

**MID-YEAR ECONOMIC AND  
FISCAL OUTLOOK  
2002-03**

STATEMENT BY  
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## Foreword

The 2002-03 Mid-Year Economic and Fiscal Outlook (MYEFO) has been prepared in accordance with the *Charter of Budget Honesty Act 1998*. The Charter requires that the Government provide a mid-year budget report which provides updated information to allow the assessment of the Government's fiscal performance against its fiscal strategy.

Consistent with these requirements:

- **Part I: Overview** – contains summary information on the key fiscal and economic indicators.
- **Part II: Economic outlook** – discusses the domestic and international economic forecasts that underpin the budget estimates.
- **Part III: Fiscal outlook** – provides a discussion of the budget outlook and a summary of the factors explaining variations in the operating statement, balance sheet and cash flow statement since the 2002-03 Budget.
- **Appendix A: Policy decisions taken since the 2002-03 Budget** – provides details of decisions taken since the 2002-03 Budget that affect revenue, expenses and capital estimates.
- **Appendix B: Government Finance Statistics (GFS) statements** – provides the general government and consolidated whole of government financial statements on a GFS basis, consistent with the accrual *Uniform Presentation Framework*.
- **Appendix C: AAS31 Financial Reporting by Governments statements** – provides AAS31 statements and notes to the financial statements.
- **Appendix D: Risks to the Budget** – provides the statement of fiscal risks and discusses the sensitivity of the forward budget estimates to changes in economic and other parameters.
- **Appendix E: External reporting standards and budget concepts** – provides a discussion of key budget concepts relevant to the MYEFO and the external reporting standards upon which the MYEFO is based.
- **Appendix F: Historical fiscal data** – provides historical data for the Commonwealth's key fiscal aggregates.



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## NOTES

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

- ‘real’ means adjusted for the effect of inflation;
- real growth in expenses is measured by the non-farm Gross Domestic Product (GDP) deflator;
- one billion is equal to one thousand million; and
- the budget year refers to 2002-03, while the forward years refer to 2003-04, 2004-05 and 2005-06.

(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
\$b	\$ billion

(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

## Part I: Overview

The fiscal outlook remains largely unchanged since the publication of the 2002-03 Budget, despite an expected moderation in economic growth associated with the drought and the weaker global environment.

An underlying cash surplus of \$2.1 billion is anticipated in 2002-03, unchanged from the 2002-03 Budget estimate. A slight fall in expected cash payments is offset by a slight downward revision to expected cash receipts. Solid taxation collections in recent months point to a broadly unchanged revenue outcome for the year, even after factoring in the expected impact of slower economic growth. Table 1 presents the fiscal and underlying cash balances for 2002-03 and the forward years.

**Table 1: Summary of budget aggregates<sup>(a)</sup>**

	2002-03		2003-04	
	Budget	MYEFO	Budget	MYEFO
<b>Underlying cash balance (\$b)</b>	<b>2.1</b>	<b>2.1</b>	<b>3.7</b>	<b>4.9</b>
Per cent of GDP	0.3	0.3	0.5	0.6
<b>Fiscal balance (\$b)</b>	<b>0.2</b>	<b>-0.5</b>	<b>2.6</b>	<b>3.4</b>
Per cent of GDP	0.0	-0.1	0.3	0.4

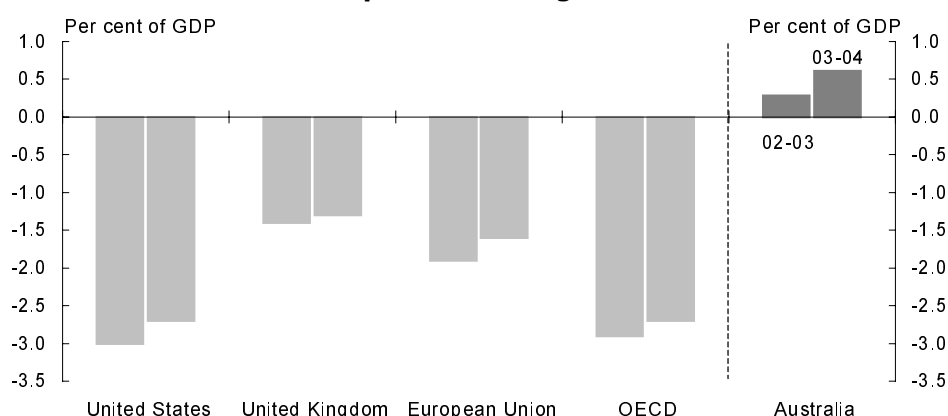
  

	2004-05		2005-06	
	Budget	MYEFO	Budget	MYEFO
<b>Underlying cash balance (\$b)</b>	<b>4.6</b>	<b>4.2</b>	<b>7.1</b>	<b>5.4</b>
Per cent of GDP	0.6	0.5	0.8	0.6
<b>Fiscal balance (\$b)</b>	<b>5.0</b>	<b>4.2</b>	<b>7.7</b>	<b>5.8</b>
Per cent of GDP	0.6	0.5	0.9	0.7

(a) Estimated surpluses for 2004-05 and 2005-06 include a downward revision due to changes made to the medium-term economic projections since Budget. See page 17 of Part II.

The underlying cash surpluses projected for the future years emphasise Australia's sound fiscal outlook, with most OECD countries currently experiencing significant deficits.

**Chart 1: International comparison of budget balances 2003 and 2004<sup>(a)</sup>**



(a) International data are for the total general government sector, sourced from *OECD Economic Outlook (72) (preliminary edition, November 2002)*. Australian data is for the Commonwealth general government sector.



## Part I: Overview

The slight fall in estimated cash payments in 2002-03 is largely due to favourable parameter and other variations offsetting policy measures announced since the 2002-03 Budget. These measures include: support for Australian victims of the Bali terrorist attacks and their immediate families; enhancements to Australia's security following the Bali attacks; an immunisation programme against the Meningococcal C virus; and the Medical Indemnity Insurance Assistance Package.

Although estimated receipts for 2002-03 remain virtually unchanged from Budget, the composition of expected growth has changed. Forecast income tax receipts from wage and salary earners have been revised downwards, while anticipated company and other individuals taxation receipts have been revised upwards.

In accrual terms, the fiscal balance is expected to record a small deficit in 2002-03, before returning to surplus in 2003-04. This reflects timing differences between when revenues and expenses are recognised and when they are recorded in cash terms. For example, superannuation expenses in 2002-03 are expected to be higher than cash payments. Further details on the accrual and cash budget estimates are provided in Part III.

## **DOMESTIC AND INTERNATIONAL ECONOMIC OUTLOOK**

The Australian economy is expected to grow by around 3 per cent in 2002-03, a downward revision to the  $3\frac{3}{4}$  per cent growth rate forecast at Budget. The downward revision of  $\frac{3}{4}$  of a percentage point is mainly due to the expected effects of the drought on the economy. Other parts of the economy are expected to continue to grow solidly. Non-farm GDP is forecast to grow by  $3\frac{3}{4}$  per cent in 2002-03, unchanged from Budget.

The positive outlook for the domestic economy is against a backdrop of a weak and highly uncertain global environment. Global economic conditions have remained subdued since Budget and downside risks around the outlook have heightened. World growth is expected to be around  $2\frac{3}{4}$  per cent in 2002, unchanged from the Budget forecast, but the forecast for 2003 has been revised down to  $3\frac{1}{2}$  per cent, from 4 per cent at Budget.

The fragile global economic environment clouds an otherwise sound domestic outlook. Although there are some domestic risks to the Australian outlook – particularly uncertainty around the severity of the drought and the expected adjustment in the housing sector – the main risk is the possibility of prolonged international weakness, which would undermine confidence and spending, and exacerbate the domestic risks.

Domestic demand is forecast to increase by  $4\frac{3}{4}$  per cent in 2002-03, underpinned by solid consumption growth and a strong pick-up in business investment. However, net exports are expected to subtract  $1\frac{3}{4}$  percentage points from growth, with the substantial downward revision since Budget largely reflecting the expected effects of the drought on farm production and incomes, and the weaker global environment.

Employment growth is forecast to be  $1\frac{3}{4}$  per cent in 2002-03 in year-average terms and the unemployment rate is forecast to decline through the year to around 6 per cent in the June quarter 2003 in line with the Budget forecasts. The Consumer Price Index is forecast to increase by about  $2\frac{3}{4}$  per cent in 2002-03 in year-average terms, with inflation pressures remaining subdued.

The initial forecast for 2003-04 is for economic growth to rebound to 4 per cent. This forecast assumes a return to average seasonal conditions in rural Australia and stronger world growth. Non-farm GDP growth is expected to be a little slower than in 2002-03 reflecting the expected slowdown in dwelling construction. There are, however, substantial risks around the outlook and a weaker outcome is possible if the dry conditions persist or if global economic conditions deteriorate further.

## Part II: Economic outlook

The Australian economy is forecast to grow by around 3 per cent in 2002-03, down from  $3\frac{3}{4}$  per cent forecast at Budget. The downward revision to the forecast is largely due to the anticipated impact of the drought, which is now affecting large parts of Australia. Non-farm GDP growth is forecast to grow by  $3\frac{3}{4}$  per cent in 2002-03, unchanged from Budget. Employment growth is expected to be moderate, with the unemployment rate gradually declining through the year.

The solid growth prospects for the Australian economy contrast sharply with the weak and uncertain outlook for the global economy. Although Australia's economy is likely to grow a little more slowly this year, the main domestic risks to Australia's economic outlook – the drought and the prospect of a downturn in the housing cycle – by themselves are unlikely to significantly derail the broader economy. The global economy remains fragile, however, and could weaken further. The possibility of a deterioration in global conditions, which would undermine Australia's exports and investment, together with a realisation of some of the domestic risks, while not the most likely outcome, provides a sobering backdrop to the domestic economic outlook.

Global economic conditions have remained subdued since Budget with continued economic weakness in the United States, Europe and Japan. The global economy is still expanding slowly, but the recovery has struggled to gather momentum, despite expansionary monetary and fiscal policies in most of the major economies. While the global recovery has not stalled, uncertainties around the outlook have heightened and risks are predominantly on the downside. Despite these uncertainties, the most likely outcome is that supportive policy settings will underpin a gradual, albeit weaker than previously expected, strengthening of global economic conditions over the next year. World growth is forecast to be  $2\frac{3}{4}$  per cent in 2002, in line with the Budget forecast, while the world growth forecast for 2003 has been revised down to  $3\frac{1}{2}$  per cent, from 4 per cent at Budget.

Domestically, the major development since Budget has been the drought. The Budget outlook assumed average seasonal conditions in 2002-03, with farm production forecast to grow by  $3\frac{3}{4}$  per cent in year-average terms. The drought is now expected to see total farm production decline by around 17 per cent in 2002-03, with much greater declines in grain production. Other parts of the economy are likely to be affected indirectly. Overall, the drought is expected to reduce GDP growth in 2002-03 by around  $\frac{3}{4}$  of a percentage point, although a larger subtraction is possible if the dry conditions persist longer than currently assumed. The current account deficit is also likely to widen because of the drought and weak external demand, and the expected pick-up in business investment.

Despite the subdued global backdrop and the drought, the non-farm part of the economy is continuing to grow solidly, in line with the Budget outlook. Private business investment is picking up strongly and is expected to drive economic growth in 2002-03. The outlook for private consumption is unchanged from the Budget

## Part II: Economic outlook

forecasts. The forecast for dwelling construction has been revised up since Budget, reflecting sustained high levels of activity, which have continued into the first half of 2002-03. Dwelling investment is now expected to grow by 9 per cent in 2002-03, compared with the 3 per cent decline forecast at Budget. Exports are expected to remain weak in line with the subdued global environment and the drought.

Inflation is expected to be moderate over the forecast period, underpinned by steady wage increases and solid productivity growth. Although the economy is expected to grow at a solid pace, wage and price pressures should remain contained. Subdued global conditions are likely to contain import price increases, moderating aggregate inflation. The Consumer Price Index (CPI) is expected to increase by around 2¾ per cent in 2002-03 in year-average terms, in line with Budget forecasts.

The labour market forecasts are unchanged from Budget, with employment growth forecast to be 1¾ per cent for 2002-03 and the unemployment rate around 6 per cent in the June quarter 2003. This is consistent with the outlook for solid non-farm GDP growth and moderate wages growth. There are some risks to the employment outlook, however, with rural employment already weak because of the drought and the possibility of a substantial downturn in residential construction activity over the coming year.

The initial forecast for 2003-04 is for GDP growth to increase to around 4 per cent, with the expected rebound largely due to the effects on growth of an assumed return to average seasonal conditions in the rural sector. Non-farm GDP growth is expected to be a little slower than in 2002-03. Strong business investment and solid household consumer spending underpin the outlook, although this should be partly offset by an expected slowdown in housing construction. The unemployment rate is expected to continue to trend downward, to a little below 6 per cent by the June quarter 2004.

### **Risks to the outlook**

Since Budget, uncertainties surrounding the international and domestic outlook have increased. Global economic conditions are subdued and uneven and, while the central forecast for world growth has been lowered only a little since Budget, the downside risks are large and dominate the global picture. In particular, global equity markets have fallen sharply, further reducing wealth and confidence, while oil prices have risen and remain at high levels despite recent falls. Global and regional geo-political tensions have heightened. Feedback of these uncertainties into real activity has to date been relatively limited but recent partial data, particularly in the United States, are a cause for concern.

While the Australian economy has so far been able to shrug off much of the global weakness, a further global deterioration could eventually see domestic growth falter. Strong investment spending underpins the Australian growth outlook, but this is likely to be sensitive to global economic conditions and the level of uncertainty surrounding the outlook. Accordingly, the possibility of a weaker world environment is a substantial downside risk to the domestic outlook.

In addition to the global risks there are a number of domestic risks to the outlook, particularly uncertainties surrounding the drought and the housing sector. The drought is expected to subtract around  $\frac{3}{4}$  of a percentage point from GDP growth in 2002-03, but a larger subtraction is possible if the dry conditions are worse than now assumed or if the indirect effects on other parts of the economy are larger than expected. It is also possible that the dry conditions could persist into 2003-04, possibly reducing forecast growth in that year.

There is also a possibility that housing activity may fall by more than forecast in 2003-04. Dwelling investment has held up for longer than expected at Budget, but substantial falls are in prospect over the forecast period as some of the bring-forward of construction is unwound. A related risk is that prices in some segments of the housing market, such as medium density dwellings, which are at historically high levels, could fall, with attendant wealth and confidence effects on spending.

A possible confluence of a further deterioration in global conditions, the drought and the expected downturn in housing activity would create difficult conditions for the economy. Unlike 1997-98, when the US was growing strongly, or 2001, when domestic activity was supported by a pick-up in housing activity and strong consumption, the Australian economy would find it difficult to maintain momentum in the face of any further significant global deterioration.

On the upside, the economy has proved to be very resilient, underpinned by solid fundamentals and supportive policy settings. Consumption has remained firm and investment intentions have held up well, despite the heightened global uncertainty. A near-term stabilisation in the external environment, particularly in international financial markets and in the level of geo-political tensions, could see the economy grow more strongly than currently forecast.

## **INTERNATIONAL ECONOMIC OUTLOOK**

As anticipated at Budget, the world economy recovered in the first half of 2002 with most countries recording significantly improved growth. However, since Budget, risks to the international outlook have heightened and the recovery appears to have lost some momentum. While the world remains on track to achieve growth in 2002 consistent with the Budget forecasts, the outcome for 2003 will depend on how the risks unfold.

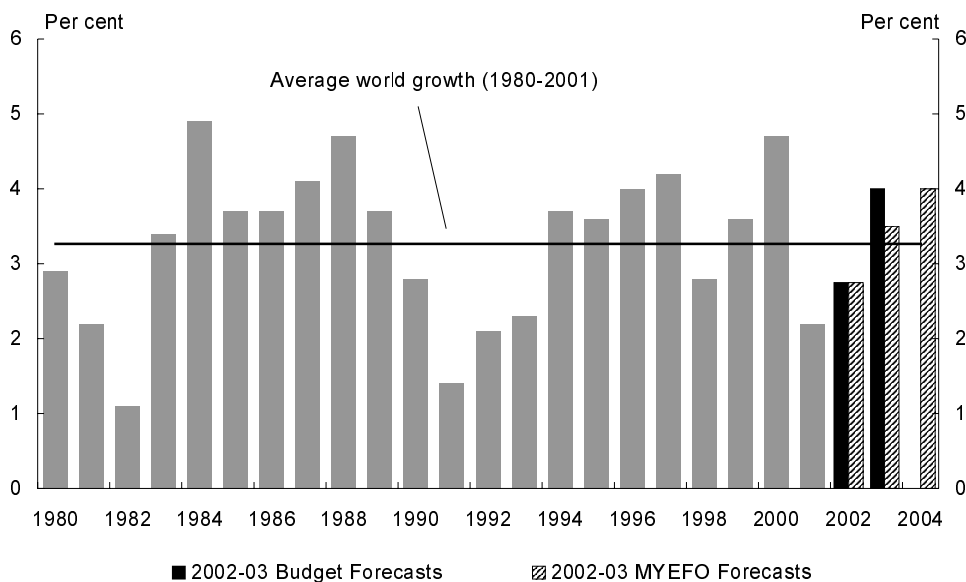
While the central case is for a slow recovery there is a preponderance of downside risks to the outlook. The possibility of sharply lower global equity prices, which would further reduce wealth and dampen consumer confidence, and push up the cost of capital for firms, represents a substantial risk to the outlook. Weaker investor confidence could also undermine investment. The United States (US) has had a large current account deficit in recent years and any loss of confidence in US assets could see a rapid and disorderly adjustment, with adverse consequences for global financial markets. Heightened international political tensions, and high oil prices, if sustained,

Part II: Economic outlook

are other major risks to the international outlook, as is possible contagion from the fragile situation in Latin America. Furthermore, shocks that have already occurred are still having an effect and their full impact may not yet be apparent.

World GDP growth is expected to be essentially unchanged from the Budget forecast of  $2\frac{3}{4}$  per cent in 2002, although the composition of growth has changed, with weaker prospects for the US and Europe being offset by stronger than expected growth among East Asian economies. The world growth forecast in 2003 has been revised down by  $\frac{1}{2}$  of a percentage point from Budget to  $3\frac{1}{2}$  per cent, which is around trend growth (see Chart 2). Growth among Australia's major trading partners is expected to be  $2\frac{3}{4}$  per cent in 2002, up  $\frac{1}{2}$  of a percentage point from Budget, and  $3\frac{1}{4}$  per cent in 2003, down  $\frac{1}{2}$  of a percentage point from Budget (Table 2).

**Chart 2: World GDP growth<sup>(a)</sup>**



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

**Table 2: International GDP growth forecasts<sup>(a)(b)</sup>**

	2001	2002	2003
	Actual	Forecasts	Forecasts
World	2.2	2 3/4	3 1/2
Total OECD(c)	0.7	1 1/2	2 1/4
United States	0.3	2 1/4	2 1/2
Japan	-0.3	- 1/4	1
European Union	1.6	1	2
Major Trading Partners	1.3	2 3/4	3 1/4
Non-Japan East Asia(d)	2.0	4 1/2	5

(a) Percentage change on previous year.

(b) Growth rates for the World and European Union are calculated using GDP weights based on purchasing power parity, while growth rates for Major Trading Partners and Non-Japan East Asia are calculated using export trade weights.

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

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

Source: National statistical publications, IMF and Treasury.

Despite stronger than expected global growth in early 2002, a sustained rebound in economic activity is proving elusive for many economies. The recovery lost momentum from mid-2002, as domestic demand did not pick-up as expected in the Euro area, making the region increasingly reliant on external demand. In Japan, private consumption showed some improvement but investment remained weak. While domestic demand has been stronger in non-Japan East Asia, this region is also heavily reliant on exports. Consequently, with limited progress on medium-term reforms in Europe and Japan, the global recovery remains highly dependent on future developments in the US.

The outlook for the US depends crucially on developments in the components of domestic demand. Household consumption has been very resilient, supported by low interest rates and wealth effects from rising house prices alleviating the negative wealth effects of lower equity prices. Nevertheless, consumption growth may slow and a pick-up in business investment is likely to be required to sustain the recovery. However, ongoing excess capacity in parts of US industry may constrain the scope for an investment rebound. As a result, the outlook for the US is for moderate but uneven growth, with a weaker recovery than previously expected. Growth is expected to remain below potential well into 2003.

## Part II: Economic outlook

In **Japan**, while GDP growth is expected to gradually improve, the outlook remains weak. After export growth picked up strongly in the first half of the year, it began to slow in line with a softening in the world economy and a higher yen. Falling employment, low levels of consumer confidence and ongoing deflation limit prospects for a sustained recovery in consumption, while financial and corporate sector balance sheet problems and weak profitability hinder a recovery in investment. Coming on the back of three recessions in the last 10 years, and with ongoing deflation, the level of nominal GDP in Japan in 2003 is expected to be essentially unchanged from that in 1995.

**Non-Japan East Asia** recovered strongly in the first half of 2002 as growth was supported by a strong pick-up in exports, a recovery in domestic demand and accommodative macroeconomic policies. While China and India have strong internally-generated growth, the outlook for the region more generally remains vulnerable to external developments, particularly slower growth in the US and in the demand for information and communications technology (ICT) equipment.

In the **European Union**, the pace of growth is likely to be weaker than previously expected and is likely to continue to lag that of other regions. Domestic demand remains sluggish under the weight of declining investment and subdued private consumption, leaving near-term prospects reliant on the strength of external demand.

The combination of poor short-term growth prospects in the US, Japan and the European Union underscores the fragility of the global economic environment.

Global inflation is expected to remain low for the remainder of 2002 and into 2003, allowing policies to remain accommodative, although high oil prices may raise inflationary pressures. Most advanced economies are experiencing low inflation, while deflation persists in a number of East Asian economies.

Downside risks to the international outlook have increased since Budget.

Global equity markets have fallen by over 40 per cent in many countries from their peak in early 2000, making this a very deep and protracted bear market. The bursting of the IT bubble, the unwinding of very high price-earnings ratios, weaker corporate profitability in the US, corporate accounting scandals, geo-political tensions and higher oil prices have driven the fall in equity prices. While equity market declines have reduced both business and consumer confidence, this has not yet translated into large-scale declines in consumption and business investment expenditure. If low equity prices are sustained, or were to fall further, this could result in a considerable weakening of consumption and investment expenditure and increase pressures on some parts of the financial sector.

Rapid rises in housing prices and increasing household debt in some developed countries pose another emerging threat to the outlook. The wealth effects of substantially weaker house prices could depress consumption even more severely than the fall in equity prices.



Oil prices have risen over the course of 2002 and remain at high levels despite recent falls, posing a significant risk to the global recovery. Tension in the Middle East and concerns about a potential conflict involving Iraq have heightened oil price risks. Significantly higher oil prices, if maintained for a considerable period of time, would reduce economic growth and increase inflation pressures.

Current account imbalances among the major economies appear to be unsustainable. The US current account deficit reached a record high in mid 2002. A loss of confidence leading to a sudden withdrawal of investment funds from the US could lead to a disorderly adjustment in financial markets. Should this occur, it would significantly affect global growth prospects.

Japan's chronic bad loans problem continues to worsen and the banking system is under severe strain from declining equity prices. Any major shock to the financial system in Japan would have wide global repercussions.

While the risks to the global outlook appear to be predominantly on the downside, and interconnected, this needs to be set against monetary and fiscal policies that have been eased substantially around the globe – this support for the global economy is reflected in the recovery in activity seen in recent quarters. A quick resolution or abatement of some of the major uncertainties currently facing the world could see the recovery quickly gather momentum.

## **DOMESTIC FORECASTS**

The forecasts for the domestic economy are underpinned by several key technical assumptions. The exchange rate is assumed to remain around the average level of recent months (a trade weighted index (TWI) of around 50 and a \$US exchange rate of around 54c). Interest rates are assumed to remain around current levels. World oil prices are assumed to average around \$US26 per barrel over the remainder of 2002, before falling to around \$US24 per barrel, broadly in line with market expectations.<sup>1</sup> The farm sector forecasts are based on an assumption of a return to average seasonal conditions in 2003-04.

