservation Act 1975*, affected an acquisition of property without payment of just terms compensation, as required by the Australian Constitution.

The Minister for Environment and Heritage has indicated that the lease areas need to be re-incorporated within the Park and that the Government will address the issue of 'just terms' compensation. The quantum of compensation payable for the leases and the financial consequences of incorporation of the leases into Kakadu are under active consideration. Regardless of the amount of compensation, there is an obligation for the Commonwealth to pay court costs on behalf of Newcrest. The Government has entered

a dialogue with mining company representatives about the matter. The process was still underway as at March 2001.

Finance and Administration

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 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 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 — 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.

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 4-35 to 4-41 in the 2000-01 Budget Paper No. 1.

Health and Aged Care

Commonwealth Serum Laboratories (CSL) Limited

Commonwealth Serum Laboratories Limited is indemnified against claims made by persons who contract specified infections from specified products and against employees contracting asbestos-related injuries. Commonwealth Serum Laboratories 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.

Blood and blood products liability cover

The Commonwealth has signed a memorandum of understanding (MoU) with the States, Territories and the Australian Red Cross Blood Service (ARCBS) to establish a National Managed Fund (NMF). The NMF will be established as a discretionary trust. The NMF is necessary to establish a single consistent approach to pooling the liability risks associated with the supply of blood and blood products by the ARCBS within the Commonwealth of Australia. The NMF replaces previous arrangements which were on a state by state basis. The MoU provides for the parties to contribute to the NMF taking into account, *inter alia*, potential claims payments; the level of funds in the NMF and investment earnings; and a prudential allowance for liabilities incurred but not the subject of claims.

If there are insufficient funds to cover claim costs, the MoU provides for each party to contribute funds in accordance with allocation provisions prevailing at the time.

Under the MoU, the blood and blood products liability cover for the ARCBS is effective from 1 July 2000 and remains in force until all parties agree to terminate the arrangements from an agreed date. The MoU provides for each party to remain liable for: their share of all claims settled with the terms of the MoU including any claims made after the date of termination; and any unresolved claims arising out of events between the commencement date and the date of termination.

Reconciliation and Aboriginal and Torres Strait Islander Affairs

Separation of Aboriginal children from their families in the Northern Territory

Earlier laws, policies and practices in relation to the Commonwealth's administration of the Northern Territory led to the separation of certain indigenous children from their families. There are currently over 2,100 claims pending against the Commonwealth for (largely unspecified) damages in relation to alleged forcible and wrongful separations (mostly by the children of those allegedly forcibly and wrongfully removed). Only two of these claims have so far proceeded to hearing. These were dismissed by the Federal Court in Darwin in August 2000, but are currently under appeal to the Full Bench of the Federal Court.

Transport and Regional Services

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 increasing number of claims for asbestos related injuries to former waterside workers, and a class action against SIFC was initiated in February 2001 by Slater & Gordon. These injury 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.

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 AAS31 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.

Housing Loans Insurance Corporation (HLIC)

The HLIC was sold by the Commonwealth on 12 December 1997 and all residual contingencies have been assumed by the Commonwealth. The principal amount covered by the guarantee and the balances outstanding are unable to be reliably measured. The guarantee relates essentially to the HLIC's contracts of mortgage insurance and any borrowings approved by the Treasurer up to the time of sale.

STATEMENT 11: BUDGET CONCEPTS AND HISTORICAL DATA

Contents

Statement 11: Budget Concepts and Historical Data	11-3
Part I: Budget concepts	11-3
External reporting standards	11-3
Accrual GFS framework	11-3
Sectoral classifications	11-7
Australian Accounting Standard No. 31 (AAS31) Reporting Framework	11-8
Reconciliation of GFS and AAS31 aggregates	11-9
Part II: Historical general government data	11-13

Statement 11: Budget Concepts and Historical Data

The 2001-02 Budget has been prepared in accordance with the Australian Bureau of Statistics (ABS) accrual Government Finance Statistics (GFS) framework. Financial statements and additional agency statistics conforming with Australian Accounting Standard No. 31 (AAS31) are also provided, as required under the Charter of Budget Honesty Act 1998. The GFS accrual framework provides the basis on which the major budget aggregates — the fiscal and underlying cash balances — are calculated.

Part I: Budget concepts

EXTERNAL REPORTING STANDARDS

The Commonwealth *Charter of Budget Honesty Act 1998* requires that the budget be based on external reporting standards. In accordance with the Charter, the major external standards used in the budget are the Australian Bureau of Statistics (ABS) accrual Government Finance Statistics (GFS) framework and Australian accounting standards, including Australian Accounting Standard No. 31 *Financial Reporting by Governments* (AAS31). The Charter also requires that departures from applicable external reporting standards be identified.

The major budget aggregates (including the fiscal and underlying cash balances) are based on the accrual GFS framework. The next section of this statement provides an overview of the operation of the GFS framework and a discussion of the GFS financial statements, including the major fiscal aggregates. It also includes some brief information on AAS31.

ACCRUAL GFS FRAMEWORK

The GFS reporting framework is a specialised statistical system designed to support economic analysis of the public sector. It allows comprehensive assessments to be made of the economic impact of government and is consistent with international statistical standards (the *System of National Accounts 1993* (SNA93) and the draft accrual version of the IMF's *A Manual on Government Finance Statistics*). Additional information on the Australian accrual GFS framework is available in the ABS publication *Information Paper: Accruals-based Government Finance Statistics, 2000* (Cat. No. 5517.0).

Nature of the GFS framework

The accrual GFS framework is based on an integrated recording of flows and stocks. Flows reflect the creation, transformation, exchange, transfer or extinction of economic value. They involve changes in the volume, composition or value of a unit's assets,

liabilities and net worth. Stocks refer to a unit's holdings of assets, liabilities and net worth at a point in time.

Two types of flows are distinguished: transactions and other economic flows.

- **Transactions** represent flows that come about as a result of mutually agreed interactions between units or within a single unit. Despite their compulsory nature, taxes are transactions that are deemed to occur by mutual agreement between the government and the taxpayer.
- **Other economic flows** represent changes to stocks that do not result from a transaction. Other economic flows arise from changes to stocks caused by price movements (revaluations), including interest and exchange rate movements, and phenomena such as discoveries, depletion and destruction.

The GFS conceptual framework is divided into a number of separate statements, each of which is designed to draw out analytical aggregates or balances of particular economic significance. Taken together, these aggregates provide for a thorough understanding of the financial position of the public sector entities. The GFS statements reported in the budget are the operating statement, balance sheet and the cash flow statement. A discussion of each of these statements follows.

GFS operating statement

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

GFS **revenues** are broadly defined as transactions that increase net worth (effectively inflows) and GFS **expenses** as transactions that decrease net worth (effectively outflows) — net worth is defined in the balance sheet section below.

GFS revenues less GFS expenses gives the GFS **net operating balance**. Conceptually, the net operating balance measures government saving plus capital transfers.

The net acquisition of non-financial assets (**net capital investment**) measures the change in non-financial assets owned by the government. As such, it measures the net effect of purchases, sales and consumption (eg depreciation of fixed assets and use of inventory) of non-financial assets during an accounting period.