### **Domestic economy – 2002-03**

The key domestic macroeconomic forecasts for 2002-03 are summarised in Table 3. Economic growth in 2002-03 is expected to be around 3 per cent, revised down from 3¾ per cent at Budget. Non-farm GDP is forecast to grow by 3¾ per cent, unchanged from Budget.

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1 World oil prices are measured by the world trade-weighted oil price, which is the average contract price of different types of oil, weighted by their share of world oil trade.

## Part II: Economic outlook

**Private consumption** is forecast to increase by around 4 per cent in 2002-03, consistent with the 2002-03 Budget and similar to the pace of growth in 2001-02. Moderate household disposable income growth, low interest rates and continued, albeit moderating growth in household wealth, are expected to support consumer spending.

There are a number of risks to the consumption outlook. The possibility of house prices plateauing, and more subdued wealth increases than in recent years, may slow consumption. The expected downturn in dwelling investment in the latter part of 2002-03 and lower farm incomes due to the drought are also likely to moderate consumer spending. Petrol prices have risen in 2002 and could act also as a drag on household spending.

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

	Outcomes(b)	2002-03 Budget	2002-03 MYEFO
	2001-02 Year average	Forecasts Year average	Forecasts Year average
<b>Panel A - Demand and output(c)</b>			
Household consumption	3.8	4	4
Private investment			
Dwellings	19.5	-3	9
Total business investment(d)	4.3	12	11
Other buildings and structures(d)	10.4	14	18
Machinery and equipment(d)	2.6	12	11
Intangible fixed assets	0.9	9	6
Private final demand(d)	5.3	4 3/4	5 1/4
Public final demand(d)	4.1	3 1/4	3 1/4
Total final demand	5.0	4 1/2	4 3/4
Change in inventories(e)			
Private non-farm	-0.1	1/4	1/4
Farm and public authorities(f)	0.1	0	- 1/4
Gross national expenditure	5.0	4 3/4	4 3/4
Exports of goods and services	-1.9	6	2
Imports of goods and services	2.3	11	10
Net exports(e)	-0.8	-1	-1 3/4
Gross domestic product	3.9	3 3/4	3
Non-farm product(g)	3.6	3 3/4	3 3/4
Farm product(g)	9.5	3 3/4	-17
<b>Panel B - Other selected economic measures</b>			
External accounts			
Terms of trade	2.6	2 3/4	2 1/4
Current account balance			
\$billion	-22.2	-29	-33
Percentage of GDP	-3.2	-4	-4 1/2
Labour market			
Employment (labour force survey basis)	1.1	1 3/4	1 3/4
Unemployment rate (per cent)(h)	6.3	6	6
Participation rate (per cent)	63.7	63 3/4	63 3/4
Prices and wages			
Consumer Price Index	2.9	2 3/4	2 3/4
Gross non-farm product deflator	2.5	2	2 1/4
Average earnings(g)(i)	3.8	4 1/4	4 1/4

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

(b) Calculated using original data. Outcomes have been calculated using 2001-02 Annual National Accounts, where possible.

(c) Chain volume measure.

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

(e) Percentage point contribution to growth in GDP.

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

(g) Outcomes for 2001-02 are based on June quarter National Accounts data.

(h) The level in the June quarter of each year, seasonally adjusted.

(i) Average earnings (national accounts basis).

## Part II: Economic outlook

**Dwelling investment** is now expected to grow by 9 per cent in 2002-03, compared with a 3 per cent decline forecast at Budget. The revision reflects stronger than expected growth in new dwelling investment in 2001-02 and partial indicators pointing to still-firm levels of activity in the sector. House prices have continued to rise, and with the global backdrop still uncertain, the prospect of a longer period of historically low mortgage interest rates may have extended the current cycle a little longer than previously expected. However, recent high levels of activity appear to be unsustainable and dwelling investment is likely to weaken substantially over the next year. House prices are also unlikely to sustain the pace of growth of the past couple of years, and downward price pressures may emerge in some segments of the market — particularly medium density dwellings — where rising vacancy rates and falling yields already point to an oversupply. Continued growth in expenditure on alterations and additions should moderate the overall expected decline in dwelling activity.

Despite the uncertainties surrounding the global economic outlook, **private business investment** is expected to remain strong, underpinned by low interest rates, a competitive exchange rate and solid corporate profitability. Business sentiment remains firm and investment intentions data continue to point to strong private business investment growth in 2002-03. Private new business investment is forecast to rise by around 11 per cent in 2002-03, with investment in both machinery and equipment and buildings and structures expected to grow strongly. The forecast is marginally lower than at Budget, largely reflecting the weaker global outlook and the weaker outlook for agricultural investment, which is expected to fall sharply in 2002-03 as drought-affected farmers defer investment plans following the surge in spending during 2001-02.

New investment in machinery equipment is expected to increase by 11 per cent in 2002-03, although there is a risk that if global conditions deteriorate further, some of this investment may be put on hold. To date, however, investment intentions for 2002-03 have been very strong. Total investment should also continue to be supported by investment in buildings and structures, which is likely to be more resilient to adverse global conditions. Investment in buildings and structures is expected to grow by 18 per cent in 2002-03, driven by very strong growth in engineering construction. The commencement of work on several large-scale engineering construction projects has almost tripled the amount of engineering construction work-yet-to-be-done since the June quarter of 2001, to over \$6 billion in the June quarter of 2002.

Higher investment in private non-farm **inventories** (excluding private marketing authorities) is expected to contribute around  $\frac{1}{4}$  of a percentage point to GDP growth in 2002-03, as firms rebuild their inventory levels after the rundown in 2001-02. However, an expected rundown in farm and private marketing authority inventories, as existing stocks are used to augment drought-affected supplies, is forecast to subtract around  $\frac{1}{4}$  of a percentage point from growth in 2002-03.

**Public final demand** is expected to grow by around  $3\frac{1}{4}$  per cent in year-average terms, around the longer-term trend and in line with Budget estimates. The expected growth in public final demand partly reflects additional defence spending, airport security,

and border protection and, at the state level, additional expenditure on education, health, and various infrastructure projects.

The outlook for **net exports** is weaker than at Budget reflecting continued international weakness and the expected reduction in rural exports due to the drought. Net exports are forecast to subtract around  $1\frac{3}{4}$  percentage points from GDP growth in 2002-03 compared with a subtraction of around 1 percentage point expected at Budget.

Export growth is expected to be around 2 per cent in 2002-03, down from 6 per cent growth forecast at Budget. Rural exports are expected to subtract about 2 percentage points from total export growth in 2002-03. The outlook for imports is broadly unchanged from Budget with imports expected to increase by around 10 per cent in 2002-03, in line with expected strong domestic demand, particularly import-intensive private business investment.

The terms of trade is expected to increase by around  $2\frac{1}{4}$  per cent in 2002-03, a little lower than forecast at Budget, with the downward revision largely due to the ongoing global weakness. Export prices are expected to be flat, while import prices are expected to fall by around 2 per cent, partly reflecting the ongoing decline in the price of ICT goods.

With the weaker near-term export outlook, and slightly weaker terms of trade than at Budget, the current account deficit is expected to widen and average around  $4\frac{1}{2}$  per cent of GDP in 2002-03. A further deterioration in global economic conditions or a worsening of the drought would place additional pressure on the current account.

The outlook for the **labour market** remains broadly unchanged from Budget. Employment growth of  $1\frac{3}{4}$  per cent is forecast for 2002-03, reflecting the solid outlook for non-farm GDP growth and expected moderate wages growth. As foreshadowed at Budget, the unemployment rate is expected to gradually decline through the year to around 6 per cent in the June quarter 2003. The participation rate is expected to be broadly unchanged. Some moderation in employment is likely in the construction sector as new dwelling construction slows. Farm employment has already fallen as a result of the drought and is likely to remain weak for some time.

With employment growth projected to be moderate, and labour market capacity constraints unlikely to be breached over the next year, **wages** growth is expected to be steady. Some pressures may be experienced in sectors where demand is starting to push up against supply constraints – such as in the construction industry – but overall wages growth should remain moderate. Wages are forecast to increase by around  $4\frac{1}{4}$  per cent through the year to June 2003, which includes the recent rise in the Superannuation Guarantee Contribution.

Expected moderate wages growth and productivity growth of  $1\frac{3}{4}$  per cent per year should see nominal unit labour costs grow by around  $2\frac{1}{2}$  per cent and  $2\frac{1}{4}$  per cent in 2002-03 and 2003-04 respectively. Other cost pressures appear muted and there has been little evidence of margin building by firms. Consequently, moderate **inflation** of  $2\frac{1}{2}$  per cent is forecast through the year to June 2003. There are likely to be temporary

## Part II: Economic outlook

pressures from higher petrol prices and the impact of the drought on food prices. However, with international conditions remaining subdued and structural and technological changes in some trading partner countries also underpinning low inflation for traded goods, import price inflation should remain low, moderating any increase in overall inflation in 2002-03.

### **Domestic economy — 2003-04**

The outlook for 2003-04 is underpinned by an expected gradual pick-up in world growth, and an assumption that seasonal conditions will return to normal, ending the drought. Against this backdrop, GDP growth is forecast to rebound to around 4 per cent in 2003-04. However, non-farm GDP growth is expected to be a little weaker than in 2002-03, largely due to an expected fall in dwelling construction.

Despite these solid growth prospects, there are substantial risks to the outlook, particularly if global economic conditions do not slowly improve as expected, or if the drought does not break in 2003-04. Offsetting these risks are some upside risks, particularly for investment spending, which appears to be gathering momentum.

Consumption is forecast to grow solidly in 2003-04, a little below forecast income growth, with the slowdown from 2002-03 reflecting a moderation in some of the wealth-induced spending of the previous couple of years. The anticipated slowdown in dwelling investment in 2003 is expected to dampen consumption.

Dwelling investment is forecast to decline in 2003-04, as the bring-forward of new dwelling investment due to the First Home Owners Scheme is unwound further. Alterations and additions are expected to continue to grow solidly.

Private business investment is forecast to rise strongly in 2003-04, underpinned by solid domestic conditions and the prospect of firming international conditions. Investment in both machinery and equipment and buildings and structures is expected to grow strongly.

Net exports are forecast to continue to subtract from GDP growth in 2003-04, although the subtraction is likely to be substantially below that in 2002-03. Export growth is expected to pick-up in line with the expected global recovery and the ending of the drought, while imports are forecast to grow solidly. The terms of trade should increase moderately, largely reflecting continued subdued import price increases. The current account deficit is forecast to narrow.

Employment growth of around 1¾ per cent is expected in 2003-04, consistent with the solid growth outlook for the domestic economy. This rate of employment growth should see the unemployment rate decline slowly, to below 6 per cent by the end of 2003-04.

Wages are expected to grow moderately in 2003-04, reflecting the steady pace of employment growth. Inflation is forecast to be 2½ per cent through the year to

June 2004. There are, however, some upside risks to this outlook, particularly if global conditions improve substantially or if domestic demand were to grow more strongly than currently anticipated.

### Medium-term projections

Table 4 sets out the major economic parameters used in preparing the revised Budget estimates. The parameters are the revised forecasts for 2002-03 and 2003-04 and medium-term projections for the following two financial years.

Consistent with the usual convention the projections reflect expected medium-term average growth rates. The projections have been revised since Budget to bring them more closely into line with recent experience and likely medium-term outcomes. Real GDP growth is still projected to be around 3½ per cent per year, although the assumed composition of growth is different. Employment growth is projected to be 1½ per cent per year (compared with 2 per cent per year previously) in line with projected changes in working age population growth and participation rates. Productivity growth is projected to be 2 per cent per year (compared with 1½ per cent per year previously), in line with productivity outcomes during the 1990s. While 1990s-type productivity growth rates should be able to be sustained over coming years, productivity is expected to ease back towards its long-term growth rate of around 1¾ per cent in the latter part of the decade.

Wages growth is projected to be 3¾ per cent (compared with 3½ per cent previously) broadly in line with wages growth during the 1990s. The CPI is projected to increase by 2½ per cent per year. The GDP deflator, a broader price measure that historically grows more slowly than the CPI, is projected to grow by 2 per cent per year (compared with 2½ per cent previously).

**Table 4: Major economic parameters<sup>(a)</sup>**

	Forecasts		Projections	
	2002-03	2003-04	2004-05	2005-06
Real GDP	3	4	3 1/2	3 1/2
Employment(b)	1 3/4	1 3/4	1 1/2	1 1/2
Wages(c)	4 1/4	4	3 3/4	3 3/4
CPI	2 3/4	2 1/2	2 1/2	2 1/2

(a) Percentage change on preceding year.

(b) Labour force survey basis.

(c) Average earnings (national accounts basis).

## Part III: Fiscal outlook

### OVERVIEW

The Commonwealth's underlying cash balance for 2002-03 remains unchanged from Budget, with an underlying cash surplus of \$2.1 billion expected in 2002-03. The underlying cash balance is expected to remain in surplus over the forward estimates period.

**Table 5: Commonwealth general government sector budget aggregates<sup>(a)</sup>**

	2002-03		2003-04	
	Budget	MYEFO	Budget	MYEFO
<b>Revenue (\$b)</b>	<b>169.6</b>	<b>169.6</b>	<b>179.6</b>	<b>180.1</b>
Per cent of GDP	22.6	22.5	22.6	22.6
<b>Expenses (\$b)</b>	<b>170.2</b>	<b>170.7</b>	<b>177.6</b>	<b>177.2</b>
Per cent of GDP	22.7	22.6	22.3	22.2
Net operating balance (\$b)	-0.5	-1.0	2.0	2.9
Net capital investment (\$b)	-0.7	-0.5	-0.6	-0.5
<b>Fiscal balance (\$b)</b>	<b>0.2</b>	<b>-0.5</b>	<b>2.6</b>	<b>3.4</b>
Per cent of GDP	0.0	-0.1	0.3	0.4
<b>Underlying cash balance (\$b)</b>	<b>2.1</b>	<b>2.1</b>	<b>3.7</b>	<b>4.9</b>
Per cent of GDP	0.3	0.3	0.5	0.6
<i>Memorandum item:</i>				
Headline cash balance (\$b)	<b>4.6</b>	<b>1.7</b>	<b>14.5</b>	<b>4.0</b>
	2004-05		2005-06	
	Budget	MYEFO	Budget	MYEFO
<b>Revenue (\$b)</b>	<b>189.4</b>	<b>188.8</b>	<b>199.3</b>	<b>198.1</b>
Per cent of GDP	22.5	22.4	22.3	22.3
<b>Expenses (\$b)</b>	<b>184.9</b>	<b>185.2</b>	<b>192.0</b>	<b>192.7</b>
Per cent of GDP	21.9	22.0	21.5	21.7
Net operating balance (\$b)	4.5	3.6	7.3	5.4
Net capital investment (\$b)	-0.5	-0.5	-0.4	-0.4
<b>Fiscal balance (\$b)</b>	<b>5.0</b>	<b>4.2</b>	<b>7.7</b>	<b>5.8</b>
Per cent of GDP	0.6	0.5	0.9	0.7
<b>Underlying cash balance (\$b)</b>	<b>4.6</b>	<b>4.2</b>	<b>7.1</b>	<b>5.4</b>
Per cent of GDP	0.6	0.5	0.8	0.6
<i>Memorandum item:</i>				
Headline cash balance (\$b)	<b>15.4</b>	<b>14.5</b>	<b>18.1</b>	<b>15.9</b>

(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.

In accrual terms, the fiscal balance is now expected to record a small deficit in 2002-03, returning to surplus in 2003-04 and for each of the forward years.



Part III: Fiscal outlook

The \$0.7 billion reduction in the estimated 2002-03 fiscal balance since Budget is due to the net impact of new policy decisions of \$397 million and parameter and other variations of \$333 million. Major new policy decisions since Budget include support for Australian victims of the Bali terrorist attacks and their immediate families; enhancements to Australia's security following the Bali attacks; assistance to the medical indemnity insurance industry; an immunisation programme against the Meningococcal C virus; and assistance to facilitate structural adjustment by the sugar industry.

Table 6 provides a reconciliation of the fiscal balance estimates between the 2002-03 Budget and the 2002-03 MYEFO.

**Table 6: Reconciliation of general government fiscal balance estimates<sup>(a)</sup>**

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
<b>2002-03 Budget fiscal balance</b>	<b>180</b>	<b>2,611</b>	<b>5,037</b>	<b>7,676</b>
Per cent of GDP	0.0	0.3	0.6	0.9
<i>Changes between 2002-03 Budget and MYEFO</i>				
Effect of policy decisions <sup>(b)</sup>				
Revenue	93	181	192	245
Expenses	464	393	449	498
Net capital investment	26	11	0	-7
Total policy decisions	-397	-224	-256	-246
Effect of parameter and other variations				
Revenue	-116	350	-791	-1485
Expenses	11	-794	-177	149
Net capital investment	206	154	-8	0
Total parameter and other variations	-333	990	-605	-1634
<b>2002-03 MYEFO fiscal balance</b>	<b>-548</b>	<b>3,377</b>	<b>4,176</b>	<b>5,797</b>
Per cent of GDP	-0.1	0.4	0.5	0.7

(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.

## REVENUE

Total Commonwealth general government revenue is expected to be \$169.6 billion in 2002-03, remaining unchanged from 2002-03 Budget expectations. However, the composition of revenue has changed. In particular, gross income tax withholding has been revised downward by \$1.3 billion, mainly reflecting the flow-on effects from the lower than expected outcome in 2001-02. This has been offset by higher expected company revenue and gross other individuals revenue (\$840 million and \$779 million respectively), reflecting strong collections in the year to date.

Policy decisions since Budget have increased revenue by \$93 million in 2002-03 and \$181 million in 2003-04. All revenue policy decisions announced since the 2002-03 Budget are listed at Appendix A.

Detailed Commonwealth general government revenue estimates for 2002-03, compared with the estimates published in the 2002-03 Budget, are provided in Table 7. Detailed cash estimates are listed in Table F3 (Appendix F).

**Table 7: Commonwealth general government revenue (accrual basis)**

	2002-03			
	Budget estimate \$m	MYEFO estimate \$m	Change on Budget \$m	Change on Budget %
<b>Taxation revenue</b>				
Income tax				
Individuals and other withholding tax(a)				
Gross income tax withholding(b)	86,950	85,680	-1,270	-1.5
Gross other individuals	16,651	17,430	779	4.7
less Refunds	10,570	11,130	560	5.3
Total individuals and other withholding tax	93,031	91,980	-1,051	-1.1
Companies	28,400	29,240	840	3.0
Superannuation funds				
Contributions and earnings	3,840	3,630	-210	-5.5
Superannuation surcharge	820	850	30	3.7
Total superannuation funds	4,660	4,480	-180	-3.9
Petroleum resource rent tax	1,520	1,650	130	8.6
<b>Total income tax</b>	<b>127,611</b>	<b>127,350</b>	<b>-261</b>	<b>-0.2</b>
Indirect tax				
Excise duty				
Petroleum products and crude oil	12,840	13,100	260	2.0
Other excise	6,910	7,060	150	2.2
Total excise duty	19,750	20,160	410	2.1
Customs duty	5,094	5,330	237	4.6
Other indirect taxes(c)	870	810	-60	-6.9
<b>Total indirect tax</b>	<b>25,714</b>	<b>26,300</b>	<b>587</b>	<b>2.3</b>
Fringe benefits tax(d)	3,640	3,360	-280	-7.7
Agricultural levies and other taxes	1,508	1,517	9	0.6
<b>Total tax revenue</b>	<b>158,473</b>	<b>158,528</b>	<b>55</b>	<b>0.0</b>
Non-tax revenue	11,173	11,096	-78	-0.7
<b>Total revenue</b>	<b>169,646</b>	<b>169,623</b>	<b>-23</b>	<b>0.0</b>

(a) Includes Medicare levy revenue.

(b) Includes Pay As You Go (Withholding) and other withholding. Other withholding was previously reported under company and other income tax, and includes amounts withheld for failure to quote a Tax File Number or an Australian Business Number, taxes withheld from interest, dividends and royalty payments to non-residents, and payments to aboriginal groups for the use of land for mineral exploration and mining.

(c) Includes the wine equalisation tax, luxury car tax and wholesale sales tax liability (abolished on 1 July 2000).

(d) Consistent with GFS reporting standards, excludes fringe benefits tax collected from Commonwealth government agencies (estimated at \$380 million in 2002-03).

In 2002-03, gross income tax withholding is expected to be \$1.3 billion lower than anticipated at Budget, reflecting the lower than expected outcome for 2001-02. From 2003-04, the continuing negative impact of the 2001-02 outcome is expected to be offset by higher wages growth than was anticipated at Budget.

### Part III: Fiscal outlook

Individuals refunds are expected to be around \$560 million higher than forecast at the 2002-03 Budget, reflecting higher than anticipated refunds paid in the year to date. The strength in refunds is a result of an increase in the average size of refunds paid in 2002-03 and higher than expected levels of prior year refunds.

Taxation revenue from superannuation contributions and earnings has been revised down by \$210 million, reflecting both the flow-on effects from weakness observed in fund earnings in 2001-02 and anticipated continued weakness in fund earnings in 2002-03.

Fringe benefits tax has been revised downward by \$280 million reflecting weaker than expected collections in the year to date.

However, other heads of revenue have been revised up since the 2002-03 Budget, offsetting these changes.

- Company revenue is expected to be \$840 million higher than at Budget, largely reflecting strong collections in the year to date. The strength in these collections partly relates to economic activity in 2001-02 – due to lags between when profits are earned and tax is paid or assessed. This strength in collections is also consistent with the continuing growth in the non-farm economy in 2002-03.
- Gross other individuals revenue has been revised upward by around \$780 million, largely reflecting tax receipts related to the stronger than expected underlying growth in incomes for 2001-02. This strength is expected to be partly offset by the negative impact of the drought in 2002-03, which is anticipated to reduce economic activity by around  $\frac{3}{4}$  percentage points and result in lower revenue than otherwise. In 2003-04, gross other individuals revenue has been revised up by \$550 million reflecting the flow-on base effect of recent strong underlying growth in incomes, partly offset by the negative, but moderating, effects of the drought and weaker expected growth in dwellings activity.
- Excise duty has been revised upward by \$410 million reflecting a higher outcome in 2001-02 than anticipated at Budget as well as strong collections of both tobacco and crude oil excise in the year to date.
- Profitable trading conditions and strong collections in the year to date have led to an upward revision of \$130 million to petroleum resource rent tax.

## **EXPENSES**

Estimated expenses in 2002-03 have increased by \$475 million since Budget. This increase reflects the combined effect of new policy measures, economic parameter variations and the slippage of 2002-03 Budget measures.

**Table 8: Reconciliation of general government expense estimates**

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
<b>Expenses at 2002-03 Budget</b>	<b>170,192</b>	<b>177,578</b>	<b>184,889</b>	<b>192,035</b>
<i>Changes between 2002-03 Budget and MYEFO</i>				
Effect of policy decisions(a)	464	393	449	498
Effect of economic parameter variations				
Unemployment benefits	-159	-62	86	735
Prices and wages	158	217	50	208
Interest and exchange rates	65	42	9	-2
Total economic parameter variations	63	197	145	942
Public debt interest	-69	-155	-207	-304
Programme specific parameter variations	-84	-164	228	207
Slippage	153	0	1	0
Other variations	-52	-672	-344	-696
Total variations	475	-401	271	647
<b>Expenses at 2002-03 MYEFO</b>	<b>170,666</b>	<b>177,177</b>	<b>185,160</b>	<b>192,681</b>

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

Major new policy decisions announced since the 2002-03 Budget that affect forecast expenses include the provision of:

- \$291 million over four years (\$119 million in 2002-03) for an immunisation programme against the Meningococcal C virus. The programme will provide funding for the immunisation of children aged between 12 months and 19 years;
- \$246 million over four years (\$55 million in 2002-03) to implement the Government's package of measures for providing assistance to doctors and the medical indemnity insurance industry. The package is aimed at ensuring key private medical services, including in rural and regional areas, are maintained and provides a new framework for the provision of medical indemnity insurance in Australia;
- up to \$120 million over four years (up to \$37 million in 2002-03) for the Sugar Package to assist the sugar industry to restructure and ensure its long-term sustainability. This measure will be funded by a temporary levy on all sugar sold in Australia for domestic consumption;
- \$103 million over four years (\$27 million in 2002-03) following the Bali terrorist attacks. The Government has allocated funding for the provision of a wide range of support measures for Australian victims of the Bali terrorist attacks and their immediate families and to further enhance Australia's capability to respond to the threat of terrorism; and
- \$250 million over four years (\$20 million in 2002-03) for the extended listing on the Pharmaceutical Benefits Scheme of Glivec, a drug used in the treatment of Chronic Myeloid Leukaemia (CML), to eligible patients in the chronic stage of the

### Part III: Fiscal outlook

disease, and the listing of Singulair and Spiriva, from 1 February 2003, for the treatment of asthma in children and Chronic Obstructive Pulmonary Disease respectively.

A full list of expense measures since the 2002-03 Budget is provided at Appendix A.

Since the 2002-03 Budget, parameter and other variations have increased forecast expenses in 2002-03 by \$11 million largely due to:

- a \$158 million increase in expenses indexed to prices and wages, mainly Defence related expenses reflecting higher forecast growth in the non-farm GDP deflator;
- a \$152 million increase in expenses arising from a legislative delay by the Senate in passing proposed increases in Pharmaceutical Benefits Scheme co-payments, announced in the 2002-03 Budget. The increases were expected to occur from 1 August 2002, but are now scheduled to take effect on 1 January 2003;
- \$141 million in programme rescheduling from 2001-02, including in the Workplace Reform Package (\$25 million), Networking the Nation (\$22 million) and a delay in donor countries reaching agreement on replenishment of the International Development Association and the Heavily Indebted Poor Countries Initiative (\$18 million); and
- a \$162 million increase in relation to the uncapped component of the Automotive Competitiveness and Investment Scheme (ACIS), which was not included in the 2002-03 Budget estimates. This variation is matched by a corresponding increase in estimated customs duty, with ACIS credits used by exporters of Australian automotive products to make customs duty payments. Accordingly, there is no overall impact on the fiscal balance.

The above increases in expenses have been largely offset by:

- a decrease of \$170 million in estimated general budget assistance to the States<sup>1</sup>, largely reflecting an upward revision to forecast GST revenue in 2002-03 following stronger than anticipated collections in the year to date, partly offset by higher than anticipated payments under the First Home Owners' Scheme;
- a \$159 million reduction in forecast unemployment benefit expenses, largely reflecting a reduction in the estimated number of unemployment benefit recipients relative to Budget;

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1 General budget assistance to the States refers to Budget Balancing Assistance grants adjusted for the effect of an overpayment of GST revenue in 2001-02. See the *Final Budget Outcome 2001-02*, page 71 for further information.

- \$116 million from a lower than expected increase in costs associated with the Senior Health Care Card following the extensions of eligibility and entitlements in recent years; and
- the scheduled reductions to contingency reserve expense estimates following the inclusion of the provision for underspends in 2002-03.<sup>2</sup>

## NET CAPITAL INVESTMENT

Estimated net capital investment in 2002-03 has increased by \$232 million since the 2002-03 Budget. This increase represents the combined effect of:

- new policy decisions (\$26 million) largely relating to investment associated with security initiatives to enhance Australia's capability to respond to the threat of terrorism following the Bali terrorist attacks; and
- parameter and other variations (\$206 million) including the reclassification of some specialist military equipment expenditure (reported as expenses at Budget) to infrastructure, plant and equipment (reported as part of net capital investment). The reclassification has no impact on the budget balance.

**Table 9: Reconciliation of general government net capital investment estimates<sup>(a)</sup>**

	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
<b>Net capital investment at 2002-03 Budget</b>	<b>-725</b>	<b>-634</b>	<b>-537</b>	<b>-370</b>
<i>Changes between 2002-03 Budget and MYEFO</i>				
Effect of policy decisions	26	11	0	-7
Effect of parameter and other variations	206	154	-8	0
<b>Total variations</b>	<b>232</b>	<b>165</b>	<b>-9</b>	<b>-6</b>
<b>Net capital investment at 2002-03 MYEFO</b>	<b>-495</b>	<b>-468</b>	<b>-546</b>	<b>-377</b>

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

## NET DEBT AND NET WORTH

With the budget remaining in cash surplus, net debt is expected to continue to fall in 2002-03 and the forward years. Reflecting the lower level of net debt, estimated net interest payments are also expected to fall in 2002-03.

<sup>2</sup> Each year at the MYEFO, an allowance for underspends is included in the contingency reserve for the established tendency of departments and agencies to underspend their budgets in the current financial year.

Part III: Fiscal outlook

While declining throughout the forward estimates period, projected net debt from 2003-04 is higher than anticipated at Budget. This mainly reflects a delay in the schedule for further sales of the Commonwealth's shareholding in Telstra.

Commonwealth general government net worth is expected to fall to -\$45.8 billion in 2002-03, compared with expected net worth of -\$43.6 billion at Budget. This primarily reflects a downward revision to the market value of the Commonwealth's shareholding in Telstra following recent declines in the market price of Telstra shares.

**Table 10: Commonwealth general government net worth, net debt and net interest payments (\$b)**

	2002-03		2003-04	
	Budget	MYEFO	Budget	MYEFO
Financial assets	94.7	90.3	82.9	90.7
Non-financial assets	33.0	35.0	32.8	34.9
<b>Total assets</b>	<b>127.8</b>	<b>125.3</b>	<b>115.6</b>	<b>125.6</b>
<b>Total liabilities</b>	<b>171.4</b>	<b>171.1</b>	<b>158.1</b>	<b>168.5</b>
<b>Net worth</b>	<b>-43.6</b>	<b>-45.8</b>	<b>-42.5</b>	<b>-42.9</b>
<b>Net debt(a)</b>	<b>34.5</b>	<b>34.1</b>	<b>19.0</b>	<b>29.0</b>
Per cent of GDP	4.6	4.5	2.4	3.6
<b>Net interest payments(c)</b>	<b>3.7</b>	<b>3.5</b>	<b>3.3</b>	<b>3.5</b>
Per cent of GDP	0.5	0.5	0.4	0.4
	2004-05		2005-06	
	Budget	MYEFO	Budget	MYEFO
Financial assets	72.3	81.5	60.6	70.9
Non-financial assets	32.4	34.5	32.1	34.3
<b>Total assets</b>	<b>104.6</b>	<b>116.0</b>	<b>92.7</b>	<b>105.2</b>
<b>Total liabilities</b>	<b>143.6</b>	<b>155.5</b>	<b>125.5</b>	<b>139.6</b>
<b>Net worth</b>	<b>-39.0</b>	<b>-39.5</b>	<b>-32.8</b>	<b>-34.4</b>
<b>Net debt(a)(b)</b>	<b>1.8</b>	<b>12.8</b>	<b>-18.9</b>	<b>-5.7</b>
Per cent of GDP	0.2	1.5	-2.1	-0.6
<b>Net interest payments(c)</b>	<b>2.3</b>	<b>3.0</b>	<b>2.6</b>	<b>3.6</b>
Per cent of GDP	0.3	0.4	0.3	0.4

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

(b) Includes the impact of the further sale of the Commonwealth's shareholding in Telstra.

(c) Excludes superannuation related interest flows. In 2005-06, there are some one-off factors leading to a marginal increase in estimated net cash interest payments, including the recognition in cash terms of the capital growth on inflation indexed bonds maturing in this year and repurchase premia on nominal bonds repurchased in earlier years and held to their maturity in this year.

## CASH FLOWS

In 2002-03, the underlying cash balance is expected to be a surplus of \$2.1 billion.

**Table 11: Summary of Commonwealth general government cash flows (\$b)<sup>(a)</sup>**

	2002-03		2003-04	
	Budget	MYEFO	Budget	MYEFO
Cash receipts				
Operating cash receipts	171.0	170.9	180.3	180.8
Capital cash receipts(b)	1.4	1.4	0.9	0.9
Total cash receipts	172.3	172.3	181.2	181.6
Cash payments				
Operating cash payments	167.8	167.4	175.3	174.4
Capital cash payments(c)	2.5	2.7	2.2	2.4
Total cash payments	170.3	170.2	177.5	176.7
Finance leases and similar arrangements(d)	0.1	0.0	0.0	0.0
<b>Underlying cash balance</b>	<b>2.1</b>	<b>2.1</b>	<b>3.7</b>	<b>4.9</b>
Per cent of GDP	0.3	0.3	0.5	0.6
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes(e)	2.5	-0.4	10.8	-0.9
<b>Headline cash balance</b>	<b>4.6</b>	<b>1.7</b>	<b>14.5</b>	<b>4.0</b>
	2004-05		2005-06	
	Budget	MYEFO	Budget	MYEFO
Cash receipts				
Operating cash receipts	190.1	189.4	200.2	198.8
Capital cash receipts(b)	0.6	0.6	0.3	0.3
Total cash receipts	190.8	190.1	200.4	199.1
Cash payments				
Operating cash payments	184.0	183.8	191.3	191.8
Capital cash payments(c)	2.1	2.1	2.0	2.0
Total cash payments	186.1	185.8	193.3	193.8
Finance leases and similar arrangements(d)	0.0	0.0	0.0	0.0
<b>Underlying cash balance</b>	<b>4.6</b>	<b>4.2</b>	<b>7.1</b>	<b>5.4</b>
Per cent of GDP	0.6	0.5	0.8	0.6
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes(e)	10.7	10.3	11.0	10.5
<b>Headline cash balance</b>	<b>15.4</b>	<b>14.5</b>	<b>18.1</b>	<b>15.9</b>

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

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

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

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

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

The underlying cash balance estimate for 2002-03 remains unchanged since Budget, reflecting favourable parameter and other variations, which offset the decline in the underlying cash balance due to new policy decisions.



Part III: Fiscal outlook

Table 12 provides a reconciliation of the variations in the underlying cash balance estimates.

**Table 12: Reconciliation of general government underlying cash balance estimates (\$b)**

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
<b>2002-03 Budget underlying cash balance</b>	<b>2,094</b>	<b>3,665</b>	<b>4,641</b>	<b>7,132</b>
Per cent of GDP	0.3	0.5	0.6	0.8
<i>Changes between 2002-03 Budget and MYEFO</i>				
Effect of policy decisions(a)	-328	-61	-171	-202
Effect of parameter and other variations	373	1294	-232	-1575
Total variations	45	1234	-403	-1777
<b>2002-03 MYEFO underlying cash balance</b>	<b>2,141</b>	<b>4,899</b>	<b>4,238</b>	<b>5,356</b>
Per cent of GDP	0.3	0.6	0.5	0.6

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

Major new policy decisions impacting on the underlying cash balance in 2002-03 are largely the same as those impacting on the fiscal balance, and include support for the victims of the Bali terrorist attacks, an immunisation programme against the Meningococcal C virus and assistance to facilitate structural adjustment by the sugar industry.

Major parameter and other variations are also broadly consistent with the fiscal balance variations, and include:

- a decrease of \$170 million in estimated general budget assistance to the States, reflecting stronger than anticipated GST collections in the year to date;
- a \$150 million reduction in forecast unemployment benefit payments, largely reflecting a reduction in the expected number of unemployment benefit recipients;
- a \$144 million reduction in cash payments in 2002-03 under the Medical Benefits Schedule and Pharmaceutical Benefits Scheme, resulting from the lagged impact of lower than expected expenses in 2001-02; and
- a reduction in estimated operating cash flows of \$163 million in 2002-03 arising from the reclassification of superannuation transactions relating to public non-financial corporations employees from operating transactions to financing transactions. This reclassification was announced by the ABS in *Government Financial Estimates, Australia* (Cat. No. 5501.0).

While the 2002-03 underlying cash balance estimate remains unchanged from Budget, the estimated fiscal balance has deteriorated by \$0.7 billion. This difference primarily results from the following:

- the reclassification of the Commonwealth's transactions relating to superannuation arrangements for public non-financial corporations' employees, which results in an improvement in the forecast underlying cash balance of around \$163 million but has only a minor impact on the fiscal balance;
- a \$144 million reduction in cash payments under the Medical Benefits Schedule and the Pharmaceutical Benefits Scheme in 2002-03, resulting from the lagged impact of lower than expected expenses in 2001-02. There is no impact on the fiscal balance in 2002-03, as accounts payable are expected to return to their usual trend;
- a downwards variation of around \$100 million in estimated accrual revenue in relation to Child Support Assistance transactions, which has only a minor effect on expected cash flows; and
- the delay in donor countries reaching agreement on contributions to the thirteenth replenishment of the International Development Association and the Heavily Indebted Poor Countries Initiative, and changes in the composition of payments under the initiatives, which results in a \$86 million increase in expenses in 2002-03 with only a minor impact on cash payments.

## ATTACHMENT A

### EXTERNAL REPORTING STANDARDS

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

The major external standards used in the MYEFO 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 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 addition, the early years of accrual budgeting have focussed 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 draft ABS GFS publication (*Australian System of Government Finance Statistics: Concepts, Sources and Methods* Cat. No. 5514.0) requires that provisions for bad and doubtful debts be excluded from the balance sheet. This treatment has not been adopted because excluding such provisions would overstate the value of Commonwealth assets in the balance sheet (and would therefore be inconsistent with the market valuation principle).

The Commonwealth revenue and expense estimates in Part I and III, including the budget financial statements at Attachment B, 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*, 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 Table E2 of Appendix E.

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 or the Australian Customs Service. Accordingly, for most categories of taxation revenue, there is a short lag between the time at which the underlying income (or economic activity) giving rise to

the tax liability occurs and when the revenue is recognised. Longer lags, of up to a year, occur for some elements of company and superannuation funds taxation.

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

**ATTACHMENT B****BUDGET FINANCIAL STATEMENTS**

The budget financial statements consist of an operating statement, balance sheet and cash flow statement for the Commonwealth general government sector. The budget financial statements are based on GFS standards with the exception of the divergences discussed in Attachment A.

**Table 13: Commonwealth general government operating statement**

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
<b>GFS revenue</b>				
Taxation revenue	158,528	169,347	177,923	187,157
Current grants and subsidies	0	0	0	0
Sales of goods and services	4,030	4,173	4,292	4,392
Interest income	1,065	901	1,053	1,443
Dividend income	3,590	3,246	3,038	2,586
Other	2,410	2,419	2,484	2,523
<b>Total GFS revenue</b>	<b>169,623</b>	<b>180,085</b>	<b>188,791</b>	<b>198,101</b>
<b>GFS expenses</b>				
Gross operating expenses				
Depreciation	1,765	1,862	1,866	2,003
Superannuation	1,895	1,959	2,020	2,026
Salaries and wages	10,518	10,666	11,025	11,201
Payment for supply of goods and services	36,924	39,006	40,753	42,423
Other operating expenses	1,976	1,990	2,029	2,052
<i>Total gross operating expenses</i>	<i>53,079</i>	<i>55,483</i>	<i>57,692</i>	<i>59,705</i>
Nominal superannuation interest expense	5,025	5,055	5,078	5,201
Other interest expenses	4,799	4,138	3,665	3,024
Other property expenses	0	0	0	0
Current transfers				
Grant expenses	33,705	34,755	35,944	37,554
Subsidy expenses	5,158	5,173	5,266	4,988
Personal benefit payments in cash	65,942	69,766	74,437	79,336
Other current transfers	0	0	0	0
<i>Total current transfers</i>	<i>104,805</i>	<i>109,694</i>	<i>115,647</i>	<i>121,878</i>
Capital transfers	2,959	2,807	3,078	2,872
<b>Total GFS expenses</b>	<b>170,666</b>	<b>177,177</b>	<b>185,160</b>	<b>192,681</b>
<b>Net operating balance</b>	<b>-1,043</b>	<b>2,909</b>	<b>3,630</b>	<b>5,420</b>
<b>Net acquisition of non-financial assets</b>				
Gross fixed capital formation	1,360	1,705	1,487	1,706
less Depreciation	1,765	1,862	1,866	2,003
plus Change in inventories	-42	-96	-101	-84
plus Other movements in non-financial assets	-48	-216	-66	5
<b>Total net acquisition of non-financial assets</b>	<b>-495</b>	<b>-468</b>	<b>-546</b>	<b>-377</b>
<b>Net lending/fiscal balance</b>	<b>-548</b>	<b>3,377</b>	<b>4,176</b>	<b>5,797</b>

**Table 14: Commonwealth general government sector balance sheet**

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
<b>GFS assets</b>				
Financial assets				
Cash and deposits	821	234	485	262
Advances paid	19,344	19,911	21,176	21,684
Investments, loans and placements	9,379	9,516	9,582	9,615
Other non-equity assets	12,441	12,794	13,248	13,682
Equity	48,301	48,282	36,984	25,686
<i>Total financial assets</i>	<i>90,286</i>	<i>90,738</i>	<i>81,475</i>	<i>70,928</i>
Non-financial assets				
Land	4,320	4,187	4,067	4,083
Buildings	12,014	12,225	12,147	12,136
Plant, equipment and infrastructure	12,042	11,952	11,876	11,671
Inventories	3,757	3,662	3,561	3,476
Other non-financial assets	2,832	2,829	2,858	2,907
<i>Total non-financial assets</i>	<i>34,965</i>	<i>34,854</i>	<i>34,509</i>	<i>34,273</i>
<b>Total GFS assets</b>	<b>125,251</b>	<b>125,593</b>	<b>115,984</b>	<b>105,201</b>
<b>GFS liabilities</b>				
Deposits held	300	300	300	300
Advances received	0	0	0	0
Government securities	51,386	47,303	32,757	15,415
Loans	11,756	10,898	10,757	9,986
Other borrowing	219	194	180	176
Superannuation liability	83,710	85,708	87,377	89,047
Other employee entitlements and provisions	6,972	7,144	7,259	7,413
Other non-equity liabilities	16,756	16,937	16,820	17,237
<b>Total GFS liabilities</b>	<b>171,098</b>	<b>168,484</b>	<b>155,451</b>	<b>139,573</b>
<b>Net worth(a)</b>	<b>-45,847</b>	<b>-42,891</b>	<b>-39,467</b>	<b>-34,371</b>
<b>Net debt(b)</b>	<b>34,116</b>	<b>29,033</b>	<b>12,752</b>	<b>-5,684</b>

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

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

**Table 15: Commonwealth general government sector cash flow statement<sup>(a)</sup>**

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
<b>Cash receipts from operating activities</b>				
Taxes received	157,622	167,894	176,450	185,780
Receipts from sales of goods and services	4,141	4,238	4,357	4,471
Grants and subsidies received	0	0	0	0
Interest receipts	912	734	867	1,248
Dividends	3,590	3,246	3,038	2,586
GST input credits received by general government	2,308	2,367	2,358	2,360
Other receipts	2,280	2,272	2,350	2,403
<b>Total receipts</b>	<b>170,852</b>	<b>180,751</b>	<b>189,420</b>	<b>198,848</b>
<b>Cash payments for operating activities</b>				
Payments for goods and services	-39,259	-41,308	-43,009	-44,684
Grants and subsidies paid	-40,848	-41,697	-43,543	-44,333
Interest paid	-4,457	-4,253	-3,870	-4,875
Personal benefit payments	-65,796	-69,655	-75,081	-79,355
Salaries, wages and other entitlements	-14,963	-15,331	-16,123	-16,374
GST payments by general government to taxation authority	-118	-112	-114	-114
Other payments for operating activities	-1,988	-2,006	-2,022	-2,046
<b>Total payments</b>	<b>-167,428</b>	<b>-174,363</b>	<b>-183,762</b>	<b>-191,782</b>
<b>Net cash flows from operating activities</b>	<b>3,424</b>	<b>6,388</b>	<b>5,659</b>	<b>7,066</b>
<b>Cash flows from investments in non-financial assets</b>				
Sales of non-financial assets	1,425	888	642	278
Purchases of new and secondhand non-financial assets	-2,723	-2,376	-2,056	-1,981
<b>Net cash flows from investments in non-financial assets</b>	<b>-1,298</b>	<b>-1,488</b>	<b>-1,414</b>	<b>-1,703</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>-404</b>	<b>-931</b>	<b>10,279</b>	<b>10,514</b>
<b>Cash flows from investments in financial assets for liquidity purposes</b>				
Increase in investments	9,586	-106	-200	-171
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>9,586</b>	<b>-106</b>	<b>-200</b>	<b>-171</b>
<b>Cash flows from financing activities</b>				
Advances received (net)	0	0	0	0
Borrowing (net)	-12,608	-4,186	-14,581	-17,347
Deposits received (net)	0	0	0	0
Other financing (net)	-85	-263	508	1,418
<b>Net cash flows from financing activities</b>	<b>-12,693</b>	<b>-4,449</b>	<b>-14,073</b>	<b>-15,929</b>
<b>Net increase/decrease in cash held</b>	<b>-1,385</b>	<b>-586</b>	<b>251</b>	<b>-223</b>
<b>Net cash from operating activities and investments in non-financial assets</b>	<b>2,126</b>	<b>4,900</b>	<b>4,245</b>	<b>5,363</b>
Finance leases and similar arrangements(b)	15	-1	-7	-7
<b>Equals underlying cash balance</b>	<b>2,141</b>	<b>4,899</b>	<b>4,238</b>	<b>5,356</b>
<i>plus</i> net cash flows from investments in financial assets for policy purposes	-404	-931	10,279	10,514
<b>Equals headline cash balance</b>	<b>1,737</b>	<b>3,968</b>	<b>14,516</b>	<b>15,869</b>

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

(b) The acquisition of assets under finance leases reduces the surplus/deficit. The disposal of assets previously held under finance leases improves the surplus/deficit.

**ATTACHMENT C****TAX EXPENDITURES**

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

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

Table 16 provides aggregate tax expenditure estimates for the period from 1998-99 to 2005-06.

**Table 16: Aggregate tax expenditures 1998-99 to 2005-06<sup>(a)</sup>**

	Superannuation	Other tax	Total	Tax expenditures as a proportion of GDP
	\$m	expenditures \$m	\$m	%
1998-99	10,100	16,091	26,191	4.4
1999-00	10,410	17,258	27,668	4.4
2000-01	9,820	20,497	30,317	4.5
2001-02	9,770	20,132	29,902	4.2
2002-03(b)	10,590	19,701	30,291	4.0
2003-04(b)	11,210	18,816	30,026	3.8
2004-05(b)	11,890	19,453	31,343	3.7
2005-06(b)	12,550	20,336	32,886	3.7

(a) Preliminary estimates only — final estimates will be published in the *2002 Tax Expenditures Statement*.

(b) Projections.

Tax expenditures as a proportion of GDP are estimated to increase from 4.4 per cent in 1998-99 to 4.5 per cent in 2000-01 and are then projected to fall to 3.7 per cent in 2005-06. The increase in total measured tax expenditures as a share of GDP largely reflects the first full year operation of the Family Tax Benefit (a tax exempt payment). The subsequent decline reflects the impact from the policy decision to remove accelerated depreciation for plant and equipment. Further detail on tax expenditures will be provided in the *2002 Tax Expenditures Statement*.



**ATTACHMENT D**

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

**EXPENSES**

Table 17 shows estimates of Commonwealth general government expenses by function for 2002-03 and the forward years.