Net acquisition of non-financial assets equals gross fixed capital formation, *less* depreciation, *plus* changes (investment) in inventories, *plus* other transactions in non-financial assets. Each of these items is briefly expanded upon below:

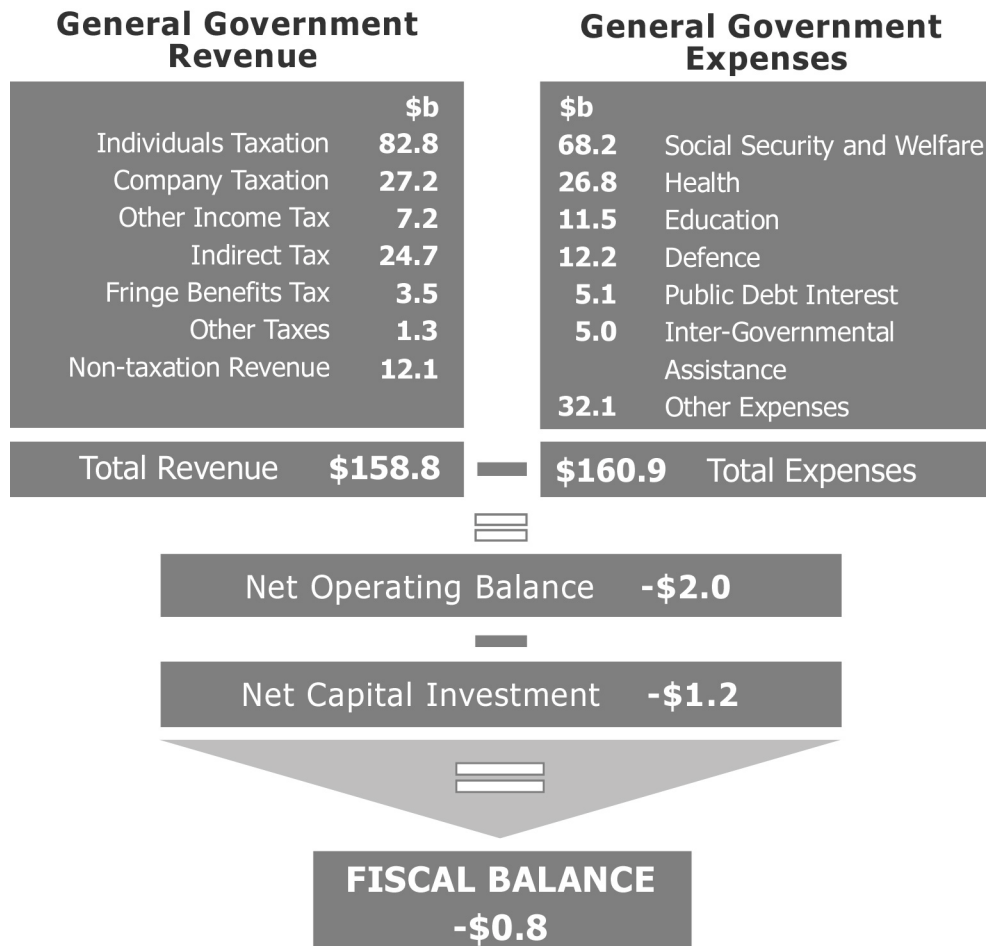
- Gross fixed capital formation comprises purchases *less* sales of fixed assets (such as buildings).
- Depreciation measures consumption of fixed assets, such as through physical deterioration or normal obsolescence, as they are used in production.

- Changes in inventories measures investment in new inventory stocks *less* use of current inventories.
- Other transactions in non-financial assets mainly comprises (for the Commonwealth general government sector) changes in the value of work-in-progress and software assets and transactions in non-reproducible, intangible assets (such as telecommunications spectrum).

Fiscal balance

The fiscal balance (or GFS net lending/borrowing) is the net operating balance *minus* net capital investment. The diagram in Figure 1 shows a pictorial calculation of the 2001-02 fiscal balance and the relationship between the operating balance components.

Figure 1: Calculation of the fiscal balance (2001-02 Budget)



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

A fiscal balance **surplus** indicates that the Commonwealth is placing financial resources at the disposal of other sectors (that is, the Commonwealth is lending to other sectors). A fiscal balance **deficit** indicates that the Commonwealth is utilising the financial resources of other sectors. Thus, fiscal balance can be viewed as a global indicator of the financial impact of Commonwealth Government operations on the rest of the economy.

Balance sheet

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

Assets represent instruments or entities over which ownership rights are enforced by a unit, from which economic benefits may be derived by holding them, or using them, over a period of time. **Liabilities** represent obligations to provide economic value to other institutional units.

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

Net debt is defined as the sum of selected financial liabilities (deposits held; advances received; and borrowing) *minus* the sum of selected financial assets (cash and deposits; advances paid; and investments, loans and placements). Net debt is a common measure of the strength of a government's financial position.

Cash flow statement

The cash flow statement identifies how cash is generated and applied in a single accounting period. 'Cash' means cash on hand (notes and coins held and deposits held at call with a bank or other financial institution) and cash equivalents (highly liquid investments that are readily convertible to cash on hand at the investor's option and overdrafts considered integral to the cash management function).

The cash flow statement reflects a cash basis of recording (rather than an accrual basis) where the information has been derived indirectly from underlying accrual transactions and movements in balances. This, in effect, means that transactions are captured when cash is received or when cash payments are made. Cash transactions are specifically identified because cash management is considered an integral function of accrual budgeting.

Underlying cash balance

The underlying cash balance (GFS surplus/deficit) is the cash counterpart of the fiscal balance. For the general government sector it is calculated as shown below.

Net cash flows from operating activities
<i>plus</i>
Net cash flows from investments in non-financial assets
<i>less</i>
Acquisitions of assets acquired under finance leases and similar arrangements
<i>equals</i>
Underlying cash balance

The underlying cash balance is a broad indicator of the Commonwealth's cash flow requirements. An underlying cash **surplus** reflects the extent to which cash is available to the Commonwealth to either increase its financial assets or decrease its liabilities (assuming no revaluations and other changes occur). An underlying cash **deficit** is a measure of the extent to which the Commonwealth requires cash, either by running down its financial assets or by drawing on the cash reserves of other sectors.

Headline cash balance

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

Cash flows from investments in financial assets for policy purposes¹ include equity transactions (such as privatisations of government businesses) and net advances (major examples for the Commonwealth relate to cash flows from loans to the States, loans to students under the Higher Education Contribution Scheme (HECS), and contributions to international organisations that increase the Commonwealth's financial assets).

SECTORAL CLASSIFICATIONS

GFS data are presented by institutional sector, distinguishing between the general government sector, the public non-financial corporations (PNFC) sector and the public financial corporations (PFCs) sector.

Budget reporting focuses on the general government sector. This sector provides public services that are mainly non-market in nature, and for the collective consumption of the community, or involve the transfer or redistribution of income. These services are largely financed through taxes and other compulsory levies,

¹ These cash flows used to be known as net advances under the cash budgeting framework.

although user charging and external funding have increased in recent years. This sector comprises all government departments, offices and some other bodies.

The PNFC sector comprises bodies that 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 that own them. A list of major Commonwealth PNFCs is provided in Box 1 below.

Box 1: List of major Commonwealth public non-financial corporations at May 2001

Airservices Australia	Albury-Wodonga Development Corporation
Australian Dairy Corporation	Australian Government Solicitor
Australian Hearing Services	Australian Postal Commission
Australian Rail Track Corporation	Australian Submarine Corporation
Employment National	Essendon Airport Limited
National Rail Corporation Limited	Snowy Mountains Hydro Electric Authority
Sydney Airports Corporation Limited	Telstra Corporation Limited

Together the general government sector and the PNFC sector comprise the non-financial public sector.

The GFS coverage of the public sector also includes PFCs. Information on PFCs is not included in the budget as the Commonwealth only reports PFC information in its Final Budget Outcome, as required under the *Accrual Uniform Presentation Framework*.

PFC bodies are engaged in financial intermediation services or auxiliary financial services. They are able to incur financial liabilities on their own account. This sector includes the Reserve Bank of Australia.

The total public sector comprises all sectors of government — general government, the PNFC sector and the PFC sector.

AUSTRALIAN ACCOUNTING STANDARD NO. 31 (AAS31) REPORTING FRAMEWORK

Australian Accounting Standard No. 31 — Financial Reporting by Governments (AAS31) requires governments to prepare accrual-based general purpose financial reports, including in relation to the assets they control and any liabilities incurred, their revenues and expenses, and cash flows. Reporting under this framework is intended to provide a consolidated overview of the financial performance and position of government, including in the area of financing and investing activities.

There are three main general purpose statements that must be prepared in accordance with the AAS31 framework. These are:

- a statement of revenue and expenses;
- a balance sheet; and
- a statement of cash flows.

In addition to these general purpose statements, the standard requires notes to the financial statements to be prepared which report disaggregated information in relation to the financial performance and financial position of the government. The notes should also include other information seen as relevant to users.

While AAS31 provides a general framework for accrual budgeting and financial reporting by governments, compliance with all other applicable accounting standards is required. Exceptions to this rule are explicitly stated in AAS31.

A full set of AAS31 financial statements and accompanying notes prepared for the general government sector can be found in Statement 10.

RECONCILIATION OF GFS AND AAS31 AGGREGATES

There is a general consistency of treatment between GFS and accounting standards. The GFS and AAS31 definitions of the scope of the public sector agree in almost all cases, with AAS31 recommending the same segmentation of the public sector into general government, public non-financial corporations (PNFC) and public financial corporations (PFC) sectors.

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 some variation in the treatment of certain items.

In particular, revaluations of assets and liabilities are classified differently under the AAS31 and GFS standards. Major revaluations include: writedowns of bad and doubtful debts (excluding those that are mutually agreed); changes in the valuation of superannuation liabilities; and foreign exchange gains and losses.

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. Therefore, most revaluations are not taken into account in the calculation of the GFS net operating balance or fiscal balance.

Some of the major differences between the GFS and AAS31 treatments of transactions are outlined in Table 1. Further information on the differences between the two

systems is provided in the ABS publication *Information Paper: Accruals-based Government Finance Statistics* (Cat. No. 5517.0).

Table 1: 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 expenses.
Gains and losses on assets	Treated as part of operating revenues/expenses.	Treated as revaluations and therefore removed from revenues/expenses.
Interest flows related to swaps and other financial derivatives	Treated as operating revenues and expenses.	Treated as financing transactions and so not included in revenues and expenses.
Acquisition of defence weapons platforms	Treated as capital expenditure. Defence weapons platforms appear as an asset on the balance sheet. Depreciation expense on assets is recorded in the operating statement.	Treated as an expense. Defence weapons platforms do not appear as an asset on the balance sheet and no depreciation is recorded in the operating statement.
Commonwealth general government sector investments in public corporations	Investments in public corporations are valued at historic cost in the balance sheet.	Investments in public corporations are valued at current market value. For publicly listed corporations, the share price is used to calculate market value. For non-listed corporations, the current value of net assets is used.
Public debt net interest	Premiums and discounts on the repurchase of debt are included in public debt net interest expenses at the time of repurchase, regardless of whether the stock is cancelled at that time. Issue premiums and discounts are amortised over the life of the stock.	Repurchase premiums 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 premiums or discounts in the year that the repurchased stock is cancelled or matures.
Finance leases	Treats finance leases as if an asset were purchased from borrowings. That is, the lease payment is split into an interest component (which is shown as an operating expense) and a principal component. The asset and the liability are recorded on the balance sheet. 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 2 reconciles GFS revenue and expenses with their AAS31 counterparts.

Table 2: Reconciliation of GFS and AAS31 revenue and expenses

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
GFS revenue (Statement 9)	184,909	186,320	194,073	206,378	218,257
<i>less</i> GST revenue for States and Territories	-23,880	-27,480	-29,170	-30,830	-32,600
GFS revenue (Statements 1, 2, 5, 8, 11)	161,029	158,840	164,903	175,548	185,657
<i>plus</i> foreign exchange gains	0	41	0	0	0
<i>plus</i> other economic revaluations	0	0	0	0	0
<i>plus</i> profit on the sale of assets	1,640	179	70	296	133
<i>plus</i> swap interest received	2,357	2,418	2,371	2,189	2,115
<i>plus</i> revenue allocated to GFS expenses	140	135	141	143	147
AAS31 revenue (Statement 10)	165,167	161,613	167,486	178,176	188,052
GFS expenses (Statement 9)	181,453	188,355	195,983	203,947	211,559
<i>less</i> GST Grants to States and Territories	-23,880	-27,480	-29,170	-30,830	-32,600
GFS expenses (Statement 1, 2, 6, 8, 11)	157,573	160,875	166,813	173,117	178,959
<i>plus</i> revaluations/writedowns from superannuation	241	0	0	0	0
<i>plus</i> net writedown of assets/bad and doubtful debts	1,722	990	950	965	958
<i>plus</i> foreign exchange losses	1,896	0	0	0	0
<i>plus</i> other economic revaluations	395	0	0	0	0
<i>plus</i> loss on the sale of assets	48	7	2	2	0
<i>less</i> costs of asset sales	0	0	0	218	218
<i>less</i> other property expenses	0	0	0	0	0
<i>plus</i> swap interest paid	2,430	2,042	1,972	1,806	1,756
<i>plus</i> defence weapons platforms depreciation	1,653	1,980	2,182	2,312	2,370
<i>less</i> defence weapons platforms investment	2,865	2,821	3,506	3,923	4,145
<i>plus</i> revenue allocated to GFS expenses	140	135	141	143	147
<i>plus</i> AusAid IDA/ADF expenses	291	350	0	0	575
AAS31 expenses (Statement 10)	163,526	163,559	168,554	174,203	180,402

Table 3 reconciles the accounting operating result to the GFS net operating balance and the fiscal balance (GFS net lending).

The reconciliation 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 (these classification differences are simply the sum of those shown in Table 2 above).

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.

Table 3: Reconciliation of AAS31 net operating result and fiscal balance

	Estimates		Projections		
	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
AAS31 operating result before extraordinary items (Statement 10)	1,641	-1,946	-1,068	3,973	7,650
Net classification differences	1,815	-89	-842	-1,541	-952
GFS net operating balance (Statement 9)	3,456	-2,035	-1,910	2,431	6,699
<i>less</i> purchase of property, plant and equipment and intangibles	4,654	4,641	5,351	5,651	5,782
<i>less</i> assets acquired under finance leases	-4	-88	-12	0	0
<i>less</i> other non-financial assets	-28	89	-118	-83	-35
<i>less</i> increase in inventories	118	86	56	363	311
<i>plus</i> defence weapons platforms investment	2,865	2,821	3,506	3,923	4,145
<i>plus</i> proceeds from sales of property, plant and equipment and intangibles	2,426	1,666	622	695	568
<i>plus</i> depreciation and amortisation	1,418	1,441	1,513	1,578	1,581
Fiscal balance (GFS net lending) (Statement 9)	5,424	-834	-1,546	2,697	6,935

Part II: Historical general government data

Table A1: Commonwealth general government sector cash revenue, outlays and surplus^(a)