**Table 17: Estimates of Commonwealth general government expenses by function**

	2002-03			2003-04			2004-05			2005-06		
	Budget \$m	MYEFO \$m	Change on Budget %	Budget \$m	MYEFO \$m	Change on Budget %	Budget \$m	MYEFO \$m	Change on Budget %	Budget \$m	MYEFO \$m	Change on Budget %
<b>General public services</b>												
Legislative and executive affairs	716	734	3	677	694	3	782	802	3	687	712	4
Financial and fiscal affairs	3,097	3,084	0	3,232	3,139	-3	3,306	3,198	-3	3,541	3,424	-3
Foreign affairs and economic aid	2,194	2,325	6	2,143	2,153	0	2,083	2,187	5	2,377	2,318	-2
General research	1,884	1,859	-1	2,033	2,023	0	2,166	2,137	-1	2,366	2,337	-1
General services	420	482	15	435	501	15	443	515	16	446	519	16
Government superannuation benefits	1,799	1,895	5	1,856	1,959	6	1,910	2,020	6	1,912	2,026	6
<b>Defence</b>	13,144	13,250	1	14,011	13,927	-1	14,417	14,247	-1	14,970	14,719	-2
<b>Public order and safety</b>	2,000	2,078	4	2,032	2,083	3	2,014	2,061	2	2,029	2,088	3
<b>Education</b>	12,324	12,324	0	13,044	13,003	0	13,634	13,610	0	14,258	14,225	0
<b>Health</b>	29,054	29,377	1	30,514	30,672	1	32,245	32,427	1	33,819	34,015	1
<b>Social security and welfare</b>	72,894	72,561	0	75,979	75,483	-1	78,979	78,743	0	81,597	82,142	1
<b>Housing and community amenities</b>	1,866	1,901	2	1,720	1,677	-3	1,693	1,679	-1	1,630	1,636	0
<b>Recreation and culture</b>	2,068	2,108	2	2,099	2,151	2	2,107	2,140	2	2,082	2,124	2
<b>Fuel and energy</b>	3,290	3,523	7	3,359	3,783	13	3,430	3,968	16	3,489	4,141	19
<b>Agriculture, fisheries and forestry</b>	1,792	1,814	1	1,761	1,765	0	1,735	1,726	-1	1,614	1,601	-1
<b>Mining and mineral resources (other than fuels), manufacturing and construction</b>	1,439	1,621	13	1,481	1,661	12	1,438	1,598	11	1,082	1,280	18
<b>Transport and communication</b>	2,263	2,328	3	2,096	2,174	4	2,204	2,252	2	1,731	1,741	1
<b>Other economic affairs</b>												
Tourism and area promotion	136	136	0	130	133	2	133	137	3	136	138	1
Labour and employment affairs	3,200	3,266	2	3,266	3,352	3	3,313	3,382	2	3,375	3,424	1
Other economic affairs	527	621	18	533	652	22	539	659	22	545	671	23

**Table 17: General government expenses by function (continued)**

	2002-03			2003-04			2004-05			2005-06		
	Budget \$m	MYEFO \$m	Change on Budget %	Budget \$m	MYEFO \$m	Change on Budget %	Budget \$m	MYEFO \$m	Change on Budget %	Budget \$m	MYEFO \$m	Change on Budget %
<b>Other purposes</b>												
Public debt interest	4,522	4,548	1	3,953	3,893	-2	3,536	3,425	-3	2,994	2,786	-7
Nominal superannuation interest	4,945	5,025	2	5,104	5,055	-1	5,054	5,078	0	5,299	5,201	-2
General purpose inter-government transactions	4,449	4,276	-4	3,916	3,804	-3	3,504	3,661	4	3,713	3,955	7
Natural disaster relief	133	139	5	104	104	0	94	94	0	94	94	0
Contingency reserve(a)	33	-608	-1942	2,099	1,338	-36	4,133	3,414	-17	6,247	5,363	-14
<b>Total expenses</b>	<b>170,192</b>	<b>170,666</b>	<b>0</b>	<b>177,578</b>	<b>177,177</b>	<b>0</b>	<b>184,889</b>	<b>185,160</b>	<b>0</b>	<b>192,035</b>	<b>192,681</b>	<b>0</b>

(a) Contingency Reserve includes matters subject to commercial-in-confidence including certain price assumptions relating to asset sales.

## **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 estimates. The reserve is an estimating device used to ensure that the budget estimates are based on the best information available at the time of the MYEFO. It is not a general policy reserve.

While the reserve ensures that aggregate estimates are as close as possible to expected outcomes, it is not appropriated. Allowances that are included in the reserve can only be drawn upon once they have been appropriated by Parliament.

The Contingency Reserve makes allowance in 2002-03 and the forward years for anticipated events, including the following:

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

## Appendix A: Policy decisions taken since the 2002-03 Budget

### SUMMARY OF POLICY DECISIONS TAKEN SINCE THE 2002-03 BUDGET

**Table A1: Revenue measures since the 2002-03 Budget<sup>(a)</sup>**

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
<b>AGRICULTURE, FISHERIES AND FORESTRY</b>				
Sugar Package - levy	7.5	30.0	30.0	30.0
<b>Portfolio total</b>	<b>7.5</b>	<b>30.0</b>	<b>30.0</b>	<b>30.0</b>
<b>ATTORNEY-GENERAL'S</b>				
Tariff-free access for the world's poorest countries	-	-2.5	-2.5	-2.5
<b>Portfolio total</b>	<b>-</b>	<b>-2.5</b>	<b>-2.5</b>	<b>-2.5</b>
<b>COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS</b>				
Increased regulatory oversight of Australia Post	1.2	5.3	3.1	3.2
<b>Portfolio total</b>	<b>1.2</b>	<b>5.3</b>	<b>3.1</b>	<b>3.2</b>
<b>HEALTH AND AGEING</b>				
Medical indemnity insurance - Incurred-But-Not-Reported levy	*	*	*	*
<b>Portfolio total</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>*</b>
<b>IMMIGRATION AND MULTICULTURAL AND INDIGENOUS AFFAIRS</b>				
Increase in the Parent Migration intake	10.4	71.2	84.0	102.7
Regulation of the migration advice industry	-	2.3	2.8	3.4
<b>Portfolio total</b>	<b>10.4</b>	<b>73.5</b>	<b>86.8</b>	<b>106.1</b>
<b>TREASURY</b>				
<i>Income tax</i>				
Amendments to demergers legislation	*	*	*	*
Amendments to the double tax agreement with Malaysia	-	-2.0	-	-
A new double tax agreement with Mexico	-	-2.0	-2.0	-2.0
Apportionment of deductions for cash donations	-	-	-	-1.0
Deductibility of certain gifts	*	*	*	*
Ensure structured settlements are not taxed at the life company level	..	-1.0	-1.0	-1.0
Government response to the Report of the Inquiry into the Definition of Charities and Related Organisations	-	-	-2.0	-4.0
Improvement to tax treatment for venture capital	-	-1.0	-5.0	-10.0
Income tax deduction for the Incurred-But-Not-Reported levy	-	-	-1.0	-2.0
Income tax exemption for the Commonwealth Games Federation	*	*	*	*
Modify 6 month rule for complying pensions and annuities	*	*	*	*
Not proceeding with Tax Value Method and associated High Level Rules	-	-	-	30.0

Appendix A: Policy decisions taken since the 2002-03 Budget

**Table A1: Revenue measures since the 2002-03 Budget<sup>(a)</sup> (continued)**

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
<b>TREASURY (continued)</b>				
Reclassify internal rollovers as Eligible Termination Payments	*	*	*	*
Recovery of Pay As You Go withholding amounts	50.0	50.0	50.0	50.0
Require a minimum payment from a commuted pension or annuity	*	*	*	*
Taxation of copyright collecting societies	-	-	-	-
Technical amendments to the treatment of life insurance companies	..	..	..	..
Timor Sea Treaty - Tax Code	-2.0	-3.0	-3.0	-3.0
Treatment of foreign losses under the consolidation regime	*	*	*	*
<i>Indirect tax</i>				
Excise (and customs) duty on fuel ethanol	26.0	34.4	44.6	61.5
<i>Fringe benefits tax</i>				
Continuity of treatment of State and Territory provided non-remote housing fringe benefits	-	-	-	-
Employee entitlement funds	-	-1.0	-6.0	-10.0
<i>Non-tax revenue</i>				
Terrorism insurance – commercial cover	-	*	*	*
<b>Portfolio total</b>	<b>74.0</b>	<b>74.4</b>	<b>74.6</b>	<b>108.5</b>
<b>Total impact of revenue measures(b)</b>	<b>93.1</b>	<b>180.7</b>	<b>192.0</b>	<b>245.3</b>

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

.. not zero, but rounded to zero.

- nil

(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 due to rounding.

**Table A2: Expense measures since the 2002-03 Budget<sup>(a)</sup>**

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
<b>AGRICULTURE, FISHERIES AND FORESTRY</b>				
<i>Department of Agriculture, Fisheries and Forestry</i>				
Banana Black Sigatoka Fungal Disease Programme	-	-	-	-
Combating illegal fishing in Australia's sub-Antarctic waters	2.6	-	-	-
Establishment of an egg industry service provider company	-1.4	-0.5	-0.5	-0.5
Exceptional Circumstances - Bourke and Brewarrina Farmhand drought appeal	1.9	2.6	0.7	-
Interim income support for drought affected farmers in Bourke and Brewarrina regions of New South Wales and the Peak Downs region of Queensland	5.0	-	-	-
Marketing campaign for Meat and Livestock Australia	1.4	-	-	-
Repriorisation of funding from the Forest Industry Structural Adjustment Package	-	-	-	-
Review of aggregate sawlog licence volumes in Victoria	-1.5	-	-	-
Sugar Package - exit assistance	0.2	0.9	0.4	-
Sugar Package - income support and administration costs	2.5	10.0	10.0	7.5
Sugar Package - Industry Guidance Group and Regional Action Groups	23.5	11.5	0.5	0.5
Sugar Package - regional projects	2.5	2.5	2.5	2.5
Sugar Package - replanting interest rate subsidy	-	10.0	10.0	10.0
Sugar Package - viability tests and business plans	4.5	3.5	-	-
	3.5	2.5	-	-
<b>Portfolio total</b>	<b>44.6</b>	<b>43.0</b>	<b>23.6</b>	<b>20.0</b>
<b>ATTORNEY-GENERAL'S</b>				
<i>Australian Customs Service</i>				
Enhanced travel document screening system	-	2.3	2.5	2.5
<i>Australian Security Intelligence Organisation</i>				
Additional funding for the Australian Security Intelligence Organisation	3.4	6.1	6.2	6.2
Supplementation for the Australian Security Intelligence Organisation	1.2	-	-	-
<i>Attorney-General's Department</i>				
Interim Taskforce for the Building and Construction Industry	0.8	-	-	-
Upgrade of Law Courts Building in Sydney	3.7	-	-	-
<b>Portfolio total</b>	<b>9.1</b>	<b>8.3</b>	<b>8.7</b>	<b>8.7</b>
<b>COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS</b>				
<i>Australian Communications Authority</i>				
Increased regulatory oversight of Australia Post	1.0	4.4	2.5	2.6
<i>Department of Communications, Information Technology and the Arts</i>				
Regional Equalisation Plan funding for Imparja Television	-	-	-	-
<b>Portfolio total</b>	<b>1.0</b>	<b>4.4</b>	<b>2.5</b>	<b>2.6</b>

Appendix A: Policy decisions taken since the 2002-03 Budget

**Table A2: Expense measures since the 2002-03 Budget<sup>(a)</sup> (continued)**

	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
<b>EDUCATION, SCIENCE AND TRAINING</b>				
<i>Department of Education, Science and Training</i>				
Increase in the Parent Migration intake	0.2	0.8	0.9	1.1
Review of the New Apprenticeships Incentives Programme - amendments to the Living Away from Home Allowance	-	5.1	5.2	5.3
Review of the New Apprenticeships Incentives Programme - better targeting of the incentive for employing women in non-traditional occupations	-	-0.4	-1.0	-1.0
Review of the New Apprenticeships Incentives Programme - discontinue the Special Assistance Programme	-	-0.1	-0.1	-0.1
Review of the New Apprenticeships Incentives Programme - extension of the Disabled Apprenticeship Wage Support subsidy	-	0.9	1.8	1.8
Review of the New Apprenticeships Incentives Programme - marketing of New Apprenticeships	-	7.0	-	-
Review of the New Apprenticeships Incentives Programme - new payment arrangements for Group Training Organisations	-	0.4	1.1	1.8
Review of the New Apprenticeships Incentives Programme - redistribution of rural and regional skills shortage progression payment	-	4.8	11.8	8.6
Review of the New Apprenticeships Incentives Programme - removal and redistribution of the progression payment	-	-0.5	-15.0	-31.1
Review of the New Apprenticeships Incentives Programme - special incentive for mature aged workers	-	1.0	2.5	3.0
Support for the General Sir John Monash Awards	-	0.9	1.7	2.5
<b>Portfolio total</b>	<b>0.2</b>	<b>19.9</b>	<b>9.0</b>	<b>-8.0</b>
<b>EMPLOYMENT AND WORKPLACE RELATIONS</b>				
<i>Department of Employment and Workplace Relations</i>				
Increase in the Parent Migration intake	-	0.7	1.9	2.8
Interim Taskforce for the Building and Construction Industry	6.5	-	-	-
<b>Portfolio total</b>	<b>6.5</b>	<b>0.7</b>	<b>1.9</b>	<b>2.8</b>
<b>FAMILY AND COMMUNITY SERVICES</b>				
<i>Department of Family and Community Services</i>				
Commonwealth State Housing Agreement - Offer to States and Territories	-	-	20.9	32.8
Exceptional Circumstances - Bourke and Brewarrina	0.1	0.1	..	-
Ex-gratia payments for victims and family members of victims of the Bali terrorist attacks	3.3	0.3	-	-
Extension of the Carer Payment	0.7	1.3	1.4	1.4
Family Law legislation amendment	..	..	..	..
Funding for the Red Cross Appeal for victims of the Bali terrorist attacks	1.0	-	-	-



**Table A2: Expense measures since the 2002-03 Budget<sup>(a)</sup> (continued)**

	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
<b>FAMILY AND COMMUNITY SERVICES (continued)</b>				
Improved flexibility for family assistance payments	24.7	13.6	15.3	13.3
Increase in the Parent Migration intake	5.1	2.3	8.0	14.4
Increased funding to the third Commonwealth-State-Territory Disability Agreement	15.0	20.3	25.7	31.2
International Social Security Agreement with Belgium	-	-	0.5	..
Recognising and improving the work capacity of people with a disability	0.3	4.7	54.0	103.4
<b>Portfolio total</b>	<b>50.2</b>	<b>42.6</b>	<b>125.8</b>	<b>196.6</b>
<b>FINANCE AND ADMINISTRATION</b>				
<i>Department of Finance and Administration</i>				
Additional funding for the administration of electorate and ministerial offices	4.4	6.2	8.0	8.2
Enhanced budget advisory capacity	3.5	9.0	11.8	12.1
Enhanced budget information system	1.7	5.5	6.5	4.3
Funding for the review of corporate governance of Statutory Authorities and Office Holders	0.7	-	-	-
Government assistance to research organisations associated with major political parties	0.1	0.1	0.1	0.1
Increased funding for electorate office relief	2.2	2.7	2.8	2.9
<b>Portfolio total</b>	<b>12.6</b>	<b>23.4</b>	<b>29.3</b>	<b>27.6</b>
<b>FOREIGN AFFAIRS AND TRADE</b>				
<i>Australian Agency for International Development</i>				
Increasing counter-terrorism capability in Indonesia	-	-	-	-
<i>Australian Secret Intelligence Service</i>				
Additional funding for the Australian Secret Intelligence Service	2.1	6.5	6.1	6.1
<i>Department of Foreign Affairs and Trade</i>				
Enhanced physical security at Australia's overseas posts	1.5	3.9	3.9	3.9
Ex-gratia payments for victims and family members of victims of the Bali terrorist attacks	3.1	-	-	-
Solomon Islands International Peace Monitoring Team	0.1	-	-	-
<b>Portfolio total</b>	<b>6.8</b>	<b>10.3</b>	<b>10.0</b>	<b>10.0</b>
<b>HEALTH AND AGEING</b>				
<i>Department of Health and Ageing</i>				
Additional funding for the Hunter Regional After Hours Service	-	-	-	-
Exceptional Circumstances - Bourke and Brewarrina	0.1	0.1	..	-
Ex-gratia payments for victims and family members of victims of the Bali terrorist attacks	11.8	6.9	4.5	0.7
Extension of the Pharmaceutical Benefits Scheme listing for Glivec	8.5	22.1	24.4	26.3
Improved monitoring of pharmaceutical benefits entitlements	-	-	-	-
Increase in the Parent Migration intake	1.4	8.3	21.0	34.8
Listing of Singulair on the Pharmaceutical Benefits Scheme	5.6	14.1	17.9	20.6
Listing of Spiriva on the Pharmaceutical Benefits Scheme	5.0	18.5	31.0	37.9

Appendix A: Policy decisions taken since the 2002-03 Budget

**Table A2: Expense measures since the 2002-03 Budget<sup>(a)</sup>(continued)**

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
<b>HEALTH AND AGEING (continued)</b>				
Medical indemnity insurance -				
Incurred-But-Not-Reported scheme	*	*	*	*
Medical Indemnity Insurance Assistance Package	54.4	64.4	63.7	63.5
Meningococcal C Vaccination Programme	119.1	71.3	61.7	38.9
Options to contain future private health insurance premium increases	-0.8	-4.0	-7.5	-11.4
Recognising and improving the work capacity of people with a disability	-	..	0.6	1.1
Research involving embryos and prohibition of human cloning	0.8	-	-	-
United Medical Protection (UMP)/Australasian Medical Insurance Ltd (AMIL) Guarantee	*	*	*	*
<b>Portfolio total</b>	<b>205.8</b>	<b>201.6</b>	<b>217.3</b>	<b>212.4</b>
<b>IMMIGRATION AND MULTICULTURAL AND INDIGENOUS AFFAIRS</b>				
<i>Department of Immigration and Multicultural and Indigenous Affairs</i>				
Additional Airline Liaison Officers	1.2	2.5	2.5	2.5
Increase in the Parent Migration intake	0.9	2.6	4.8	7.1
Regulation of the migration advice industry	-	2.3	2.8	3.4
Supplementary funding for the Community Settlement Services Scheme	0.6	0.2	-	-
<b>Portfolio total</b>	<b>2.6</b>	<b>7.6</b>	<b>10.1</b>	<b>13.0</b>
<b>INDUSTRY, TOURISM AND RESOURCES</b>				
<i>Department of Industry, Tourism and Resources</i>				
Enhanced Printing Industry Competitiveness Scheme	13.0	8.9	-	-
Ethanol production subsidy	26.0	7.2	-	-
Support for shale oil demonstration plants	25.7	-	-	-
Uncapped Automotive Competitiveness and Investment Scheme credits for utility vehicles	5.0	-	-	-
<b>Portfolio total</b>	<b>69.7</b>	<b>16.1</b>	<b>-</b>	<b>-</b>
<b>TRANSPORT AND REGIONAL SERVICES</b>				
<i>Department of Transport and Regional Services</i>				
Additional funding for Year of the Outback	0.3	-	-	-
Development of AusLink	1.1	-	-	-
National Aerial Firefighting Strategy	5.5	-	-	-
War risk indemnities for the aviation industry	0.6	0.3	-	-
<b>Portfolio total</b>	<b>7.5</b>	<b>0.3</b>	<b>-</b>	<b>-</b>

**Table A2: Expense measures since the 2002-03 Budget<sup>(a)</sup> (continued)**

	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
<b>TREASURY</b>				
<i>Australian Competition and Consumer Commission</i>				
Increased regulatory oversight of Australia Post	0.2	0.9	0.6	0.6
Medical Indemnity Insurance Assistance Package	0.5	-	-	-
<i>Department of the Treasury</i>				
Additional funding for the Review of the Trade Practices Act 1974	0.7	-	-	-
Funding for Principles Based Review of the Law of Negligence	0.4	-	-	-
Terrorism insurance – commercial cover	2.0	-	-	-
Variation in Budget Balancing Assistance – application of GST to compulsory third party insurance	14.1	9.2	2.6	3.0
Variation in Budget Balancing Assistance – Government response to the Report of the Inquiry into the Definition of Charities and Related Organisations	-	-	0.7	0.8
<b>Portfolio total</b>	<b>17.9</b>	<b>10.1</b>	<b>3.9</b>	<b>4.4</b>
<b>VETERANS' AFFAIRS</b>				
<i>Department of Veterans' Affairs</i>				
Kokoda Track	1.2	-	-	-
Listing of Singulair on the Pharmaceutical Benefits Scheme	0.2	0.5	0.6	0.7
Listing of Spiriva on the Pharmaceutical Benefits Scheme	0.9	3.2	5.3	6.5
<b>Portfolio total</b>	<b>2.2</b>	<b>3.7</b>	<b>5.9</b>	<b>7.2</b>
Decisions taken but not yet announced	27.1	0.9	0.6	0.7
<b>Total expense measures(b)</b>	<b>463.7</b>	<b>393.0</b>	<b>448.5</b>	<b>497.9</b>

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

... not zero, but rounded to zero.

- nil

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

(b) Measures may not add due to rounding.

Appendix A: Policy decisions taken since the 2002-03 Budget

**Table A3: Capital measures since the 2002-03 Budget<sup>(a)</sup>**

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
<b>ATTORNEY-GENERAL'S</b>				
<i>Australian Customs Service</i>				
Enhanced travel document screening system	7.0	-0.9	-1.9	-1.9
<i>Australian Security Intelligence Organisation</i>				
Additional funding for the Australian Security Intelligence Organisation	-0.1	-0.2	-0.2	-0.2
<b>Portfolio total</b>	<b>6.9</b>	<b>-1.1</b>	<b>-2.1</b>	<b>-2.1</b>
<b>FAMILY AND COMMUNITY SERVICES</b>				
<i>Department of Family and Community Services</i>				
Improved flexibility for family assistance payments	2.5	2.3	-0.5	-0.5
<b>Portfolio total</b>	<b>2.5</b>	<b>2.3</b>	<b>-0.5</b>	<b>-0.5</b>
<b>FINANCE AND ADMINISTRATION</b>				
<i>Department of Finance and Administration</i>				
Enhanced budget information system	5.1	11.2	3.9	-2.9
Winding-up of Employment National	-	-	-	-
<b>Portfolio total</b>	<b>5.1</b>	<b>11.2</b>	<b>3.9</b>	<b>-2.9</b>
<b>FOREIGN AFFAIRS AND TRADE</b>				
<i>Australian Secret Intelligence Service</i>				
Additional funding for the Australian Secret Intelligence Service	0.9	0.1	-0.1	-0.1
<i>Department of Foreign Affairs and Trade</i>				
Enhanced physical security at Australia's overseas posts	9.9	-1.0	-1.0	-1.0
<b>Portfolio total</b>	<b>10.8</b>	<b>-0.9</b>	<b>-1.1</b>	<b>-1.1</b>
<b>IMMIGRATION AND MULTICULTURAL AND INDIGENOUS AFFAIRS</b>				
<i>Department of Immigration and Multicultural and Indigenous Affairs</i>				
Additional Airline Liaison Officers	0.6	-0.2	-0.2	-0.2
Increase in the Parent Migration intake	0.4	-0.1	-0.1	-0.1
<b>Portfolio total</b>	<b>1.0</b>	<b>-0.3</b>	<b>-0.3</b>	<b>-0.3</b>
<b>Total capital measures(b)</b>	<b>26.2</b>	<b>11.1</b>	<b>-0.1</b>	<b>-6.9</b>

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

... not zero, but rounded to zero.

- nil

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

(b) Measures may not add due to rounding.

## POLICY DECISIONS TAKEN SINCE THE 2002-03 BUDGET

### REVENUE MEASURES

#### AGRICULTURE, FISHERIES AND FORESTRY

##### *Sugar Package — levy*

###### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Agriculture, Fisheries and Forestry	7.5	30.0	30.0	30.0

###### *Explanation*

The Government has decided to apply a levy on all sugar sold in Australia for domestic consumption to fund measures provided under the Sugar Package. The levy will be on all domestic sugar sales for manufacturing, food service and retail uses at a rate of approximately 3 cents per kilogram for a period of approximately five years.

See also the related expense measures titled *Sugar Package* in the Agriculture, Fisheries and Forestry portfolio.

#### ATTORNEY-GENERAL'S

##### *Tariff-free access for the world's poorest countries*

###### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Customs Service	-	-2.5	-2.5	-2.5

###### *Explanation*

From 1 July 2003, the Government will grant tariff and quota free access to goods originating in Least Developed Countries (LDCs), recognised as such by the United Nations Conference on Trade and Development, and in East Timor.

For over 25 years, Australia has provided preferential market access for the world's poorest countries. This initiative will remove the remaining tariffs and quotas on

Appendix A: Policy decisions taken since the 2002-03 Budget

goods originating from these countries. East Timor, Bangladesh, Cambodia and many parts of Sub-Saharan Africa will benefit from this initiative.

Further details may be found in the Prime Minister's Press Release of 25 October 2002.

## **COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS**

### ***Increased regulatory oversight of Australia Post***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Communications, Information Technology and the Arts	1.2	5.3	3.1	3.2

*Explanation*

The Government will introduce a levy on Australia Post to recover costs associated with providing additional resourcing for the Australian Communications Authority and the Australian Competition and Consumer Commission to increase regulatory oversight of Australia Post.

See also the related expense measure titled *Increased regulatory oversight of Australia Post* in the Communications, Information Technology and the Arts portfolio.

## **HEALTH AND AGEING**

### ***Medical indemnity insurance — Incurred-But-Not-Reported levy***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Health and Ageing	*	*	*	*

*Explanation*

The Government has decided to impose a levy on certain medical practitioners to fund its assumption of the liability for the unfunded Incurred-But-Not-Reported (IBNR) liabilities by medical defence organisations (MDOs). The IBNR levy will be payable by medical practitioners who were members of MDOs as at 30 June 2000, subject to a number of conditions. Levies will become payable in 2003-04.

Further details may be found in the Prime Minister's Press Releases of 31 May 2002 and 23 October 2002.

See also the related expense measure titled *Medical indemnity insurance – Incurred-But-Not-Reported scheme* in the Health and Ageing portfolio and the related revenue measure titled *Income tax deduction for the Incurred-But-Not-Reported levy* in the Treasury portfolio.

## **IMMIGRATION AND MULTICULTURAL AND INDIGENOUS AFFAIRS**

### ***Increase in the Parent Migration intake***

#### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Immigration and Multicultural and Indigenous Affairs	10.4	71.2	84.0	102.7

#### *Explanation*

The Government has decided to increase the current Parent Migration category intake from 500 to 1,000 places in a full year and introduce an additional visa category for parent migrants with 3,500 places in a full year. This will provide significant benefits to the Australian community, including the reunification of families. The new visa category will have a higher second visa application charge of \$25,000, and an extended Assurance of Support bond period from 2 to 10 years, to partially offset the additional health and welfare costs.

Further details may be found in the Minister for Immigration and Multicultural and Indigenous Affairs Press Release No. MPS 097/2002 of 12 November 2002.

See also the related expense and capital measures titled *Increase in the Parent Migration intake* in the Immigration and Multicultural and Indigenous Affairs portfolio.

### ***Regulation of the migration advice industry***

#### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Immigration and Multicultural and Indigenous Affairs	-	2.3	2.8	3.4

Appendix A: Policy decisions taken since the 2002-03 Budget

*Explanation*

The Government will extend statutory self-regulation of the migration advice industry and allow for the continuation of the Migration Agents Registration Authority (MARA) to further improve professional standards and enhance consumer protection. Consistent with the recommendations of the 2001-02 Review of Statutory Self-Regulation of the Migration Advice Industry, MARA's regulatory powers will be increased and its sanctioning capacity enhanced. The agents' Code of Conduct will also be strengthened and measures introduced to promote competition within the industry and the progressive regulation of the offshore industry.

Increased revenue from registration fees will cover increased resourcing for regulation of the migration advice industry offshore.

Further details may be found in the Minister for Immigration and Multicultural and Indigenous Affairs' Press Release No. H93/2002 of 25 September 2002.

See also the related expense measure titled *Regulation of the migration advice industry* in the Immigration and Multicultural and Indigenous Affairs portfolio.

## **TREASURY**

### **Income Tax**

#### ***Amendments to demergers legislation***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	*	*	*	*

*Explanation*

The 2002-03 Budget announced that tax relief will be provided for demergers undertaken from 1 July 2002 in circumstances where underlying ownership is maintained and where the original entity divests at least 80 per cent of its ownership in the demerged entity. A number of amendments to the demerger provisions were contained in the *New Business Tax System (Consolidation, Value Shifting, Demergers and Other Measures) Bill 2002*. These amendments include:

- introducing an additional exception in relation to the requirement to maintain underlying ownership for certain hybrid financial instruments;
- allowing greater flexibility in identifying an appropriate head entity of a demerger group;



Appendix A: Policy decisions taken since the 2002-03 Budget

- providing additional flexibility in the way a demerger may occur; and
- a number of technical amendments to ensure that the demergers legislation operates as intended.

***Amendments to the double tax agreement with Malaysia***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	-2.0	-	-

*Explanation*

On 28 July 2002, the Governments of Australia and Malaysia signed a Second Protocol and associated exchange of letters amending the 1980 double tax agreement (DTA) between the countries. The Second Protocol and associated exchange of letters will:

- update the tax sparing provisions in the DTA;
- update the DTA to reflect Australia's current tax law and treaty policies and practices in relation to a number of existing Articles, including those dealing with Associated Enterprises, Dividends, Royalties and Other Income; and
- exclude from treaty benefits, persons who benefit from preferential tax treatment under the Labuan offshore business activity regime, and other substantially similar regimes.

The amendments to the DTA will take effect once it enters into force. Legislation to fulfil Australia's obligations under the amendments and a Bill for that purpose has been introduced into Parliament.

Further details may be found in the Minister for Revenue and Assistant Treasurer's Press Release No. C80/02 of 29 July 2002.

***A new double tax agreement with Mexico***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	-2.0	-2.0	-2.0

*Explanation*

On 9 September 2002, the Governments of Australia and the United Mexican States signed the Australia-Mexico Double Taxation Agreement. The double tax agreement

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(DTA) prevents double taxation by allocating taxing rights between Australia and Mexico in respect of all forms of income flows between the two countries.

The DTA will take effect once it enters into force, which is expected to be in the 2003-04 financial year.

Further details may be found in the Treasurer's Press Release No.054 of 9 September 2002. The text of the agreement can be found on the Department of Foreign Affairs and Trade website at [www.dfat.gov.au](http://www.dfat.gov.au).

***Apportionment of deductions for cash donations***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	-	-	-1.0

*Explanation*

The Government will allow deductions for cash donations made from 1 July 2003 to deductible gift recipients to be spread, in instalments chosen by the taxpayer, over a period of up to five years.

The measure will ensure that cash and property donations are treated similarly. Deductions for all property donations valued at more than \$5,000 and made from 1 July 2002 to deductible gift recipients can be spread over a period of up to five years.

***Deductibility of certain gifts***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	*	*	*	*

*Explanation*

Since the 2002-03 Budget, the Government has made a number of announcements that donations and gifts of \$2 or more to the following organisations have been made tax deductible:

- The Australian Literacy and Numeracy Foundation;
- The Mount Macedon Memorial Cross Trust (for donations to 14 August 2004);
- Shrine of Remembrance Foundation (for donations to 2 July 2004);

Appendix A: Policy decisions taken since the 2002-03 Budget

- The Australian Council for Children and Youth Organisations Inc.;
- The General Sir John Monash Foundation; and
- Australia for UNHCR (extending gift deductibility status to 27 June 2007).

In addition, since the 2002-03 Budget there have been:

- 21 admissions to the Register of Cultural Organisations and six deletions; and
- 24 admissions to the Register of Environmental Organisations.

***Ensure structured settlements are not taxed at the life company level***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	..	-1.0	-1.0	-1.0

*Explanation*

The Government will make tax changes, with effect from 26 September 2001, to encourage the use of structured settlements. These involve compensation for personal injury where part of the compensation is paid in the form of annuity, that is, a lifelong series of payments. The tax exemption also applies to certain deferred lump sum payments, which recognise significant but infrequent expenses such as a new vehicle.

Further details may be found in the former Assistant Treasurer's Press Release No. 46 of 26 September 2001.

***Government response to the Report of the Inquiry into the Definition of Charities and Related Organisations***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	-	-2.0	-4.0

*Explanation*

On 29 August 2002, the Government announced its response to the Report of the Inquiry into the Definition of Charities and Related Organisations. The changes will be implemented progressively from 1 July 2003.

The Government's response includes the enactment of a legislative definition of charity for the purpose of the administration of Commonwealth laws and largely adopting the

Appendix A: Policy decisions taken since the 2002-03 Budget

Inquiry's recommendations for the definition. The Government will also establish a new category of deductible gift recipient for charities whose principal activities promote the prevention and control of harmful and abusive behaviour among humans.

Further details may be found in the Treasurer's Press Release No.049 of 29 August 2002.

See also the related expense measure titled *Variation in Budget Balancing Assistance – Government response to the Report of the Inquiry into the Definition of Charities and Related Organisations* in the Treasury portfolio.

***Improvement to tax treatment for venture capital***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	-1.0	-5.0	-10.0

*Explanation*

The Government has announced that, as part of wider venture capital reforms, legislation will be introduced as soon as practicable to effect capital gains tax treatment as from 1 July 2002, dealing with carried interest.

Further details on the Government's wider venture capital reforms may be found in the Minister for Revenue and Assistant Treasurer's Press Release No. C100/02 of 20 September 2002.

***Income tax deduction for the Incurred-But-Not-Reported levy***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	-	-1.0	-2.0

*Explanation*

From 1 July 2003, the Government will provide a specific deduction from income tax for all medical practitioners (including retirees) who are required to pay the Incurred-But-Not-Reported (IBNR) levy.

This measure ensures that an income tax deduction will be available to all taxpayers who are required to pay the levy, regardless of whether a deduction would otherwise be available.

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See also the related revenue measure titled *Medical indemnity insurance – Incurred-But-Not-Reported levy* in the Health and Ageing portfolio and the related expense measure titled *Medical indemnity insurance – Incurred-But-Not-Reported scheme* in the Health and Ageing portfolio

***Income tax exemption for the Commonwealth Games Federation***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	*	*	*	*

*Explanation*

The Government will provide an income tax exemption to the Commonwealth Games Federation covering the period 1 January 2000 to 30 June 2007. The exemption will cover the preparation period for the Melbourne Commonwealth Games 2006.

The Commonwealth Games Federation is an unincorporated association that organises and promotes the staging of the Commonwealth Games. The Federation receives income from the organising committee for the Games, Melbourne Commonwealth Games Pty Ltd.

The income tax exemption provided to the Commonwealth Games Federation is consistent with the treatment afforded to the International Olympic Committee in relation to the Sydney 2000 Olympic Games.

***Modify 6 month rule for complying pensions and annuities***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	*	*	*	*

*Explanation*

From 1 July 2003, the Government will strengthen the operation of the rule which allows a 'complying' lifetime or life expectancy income stream to be commuted within 6 months of its commencement.

This measure will strengthen the integrity of the retirement income stream arrangements by ensuring that the 6 month period, within which a 'complying' income stream may be commuted, is only available on a 'once off' basis for a given tranche of superannuation savings.

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Further details may be found in the Minister for Revenue and Assistant Treasurer's Press Release No. C74/02 of 1 July 2002.

See also related revenue measures titled *Require a minimum payment from a commuted pension or annuity* and *Reclassify internal rollovers as Eligible Termination Payments* in the Treasury portfolio.

***Not proceeding with Tax Value Method and associated High Level Rules***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	-	-	30.0

*Explanation*

On 28 August 2002, the Government announced it would accept the recommendation from the Board of Taxation not to proceed with the Tax Value Method (TVM) and associated High Level Rules.

While the TVM concept will not be pursued, the Government will develop, in consultation with the business community, a systematic tax treatment of rights and blackhole expenditures with a view to implementing the changes by July 2005. In the meantime, the case-by-case treatment of rights and blackhole expenditures will continue.

Further details may be found in the Treasurer's Press Release No. 048 of 28 August 2002, and the Minister for Revenue and Assistant Treasurer's Press Release No. C57/02 of 14 May 2002.

***Reclassify internal rollovers as Eligible Termination Payments***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	*	*	*	*

*Explanation*

On 1 July 2002, the Government announced it would make tax changes, with effect from 1 July 2001, to classify internal rollover transactions (that is, rollovers occurring within the same superannuation fund or life company) as Eligible Termination Payments. This change will allow internal rollover transactions to be reported for Reasonable Benefit Limit purposes, thereby avoiding the adverse tax consequences which would otherwise arise.

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An internal rollover can occur, for example, where a person commutes a superannuation pension and returns the proceeds to the accumulation phase within the same superannuation fund as a result of deciding to return to work.

Further details may be found in the Minister for Revenue and Assistant Treasurer's Press Release No. C74/02 of 1 July 2002.

See also related revenue measures titled *Require a minimum payment from a commuted pension or annuity* and *Modify 6 month rule for complying pensions and annuities in the Treasury portfolio*.

***Recovery of Pay As You Go withholding amounts***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	50.0	50.0	50.0	50.0

*Explanation*

The Government will make tax changes, with effect from 1 July 2002, to allow the Commissioner of Taxation to recover all outstanding Pay As You Go (PAYG) withholding debts by making an estimate of the debt. These changes will apply in respect of amounts withheld during the year ending 30 June 2002 and subsequent years.

The changes will empower the Commissioner to recover amounts that have been deducted under the PAYG withholding system but not remitted, by making an estimate of the amount. The rules will also enable a person who receives an estimate to make a statutory declaration in order to have the estimate reduced or revoked.

***Require a minimum payment from a commuted pension or annuity***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	*	*	*	*

*Explanation*

From 1 July 2003, a minimum payment will be required to be made from a superannuation pension or annuity in a year that the pension or annuity is commuted. The minimum payment will be a pro-rated amount of the minimum that would have been required if the income stream had run for the full year.

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This measure is designed to strengthen the integrity of the retirement income stream arrangements by addressing practices which seek to circumvent the requirement to make regular payments from a superannuation income stream.

The measure also involves amending the rule which allows an allocated pension or annuity not to make a payment in its first year where the income stream commences between 1 April and 30 June. This rule will be replaced with a new rule whereby a payment will not have to be made from an allocated pension or annuity in its first year where the income stream commences between 1 June and 30 June.

Further details may be found in the Minister for Revenue and Assistant Treasurer's Press Release No. C74/02 of 1 July 2002.

See also related revenue measures titled *Reclassify internal rollovers as Eligible Termination Payments* and *Modify 6 month rule for complying pensions and annuities in the Treasury portfolio*.

***Taxation of copyright collecting societies***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	-	-	-

*Explanation*

The Government will make tax changes, with effect from 1 July 2002, to introduce an income tax exemption to preserve the current tax treatment of copyright collecting societies.

This measure will ensure that tax is levied in the hands of the copyright owner, at the copyright owner's marginal rate, when the funds are distributed. This reflects the conduit nature of collecting societies, and the practical difficulties that can operate to prevent early identification of the appropriate recipient of funds.

Further details may be found in the Minister for Revenue and Assistant Treasurer's Press Release No. C81/02 of 1 August 2002.

***Technical amendments to the treatment of life insurance companies***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	..	..	..	..



*Explanation*

On 11 September 2002, the Government announced a number of amendments to the taxation treatment of life insurers. The proposed amendments will overcome technical problems raised by the industry following the implementation of legislation enacting the Review of Business Tax life insurance reforms, which commenced on 1 July 2000. The proposed amendments will be developed in consultation with industry.

Further details may be found in the Minister for Revenue and Assistant Treasurer's Press Release No. C96/02 of 11 September 2002.

***Timor Sea Treaty — Tax Code****Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-2.0	-3.0	-3.0	-3.0

*Explanation*

On 20 May 2002, the Governments of the Commonwealth of Australia and the Democratic Republic of East Timor signed the Timor Sea Treaty (the Treaty) governing petroleum development in the Joint Petroleum Development Area (JPDA) of the Timor Sea. The Governments also implemented an Exchange of Notes covering taxation arrangements prior to entry into force of the Treaty, and signed a Memorandum of Understanding regarding the unitisation of the Greater Sunrise field.

Upon entry into force, the Treaty will apply retrospectively from 20 May 2002. In the meantime, the Exchange of Notes provides for the rollover of arrangements under the Timor Sea Arrangement (TSA) and also implements interim arrangements for the 90:10 sharing of petroleum resources in the JPDA as agreed under the TSA.

Further details may be found in the Minister for Foreign Affairs and Trade's Press Release of 17 May 2002. The text of the Treaty, Exchange of Notes and Memorandum of Understanding can be found on the Department of Foreign Affairs and Trade website at [www.dfat.gov.au](http://www.dfat.gov.au).

***Treatment of foreign losses under the consolidation regime****Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	*	*	*	*

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*Explanation*

The Government will allow a subsidiary entity that carries forward foreign losses at the end of its 2001-02 income year to remain outside a consolidated group on a transitional basis until these losses are fully used, up to a maximum of three years from the date of consolidation.

This option will be available with respect to an entity that:

- carried forward foreign losses at the end of its 2001-02 income year;
- is eligible to be a member of a group that consolidates in the period from 1 July 2002 to 30 June 2004;
- has been continually wholly-owned by the group from 30 June 2002 until the date of consolidation; and
- does not hold membership interests in other group members.

**Indirect tax**

***Excise (and customs) duty on fuel ethanol***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	26.0	34.4	44.6	61.5

*Explanation*

The Government will make changes to the excise arrangements, with effect from 18 September 2002, to apply excise duty to fuel ethanol at the same rate as the excise duty on petroleum fuel, currently 38.143 cents per litre.

The same change applies to customs duty on imported fuel ethanol.

Further details may be found in the Prime Minister's Press Release of 12 September 2002.

See also the related expense measure titled *Ethanol production subsidy* in the Industry, Tourism and Resources portfolio.

## Fringe benefits tax

### ***Continuity of treatment of State and Territory provided non-remote housing fringe benefits***

#### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	-	-	-

#### *Explanation*

The Government will make tax changes, with effect from 1 April 2001, to ensure the continuity of certain aspects of the administration of fringe benefits tax (FBT) for State or Territory provided non-remote housing benefits. The changes relate to certain record keeping provisions and the character of these benefits where the only change has been that the State or Territory has devolved the administration of fringe benefits to a nominated State or Territory body. This will ensure continuity of these aspects of the FBT treatment of these benefits that would otherwise have been lost because of the change in employer for FBT purposes.

### ***Employee entitlement funds***

#### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	-1.0	-6.0	-10.0

#### *Explanation*

From 1 April 2003, certain payments to prescribed employee entitlement funds will be exempt from fringe benefits tax (FBT).

The Australian Taxation Office has ruled that payments into such funds will be subject to FBT from 1 April 2003. However, payments made by the funds to an employee are also taxable in the hands of the employee.

By providing an FBT exemption, this measure ensures that these payments are not effectively taxed twice.

Funds that meet specified requirements will be prescribed by regulation with effect from 1 April 2003.

Further details can be found in the Treasurer's Press Release No.061 of 11 October 2002.

## Non-tax revenue

### *Terrorism insurance – commercial cover*

#### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of the Treasury	-	*	*	*

#### *Explanation*

The Government has announced a scheme for temporary terrorism risk insurance cover until market coverage resumes. The Scheme will commence on 1 July 2003 and will be managed by the statutory authority to be established for that purpose. From the Scheme's commencement, the Government will provide a \$9 billion indemnity as the last line of funds for claims costs incurred by the Scheme. The Government will levy an annual charge for the provision of this indemnity. The value of the charge is yet to be determined but will be calculated from market rates.

The Scheme will cover commercial property and infrastructure facilities, and associated business interruption and public liability. It will encompass a pool of funds (initially planned to accumulate to \$300 million), funded by premiums. The pool will be supplemented by a bank line of credit of \$1 billion, underwritten by the Commonwealth, as well as the Commonwealth Government indemnity of \$9 billion.

Further details can be found in the Treasurer's Press Release No.064 of 25 October 2002.

See also the related expense measure titled *Terrorism insurance – commercial cover* in the Treasury portfolio.

**EXPENSE MEASURES****AGRICULTURE, FISHERIES AND FORESTRY*****Banana Black Sigatoka Fungal Disease Programme****Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Agriculture, Fisheries and Forestry	-	-	-	-

*Explanation*

The Government provided \$4.6 million in 2001-02 towards the costs of a programme aimed at eradicating Banana Black Sigatoka disease, which was detected near Tully in North Queensland in April 2000. The Commonwealth's contribution represented 50 per cent of the total cost of the programme in line with Commonwealth and State and Territory arrangements for plant pest/disease eradication.

Funding for the Commonwealth's contribution to the eradication plan was provided from within the existing resources of the Department of Agriculture, Fisheries and Forestry Australia.

***Combating illegal fishing in Australia's sub-Antarctic waters****Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Agriculture, Fisheries and Forestry	2.6	-	-	-

*Explanation*

The Government will provide \$2.6 million to increase surveillance and enforcement capability in Australian waters surrounding Heard Island and McDonald Islands. The measure will enhance Australia's on-the-water patrols, which form part of a broader Government strategy to combat illegal fishing in the Southern Ocean, and recognises the growing threat from illegal fishing to the sustainable management and protection of Australia's sovereign interests in the Southern Ocean.

***Establishment of an egg industry service provider company***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Agriculture, Fisheries and Forestry	-1.4	-0.5	-0.5	-0.5

*Explanation*

The Government has decided to establish under the *Corporations Act 2001* a new industry-owned company to undertake a range of services for the Australian egg industry including national promotion and research and development. The Australian Egg Corporation Limited (AECL) will be established to undertake the functions currently provided by the Rural Industries Research and Development Corporation (RIRDC). AECL will administer a new levy to fund promotional activities for the egg industry. The transfer of assets and liabilities from the RIRDC egg sub-programme to AECL is planned to occur on 1 January 2003.

The arrangements are the result of an extensive consultation process by the industry, and will provide a more unified and responsive structure to assist the industry to boost Australia's declining egg consumption.

The creation of AECL outside the General Government Sector involves the Commonwealth divesting its interest in the RIRDC egg sub-programme.

Further details may be found in the Minister for Agriculture, Fisheries and Forestry's Press Release No. AFFA02/2152WT of 25 June 2002.

***Exceptional Circumstances — Bourke and Brewarrina***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Agriculture, Fisheries and Forestry	1.9	2.6	0.7	-
Department of Family and Community Services	0.1	0.1	..	-
Department of Health and Ageing	0.1	0.1	..	-

*Explanation*

The Government will provide up to \$5.6 million over three years as Exceptional Circumstances assistance to farmers in Bourke and Brewarrina, New South Wales. The

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Minister for Agriculture, Fisheries and Forestry announced the declaration of Exceptional Circumstances in this area on 13 November 2002.

This is a cross-portfolio measure between the Departments of Agriculture, Fisheries and Forestry, Health and Ageing, and Family and Community Services.

The above funding for the Department of Agriculture, Fisheries and Forestry includes \$0.1 million over three years for Centrelink to administer this Exceptional Circumstances assistance.

Exceptional Circumstances assistance will be provided by way of interest rate subsidies and income support. Interest rate subsidies provide short-term, targeted support to assist viable farm businesses adversely affected by exceptional climatic events, including drought. Income support to farm families will be provided through the Exceptional Circumstances Relief Payment.

***Farmhand drought appeal***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Agriculture, Fisheries and Forestry	5.0	-	-	-

*Explanation*

The Government has allocated \$5 million to the Farmhand drought appeal. This measure recognises the role of the Farmhand appeal in providing assistance to drought affected farmers.

Further details may be found in the Deputy Prime Minister's Press Release No. A138/2002 of 13 November 2002.

***Interim income support for drought affected farmers in Bourke and Brewarrina regions of New South Wales and the Peak Downs region of Queensland***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Agriculture, Fisheries and Forestry	1.4	-	-	-

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*Explanation*

The Government announced on 19 September 2002 the provision of interim income support to farmers in drought affected Bourke and Brewarrina, New South Wales, while the area's application for Exceptional Circumstances (EC) assistance was being assessed. The Government announced on 13 November 2002 that it will also provide interim income support to farmers in the Peak Downs region in Queensland.

The provision of interim income support represents a new approach to Commonwealth assistance while State Government applications for EC declaration are assessed. Under the new arrangements, once a fully completed application is received by the Commonwealth and deemed to show a prima facie case for EC declaration, interim income support is made available to eligible farmers on conditions equivalent to the Exceptional Circumstances Relief Payment.