	Revenue			Outlays			Cash surplus(b)	
	\$m	% Real Growth	Per cent of GDP	\$m	% Real Growth	Per cent of GDP	\$m	Per cent of GDP
1969-70	7,097	8.8	21.1	6,131	2.3	18.2	966	2.9
1970-71	8,000	6.1	21.5	7,176	10.1	19.3	824	2.2
1971-72	8,827	3.5	21.5	7,987	4.4	19.4	840	2.0
1972-73	9,414	0.2	20.3	9,120	7.2	19.7	294	0.6
1973-74	11,890	10.5	21.3	10,829	3.9	19.4	1,061	1.9
1974-75	15,325	5.3	22.9	15,275	15.2	22.9	50	0.1
1975-76	18,316	3.3	23.2	19,876	12.5	25.2	-1,560	-2.0
1976-77	21,418	4.4	23.6	22,657	1.8	24.9	-1,239	-1.4
1977-78	23,491	0.9	23.7	25,489	3.5	25.7	-1,998	-2.0
1978-79	25,666	3.2	22.8	27,753	2.8	24.7	-2,087	-1.9
1979-80	29,780	5.6	23.3	31,041	1.8	24.3	-1,261	-1.0
1980-81	35,148	6.7	24.2	35,260	2.7	24.3	-112	-0.1
1981-82	40,831	3.5	24.6	40,394	2.1	24.3	437	0.3
1982-83	44,675	-1.8	24.9	47,907	6.4	26.7	-3,232	-1.8
1983-84	49,102	3.3	24.3	55,966	9.7	27.6	-6,864	-3.4
1984-85	57,758	11.2	25.7	63,639	7.5	28.4	-5,881	-2.6
1985-86	64,845	5.6	26.2	69,838	3.2	28.2	-4,993	-2.0
1986-87	73,145	5.6	26.9	75,392	1.0	27.7	-2,247	-0.8
1987-88	81,217	3.2	26.2	79,440	-2.1	25.6	1,777	0.6
1988-89	88,369	0.6	25.2	82,202	-4.3	23.4	6,167	1.8
1989-90	95,517	1.6	24.9	88,882	1.7	23.1	6,635	1.7
1990-91	97,705	-2.1	24.6	97,333	4.8	24.5	372	0.1
1991-92	92,966	-6.8	22.9	104,551	5.2	25.8	-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	4.8	22.3	117,252	4.0	26.1	-17,110	-3.8
1994-95	109,720	9.2	23.2	122,901	4.4	26.0	-13,181	-2.8
1995-96	121,105	7.3	23.9	131,182	3.8	25.9	-10,077	-2.0
1996-97	129,845	5.3	24.4	135,126	1.2	25.4	-5,281	-1.0
1997-98	135,779	3.2	24.0	134,608	-1.7	23.8	1,171	0.2
1998-99	146,521	7.6	24.6	141,033	4.5	23.7	4,190	0.7
1999-00	165,828	na	26.2	153,157	na	24.2	12,671	2.0
2000-01(e)	159,118	-7.7	23.7	156,869	-1.4	23.3	2,253	0.3
2001-02(e)	162,823	0.9	23.2	161,391	1.4	23.0	1,520	0.2
2002-03(p)	167,897	0.6	22.5	166,846	0.9	22.4	1,063	0.1
2003-04(p)	177,495	3.2	22.5	173,392	1.4	21.9	4,103	0.5
2004-05(p)	187,374	3.0	22.4	179,972	1.3	21.5	7,403	0.9

(a) There is a break in the series between 1998-99 and 1999-00. Data for the years up to and including 1998-99 are consistent with the cash ABS GFS reporting requirements. From 1999-00 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 proxied 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. These payments are not incorporated prior to 1998-99.

(e) Estimates.

(p) Projections.

Table A2: Commonwealth general government sector cash taxation revenue, non-taxation revenue and total revenue^(a)

	Taxation revenue			Non-taxation revenue			Total revenue		
	\$m	% Real Growth	Per cent of GDP	\$m	% Real Growth	Per cent of GDP	\$m	% Real Growth	Per cent of GDP
1969-70	6,341	9.3	18.8	756	4.9	2.2	7,097	8.8	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	3.5	19.2	940	3.4	2.3	8,827	3.5	21.5
1972-73	8,411	0.1	18.2	1,003	0.2	2.2	9,414	0.2	20.3
1973-74	10,832	12.7	19.4	1,058	-7.7	1.9	11,890	10.5	21.3
1974-75	14,141	6.6	21.2	1,184	-8.6	1.8	15,325	5.3	22.9
1975-76	16,920	3.4	21.5	1,396	1.9	1.8	18,316	3.3	23.2
1976-77	19,714	4.1	21.7	1,704	9.0	1.9	21,418	4.4	23.6
1977-78	21,428	0.0	21.6	2,063	11.4	2.1	23,491	0.9	23.7
1978-79	23,409	3.1	20.8	2,257	3.3	2.0	25,666	3.2	22.8
1979-80	27,473	6.8	21.5	2,307	-6.9	1.8	29,780	5.6	23.3
1980-81	32,641	7.4	22.5	2,507	-1.7	1.7	35,148	6.7	24.2
1981-82	37,880	3.4	22.8	2,951	4.9	1.8	40,831	3.5	24.6
1982-83	41,025	-2.8	22.9	3,650	11.0	2.0	44,675	-1.8	24.9
1983-84	44,849	2.7	22.2	4,253	9.5	2.1	49,102	3.3	24.3
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	26.2
1986-87	66,467	5.7	24.4	6,678	4.1	2.5	73,145	5.6	26.9
1987-88	75,076	5.0	24.2	6,141	-14.5	2.0	81,217	3.2	26.2
1988-89	83,452	2.8	23.8	4,917	-26.0	1.4	88,369	0.6	25.2
1989-90	90,773	2.3	23.6	4,744	-9.3	1.2	95,517	1.6	24.9
1990-91	92,739	-2.2	23.4	4,966	0.2	1.3	97,705	-2.1	24.6
1991-92	87,364	-7.7	21.5	5,602	10.5	1.4	92,966	-6.8	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	4.0	20.8	6,780	17.9	1.5	100,142	4.8	22.3
1994-95	104,921	12.0	22.2	4,799	-29.5	1.0	109,720	9.2	23.2
1995-96	115,700	7.2	22.8	5,405	9.5	1.1	121,105	7.3	23.9
1996-97	124,559	5.8	23.4	5,286	-3.9	1.0	129,845	5.3	24.4
1997-98	130,984	3.8	23.2	4,795	-10.4	0.8	135,779	3.2	24.0
1998-99	141,105	7.4	23.7	5,416	12.6	0.9	146,521	7.6	24.6
1999-00	150,695	na	23.8	15,133	na	2.4	165,828	na	26.2
2000-01(e)	144,671	-7.6	21.5	14,447	-8.1	2.1	159,118	-7.7	23.7
2001-02(e)	147,558	0.5	21.0	15,265	4.2	2.2	162,823	0.9	23.2
2002-03(p)	155,211	2.6	20.8	12,686	-18.9	1.7	167,897	0.6	22.5
2003-04(p)	164,734	3.6	20.8	12,761	-1.8	1.6	177,495	3.2	22.5
2004-05(p)	174,514	3.4	20.8	12,860	-1.6	1.5	187,374	3.0	22.4

(a) There is a break in the series between 1998-99 and 1999-00. Data for the years up to and including 1999-99 are consistent with the cash ABS GFS reporting requirements. From 1999-00 onwards, data are derived from an accrual ABS GFS reporting framework, with total revenue proxied by receipts from operating activities and sales 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 A3: Commonwealth general government sector net debt
(as at end of financial year)^(a)**

	\$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	9.8
1985-86	26.9	10.8
1986-87	29.1	10.7
1987-88	27.4	8.8
1988-89	22.0	6.3
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	18.1
1997-98	82.9	14.7
1998-99	70.4	11.8
1999-00	53.1	8.4
2000-01(e)	42.8	6.4
2001-02(e)	37.7	5.4
2002-03(p)	36.6	4.9
2003-04(p)	17.9	2.3
2004-05(p)	-4.7	-0.6

(a) The net debt series used in this table incorporates Treasury estimates for the period 1974-75 to 1986-87 and published ABS data for the period 1987-88 to 1999-2000 (*Public Sector Financial Assets and Liabilities*, Cat. No. 5513.0). Comparable net debt data have been collected by the ABS only since 1988. Treasury estimates 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.

(e) Estimates.

(p) Projections.

Table A4: Commonwealth general government sector revenue, expenses, net capital investment, fiscal balance and net worth

	GFS Revenue		GFS Expenses		Net Capital Investment		Fiscal balance		Net Worth	
		Per cent		Per cent		Per cent		Per cent		Per cent
	\$m	of GDP	\$m	of GDP	\$m	of GDP	\$m	of GDP	\$m	of GDP
1996-97	141,688	26.6	145,809	27.4	90	0.0	-4,211	-0.8	-74,354	-14.0
1997-98	146,820	26.0	148,646	26.3	147	0.0	-1,973	-0.3	-68,544	-12.1
1998-99	151,922	25.5	146,620	24.6	1,433	0.2	3,869	0.6	-76,150	-12.8
1999-00	166,617	26.3	154,373	24.4	-1,225	-0.2	13,469	2.1	-39,922	-6.3
2000-01(e)	161,029	24.0	157,573	23.4	-1,968	-0.3	5,424	0.8	-32,659	-4.9
2001-02(e)	158,840	22.6	160,875	22.9	-1,201	-0.2	-834	-0.1	-33,915	-4.8
2002-03(p)	164,903	22.1	166,813	22.4	-364	0.0	-1,546	-0.2	-35,367	-4.7
2003-04(p)	175,548	22.2	173,117	21.9	-266	0.0	2,697	0.3	-33,288	-4.2
2004-05(p)	185,657	22.1	178,959	21.4	-236	0.0	6,935	0.8	-27,118	-3.2

(e) Estimates.