Interim income support, delivered by Centrelink, is available for up to six months while the application is assessed. Should the Government declare EC in a region, interim income support will cease and standard EC assistance arrangements will commence.

This funding includes \$0.2 million in 2002-03 for Centrelink for administration of the measure.

***Marketing campaign for Meat and Livestock Australia***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Agriculture, Fisheries and Forestry	-	-	-	-

*Explanation*

The Government provided \$5 million in 2001-02 to Meat and Livestock Australia Limited to conduct an Australian beef promotion campaign in the Japanese market. The measure, together with contributions of \$1.3 million each from beef producers and processors, is designed to assist Australia to regain its traditional share of the Japanese beef import market. Beef consumption in Japan fell after the detection of Bovine Spongiform Encephalopathy (Mad Cow Disease) in the Japanese herd, resulting in a decrease in Australian beef exports of 72 per cent in December 2001 compared to December 2000.

Funding for this measure has been fully absorbed from within the existing resourcing of the Agriculture, Fisheries and Forestry Australia portfolio.

Further details may be found in the Minister for Agriculture, Fisheries and Forestry's Press Release No. AFFA02/2169WT of 11 July 2002.



***Reprioritisation of funding from the Forest Industry Structural Adjustment Package***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Agriculture, Fisheries and Forestry	-1.5	-	-	-

*Explanation*

The Government will reallocate \$1.5 million from the Forest Industry Structural Adjustment Package to the review of aggregate sawlog licence volumes in Victoria. The Forest Industry Structural Adjustment Package was established to provide leverage for individual forest industry firms to invest in technological and other improvements.

See also the related expense measure titled *Review of aggregate sawlog licence volumes in Victoria* in the Agriculture, Fisheries and Forestry portfolio.

***Review of aggregate sawlog licence volumes in Victoria***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Agriculture, Fisheries and Forestry	0.2	0.9	0.4	-

*Explanation*

The Government will contribute \$1.5 million over three years towards an independent review of aggregate sawlog licence volumes in Victoria and to fast track improved collection and assessment of resource data. The measure aims to provide certainty to industry and rural communities in Victoria about long-term sustainable timber harvest levels.

The Commonwealth's contribution is conditional on a matching contribution to be provided by the Victorian Government.

See also the related expense measure titled *Reprioritisation of funding from the Forest Industry Structural Adjustment Package* in the Agriculture, Fisheries and Forestry portfolio.

***Sugar Package — exit assistance***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Agriculture, Fisheries and Forestry	2.5	10.0	10.0	7.5

*Explanation*

The Government will provide up to \$30 million over four years to assist eligible sugar cane growers wishing to leave the sugar industry. The Government will provide eligible cane growers a grant of up to \$45,000 to enable them to either leave the industry altogether, or to remain on the farm and diversify to other agricultural commodities.

Individuals will be able to apply for an exit grant for a sugar industry enterprise if they are assessed as eligible to receive income support under the Sugar Package.

See also the related revenue measure titled *Sugar Package — levy* in the Agriculture, Fisheries and Forestry portfolio.

***Sugar Package — income support and administration costs***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Agriculture, Fisheries and Forestry	23.5	11.5	0.5	0.5

*Explanation*

The Government will provide income support over two years to eligible sugar cane growers and harvesters in Queensland, New South Wales and Western Australia. Income support will be available for twelve months, at a rate equivalent to the applicable Newstart Allowance, and will be subject to an income and assets test — with farm assets excluded.

Total funding for income support and administration of this component of the Sugar Package is \$36 million. This includes funding for Centrelink of \$4.3 million over four years and \$1.3 million for the Department of Agriculture, Fisheries and Forestry Australia.

See also the related revenue measure titled *Sugar Package — levy* in the Agriculture, Fisheries and Forestry portfolio.

***Sugar Package — Industry Guidance Group and Regional Action Groups****Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Agriculture, Fisheries and Forestry	2.5	2.5	2.5	2.5

*Explanation*

The Government will provide up to \$10 million over four years to establish an Industry Guidance Group.

The Industry Guidance Group will develop and implement an overarching sugar industry reform plan, establish Regional Action Groups and examine regional proposals for funding under the *Sugar Package — regional projects* initiative.

Regional Action Groups will be established in each of the sugar producing areas of Queensland, New South Wales and Western Australia to develop and implement regional business plans for the local sugar industry.

See also the related revenue measure titled *Sugar Package — levy* in the Agriculture, Fisheries and Forestry portfolio.

***Sugar Package — regional projects****Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Agriculture, Fisheries and Forestry	-	10.0	10.0	10.0

*Explanation*

The Government will provide up to \$30 million over three years for projects to be developed under regional business plans to assist the sugar industry to restructure and ensure its long-term economic, social and environmental sustainability. Regional projects aim to promote the adoption of 'whole-of-systems' solutions for the industry, to enhance revenue and cost efficiency, and to pursue options for diversification and alternative uses of sugar cane, such as feedstock for ethanol and biofuel production.

See also the related revenue measure titled *Sugar Package — levy* in the Agriculture, Fisheries and Forestry portfolio.

Appendix A: Policy decisions taken since the 2002-03 Budget

***Sugar Package – replanting interest rate subsidy***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Agriculture, Fisheries and Forestry	4.5	3.5	-	-

*Explanation*

The Government will provide up to \$8 million over two years for interest rate subsidies to eligible cane growers who obtain new loans, or who have recently obtained loans, for the purpose of planting sugar cane or to replace diseased cane. Interest rate subsidies will be provided for two years to eligible cane growers on loans of up to \$50,000.

See also the related revenue measure titled *Sugar Package – levy* in the Agriculture, Fisheries and Forestry portfolio.

***Sugar Package – viability tests and business plans***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Agriculture, Fisheries and Forestry	3.5	2.5	-	-

*Explanation*

The Government will provide up to \$6 million over two years to assist sugar cane growers and harvesters who access income support under the Sugar Package measures to undertake an assessment of the financial viability of their sugar industry enterprise. The Government will also provide, to eligible recipients, assistance to develop and implement a Sugar Enterprise Activity Plan to improve the viability of the enterprise or assist the recipient to adjust out of the industry.

The measure aims to ensure that sugar cane growers and harvesters examine the state of their enterprise and make sound plans for the future while receiving income support.

See also the related revenue measure titled *Sugar Package – levy* in the Agriculture, Fisheries and Forestry portfolio.

**ATTORNEY-GENERAL'S*****Enhanced travel document screening system****Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Customs Service	-	2.3	2.5	2.5

*Explanation*

The Government will provide additional funding of \$7.3 million to the Australian Customs Service for the ongoing operational costs associated with the purchase and installation of enhanced travel document readers at Australia's international airports. The machines will assist in the detection of fraudulent documents and will be used to screen the passports of all international aircraft passengers entering and leaving Australia. This measure will increase the capacity of the Australian Customs Service to detect and intercept illegal activities.

Further details may be found in the Prime Minister's Press Release of 24 October 2002.

See also the related capital measure titled *Enhanced travel document screening system* in the Attorney-General's portfolio.

***Additional funding for the Australian Security Intelligence Organisation****Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Security Intelligence Organisation	3.4	6.1	6.2	6.2

*Explanation*

Following the terrorist attacks of 12 October 2002 in Bali, the Government will provide additional funding of \$28.4 million over five years (including \$6.4 million in 2006-07) to further enhance the ability of the Australian Security Intelligence Organisation to counter the threat of terrorism.

See also the related capital measure titled *Additional funding for the Australian Security Intelligence Organisation* in the Attorney-General's portfolio.

***Supplementation for the Australian Security Intelligence Organisation***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Security Intelligence Organisation	1.2	-	-	-

*Explanation*

The Government has agreed to provide funding to the Australian Security Intelligence Organisation of \$1.2 million in 2002-03 to meet an unexpected increase in administrative expenses.

***Upgrade of Law Courts Building in Sydney***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Attorney-General's Department	3.7	-	-	-

*Explanation*

The Government will provide additional funding of \$3.7 million in 2002-03 to the Attorney-General's Department for urgent maintenance works at the Law Courts Building in Sydney. The Commonwealth agencies that occupy the building are the High Court of Australia, the Federal Court of Australia and the Federal Magistrates Service. The works include asbestos removal, replacement of systems controls and an upgrade of the emergency lighting.

**COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS**

***Increased regulatory oversight of Australia Post***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Communications Authority	1.0	4.4	2.5	2.6
Australian Competition and Consumer Commission	0.2	0.9	0.6	0.6

*Explanation*

Additional resourcing will be provided to the Australian Communications Authority to calculate the cost of Australia Post's (AP's) community service obligations and to monitor and report on quality of service issues.

Additional resourcing will also be provided to the Australian Competition and Consumer Commission to develop record keeping rules to ensure AP is not inappropriately cross subsidising its retail services and to inquire into disputes and make recommendations in relation to AP's bulk interconnection service.

Further details may be found in the Minister for Communications, Information Technology and the Arts' Press Release No. 253/02 of 14 November 2002.

See also the related revenue measure titled *Increased regulatory oversight of Australia Post* in the Communications, Information Technology and the Arts portfolio.

***Regional Equalisation Plan funding for Imparja Television***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Communications, Information Technology and the Arts	-	-	-	-

*Explanation*

The Government will provide licence fee rebates of up to \$0.2 million a year for three years from 2002-03 to assist Imparja Television with unanticipated costs associated with the retransmission of digital programme feeds.

This funding is available within existing estimates for the Regional Equalisation Plan and will be offset against Imparja's future entitlements.

**EDUCATION, SCIENCE AND TRAINING**

***Review of the New Apprenticeships Incentives Programme — amendments to the Living Away from Home Allowance***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Education, Science and Training	-	5.1	5.2	5.3

Appendix A: Policy decisions taken since the 2002-03 Budget

*Explanation*

The Government has decided to increase the Living Away from Home Allowance from \$72.80 per week to \$77.17 per week, in line with increases to the National Training Wage. The Living Away from Home Allowance will also be extended to second year apprentices at the rate of \$38.59 per week. These changes will assist New Apprentices to continue their New Apprenticeship.

***Review of the New Apprenticeships Incentives Programme – better targeting of the incentive for employing women in non-traditional occupations***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Education, Science and Training	-	-0.4	-1.0	-1.0

*Explanation*

The Government has decided to better target assistance for employers of women in non-traditional occupations to promote a widened skilled employment base for women. The Department of Education, Science and Training will work with the Office of the Status of Women to explore avenues to promote opportunities for women in non-traditional occupations.

***Review of the New Apprenticeships Incentives Programme – discontinue the Special Assistance Programme***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Education, Science and Training	-	-0.1	-0.1	-0.1

*Explanation*

The Government has decided to discontinue the Special Assistance Programme (SAP). SAP provides assistance with course costs and equipment for New Apprentices who have commenced a New Apprenticeship but for some reason are unable to proceed with on-the-job training. This programme is no longer required as other forms of support for out of trade apprentices are available from State and Territory governments and Job Network members.



***Review of the New Apprenticeships Incentives Programme — extension of the Disabled Apprenticeship Wage Support subsidy***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Education, Science and Training	-	0.9	1.8	1.8

*Explanation*

The Government has decided to extend the Disabled Apprenticeship Wage Support subsidy to employers of trainees to enable New Apprentices with disabilities to access this assistance. Under previous arrangements, trainees did not attract the wage subsidy component or associated tutorial and mentoring services.

***Review of the New Apprenticeships Incentives Programme — marketing of New Apprenticeships***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Education, Science and Training	-	7.0	-	-

*Explanation*

The Government will provide additional funding of \$7 million to develop new marketing products and undertake a media campaign for New Apprenticeships. The campaign is expected to focus on areas of skill shortage, including the traditional trades and women in non-traditional occupations. Continued marketing of the programme will help maintain the current high levels of New Apprenticeships.

***Review of the New Apprenticeships Incentives Programme — new payment arrangements for Group Training Organisations***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Education, Science and Training	-	0.4	1.1	1.8

Appendix A: Policy decisions taken since the 2002-03 Budget

*Explanation*

The Government has decided that all Group Training Organisations (GTOs) will be eligible for the same recommencement and completion incentives as other employers. The new arrangements will be phased in over a two-year period. The Government has also decided that the special commencement incentive for GTOs that sign on a new trainee be discontinued and, from 2004-05, a new \$1,000 completion payment will be made available to GTOs when a New Apprentice successfully completes a course at the Australian Qualification Framework II qualification level.

***Review of the New Apprenticeships Incentives Programme — redistribution of rural and regional skills shortage progression payment***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Education, Science and Training	-	4.8	11.8	8.6

*Explanation*

The Government has decided to redistribute the special incentive paid at the point of progression from Australian Qualification Framework (AQF) level 2 to AQF level 3 or 4 for employers of apprentices in areas of rural and regional skills shortages. The special incentive will now be paid at commencement of AQF level 3 or 4 New Apprenticeships. This adjustment brings the incentive in line with the Government's decision to remove and redistribute progression payments under the programme.

***Review of the New Apprenticeships Incentives Programme — removal and redistribution of the progression payment***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Education, Science and Training	-	-0.5	-15.0	-31.1

*Explanation*

The Government has decided to remove and redistribute the progression payment made to employers under the New Apprenticeship Employer Incentives Programme from 1 July 2003. The progression payment will be redistributed so that 20 per cent is paid at commencement and the remaining 80 per cent is paid at completion.

This new arrangement will provide a greater incentive for employers to ensure their New Apprentices complete their training and also simplifies the current incentive payment structure.

***Review of the New Apprenticeships Incentives Programme — special incentive for mature aged workers***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Education, Science and Training	-	1.0	2.5	3.0

*Explanation*

The Government has decided to provide a special incentive to employers of mature aged workers over 45 years of age who are welfare dependent, returning to the workforce or have been made redundant. The employer will receive \$750 for the commencement of a New Apprenticeship and \$750 upon the successful completion. This measure will encourage employers to take on mature aged New Apprentices.

***Support for the General Sir John Monash Awards***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Education, Science and Training	-	0.9	1.7	2.5

*Explanation*

The Government will provide additional funding of \$5.1 million over three years to the General Sir John Monash Foundation for the establishment of a new programme of postgraduate scholarships. The funding is in addition to the seed funding of \$250,000 provided in the 2002-03 Budget. This will provide 16 new scholarships each year from 2004 for outstanding Australian postgraduate students to study overseas and for international students to study in Australia.

Furthermore, the Government will match contributions from private and community sources to the Foundation's endowment fund up to a certain level. The Government will also provide a further \$150,000 in 2002-03 to continue its support for the administrative activities of the Foundation.

Costs for the matching contributions and administrative activities will be fully absorbed within the existing resources of the Department of Education, Science and Training.

Further details may be found in the Prime Minister's Press Release of 4 June 2002.

## **EMPLOYMENT AND WORKPLACE RELATIONS**

### ***Interim taskforce for the building and construction industry***

#### *Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Attorney-General's Department	0.8	-	-	-
Department of Employment and Workplace Relations	6.5	-	-	-

#### *Explanation*

The Government has decided to provide funding of \$7.3 million in 2002-03 to establish an interim taskforce for the building and construction industry. This includes \$0.8 million to be provided to the Director of Public Prosecutions for the purpose of providing advice on offences and prosecuting matters referred by the taskforce.

The taskforce was established in response to the First Report of the Royal Commission into the Building and Construction Industry and will investigate breaches of the *Workplace Relations Act 1996* and other laws in the construction industry. The taskforce will work in cooperation with the Australian Federal Police, the Director of Public Prosecutions, the Australian Taxation Office, the Australian Competition and Consumer Commission, the Office of the Employment Advocate and other Commonwealth agencies as required.

This taskforce will operate initially until 30 June 2003.

Further details may be found in the Minister for Employment and Workplace Relations' Press Release of 26 September 2002.

## **FAMILY AND COMMUNITY SERVICES**

### ***Commonwealth State Housing Agreement — offer to States and Territories***

#### *Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Family and Community Services	-	-	20.9	32.8

*Explanation*

Under this measure, the Government will increase its funding contribution under the Commonwealth State Housing Agreement (CSHA) to assist the States and Territories in their delivery of social housing services. The Government will provide an additional \$155.8 million over the five-year term (including \$44.9 million in 2006-07 and \$57.1 million in 2007-08) of the new CSHA, which will come into effect from 1 July 2003. This funding is in addition to the \$4.6 billion already in the forward estimates for the CSHA over the next five years.

Under the CSHA, the States and Territories provide affordable and appropriate housing for disadvantaged groups, with a particular focus on aged and disability pensioners, indigenous people and the homeless.

Further details may be found in the Minister for Family and Community Services' Press Release of 25 October 2002.

***Ex-gratia payments for victims and family members of victims of the Bali terrorist attacks****Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Family and Community Services	3.3	0.3	-	-
Department of Foreign Affairs and Trade	3.1	-	-	-
Department of Health and Ageing	11.8	6.9	4.5	0.7

*Explanation*

On 25 October 2002, the Minister for Family and Community Services announced that the Government has allocated funding for the provision of a wide range of support measures for Australian victims of the Bali terrorist attacks and their immediate families. The majority of assistance is being delivered through Centrelink, however, other agencies are also involved. The range of assistance that is being provided to victims and their immediate families (or next of kin or friends where applicable) includes:

- all medical and travel costs for victims of the bombing not otherwise covered by insurance arrangements;
- assistance with travel and accommodation costs for family members of victims who are staying on in Bali, for any purpose associated with the attacks;

Appendix A: Policy decisions taken since the 2002-03 Budget

- assistance with travel and accommodation costs for family members of victims who travel to and from Bali for purposes associated with the attacks;
- assistance with travel and accommodation costs for family members of victims within Australia where the victims are hospitalised in a distant location;
- return home travel costs for victims and accompanying family members;
- assistance with funeral costs for victims where these are not covered by a third party as well as assistance with travel and accommodation costs for family members to attend the funeral or memorial service;
- the repatriation of victims to Australia;
- returning victims' personal effects to Australia; and
- access to social workers, information and referral to other agencies for services.

The financial assistance measures outlined above aim to cover all reasonable out of pocket expenses incurred by the victims of the Bali terrorist attacks and their families, that are associated with the attacks and have not been covered by insurance or other disaster related assistance. In addition to the assistance outlined above, provision has been made for assistance to be provided on a case-by-case basis where appropriate.

See also the related expense measure titled *Funding to the Red Cross Appeal for victims of the Bali terrorist attacks* in the Family and Community Services portfolio.

***Extension of the Carer Payment***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Family and Community Services	0.7	1.3	1.4	1.4

*Explanation*

The Government has decided to streamline the process to allow more people caring for certain terminally ill children to qualify for Carer Payment. This will require amending the *Social Security Act 1991*.

Under this measure, the eligibility criteria for Carer Payment will be amended to make it easier for carers of children with a terminal illness to receive the payment and reduce the intrusiveness of the application process.

The new arrangements will take effect from 20 December 2002, at a cost of \$0.7 million in 2002-03 and \$4.1 million across the forward estimates.

**Family Law legislation amendment***Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Family and Community Services	..	..	..	..

*Explanation*

The Government, as part of the broader reform of Family Law in relation to superannuation, will amend the *Social Security Act 1991* to allow superannuation interests that have been split as part of a divorce settlement to be assessed consistently with other income and assets under the means test.

The amendments will prevent a superannuation withdrawal, by a person below age 55 paid to a partner under an order of the Family Court, from being counted as income for the person making the withdrawal. This measure will also prevent income streams that are exempt from the asset test from losing that status where part of the income stream is paid to a partner in a divorce settlement. These amendments will prevent inequities in the treatment of superannuation interests that have been split in divorce settlements.

Departmental expenses for this measure will be met from within existing resources.

This measure will be implemented by 29 December 2002.

**Funding for the Red Cross Appeal for victims of the Bali terrorist attacks***Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Family and Community Services	1.0	-	-	-

*Explanation*

The Government has allocated \$1 million to the Red Cross Bali Appeal. This measure recognises the important role of the appeal in channelling community support for victims and the families of victims of the Bali terrorist attacks. The Appeal has been providing emergency assistance to the victims and their families, augmenting Government measures.

See also the related expense measure titled *Ex-gratia payments for victims and family members of victims of the Bali terrorist attacks* in the Family and Community Services portfolio.

***Improved flexibility for family assistance payments***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Family and Community Services	24.7	13.6	15.3	13.3

*Explanation*

The Government will provide improved flexibility in payment arrangements for people who receive family assistance by:

- enabling all recipients of family payments who increase their income estimates during the year to have their ongoing family assistance payments adjusted to correct, as far as possible, any pro-rata overpayments;
- providing recipients with the option to receive either Family Tax Benefit (FTB) Part A or FTB Part B as a fortnightly payment and receive the other one as a lump sum payment, or to receive a base amount of FTB Part A fortnightly and the balance as a lump sum at the end of the year;
- allowing recipients to defer payment of FTB for children who may be affected by the child's own earnings; and
- simplifying administration of Child Care Benefit (CCB) by giving families the option of rounding down their percentage CCB entitlement, or choosing a lower CCB percentage entitlement, to provide a buffer against overpayments at the end of the year with any balance to be paid as a lump sum.

Further details may be found in the Minister for Family and Community Services' Press Release of 17 September 2002.

See also the related capital measure titled *Administrative arrangements for the reduction of family assistance overpayments* in the Family and Community Services portfolio.

***Increased funding to the third Commonwealth-State-Territory Disability Agreement***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Family and Community Services	15.0	20.3	25.7	31.2



*Explanation*

The Government has decided to provide the States and Territories with an additional \$129.1 million over the five year term (from 2002-03 to 2006-07) of the third Commonwealth-State-Territory Disability Agreement to assist in the provision of their specialist disability services. This funding is in addition to the \$2.7 billion over five years provided in the 2002-03 Budget, which included \$547.5 million to assist the States and Territories to meet unmet need for disability services.

Under the Agreement, the States and Territories are responsible for accommodation support, community support services and respite care. The Commonwealth is responsible for employment support for people with disabilities.

This measure is consistent with the Government's announcement on 8 July 2002 to offer the States and Territories an additional \$125 million, to be indexed, conditional on the States and Territories maintaining their respective funding share of the Agreement.

***International Social Security Agreement with Belgium***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Family and Community Services	-	-	0.5	..

*Explanation*

The Government has decided to extend the current network of reciprocal social security agreements to Belgium.

This agreement will improve access to income support to people whose adult lives are spent in both Australia and Belgium and will cover Age Pensions and Disability Support Pensions. Australia and Belgium will share financial responsibility for these pensions, each paying a proportion of their pension based on the length of residence or contributions that recipients have accrued in each country.

Further details may be found in the Minister for Family and Community Services' Press Release of 20 November 2002.

***Recognising and improving the work capacity of people with a disability***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Family and Community Services	0.3	4.7	54.0	103.4
Department of Health and Ageing	-	..	0.6	1.1

*Explanation*

People who claim the Disability Support Pension (DSP) on or after 1 July 2003 will be assessed under the new DSP eligibility criteria announced as part of the 2002-03 Budget.

Under this measure, people receiving DSP at 1 July 2003 or who claim DSP before this date will not be affected by the changes to the DSP eligibility criteria. Recipients will need to continue to meet the current DSP rules to maintain their protected status.

The Government will still provide additional funding, as announced in the 2002-03 Budget, for up to 73,000 new places in services to help people with disabilities improve and realise their work potential.

**FINANCE AND ADMINISTRATION**

***Additional funding for the administration of electorate and ministerial offices***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Finance and Administration	4.4	6.2	8.0	8.2

*Explanation*

The Government will provide additional funding of \$26.8 million over four years to cover the increased cost of administering the electorate offices of all members of Parliament and Ministers' offices. These increased costs reflect a number of factors including the cost of additional staff approved under the *Members of Parliament Staff Act 1984*.

***Enhanced budget advisory capacity***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Finance and Administration	3.5	9.0	11.8	12.1

*Explanation*

The Government will provide funding of \$36.4 million over four years to enhance the capability of the Department of Finance and Administration to provide whole of government advice to Government on expenditure priorities and to improve the quality and timeliness of the budget estimates.

***Enhanced budget information system***

*Expense (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Finance and Administration	1.7	5.5	6.5	4.3

*Explanation*

The Government will provide \$18 million over four years in expenses to enhance the central budget information system.

See also the related capital measure titled *Enhanced budget information system* in the Finance and Administration portfolio.

***Funding for the review of corporate governance of Statutory Authorities and Office Holders***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Finance and Administration	0.7	-	-	-

*Explanation*

The Government will provide one-off funding of \$656,000 in 2002-03 for a review of corporate governance of Statutory Authorities and Office Holders. The review will focus on improving the structures and governance practices of Statutory Authorities

Appendix A: Policy decisions taken since the 2002-03 Budget

and Office Holders, with a particular emphasis on those that impact on the business community. The review will be undertaken by an external reviewer who will be supported by a secretariat in the Department of Finance and Administration consisting of officers from various agencies.

Further details may be found in the Prime Minister's Press Release of 14 November 2002.

***Government assistance to research organisations associated with major political parties***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Finance and Administration	0.1	0.1	0.1	0.1

*Explanation*

The Government will provide an annual grant of \$50,000 to both the National Party of Australia and the Australian Democrats to establish or support a research organisation associated with their party.

***Increased funding for electorate office relief***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Finance and Administration	2.2	2.7	2.8	2.9

*Explanation*

The Government will provide additional funding of \$10.6 million over four years to increase the provision for electorate office relief staff from 12 weeks to 24 weeks per annum for each member of Parliament, and to lease an additional computer in each electorate office. The increased provision for electorate office relief staff will commence on 1 October 2002.

## FOREIGN AFFAIRS AND TRADE

### *Increasing counter-terrorism capability in Indonesia*

#### *Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Agency for International Development	-	-	-	-

#### *Explanation*

The Government has committed \$10 million over four years (\$2.5 million in each year) to assist Indonesia to build its counter-terrorism capability.

The assistance will involve new initiatives in three broad areas: enhancing airport, immigration and customs control systems and capabilities; assisting Indonesia to restrict the flow of financing to terrorists; and helping build the capability of the Indonesian police on counter-terrorism and transnational crime. This programme will be developed in consultation with the Indonesian Government.

This measure is being fully absorbed within the existing resourcing of the Australian Agency for International Development.

### *Additional funding for the Australian Secret Intelligence Service*

#### *Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Secret Intelligence Service	2.1	6.5	6.1	6.1

#### *Explanation*

Following the Bali terrorist attacks of 12 October 2002, the Government decided to allocate additional funding of \$27 million over five years (including \$6.1 million in 2006-07) to the Australian Secret Intelligence Service to strengthen its counter-terrorism capability.

See also the related capital measure titled *Additional funding for the Australian Secret Intelligence Service* in the Foreign Affairs and Trade portfolio.

***Enhanced physical security at Australia's overseas posts***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Foreign Affairs and Trade	1.5	3.9	3.9	3.9

*Explanation*

The Government has allocated additional funding of \$17.1 million over five years (including \$3.9 million in 2006-07) to the Department of Foreign Affairs and Trade for the ongoing operational costs associated with enhancing physical security at Australia's overseas diplomatic posts. This measure will allow for strengthening of walls and fences, the installation of bollards, metal detectors, intruder and duress alarms, as well as improved perimeter surveillance.

Further details may be found in the Prime Minister's Press Release of 24 October 2002.

See also the related capital measure titled *Enhanced physical security at Australia's overseas posts* in the Foreign Affairs and Trade portfolio.

***Solomon Islands International Peace Monitoring Team***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Foreign Affairs and Trade	0.1	-	-	-

*Explanation*

The Government has decided to withdraw Australia's contribution to the Solomon Islands International Peace Monitoring Team from 30 June 2002 and has provided an additional \$0.1 million in 2002-03 to facilitate this process.

The International Peace Monitoring Team was deployed to the Solomon Islands following the signing of the Townsville Peace Agreement in October 2000.

## HEALTH AND AGEING

### ***Additional funding for the Hunter Regional After Hours Service***

#### *Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Health and Ageing	-	-	-	-

#### *Explanation*

The Government will provide funding of \$10.3 million over three years to expand the Maitland After Hours Primary Medical Care trial to the entire Hunter urban region. The trial will improve access to medical care by providing after hours services at five locations, a telephone advice line staffed by nurses, funded transport for patients and a home visit service. The trial will be conducted in partnership with the Hunter Urban Region Division of General Practice. This trial builds on the work of the 2001-02 Budget measure *After hours/emergency primary medical care*.

This measure is being fully absorbed within the existing resourcing of the Health and Ageing portfolio.

### ***Extension of the Pharmaceutical Benefits Scheme listing for Glivec***

#### *Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Health and Ageing	8.5	22.1	24.4	26.3

#### *Explanation*

The Government will provide funding of \$81.3 million over four years for the extended listing of Glivec from 21 October 2002 on the Pharmaceutical Benefits Scheme. This will reduce the cost to eligible patients from approximately \$6,543 per month to the co-payment rates for concessional and general patients.

Glivec, a drug used in the treatment of Chronic Myeloid Leukaemia (CML), had its listing extended to eligible patients in the chronic stage of the disease after a positive recommendation from the Pharmaceutical Benefits Advisory Committee. Funding for Glivec was initially provided for the advanced stages of CML only.

Further details may be found in the Minister for Health and Ageing's Press Release of 10 September 2002.

***Improved monitoring of pharmaceutical benefits entitlements***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Health and Ageing	-	-	-	-

*Explanation*

The Government has agreed to allocate additional funding to pharmacists for their continuing assistance in administering the Improved Monitoring of Entitlements initiative, which requires pharmacists to obtain the Medicare number of any patient attempting to access the Pharmaceutical Benefits Scheme and thereby reduces the scope for fraudulent claims.

Previously allocated funding of \$3.5 million in 2002-03 will be increased by \$6.7 million (total \$10.2 million) from currently uncommitted funds available under the Community Pharmacy Agreement (CPA). Part of this funding will also be used to conduct a review of pharmacy costs to determine whether any further payments to pharmacists after 2002-03 are warranted. The above table shows the net effect on the Budget as zero because the funding under the CPA was already included in the forward estimates.

***Listing of Singulair on the Pharmaceutical Benefits Scheme***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Health and Ageing	5.6	14.1	17.9	20.6
Department of Veterans' Affairs	0.2	0.5	0.6	0.7

*Explanation*

The Government will provide funding for the listing of Singulair on the Pharmaceutical Benefits Scheme from 1 February 2003. This will reduce the cost to eligible patients from approximately \$90 per month to the co-payment rates for concessional patients and general patients. The cost of this measure in 2002-03 is estimated to be \$5.8 million.

Singulair is a drug used to treat asthma and differs from existing medicines in that it is a chewable tablet rather than an orally inhaled formulation. It has been listed for the treatment of children aged 2 to 14 years with frequent episodic or mild persistent asthma following a positive recommendation from the Pharmaceutical Benefits



Appendix A: Policy decisions taken since the 2002-03 Budget

Advisory Committee, which bases its considerations on clinical effectiveness, safety and cost effectiveness.

This is a cross-portfolio measure between the Department of Health and Ageing and the Department of Veterans' Affairs.

***Listing of Spiriva on the Pharmaceutical Benefits Scheme***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Health and Ageing	5.0	18.5	31.0	37.9
Department of Veterans' Affairs	0.9	3.2	5.3	6.5

*Explanation*

The Government will provide funding for the listing of Spiriva on the Pharmaceutical Benefits Scheme from 1 February 2003. Spiriva is not commercially available in Australia at present and can only be obtained by arrangement with the manufacturer. The maximum cost for a prescription will be the co-payment rates for concessional patients and general patients. The cost of this measure in 2002-03 is estimated to be \$5.9 million.

Spiriva is a drug used in the management of Chronic Obstructive Pulmonary Disease, a chronic, generally progressive lung disease characterized by breathlessness due to the presence of airway obstruction. It has been listed following a positive recommendation from the Pharmaceutical Benefits Advisory Committee, which bases its considerations on clinical effectiveness, safety and cost effectiveness.

This is a cross-portfolio measure between the Department of Health and Ageing and the Department of Veterans' Affairs.

***Medical indemnity insurance — Incurred-But-Not-Reported scheme***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Health and Ageing	*	*	*	*

*Explanation*

In his announcements on the medical indemnity package in May and October 2002, the Prime Minister indicated that the Commonwealth would assume the liability for the

## Appendix A: Policy decisions taken since the 2002-03 Budget

unfunded Incurred-But-Not-Reported (IBNR) liabilities of medical defence organisations (MDOs), with this liability to be funded by doctors who were members of the organisations as at 30 June 2000, subject to a number of conditions.

Legislation has been introduced to give effect to the IBNR scheme.

No estimate of the expense, total liability and the associated cash flow has been included for this measure as the nature of this measure is such that a reliable estimate cannot be produced at this time.

Further details may be found in the Prime Minister's Press Releases of 31 May 2002 and 23 October 2002.

See also the related revenue measures titled *Medical indemnity insurance – Incurred-But-Not-Reported levy* in the Health and Ageing portfolio, and *Income tax deduction for the Incurred-But-Not-Reported levy* in the Treasury portfolio.

### ***Medical Indemnity Insurance Assistance Package***

#### *Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Competition and Consumer Commission	0.5	-	-	-
Department of Health and Ageing	54.4	64.4	63.7	63.5

#### *Explanation*

The Government has decided to provide additional funding of \$246.5 million over four years to implement the Government's package of measures for providing assistance to doctors, United Medical Protection Limited and the medical indemnity insurance industry generally.

Included within this additional funding is \$0.5 million in 2002-03 for the Australian Competition and Consumer Commission to monitor medical indemnity insurance premiums following implementation of the Government's package of measures.

This package was announced in the Prime Minister's Press Release of 23 October 2002 and is aimed at ensuring key private medical services, including in rural and regional areas, are maintained, and providing a new framework for the provision of medical indemnity insurance in Australia.

***Meningococcal C Vaccination Programme****Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Health and Ageing	119.1	71.3	61.7	38.9

*Explanation*

The Government will provide funding of \$291.1 million over four years and funding in the order of \$9.4 million per annum in subsequent years for an immunisation programme against the meningococcal C disease. In the first four years, the programme will progressively immunise all Australians between the ages of 12 months and 19 years. This age group has been identified by the Australian Technical Advisory Group on Immunisation as being at highest risk of contracting, or suffering severe complications from, meningococcal meningitis. In subsequent years, the programme will provide for the immunisation of 12-month-old babies. The programme will commence in 2003 before the onset of the next high-risk period for contracting the disease.

Further details may be found in the Minister for Health and Ageing's Press Release of 24 November 2002.

***Options to contain future private health insurance premium increases****Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Health and Ageing	-0.8	-4.0	-7.5	-11.4

*Explanation*

On 11 September 2002, the Government announced measures designed to contain future private health insurance premium increases.

Measures to be introduced include: the provision of an annual report for consumers on the state of the health funds; increasing the power of the Private Health Insurance Ombudsman to deal with complaints and resolve disputes; increasing scrutiny of funds' overall performance; and the introduction of a code of conduct for health funds, agents and brokers.

The Government will retain the right to scrutinise and reject premium increases where they are not in the public interest. However, as a matter of practice, it will reduce the

Appendix A: Policy decisions taken since the 2002-03 Budget

level of scrutiny of premium increases at or below the rate of inflation measured by the Consumer Price Index.

***Research involving embryos and prohibition of human cloning***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Health and Ageing	0.8	-	-	-

*Explanation*

The Government has allocated funding of \$0.8 million to the National Health and Medical Research Council for the introduction and implementation of the Research Involving Embryos Bill 2002 and the Prohibition of Human Cloning Bill 2002.

***United Medical Protection (UMP)/Australasian Medical Insurance Ltd (AMIL) Guarantee***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Health and Ageing	*	*	*	*

*Explanation*

In his 23 October 2002 Press Release on the medical indemnity package, the Prime Minister announced an offer to extend the Commonwealth Guarantee provided to the provisional liquidator of UMP/AMIL from 31 December 2002 to 31 December 2003. The initial guarantee to 30 June 2002 was included in the 2002-03 Budget, and the Prime Minister announced an extension to 31 December 2002 on 31 May 2002.

The offer to extend will be on similar terms to the existing guarantee and will provide Commonwealth financial support to allow UMP/AMIL to meet the following payments under the cover provided to its members:

- amounts payable in the period 29 April 2002 to 31 December 2003 in respect of claims notified or finalised prior to 29 April 2002; and
- amounts payable in respect of claims notified in the period 29 April 2002 to 31 December 2003, whenever the claim is finalised (including after 31 December 2003).

No estimate of the expense, total liability and the associated cash flow has been included for this measure as the nature of this measure is such that a reliable estimate cannot be produced at this time.

## **IMMIGRATION AND MULTICULTURAL AND INDIGENOUS AFFAIRS**

### ***Additional Airline Liaison Officers***

#### *Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Immigration and Multicultural and Indigenous Affairs	1.2	2.5	2.5	2.5

#### *Explanation*

Following the Bali terrorist attacks of 12 October 2002, the Government will provide additional funding of \$11.2 million over five years (including \$2.5 million in 2006-07) to the Department of Immigration and Multicultural and Indigenous Affairs to employ additional Airline Liaison Officers (ALOs). ALOs are stationed at major airports and at last ports of embarkation on the way to Australia. These officers help prevent criminals or terrorists from using identity fraud to unlawfully enter Australia.

Further details may be found in the Prime Minister's Press Release of 24 October 2002.

See also the related capital measure titled *Additional Airline Liaison Officers* in the Immigration and Multicultural and Indigenous Affairs portfolio.

### ***Increase in the Parent Migration intake***

#### *Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Education, Science and Training	0.2	0.8	0.9	1.1
Department of Employment and Workplace Relations	-	0.7	1.9	2.8
Department of Family and Community Services	5.1	2.3	8.0	14.4
Department of Health and Ageing	1.4	8.3	21.0	34.8
Department of Immigration and Multicultural and Indigenous Affairs	0.9	2.6	4.8	7.1

Appendix A: Policy decisions taken since the 2002-03 Budget

*Explanation*

The Government has decided to increase the current Parent Migration category intake from 500 to 1,000 places in a full year and introduce an additional visa category for parent migrants with 3,500 places in a full year. This will provide significant benefits to the Australian community, including the reunification of families. The new visa category will have a higher second visa application charge of \$25,000, and an extended Assurance of Support bond period from two to ten years, to partially offset the additional health and welfare costs.

Further details may be found in the Minister for Immigration and Multicultural and Indigenous Affairs' Press Release No. MPS097/2002 of 12 November 2002.

See also the related revenue and capital measures titled *Increase in the Parent Migration intake* in the Immigration and Multicultural and Indigenous Affairs portfolio.

***Regulation of the migration advice industry***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Immigration and Multicultural and Indigenous Affairs	-	2.3	2.8	3.4

*Explanation*

The Government will extend statutory self-regulation of the migration advice industry and allow for the continuation of the Migration Agents Registration Authority (MARA) to further improve professional standards and enhance consumer protection. Consistent with the recommendations of the 2001-02 Review of Statutory Self-Regulation of the Migration Advice Industry, MARA's regulatory powers will be increased and its sanctioning capacity enhanced. The agents' Code of Conduct will also be strengthened and measures introduced to promote competition within the industry and the progressive regulation of the offshore industry.

Further details may be found in the Minister for Citizenship and Multicultural Affairs' Press Release No. H93/2002 of 25 September 2002.

See also the related revenue measure titled *Regulation of the migration advice industry* in the Immigration and Multicultural and Indigenous Affairs portfolio.

***Supplementary funding for the Community Settlement Services Scheme****Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Immigration and Multicultural and Indigenous Affairs	0.6	0.2	-	-

*Explanation*

The Government has agreed to provide additional funding to the Community Settlement Services Scheme to continue to provide grants to established community groups. Existing funding for this scheme will be diverted to new and emerging community groups.

**INDUSTRY, TOURISM AND RESOURCES*****Enhanced Printing Industry Competitiveness Scheme****Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Industry, Tourism and Resources	13.0	8.9	-	-

*Explanation*

The Government has agreed to continue funding for the Enhanced Printing Industry Competitiveness Scheme (EPICS) at a cost of \$21.9 million over two years. Under EPICS, grants are made to the book industry to assist innovation, business development and skills formation.

***Ethanol production subsidy****Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Industry, Tourism and Resources	26.0	7.2	-	-

Appendix A: Policy decisions taken since the 2002-03 Budget

*Explanation*

The Government will provide a producer subsidy for ethanol produced in Australia as a targeted means of maintaining the use of biofuels in transport. Longer term arrangements are being considered by the Government regarding the future of the emerging renewable energy industry. The ethanol will be sourced from biomass feedstock for use in transport fuel. The subsidy will be paid at the rate of 38.143 cents per litre of eligible ethanol and apply from 18 September 2002 until 17 September 2003.

Further details may be found in the Prime Minister's Press Release of 12 September 2002.

See also the related revenue measure titled *Excise (and customs) duty on fuel ethanol* in the Treasury portfolio.

**Support for shale oil demonstration plants**

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Industry, Tourism and Resources	25.7	-	-	-

*Explanation*

The Government has decided to temporarily broaden assistance available to approved shale oil demonstration plants. The grant will complement existing Government support provided by an effective excise exemption under the *Excise Act 1901*, with total assistance capped at \$36.4 million.

The maximum expected assistance to be provided under this expenses scheme is \$25.7 million.

**Uncapped Automotive Competitiveness and Investment Scheme credits for utility vehicles**

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Industry, Tourism and Resources	5.0	-	-	-



*Explanation*

This measure ensures that utility vehicles are classified as passenger motor vehicles and therefore eligible for uncapped Automotive Competitiveness and Investment Scheme (ACIS) credits.

ACIS was introduced on 1 January 2001, and is directed toward encouraging investment and innovation in Australia's automotive industry.

**TRANSPORT AND REGIONAL SERVICES**

***Additional funding for Year of the Outback***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Transport and Regional Services	0.3	-	-	-

*Explanation*

The Government has contributed \$0.6 million in 2002-03 towards the cost of staging the Outback Central 2002 – Songlines from Alice event, held in Alice Springs in August 2002.

The ten-day event, a centrepiece for the celebration of the Year of the Outback, showcased regional Australia through conferences, meetings, exhibitions, sports and youth activities.

Funding of \$0.3 million was absorbed within existing regional programmes in the Transport and Regional Services portfolio.

***Development of AusLink***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Transport and Regional Services	1.1	-	-	-

*Explanation*

On 7 November 2002, the Government launched the AusLink Green Paper on land transport infrastructure reform. The Government has allocated \$1.1 million in 2002-03 to cover costs associated with the development of the AusLink Green Paper and

Appendix A: Policy decisions taken since the 2002-03 Budget

subsequent formal policy statement (white paper). Funding will be used to meet the costs of consultation with stakeholders, to develop and publish the two papers, and for initial implementation activity.

Further details may be found in the Deputy Prime Minister's Press Release No. A33/2002 of 7 November 2002.

***National Aerial Firefighting Strategy***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Transport and Regional Services	5.5	-	-	-

*Explanation*

The Government will provide \$5.5 million to meet half of the direct costs of leasing and locating three helitankers for the 2002-03 peak fire season. Funding is being provided in the expectation of above normal demands this fire season. Consistent with their responsibilities for natural disaster relief management, State governments will be responsible for meeting the remaining direct costs and operating costs for these helitankers.

Further details may be found in the Minister for Regional Services, Territories and Local Government's Press Release No. WT59/2002 of 13 September 2002.

***War risk indemnities for the aviation industry***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Transport and Regional Services	0.6	0.3	-	-

*Explanation*

The Government will provide \$0.9 million over two years to the Department of Transport and Regional Services to administer the charging regime for the provision of third party war risk indemnities to the aviation industry.

The Government commenced charging for these indemnities on 30 August 2002 to encourage the aviation industry to take up commercial insurance as it becomes available.

**TREASURY*****Additional funding for the Review of the Trade Practices Act 1974****Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of the Treasury	0.7	-	-	-

*Explanation*

The Government will provide additional funding to cover costs relating to the Review of the *Trade Practices Act 1974*. The Review is undertaking a comprehensive investigation of the competition provisions (Part IV) of the *Trade Practices Act 1974*, and their administration. This measure is an extension of the funding of \$0.6 million provided for the Review in the 2002-03 Budget.

***Funding for Principles Based Review of the Law of Negligence****Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of the Treasury	0.4	-	-	-

*Explanation*

The Government has provided funding of \$0.4 million to meet the costs of the Principles Based Review of the Law of Negligence. The Review was jointly established by the Commonwealth, State and Territory governments to provide a platform for governments to reform the law of negligence relating to personal injury or death. The Review was completed on 30 September 2002.

***Terrorism insurance — commercial cover****Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of the Treasury	2.0	-	-	-

*Explanation*

The Government has announced a scheme for temporary terrorism risk insurance cover until market coverage resumes. The scheme will commence on 1 July 2003 and

Appendix A: Policy decisions taken since the 2002-03 Budget

will be managed by the statutory authority to be established for that purpose. The costs to the authority will be met by the scheme once it has commenced operation. Funding will be provided to the Department of the Treasury in 2002-03 to meet up to \$2 million in establishment costs prior to that date. Establishment costs are expected to include legal and other specialist advice, as well as possibly some preliminary staffing and Board costs.

Further details may be found in the Treasurer's Press Release No. 064 of 25 October 2002.

See also the related revenue measure titled *Terrorism insurance – commercial cover* in the Treasury portfolio.

***Variation in Budget Balancing Assistance – application of GST to Compulsory Third Party insurance***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of the Treasury	14.1	9.2	2.6	3.0

*Explanation*

The Government will amend the GST law to ensure that the original policy intent, in respect of Compulsory Third Party (CTP) insurance, is met by:

- ensuring that GST registered taxpayers are able to claim input tax credits on CTP insurance policies that commence on or after 1 July 2003, including those paid before 1 July 2003;
- allowing CTP insurers, making payments under a settlement sharing arrangement, the ability to claim a decreasing adjustment on payment of settlement amounts; and
- allowing CTP insurers operating no-fault and nominal defendant schemes access to a decreasing adjustment on payment of settlement amounts to people injured as a result of a motor vehicle accident.

***Variation in Budget Balancing Assistance – Government response to the Report of the Inquiry into the Definition of Charities and Related Organisations***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of the Treasury	-	-	0.7	0.8

*Explanation*

On 29 August 2002, the Government announced its response to the Report of the Inquiry into the Definition of Charities and Related Organisations. As part of that response, the Government has decided to enact a definition of a charity for the purpose of administration of Commonwealth laws, expected to take effect from 1 July 2004.

The administration of the reforms is estimated to cost \$4.4 million in 2002-03 and \$1.3 million ongoing for the administration of the reforms. These costs will be absorbed within the existing resources of the Australian Taxation Office. This measure is estimated to have a small impact on GST revenue.

**VETERANS' AFFAIRS**

***Kokoda Track***

*Expenses (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Veterans' Affairs	1.2	-	-	-

*Explanation*

The Government has provided additional funding of \$1.5 million (including \$0.3 million in 2001-02) for memorial refurbishment along the Kokoda Track and construction of a new memorial at Isurava, as part of the 60th anniversary Defence of Australia commemorative activities.

Further details may be found in the Minister for Veterans' Affairs' Press Release No. VA71 of 31 May 2002.

## **CAPITAL MEASURES<sup>1</sup>**

### **ATTORNEY-GENERAL'S**

#### ***Enhanced travel document screening system***

##### *Capital (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Customs Service	7.0	-0.9	-1.9	-1.9

##### *Explanation*

The Government will provide net additional funding of \$2.3 million over four years (funding of \$7 million less depreciation of \$4.7 million) to the Australian Customs Service for the purchase of enhanced travel document readers and associated software for Australia's international airports. The machines will assist in the detection of fraudulent documents and will be used to screen the passports of all international airplane passengers entering and leaving Australia. This measure will increase the capacity of the Australian Customs Service to detect and intercept illegal activities.

Further details may be found in the Prime Minister's Press Release of 24 October 2002.

See also the related expense measure titled *Enhanced travel document screening system* in the Attorney-General's portfolio.