(p) Projections.

Index

A

- Aboriginal and Torres Strait Islander Affairs · 6-24
 - Education and training · 1-19
 - Employment · 1-19
 - Hindmarsh Island Bridge damages claim · 10-41
 - Housing · 1-19
 - Native title · 1-19
 - Primary Health Care Access Programme · 1-19
 - Reconciliation · 1-19
 - Separated children · 10-49
- ABSTUDY · 6-18, 6-20
- Accrual *Uniform Presentation Framework* (UPF) · 8-4
- Administrative Review Tribunal · 6-16
- Agriculture — Advancing Australia · 6-8
- Air transport · *See also* Transport
 - Adelaide Airport Noise Amelioration Programme · 6-48
 - Sydney Airport Noise Amelioration Programme · 6-48
- Airborne Early Warning and Control Aircraft · 6-14
- Art Indemnity Australia · 10-43
- Arts and cultural heritage
 - Australian National Maritime Museum · 6-37
 - Australian War Memorial · 6-37
 - National Gallery of Australia · 6-37
 - National Library of Australia · 6-37
 - National Museum of Australia · 6-37
- Asset sales · 10-48
 - Commercial Support · 6-58
 - Essendon Airport · 6-58
 - Kingsford Smith Airport (Sydney Airport) · 6-58
- Asthma · 1-18
- Attorney-General's
 - Native title · 10-38
- Australian Accounting Standard No. 31 (AAS31) · 11-3, 11-8–11-12
 - Differences with Government Finance Statistics (GFS) · 11-10
 - Reconciliation to GFS · 11-9, 11-11
 - Reporting Framework · 11-8–11-9
- Australian Accounting Standard No. 31 (AAS31) Financial Statements · 10-3–10-15
 - Agency statistics · 10-16
 - Balance sheet · 10-5
 - Depreciation and amortisation · 10-13
 - Employee liabilities · 10-14
 - Employee expenses · 10-12
 - External reporting standards · 10-7
 - Government securities · 10-15
 - Grants · 10-13
 - Grants payable · 10-15
 - Income tax · 10-10
 - Indirect tax · 10-11
 - Interest and dividends · 10-12
 - Notes to the Financial Statements · 10-7
 - Other non-financial assets · 10-14
 - Other sources of non-taxation revenue · 10-12
 - Reconciliation of cash · 10-9
 - Statement of cash flows · 10-6
 - Statement of revenue and expenses · 10-4
 - Suppliers expenses · 10-13
 - Taxes · 10-15
- Australian Broadcasting Corporation (ABC) · 6-36, 10-42
- Australian Business Number · 5-11
- Australian Coastal and Fishing Zone · 6-17
- Australian Competition and Consumer Commission · 6-52–6-53
- Australian Customs Service · 6-17
- Australian Dairy Corporation (ADC) · 6-42
- Australian Defence Force (ADF) · 6-15
- Australian Defence Industries Limited (ADI) · 10-43, 10-47
- Australian Electoral Commission · 6-10
- Australian Federal Police · 6-17
 - Reform Programme · 1-20
- Australian Fisheries Management Authority (AFMA) · 6-42
- Australian Government Analytical Laboratories · 6-52
- Australian Government Solicitor · 6-16
- Australian Greenhouse Office · 6-35
- Australian Health Care Agreements · 6-23
- Australian Industry Development Corporation (AIDC) · 10-44
- Australian Institute of Aboriginal and Torres Strait Islander Studies · 6-37
- Australian Institute of Criminology · 6-17
- Australian Maritime Safety Authority · 6-49
 - Incident costs · 10-49
 - Insurance claims · 10-49
- Australian National Railways Commission · 10-50
- Australian National Training Authority Agreement · 6-19

Australian Pork Limited · 6-42
 Australian Quarantine and Inspection
 Service (AQIS) · 6-43
 Australian Rail Operations · 10-50
 Australian Rail Track Corporation (ARTC) ·
 1-24
 Australian Red Cross Blood Service (ARCBS) ·
 6-25
 Australian Research Council · 6-11
 Australian River Company Limited · 10-47
 Australian Secret Intelligence Service · 6-17
 Australian Securities and Investments
 Commission · 6-52
 Australian Security Intelligence Organisation ·
 6-17
 Australian Sports Commission · 6-37
 Australian Surveying and Land Information
 Group · 6-52
 Australian Tax Office · 6-8, 6-9, 6-39
 Australian Transaction Reports and Analysis
 Centre · 6-17
 Australian Wheat Board (International)
 Ltd (AWBI) · 6-42
 Australian Wool Research and Promotion
 Organisation (AWRAP) · 6-8, 6-41

B

Backing Australia's Ability · 1-24–1-25, 4-4,
 4-22, 5-5, 6-8, 6-9, 6-19, 6-20, 6-47
 Backing Australia's Sporting Ability · 1-25,
 6-37
 Beer excise · 5-5, 5-17
 Besley Report · 6-48
 Better Environment, measures · 6-33
 Blood and blood products liability cover · 10-48
 Budget balancing assistance · 2-10–2-11
 Budget concepts · 11-3–11-8
 Budget Financial Statements (AAS31) ·
 10-3-10-15
 Budget priorities · 1-3, 1-12–1-28
 Backing Australia's Ability · 1-12
 Defence 2000 — Our Future Defence Force,
 White Paper · 1-26
 Education · 1-23–1-25
 Health · 1-17–1-19
 Justice · 1-20
 National Action Plan for Salinity and Water ·
 1-21
 Natural Heritage Trust · 1-20
 Older Australians · 1-16–1-17
 Reconciliation · 1-19–1-20
 Rural and regional Australia · 1-21–1-22
 Sports · 1-25–1-26
 Tax reform · 1-27–1-28
 Telecommunications · 1-22–1-23
 Transport · 1-23–1-24

Veterans · 1-17
 Bureau of Criminal Intelligence · 6-17
 Bureau of Meteorology · 6-52
 Business Activity Statement · 5-5
 Business investment · 3-3–3-4, 3-11, 3-16–3-18,
 3-26
 Business tax reform · 1-27
 Company tax rate · 1-27
 Financial Institutions Duty (FID) · 1-4, 1-10,
 1-27
 Simplified tax system · 1-27
 State duty · 1-27
 Thin capitalisation · 1-27
 Uniform capital allowances · 1-27

C

Cash flows · 2-16–2-17
 Cash revenue · 5-7, 5-33–5-34
 Cash surplus · 8-9, 8-11
 Centenary of Federation · 1-7
 Centrelink · 6-32
 Cervical cancer screening · 1-18
Charter of Budget Honesty Act 1998 · 10-7,
 10-33, 11-3
 Childcare · 1-14, 6-29
 Christmas Island · 6-12
 Civil Aviation Safety Authority · 6-48
 Cocos (Keeling) Island · 6-12
 ComLand Limited · 10-44, 10-47
 Commercialising Emerging
 Technologies (COMET) Programme · 1-24
 Commodity prices · 3-20
 Commonwealth Bank · 10-45
 Commonwealth Civilian Superannuation
 Liability · 10-39
 Commonwealth Domestic Market Support
 Scheme · 6-42
 Commonwealth Games 2006 · 1-26, 6-37
 Commonwealth Government Securities (CGS) ·
 7-4
 Commonwealth guarantees · 10-43
 Commonwealth Heads of Government Meeting
 · 6-10
 Commonwealth Scientific and Industrial
 Research Organisation (CSIRO) · 6-11
 Commonwealth Serum Laboratories (CSL) ·
 6-25, 10-48
 Commonwealth State Disability Agreement ·
 6-29
 Commonwealth Superannuation · 10-38
 Commonwealth Superannuation Scheme (CSS)
 · 6-12
 Commonwealth-State financial relations · 10-42
 Commonwealth-State Housing
 Agreement (CSHA) · 6-34

Communications, Information Technology and the Arts · 10-42
 Community Development Employment Projects scheme · 6-31
 Community Housing and Infrastructure Programme · 6-31
 Company tax · 5-6-5-8, 5-10, 5-13
 Conservative Bias Allowance · 6-55
 Consumer price index (CPI) · 5-17, 6-30. *See also* Inflation
 Consumption · *See* Household consumption
 Contingency reserve · 6-54, 6-57
 Contingent liabilities · 10-34
 Quantifiable · 10-42-10-45
 Unquantifiable · 10-46-10-52
 Core Regulated Airports, sale of · 10-50
 Corporatisation of the Snowy Mountains Hydro-Electric Authority · 10-41
 Court decisions · 10-36
 Crime · 1-20
 Cross currency swaps · 10-51
 Crude oil excise · 5-16
 Current account deficit (CAD) · 3-3-3-4, 3-11, 3-19-3-21
 Customs duty · 1-28, 5-15, 5-18

D

Dairy Industry Adjustment Package · 1-21
 Dairy Structural Adjustment Package · 6-42
 Debt Issuance Programme · 7-4
 Defence
 Litigation · 10-38
 Military Compensation · 10-43
Defence 2000 — Our Future Defence Force, White Paper · 1-12, 1-26, 6-8
 Defence Housing Authority (DHA) · 6-15, 6-34
 Department of Defence
 Airborne Early Warning and Control Aircraft · 6-14
 Armed Reconnaissance Helicopters · 6-14
 Collins class submarines · 6-14
Defence 2000 — Our Future Defence Force, White Paper · 6-14
 Defence Force Retirement and Death Benefits Scheme · 6-12
 Diesel Fuel Rebate Scheme · 6-39
 Director of Public Prosecutions · 6-16
 Dividends · 5-22
 Domestic economic outlook · 3-3-3-27
 Business investment · 3-3-3-4, 3-11, 3-16-3-18, 3-26
 Current account deficit (CAD) · 3-3-3-4, 3-11, 3-19-3-21
 Demand and output · 3-11-3-19
 Dwelling investment · 3-3-3-4, 3-11, 3-15-3-16, 3-26

Exports · 3-3-3-4, 3-11, 3-19-3-20, 3-27
 Farm production · 3-11, 3-19-3-20
 Forecasts · 3-5
 Gross national expenditure · 3-4, 3-11
 Household consumption · 3-3-3-4, 3-11, 3-13-3-15
 Inflation · 3-3-3-4, 3-13-3-15, 3-24-3-25
 Inventories · 3-18
 Labour market · 3-21-3-23
 Net exports · 3-3, 3-11, 3-19-3-20, 3-27
 Public final demand · 3-18-3-19
 Terms of trade · 3-19-3-20
 Uncertainties · 3-4
 Wages · 3-22, 3-24-3-25
 Double tax agreements · 10-37
 Drugs, illicit · 1-20
 Dwelling investment · 3-3-3-4, 3-11, 3-15-3-16, 3-26

E

East Timor · 3-19
 Economic assumptions · 5-10
 Economic growth · 1-3-1-6, 1-10
 Economic outlook · 1-4
 Domestic economy · 3-3, 3-11-3-25
 International economy · 3-6-3-10
 Overview · 3-3
 Uncertainties · 3-25-3-27
 Education · 1-23-1-25
 Average Government Schools Recurrent Cost Index · 6-20
 Backing Australia's Ability · 1-24-1-25
 Isolated children · 6-20
 Postgraduate Education Loans Scheme · 1-25
 Research and Development (R&D) Start programme · 1-24
 Research and Development (R&D) Tax Concession · 1-24
 Research grants · 1-24
 Student Financial Supplement Scheme (SFSS) · 6-20, 6-21
 University places · 1-25
 Education, Training and Youth Affairs · 6-21, 10-43
 Emergency Relief Programme · 6-31
 Employment · 3-3-3-4, 3-13-3-15, 3-21, 3-24, 8-21
 Employment National Limited
 Board members' indemnity · 10-47
 Letter of comfort · 10-47
 Exchange rate · 3-3-3-4, 3-10-3-11, 3-16-3-17, 3-19, 3-25-3-26
 Excise · 1-28
 Excise duty
 Beer and other alcohol · 5-5, 5-17
 Crude oil · 5-16

Indexation · 5-17
Petroleum · 5-16
Rates · 5-18
Tobacco · 5-6, 5-16
Expenses · 2-8–2-9
Export Finance and Insurance Corporation (EFIC) · 10-44
Exports · *See* Net exports

F

Family Tax Benefit · 6-29
Farm production · 3-11, 3-19–3-20
Federal Airports Corporation · 10-50
Finance and Administration · 6-12, 10-44
 Litigation · 10-39
Financial Institutions Duty (FID) · 1-4, 1-10, 1-27
First Home Owners Scheme · 1-28, 3-4, 3-11, 3-15–3-16, 3-26, 6-33
Fiscal
 Benefits · 1-8–1-9
 Outlook · 1-3, 1-4
 Policy · 1-3, 1-9–1-11
 Strategy · 1-3, 1-6, 1-8–1-11
Fiscal balance · 1-3, 1-8, 2-4–2-12
 Derivation · 11-6
 General government sector · 9-3
 Historical series · 11-16
 Non-financial public sector · 8-6, 9-9
 Public non-financial corporations (PNFC) · 9-6
 Variations · 2-4–2-12
Fiscal balance estimates
 Reconciliation · 2-5
Fiscal risks · 10-34
 Expenses · 10-38–10-42
 Revenue · 10-35–10-38
Fishing · 6-41
Flood
 Assistance · 1-22, 6-43
 Federal Flood Mitigation Programme · 6-34
 Recovery Fund · 6-34
Foot and mouth disease · 6-16, 6-17
Forecasts
 Domestic economic outlook · 3-5
 International economic outlook · 3-8
Foreign currency denominated debt · 10-51
Forestry · 6-41
Fringe benefits tax (FBT) · 5-19–5-20, 6-23
Fuel and energy · 6-39

G

General government
 Cash surplus · 8-11
 Fiscal balance · 8-6

Net debt · 7-3, 8-16
Net worth · 8-18
Outlays · 8-13
Revenue · 8-13
General government sector (GFS) · 8-4, 11-7, 11-13–11-16
 Cash surplus · 8-12
Goods and services tax (GST)
 Revised outlook for collections · 2-10–2-11
Government Business Enterprises (GBEs) · 5-6, 5-22
Government Finance Statistics (GFS) · 6-3, 8-3, 11-3–11-12
 Accrual framework · 11-3
 Balance sheet · 11-6
 Cash flow statement · 11-6
 Differences with Australian Accounting Standard No. 31 (AAS31) · 11-10
 General government sector (GFS)
 Balance sheet · 9-4
 Cash flow statement · 9-5
 Operating statement · 9-3
 Taxation revenue · 9-12
 Operating statement · 11-4
 Reconciliation with Australian Accounting Standard No. 31 (AAS31) · 11-9, 11-11
 Sectoral classifications · 11-7
 Statements · 9-3–9-12
Gross Other individuals taxation · 5-6, 5-10, 5-12
Gross PAYG Withholding · 5-6–5-7, 5-10–5-11
GSM 900 licence fees · 5-5

H

Headline cash balance · 2-17, 11-7
Health · 1-17–1-19
 Aboriginal and Torres Strait Islander Health · 6-24
 After hours medical care · 1-17
 Asthma · 1-18
 Australian Health Care Agreements · 6-23
 Australian Red Cross Blood Service (ARCBS) · 6-25
 Cervical cancer screening · 1-18
 Commonwealth Serum Laboratories · 6-25
 Fringe Benefits Tax (FBT) · 6-23
 Health and Medical Research Boost · 6-22
 Hospital Services · 6-23
 Integrated National Diabetes Programme · 1-18
 Medicare · 1-12, 1-17
 Medicare Benefits Schedule · 6-22
 Mental health · 1-18
 National Medicines Disposal Programme · 1-18

Pharmaceutical Benefits Scheme (PBS) · 1-18, 6-22
 Practice nurses · 1-17
 Private Health Insurance Rebate · 6-22
 Quality Use of Medicines Package · 1-18
 Regional Health Package · 6-22
 Repatriation Pharmaceutical Benefits Scheme (RPBS) · 6-24
 Veterans' Home Care · 6-23
 Health and Aged Care
 Litigation · 10-40
 Health and Medical Research Boost · 6-22
 Health Insurance Commission (HIC) · 6-25
 Helping Parents Return to Work' · 6-30
 Hindmarsh Island Bridge · 10-41
 Historical data · 11-13–11-15
 HMAS MELBOURNE · 10-46
 HMAS VOYAGER · 10-46
 Household consumption · 3-3–3-4, 3-11, 3-13–3-15
 Housing Loans Insurance Corporation · 10-52

I

Immigration
 Migration and Humanitarian Programmes · 6-52
 Immunisation funding · 10-40
 Imports · *See* Net exports
 Indian Ocean Territories · 6-12
 Indigenous Australians · 1-12. *See also*
 Aboriginal and Torres Strait Islander Affairs
 Indirect tax · 5-15–5-19
 Customs duty · 5-18
 Excise duty · 5-15–5-19
 Other indirect taxes · 5-18
 Individual tax refunds · 5-12
 Individuals income tax · 5-11
 Industrial Relations · 6-52
 Inflation · 3-3–3-4, 3-24–3-25
 Information and Communication Technology (ICT)
 Evolution of · 4-9
 Government policies · 4-22–4-23
 Historical experiences · 4-5–4-6
 Role of · 4-7–4-11, 4-19–4-21
 Innovation · 1-24–1-25
 Commercialising Emerging Technologies (COMET) Programme · 1-24
 Innovation Access Programme · 1-24
 Research and Development (R&D) Tax Concession · 1-24
 Insolvency and Trustee Service Australia · 6-16
 Inspector-General of Intelligence and Security · 6-17
 Integrated National Diabetes Programme · 1-18
 Interest · 5-21

Interest rates · 3-4, 3-10–3-11, 3-13–3-16, 3-21, 3-26–3-27
 International economic outlook · 3-3, 3-6–3-10
 China · 3-6
 East Asia · 3-3, 3-6–3-7, 3-9–3-10, 3-26–3-27
 Europe · 3-3
 European Union · 3-6, 3-9
 Japan · 3-3, 3-6–3-8, 3-10, 3-26–3-27
 Uncertainties · 3-3, 3-10, 3-26–3-27
 United States · 3-3, 3-6–3-8, 3-10, 3-26
 World growth · 3-3, 3-6–3-10, 3-16–3-18, 3-19–3-20, 3-26
 World inflation · 3-7
 International Financial Institutions
 Uncalled capital subscriptions · 10-45
 International Monetary Fund (IMF)
 Thailand · 10-41
 Inventories · 3-18
 Investment · *See* Business investment
 Ionospheric Prediction Service · 6-52
 IP Australia · 6-52

J

Japan · 3-3, 3-6–3-8, 3-10, 3-26–3-27
 Justice · 1-20
 Australian Federal Police (AFP) Reform Programme · 1-20

K

Kakadu National Park · 10-46

L

Labour market · 3-21–3-23
 Consultative Area Committees · 6-51
 Indigenous Employment · 6-51
 Job Network · 6-51
 Regional Assistance · 6-51
 Return to Work · 6-51
 Work for the Dole · 6-51
 Labour market assistance
 Career Counselling · 6-51
 Footprints to the Future · 6-52
 Green Corps · 6-51
 Helping People Find Jobs · 6-51
 Job Placement, Employment and Training Programme · 6-51
 Jobs Pathway Programme · 6-51
 Literacy and Numeracy for the Unemployed · 6-51
 Promoting Self Reliance for Indigenous Australians · 6-51
 Structural Adjustment package · 6-51

Local government · 6-56
Luxury car tax (LCT) · 5-19

M

Male Total Average Weekly Earnings · 6-29
Managed Investments Act 1998 · 6-53
Maritime Industry Finance Company Limited · 10-49
Maritime industry reform · 10-44
Measures for a Better Environment · 6-34
Meat and Livestock Australia · 6-42
Medicare · 1-17
 Levy · 5-5, 5-13
 Medicare Benefits Scheme · 10-40
 Medicare Benefits Schedule · 6-22
Melbourne Cricket Ground · 1-26
Mental health · 1-18
Mid-Year Economic and Fiscal Outlook (MYEFO) · 1-3, 5-3–5-4, 5-24, 5-28, 6-4, 6-10, 6-60
Military Superannuation and Benefits Scheme · 6-12
Mining and mineral resources (other than fuel), manufacturing and construction
 Pharmaceutical Industry Investment Programme · 6-45
 Textile Clothing and Footwear Strategic Investment Programme · 6-45

N

NASDAQ index · 4-11
National Action Plan for Salinity and Water · 1-21
National Assessments · 6-17
National Competition Council (NCC) · 6-52
National Competition Policy · 6-56
National Crime Authority · 6-17
National Estate and Parks · 6-37
National Health and Medical Research Council (NHMRC)
 Wills Review · 6-25
National Medicines Disposal Programme · 1-18
National Office for the Information Economy · 4-22
Native title · 10-38
Natural disaster relief · 6-54, 10-39
Natural Heritage Trust · 1-20, 6-37, 6-44
Net capital investment · 2-10–2-12
Net debt · 1-4, 1-8–1-10, 2-12–2-13, 7-3–7-4, 8-15–8-18
 General government sector · 9-4
 Historical series · 11-15
 Non-financial public sector · 9-10
 Public non-financial corporations (PNFC) · 9-7

Net exports · 3-3, 3-11, 3-19–3-20, 3-27
Net funding requirement · 7-3–7-4
Net interest outlays · 8-19–8-20
Net worth · 2-12–2-13, 8-18–8-19
 General government sector · 9-4
 Historical series · 11-16
 Non-financial public sector · 9-10
 Public non-financial corporations (PNFC) · 9-7
New Apprenticeship system · 6-51
New economy · 4-6
New Zealand
 Social security arrangements · 1-15
Non-financial public sector · 8-4, 8-6–8-8
 Balance sheet · 9-10
 Cash flow statement · 9-11
 Cash surplus · 8-8–8-14, 8-9, 8-11
 Fiscal balance · 8-6
 Liabilities · 8-15–8-20
 Net debt · 8-15–8-18
 Net interest outlays · 8-19–8-20
 Operating statement · 9-9
 Supplementary cash tables · 8-21–8-25
Non-taxation revenue
 Dividends · 5-22
 Interest · 5-21
 Other · 5-23

O

Oil prices · 3-4, 3-6–3-7, 3-24–3-25
Older Australians · 1-16–1-17
 Aged care services · 1-16
 Commonwealth Superannuation pensions · 1-16
 Tax free threshold · 1-16
 Telephone allowance · 1-16
Olympic Games, Sydney 2000 · 3-3, 3-18–3-20, 6-37
Online Help Service · 1-22
Online Technical Assistance Programme · 1-22
Other Income tax · 5-13
Other withholding tax · 5-14

P

Paralympic Games · 6-37
Parenting Payments · 6-29
Parliamentary Contributory Superannuation Scheme (PCSS) · 6-12
Partner Allowance Pension · 6-30
Partnership Against Domestic Violence · 6-10
Passenger Movement Charge · 1-21
Pay As You Go (PAYG) · 1-3, 5-4–5-7, 5-10
Petrol prices · 3-4, 3-13–3-14, 3-24–3-25
Petroleum excise · 5-16

Petroleum resource rent tax (PRRT) · 5-6, 5-14–5-15
 Pharmaceutical Benefits Scheme (PBS) · 1-18, 6-6, 6-7, 6-8, 6-22, 10-40
 Repatriation Pharmaceutical Benefits Scheme (RPBS) · 6-24
 Portfolio Budget Statements · 6-3
 Postgraduate Education Loans Scheme · 1-25
 Prescribed payments system (PPS) · 5-11–5-12
 Prices · *See* Inflation
 Prime Minister and Cabinet · 6-10
 Private Health Insurance Rebate · 6-22
 Private sector wealth · 3-14
 Productivity · 1-5. *See* Labour productivity
 Productivity Commission · 6-52
 Productivity growth
 Australia · 3-22–3-23, 4-15–4-17
 Capital · 4-16
 Future · 4-22
 Industry · 4-18
 United States · 4-6
 Public debt interest · 6-55
 Public final demand · 3-18–3-19
 Public financial corporations (PFCs) · 8-4, 11-7
 Public non-financial corporations (PNFC) · 11-7
 Balance sheet · 9-7
 Cash flow statement · 9-8
 Cash surplus · 8-11, 8-14
 Fiscal balance · 8-6
 Operating statement · 9-6
 Sector · 8-4
 Public sector · 8-3–8-5
 Size and structure · 8-21
 Public Sector Superannuation Scheme (PSS) · 6-7, 6-12

Q

Quarantine · 1-21
 Queensland East Coast Trawl Restructure · 6-43

R

Rail transport · *See* also Transport
 Alice Springs to Darwin Railway · 6-48
 Mainline Interstate Rail Track · 6-48
 Regional Health Package · 6-22
 Regional Solutions Programme · 6-34
 Research and Development (R&D) Start programme · 1-24
 Research and Development (R&D) Tax Concession · 1-24
 Reserve Bank of Australia (RBA) · 10-45, 10-47
 Revenue · 2-6–2-7, 5-3–5-38
 Cash bases · 5-7, 5-33–5-34
 Estimates · 5-9–5-27

 Reconciliation · 5-4
 Variations · 5-4, 5-24–5-25
 Historical series · 11-14
 Measures · 5-28–5-32
 Non-tax · 5-3, 5-21–5-23, 5-26–5-27
 Policy decisions · 5-5, 5-28
 Recognition · 5-7
 Statistics tables · 5-33–5-34
 Taxation · 5-7, 5-11–5-19
 Total · 5-3
 Road transport · 1-23. *See* also Transport
 National Highway System · 6-48
 Roads of National Importance Programme · 6-48
 Roads to Recovery Programme · 6-48
 Rural and regional Australia · 1-12
 Dairy Industry Adjustment Package · 1-21
 Natural Disaster Relief Arrangements · 1-22
 Practice nurses · 1-17
 Quarantine · 1-21
 Rural nursing scholarships · 1-17
 University places · 1-25
 Rural assistance
 Agriculture — Advancing Australia (AAA) programmes · 6-43
 Farm Forestry Programme · 6-44
 Murray Darling Basin 2001 · 6-44
 National Landcare Programme · 6-44
 Sugar Industry Assistance · 6-43
 Rural Transaction Centre Programme · 6-34

S

Safehaven programme · 6-52
 Sea transport · *See* also Transport
 Bass Strait Passenger Vehicle Equalisation Scheme · 6-49
 Tasmanian Freight Equalisation Scheme · 6-49
 Sensitivity analysis · 5-10
 Snowy Mountains Hydro-Electric Scheme · 10-41, 10-44
 Social Security and Welfare · 6-27
 Age Pension · 6-28
 Aged Persons Savings Bonus · 6-28
 Childcare Benefit · 6-29
 Disability Pension · 6-28
 Family Tax Benefit · 6-29
 Mature Age Allowance · 6-30
 Newstart Allowance · 6-30
 Parenting Payments · 6-29
 Partner Allowance Benefit · 6-30
 Self-Funded Retirees Supplementary Bonus · 6-28
 Sickness Allowance · 6-30
 War Widows Pension · 6-28
 Widow B Pension · 6-31

Wife Disability Support Pension · 6-29
 Special Benefit payments · 6-31
 Special Broadcasting Service Corporation (SBS) · 10-43
 Sports · 1-25–1-26
 Backing Australia's Sporting Ability · 1-25
 Commonwealth Games 2006 · 1-26
 Melbourne Cricket Ground · 1-26
 Tough on Drugs in Sport · 1-26
 State Legal Aid Commissions · 6-16
 Statement of Risks · 10-33–10-52
 Stevedoring Industry Finance Committee · 10-49
 Structural Adjustment Package for the South-West Forests Region of Western Australia · 6-34
 Structural reform · 1-5, 4-17–4-19
 Superannuation · 6-9, 6-12, 6-54–6-56
 Surplus · 1-3, 1-10

T

Tariffs · 5-18
 Tax
 Company · 5-6–5-8, 5-10, 5-13
 Fringe benefits tax (FBT) · 5-19–5-20
 Gross Other individuals · 5-6, 5-10, 5-12
 Gross PAYG Withholding · 5-6–5-7, 5-10–5-11
 Indirect tax · 5-15–5-19
 Individual refunds · 5-12
 Individuals income · 5-11
 Luxury car tax (LCT) · 5-19
 Medicare levy · 5-5, 5-13
 Other Income · 5-13
 Other withholding · 5-14
 Petroleum resource rent tax (PRRT) · 5-6, 5-10, 5-14–5-15
 Superannuation funds · 5-14
 Wholesale sales tax (WST) · 5-10, 5-18–5-19
 Wine equalisation tax (WET) · 5-17, 5-19
 Tax expenditures · 5-33–5-34, 10-36
 Tax File Number (TFN) · 5-11
Tax Liability Method (TLM) · 5-7
 Tax reform · 1-27–1-28, 10-36
 Telecommunications · 1-22–1-23
 Australian Broadcasting Corporation · 1-23
 Customer Service Guarantee · 1-23
 National Communications Fund · 1-22
 Online Technical Assistance Programme · 1-22
 Telstra
 Deferral of sale · 2-13–2-15, 10-39
 Impact of revised sale assumptions on the budget · 2-15
 Second tranche · 10-48
 Social Bonus programme · 6-47

Terms of trade · 3-19–3-20
 Textile Clothing and Footwear (TCF) · 6-45
The New Tax System · 1-4–1-5, 1-10, 3-3–3-5, 3-13–3-15, 3-17, 3-18, 3-24–3-25, 6-28
 The United Nations Transitional Administration in East Timor (UNTAET) · 6-17
 Tobacco excise · 5-6, 5-16
 Transport and Regional Services · 1-23–1-24, 10-44
 Aviation safety · 1-23
 Maritime · 1-23
 Rail · 1-24
 Road · 1-23
 Treasury · 10-41, 10-45
 Treasury Bonds · 7-4
 Treasury Notes · 7-4

U

Unauthorised boat arrivals · 10-40
 uncertainties · 3-26–3-27
 Underlying cash balance · 1-3–1-4, 2-16–2-17
 Derivation · 11-7
 Historical series · 11-13
 Unemployment rate · 3-3–3-4, 3-11, 3-21–3-23
Uniform Presentation Framework (UPF) · 9-2
 United States · 3-3, 3-6–3-8, 3-10, 3-26, 4-5–4-14

V

Veterans · 1-17
 Veterans' Home Care · 6-23

W

Wages · 3-22, 3-24–3-25
 Welfare
 Assistance · 1-13–1-14
 Childcare · 1-14
 Incentives · 1-14
 Obligation · 1-14
 Parents · 1-14
 Unemployed · 1-13–1-14
 Youth · 1-16
 Wheat Export Authority · 6-42
 Grains Research and Development Corporation (GRDC) · 6-42
 White Paper · *See* Department of Defence
 Wholesale sales tax (WST) · 5-10, 5-18–5-19
 Wine equalisation tax (WET) · 5-17, 5-19
 Wool industry · 6-41
 Australian Wool Services Ltd · 6-41
 Levy · 6-41

World growth · 3-3, 3-6–3-10, 3-16–3-18, 3-19–
3-20, 3-26. *See also* International economic
outlook

Z

Zyban · 5-6, 5-17

Y

Youth Allowance · 6-30