#### ***Additional funding for the Australian Security Intelligence Organisation***

##### *Capital (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Security Intelligence Organisation	-0.1	-0.2	-0.2	-0.2

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1 Capital in this section is defined as 'net capital investment', the capital component used in the calculation of the fiscal balance. This includes: purchases of capital equipment, less any proceeds from their sale, and any reduction in the value of capital equipment (as measured by depreciation) plus net investment in other non-financial assets, including inventories but excluding prepayments. Capital policy decisions that involve only financial assets will not affect the fiscal balance and are therefore reported in this section as having no impact on the fiscal balance.

*Explanation*

Following the Bali terrorist attacks on 12 October 2002, the Government is providing additional funding to the Australian Security Intelligence Organisation to enhance its capability to counter the threat of terrorism. As a result of these initiatives, ASIO will incur depreciation expenses on existing assets at a faster rate.

See also the related expense measure titled *Additional funding for the Australian Security Intelligence Organisation* in the Attorney-General's portfolio.

**FAMILY AND COMMUNITY SERVICES*****Improved flexibility for family assistance payments****Capital (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Family and Community Services	2.5	2.3	-0.5	-0.5

*Explanation*

The Government will provide funding to enable additional flexibility in payment arrangements for people who receive family assistance. Funding of \$2.5 million in 2002-03 and \$2.5 million in 2003-04 (less depreciation of \$0.2 million in 2003-04 and \$0.5 million in each of 2004-05 and 2005-06) will be provided to Centrelink for internally developed software to assist with the delivery of this measure.

Further details may be found in the Minister for Family and Community Services' Press Release of 17 September 2002.

See also the related expense measure titled *Improved flexibility for family assistance payments* in the Family and Community Services portfolio.

**FINANCE AND ADMINISTRATION*****Enhanced budget information system****Capital (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Finance and Administration	5.1	11.2	3.9	-2.9

Appendix A: Policy decisions taken since the 2002-03 Budget

*Explanation*

The Government has decided to provide an additional \$23.2 million over four years to enhance the central budget information system. The amounts shown above are net of depreciation of \$6 million over four years.

See also the related expense measure titled *Enhanced budget information system* in the Finance and Administration portfolio.

***Winding-up of Employment National***

*Capital (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Finance and Administration	-	-	-	-

*Explanation*

Following the Government's announcement on 14 May 2002 that Employment National is to be wound-up from 30 June 2003, the Government will provide additional equity funding to Employment National Limited to ensure the company has sufficient resources to meet all staff entitlements and other obligations during the wind-up process. An equity injection of up to \$12.7 million will be provided in 2002-03.

This measure is shown as having no impact on the fiscal balance as equity injections to agencies outside the General Government Sector only affect the composition of the Commonwealth's investment in financial assets.

**FOREIGN AFFAIRS AND TRADE**

***Additional funding for the Australian Secret Intelligence Service***

*Capital (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Secret Intelligence Service	0.9	0.1	-0.1	-0.1

*Explanation*

Following the Bali terrorist attacks on 12 October 2002, the Government will provide net additional funding of \$0.8 million over four years (funding of \$1.2 million less depreciation of \$0.1 million in all years) to the Australian Secret Intelligence Service to further enhance its counter-terrorism capability.



See also the related expense measure titled *Additional funding for the Australian Secret Intelligence Service* in the Foreign Affairs and Trade portfolio.

***Enhanced physical security at Australia's overseas posts***

*Capital (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Foreign Affairs and Trade	9.9	-1.0	-1.0	-1.0

*Explanation*

The Government will provide the Department of Foreign Affairs and Trade with \$10.2 million in 2002-03 (less depreciation of \$0.3 million in 2002-03 and \$1 million per annum thereafter) to fund the purchase of security equipment and systems to enhance physical security at Australia's overseas diplomatic posts. This measure will allow for the strengthening of walls and fences, the installation of bollards, metal detectors, intruder alarms, as well as improved perimeter surveillance.

Further details may be found in the Prime Minister's Press Release of 24 October 2002.

See also the related expense measure titled *Enhanced physical security at Australia's overseas posts* in the Foreign Affairs and Trade portfolio.

**IMMIGRATION AND MULTICULTURAL AND INDIGENOUS AFFAIRS**

***Additional Airline Liaison Officers***

*Capital (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Immigration and Multicultural and Indigenous Affairs	0.6	-0.2	-0.2	-0.2

*Explanation*

Following the Bali terrorist attacks of 12 October 2002, the Government will provide net additional funding of \$0.7 million in 2002-03 (less depreciation of \$0.1 million in 2002-03 and \$0.2 million in subsequent years) to the Department of Immigration and Multicultural and Indigenous Affairs. This funding will be used to purchase additional specialist compliance hardware to assist Airline Liaison Officers to detect criminals or terrorists using identity fraud to enter Australia.

Appendix A: Policy decisions taken since the 2002-03 Budget

Further details may be found in the Prime Minister's Press Release of 24 October 2002.

See also the related expense measure titled *Additional Airline Liaison Officers* in the Immigration and Indigenous and Multicultural Affairs portfolio.

***Increase in the Parent Migration intake***

*Capital (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Immigration and Multicultural and Indigenous Affairs	0.4	-0.1	-0.1	-0.1

*Explanation*

The Government has decided to increase the current Parent Migration category intake from 500 to 1,000 places in a full year and introduce an additional visa category for parent migrants with 3,500 places in a full year. This will provide significant benefits to the Australian community, including the reunification of families. The new visa category will have a higher second visa application charge of \$25,000, and an extended Assurance of Support bond period from two to ten years, to partially offset the additional health and welfare costs.

This measure relates to information technology system enhancements of \$0.4 million required for the new visa category (and depreciation of \$0.1 million a year).

Further details may be found in the Minister for Immigration and Multicultural and Indigenous Affairs' Press Release No. MPS097/2002 of 12 November 2002.

See also the related revenue and expense measures titled *Increase in the Parent Migration intake* in the Immigration and Indigenous and Multicultural Affairs portfolio.

## Appendix B: Government Finance Statistics statements

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

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 corporations (PNFC) and total non-financial public sectors. The 2002-03 MYEFO also includes a statement of other economic flows for the Commonwealth general government sector. This primarily outlines how 'other economic flows' (that is, those flows not accounted for in the GFS operating statement) impact on the net worth of the Commonwealth general government sector.

The Commonwealth, States and Territories have an agreed framework – the *Accrual Uniform Presentation Framework (UPF)* – for the presentation of government financial information on a basis consistent with the ABS Government Finance Statistics (GFS) publication. This Appendix presents Commonwealth data on an ABS GFS basis, as required by the UPF. An exception to this is the treatment of provisions for bad and doubtful debts. The draft ABS GFS publication (*Australian System of Government Finance Statistics: Concepts, Sources and Methods* Cat. No. 5514.0) requires that provisions for bad and doubtful debts be excluded from the balance sheet. This treatment has not been adopted because excluding such provisions would overstate the value of Commonwealth assets and net worth in the balance sheet (and would therefore be inconsistent with the market valuation principle).

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 in other parts of this document. However, the tables in this Appendix are presented on an accrual UPF reporting basis, and show GST as taxation revenue in and payments to the States as grant expenses out.

As a result of the two different treatments of GST related transactions, the fiscal balance, net operating balance and net worth estimates in this Appendix are higher than those reported elsewhere in this document. This represents the effect of GST revenue accrued but not yet received, and therefore not yet paid or payable to the States (as GST obligations to the States are on a cash basis). However, under the State tax treatment applied elsewhere in this document, GST revenue accrued is offset by an equivalent amount payable to the States (increasing expenses and liabilities relative to

Appendix B: Government Finance Statistics statements

the estimates in this Appendix).<sup>1</sup> This accounting difference is an accrual issue only: the underlying cash balance is not affected and provides identical results under both treatments of GST revenue.

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 public sector tables as they are transactions internal to that sector.

Appendix E provides an explanation of the key GFS aggregates and reconciles them with their Australian Accounting Standard No. 31 (AAS31) counterparts.

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1 Table E2 of Appendix E assists in showing the difference in the net operating and fiscal balances resulting from the two treatments as it can be seen that the change in expenses when moving between the two GFS presentations of the estimates is greater than the change in revenue.

**GOVERNMENT FINANCE STATISTICS STATEMENTS****Table B1: Commonwealth general government operating statement**

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
<b>GFS revenue</b>				
Taxation revenue	188,468	200,577	210,843	221,867
Current grants and subsidies	0	0	0	0
Sales of goods and services	4,030	4,173	4,292	4,392
Interest income	1,065	901	1,053	1,443
Dividend income	3,590	3,246	3,038	2,586
Other	2,410	2,419	2,484	2,523
<b>Total GFS revenue</b>	<b>199,563</b>	<b>211,315</b>	<b>221,711</b>	<b>232,811</b>
<b>GFS expenses</b>				
Gross operating expenses				
Depreciation	1,765	1,862	1,866	2,003
Superannuation	1,895	1,959	2,020	2,026
Salaries and wages	10,518	10,666	11,025	11,201
Payment for supply of goods and services	36,924	39,006	40,753	42,423
Other operating expenses	1,976	1,990	2,029	2,052
<i>Total gross operating expenses</i>	<i>53,079</i>	<i>55,483</i>	<i>57,692</i>	<i>59,705</i>
Nominal superannuation interest expense	5,025	5,055	5,078	5,201
Other interest expenses	4,799	4,138	3,665	3,024
Other property expenses	0	0	0	0
Current transfers				
Grant expenses	63,335	65,775	68,654	72,054
Subsidy expenses	5,158	5,173	5,266	4,988
Personal benefit payments in cash	65,942	69,766	74,437	79,336
Other current transfers	0	0	0	0
<i>Total current transfers</i>	<i>134,435</i>	<i>140,714</i>	<i>148,357</i>	<i>156,378</i>
Capital transfers	2,999	2,857	3,128	2,922
<b>Total GFS expenses</b>	<b>200,336</b>	<b>208,247</b>	<b>217,920</b>	<b>227,231</b>
<b>Net operating balance(a)</b>	<b>-773</b>	<b>3,069</b>	<b>3,790</b>	<b>5,580</b>
<b>Net acquisition of non-financial assets</b>				
Gross fixed capital formation	1,360	1,705	1,487	1,706
<i>less</i> Depreciation	<i>1,765</i>	<i>1,862</i>	<i>1,866</i>	<i>2,003</i>
<i>plus</i> Change in inventories	<i>-42</i>	<i>-96</i>	<i>-101</i>	<i>-84</i>
<i>plus</i> Other movements in non-financial assets	<i>-48</i>	<i>-216</i>	<i>-66</i>	<i>5</i>
<b>Total net acquisition of non-financial assets</b>	<b>-495</b>	<b>-468</b>	<b>-546</b>	<b>-377</b>
<b>Net lending/fiscal balance(a)(b)</b>	<b>-278</b>	<b>3,537</b>	<b>4,336</b>	<b>5,957</b>

(a) The fiscal balance and net operating balance estimates in this table are higher than those presented elsewhere in the MYEFO, as explained in the introduction to this Appendix.

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

Appendix B: Government Finance Statistics statements

**Table B2: Commonwealth general government sector balance sheet**

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
<b>GFS assets</b>				
Financial assets				
Cash and deposits	821	234	485	262
Advances paid	19,344	19,911	21,176	21,684
Investments, loans and placements	9,379	9,516	9,582	9,615
Other non-equity assets	13,488	13,952	14,515	15,059
Equity	48,301	48,282	36,984	25,686
<i>Total financial assets</i>	<i>91,333</i>	<i>91,896</i>	<i>82,742</i>	<i>72,305</i>
Non-financial assets				
Land	4,320	4,187	4,067	4,083
Buildings	12,014	12,225	12,147	12,136
Plant, equipment and infrastructure	12,042	11,952	11,876	11,671
Inventories	3,757	3,662	3,561	3,476
Other non-financial assets	2,832	2,829	2,858	2,907
<i>Total non-financial assets</i>	<i>34,965</i>	<i>34,854</i>	<i>34,509</i>	<i>34,273</i>
<b>Total GFS assets</b>	<b>126,299</b>	<b>126,750</b>	<b>117,252</b>	<b>106,579</b>
<b>GFS liabilities</b>				
Deposits held	300	300	300	300
Advances received	0	0	0	0
Government securities	51,386	47,303	32,757	15,415
Loans	11,756	10,898	10,757	9,986
Other borrowing	219	194	180	176
Superannuation liability	83,710	85,708	87,377	89,047
Other employee entitlements and provisions	6,972	7,144	7,259	7,413
Other non-equity liabilities	17,088	17,269	17,152	17,569
<b>Total GFS liabilities</b>	<b>171,430</b>	<b>168,816</b>	<b>155,783</b>	<b>139,905</b>
<b>Net worth(a)(b)</b>	<b>-45,131</b>	<b>-42,066</b>	<b>-38,532</b>	<b>-33,326</b>
Net financial worth(c)	-80,097	-76,920	-73,041	-67,599
Net debt(d)	34,116	29,033	12,752	-5,684

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

(b) The net worth estimates in this table are higher than those presented elsewhere in the MYEFO, as explained in the introduction to this Appendix.

(c) Net financial worth equals total financial assets minus total liabilities.

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

**Table B3: Commonwealth general government sector cash flow statement<sup>(a)</sup>**

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
<b>Cash receipts from operating activities</b>				
Taxes received(b)	187,286	198,916	209,165	220,285
Receipts from sales of goods and services	4,017	4,125	4,243	4,356
Grants and subsidies received	0	0	0	0
Interest receipts	912	734	867	1,248
Dividends	3,590	3,246	3,038	2,586
GST input credits received by general government(c)	0	0	0	0
Other receipts	2,280	2,272	2,350	2,403
<b>Total receipts</b>	<b>198,085</b>	<b>209,293</b>	<b>219,663</b>	<b>230,879</b>
<b>Cash payments for operating activities</b>				
Payments for goods and services	-36,980	-38,943	-40,655	-42,329
Grants and subsidies paid	-70,478	-72,717	-76,253	-78,833
Interest paid	-4,457	-4,253	-3,870	-4,875
Personal benefit payments	-65,796	-69,655	-75,081	-79,355
Salaries, wages and other entitlements	-14,963	-15,331	-16,123	-16,374
GST payments by general government to taxation authority(c)	0	0	0	0
Other payments for operating activities	-1,988	-2,006	-2,022	-2,046
<b>Total payments</b>	<b>-194,661</b>	<b>-202,905</b>	<b>-214,004</b>	<b>-223,813</b>
<b>Net cash flows from operating activities</b>	<b>3,424</b>	<b>6,388</b>	<b>5,659</b>	<b>7,066</b>
<b>Cash flows from investments in non-financial assets</b>				
Sales of non-financial assets	1,425	888	642	278
Purchases of new and secondhand non-financial assets	-2,723	-2,376	-2,056	-1,981
<b>Net cash flows from investments in non-financial assets</b>	<b>-1,298</b>	<b>-1,488</b>	<b>-1,414</b>	<b>-1,703</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>-404</b>	<b>-931</b>	<b>10,279</b>	<b>10,514</b>
<b>Cash flows from investments in financial assets for liquidity purposes</b>				
Increase in investments	9,586	-106	-200	-171
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>9,586</b>	<b>-106</b>	<b>-200</b>	<b>-171</b>
<b>Cash flows from financing activities</b>				
Advances received (net)	0	0	0	0
Borrowing (net)	-12,608	-4,186	-14,581	-17,347
Deposits received (net)	0	0	0	0
Other financing (net)	-85	-263	508	1,418
<b>Net cash flows from financing activities</b>	<b>-12,693</b>	<b>-4,449</b>	<b>-14,073</b>	<b>-15,929</b>
<b>Net increase/decrease in cash held</b>	<b>-1,385</b>	<b>-586</b>	<b>251</b>	<b>-223</b>
<b>Net cash from operating activities and investments in non-financial assets</b>	<b>2,126</b>	<b>4,900</b>	<b>4,245</b>	<b>5,363</b>
Finance leases and similar arrangements(d)	15	-1	-7	-7
<b>Equals surplus(+)/deficit(-)</b>	<b>2,141</b>	<b>4,899</b>	<b>4,238</b>	<b>5,356</b>

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

(b) Includes GST cash receipts on a Commonwealth tax basis, which are \$35 million greater than GST cash receipts measured on a State tax basis (as shown in Appendix C, Note 16).

(c) Where GST is accounted for as a Commonwealth revenue, GST flows between general government entities and the taxation authority are treated as transfers within the general government sector. Therefore, the general government as a whole does not receive any GST input credit receipts or make any GST payments to taxation authorities.

(d) The acquisition of assets under finance leases reduces the surplus/deficit. The disposal of assets previously held under finance leases improves the surplus/deficit.

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

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
<b>Opening net worth</b>	-46,480	-45,131	-42,066	-38,532
<b>Change in net worth from operating transactions</b>	-773	3,069	3,790	5,580
<b>Change in net worth from other economic flows</b>				
Revaluation on sale of assets	36	225	9,705	9,635
Revaluations and sales of investments in commercial entities	3,441	0	-9,628	-9,628
<i>Total revaluation and profit on asset sales(a)</i>	3,477	225	76	6
Net foreign exchange gains	-445	0	0	0
Net writedowns of assets (including bad and doubtful debts)	-1,579	-903	-893	-867
Net swap interest received	512	429	375	302
Defence weapon platform adjustment(b)	393	210	100	100
Other economic revaluations(c)	-237	35	85	85
<b>Total other economic flows</b>	<b>2,122</b>	<b>-3</b>	<b>-256</b>	<b>-374</b>
<b>Closing net worth</b>	<b>-45,131</b>	<b>-42,066</b>	<b>-38,532</b>	<b>-33,326</b>

(a) Revaluations and profit on sale of assets are derived from Australian Accounting Standards data. Revaluations reflect the difference between the GFS valuation of commercial entities at market value and the AAS valuation at historic cost.

(b) Defence weapons are treated as expenses rather than assets under the GFS framework, hence, changes in value do not contribute to net worth and are not included in other economic flows. This component represents the removal of defence weapons included in net writedowns and other movements.

(c) Includes net repurchase premia and other revaluations not recorded elsewhere.



**Table B5: Commonwealth public non-financial corporations operating statement**

	2002-03 \$m
<b>GFS revenue</b>	
Current grants and subsidies	448
Sales of goods and services	26,088
Interest income	82
Other	42
<b>Total GFS revenue</b>	<b>26,659</b>
<b>GFS expenses</b>	
Gross operating expenses	
Depreciation	3,133
Salaries, wages and other entitlements	5,423
Other operating expenses	11,827
<i>Total gross operating expenses</i>	<i>20,382</i>
Interest expenses	1,056
Other property expenses	1,420
Current transfers	
Tax expenses	1,986
Other current transfers	0
<i>Total current transfers</i>	<i>1,986</i>
Capital transfers	0
<b>Total GFS expenses</b>	<b>24,845</b>
<b>Net operating balance</b>	<b>1,814</b>
<b>Net acquisition of non-financial assets</b>	
Gross fixed capital formation	4,512
<i>less</i> Depreciation	<i>3,133</i>
<i>plus</i> Change in inventories	<i>0</i>
<i>plus</i> Other movements in non-financial assets	<i>0</i>
<b>Total net acquisition of non-financial assets</b>	<b>1,379</b>
<b>Net lending/fiscal balance(a)</b>	<b>434</b>

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

**Table B6: Commonwealth public non-financial corporations balance sheet**

	2002-03 \$m
<b>GFS assets</b>	
Financial assets	
Cash and deposits	645
Advances paid	0
Investments, loans and placements	1,031
Other non-equity assets	5,647
Equity	1,413
<i>Total financial assets</i>	<i>8,736</i>
Non-financial assets	
Land and fixed assets	31,725
Other non-financial assets	1,261
<i>Total non-financial assets</i>	<i>32,986</i>
<b>Total GFS assets</b>	<b>41,722</b>
<b>GFS liabilities</b>	
Deposits held	0
Advances received	0
Borrowing	13,163
Provisions (other than depreciation and bad and doubtful debts)	8,810
Other non-equity liabilities	1,495
<b>Total GFS liabilities</b>	<b>23,468</b>
<b>Shares and other contributed capital</b>	<b>69,173</b>
<b>Net worth(a)</b>	<b>-50,918</b>
Net financial worth(b)	-83,905
Net debt(c)	11,487

- (a) Net worth is calculated as total assets minus total liabilities minus shares and other contributed capital. The negative net worth recorded for the PNFC sector is caused by the different methodologies used to value these components. Assets and liabilities are valued according to entities' accounting policies and may not reflect the market valuation. In contrast, in the case of listed companies the value of shares and other contributed capital reflects the total market capitalisation, which generally exceeds the entities' book values.
- (b) Net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital.
- (c) Net debt equals the sum of deposits held, advances received, government securities, loans and other borrowings, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

**Table B7: Commonwealth public non-financial corporations cash flow statement<sup>(a)</sup>**

	2002-03 \$m
<b>Cash receipts from operating activities</b>	
Receipts from sales of goods and services	28,698
Grants and subsidies received	226
GST input credit receipts	0
Other receipts	83
<b>Total receipts</b>	<b>29,007</b>
<b>Cash payments for operating activities</b>	
Payment for goods and services	-12,198
Interest paid	-1,056
Salaries, wages and other entitlements	-5,064
GST payments to taxation authority	-1,524
Other payments for operating activities(b)	-1,791
<b>Total payments</b>	<b>-21,632</b>
<b>Net cash flows from operating activities</b>	<b>7,374</b>
<b>Cash flows from investments in non-financial assets</b>	
Sales of non-financial assets	745
Purchases of new and secondhand non-financial assets	-4,440
<b>Net cash flows from investments in non-financial assets</b>	<b>-3,696</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>0</b>
<b>Cash flows from investments in financial assets for liquidity purposes</b>	
Increase in investments	-10
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>-10</b>
<b>Cash flows from financing activities</b>	
Advances received (net)	0
Borrowing (net)	-1,313
Deposits received (net)	0
Distributions paid (net)(c)	-1,420
Other financing (net)	-100
<b>Net cash flows from financing activities</b>	<b>-2,833</b>
<b>Net increase/decrease in cash held</b>	<b>836</b>
<b>Net cash from operating activities and investments in non-financial assets</b>	<b>3,678</b>
Finance leases and similar arrangements(d)	0
Distributions paid(c)	-1,420
<b>Equals surplus(+)/deficit(-)</b>	<b>2,258</b>

(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) The acquisition of assets under finance leases reduces the surplus/deficit. The disposal of assets previously held under finance leases improves the surplus/deficit.

**Table B8: Commonwealth total non-financial public sector operating statement**

	2002-03 \$m
<b>GFS revenue</b>	
Taxation revenue	186,481
Current grants and subsidies	0
Sales of goods and services	30,118
Interest income	1,092
Dividend income	1,827
Other	2,452
<b>Total GFS revenue</b>	<b>221,970</b>
<b>GFS expenses</b>	
Gross operating expenses	
Depreciation	4,898
Superannuation	1,895
Salaries and wages	15,941
Payment for supply of goods and services	36,924
Other operating expenses	12,040
<i>Total gross operating expenses</i>	<i>71,697</i>
Nominal superannuation interest expense	5,025
Other interest expenses	5,800
Other property expenses	1,420
Current transfers	
Grant expenses	63,335
Subsidy expenses	4,710
Personal benefit payments in cash	65,942
Other current transfers	0
<i>Total current transfers</i>	<i>133,987</i>
Capital transfers	2,999
<b>Total GFS expenses</b>	<b>220,929</b>
<b>Net operating balance(a)</b>	<b>1,041</b>
<b>Net acquisition of non-financial assets</b>	
Gross fixed capital formation	5,872
<i>less</i> Depreciation	<i>4,898</i>
<i>plus</i> Change in inventories	<i>-42</i>
<i>plus</i> Other movements in non-financial assets	<i>-48</i>
<b>Total net acquisition of non-financial assets</b>	<b>884</b>
<b>Net lending/fiscal balance(a)(b)</b>	<b>157</b>

(a) The fiscal balance and net operating balance estimates in this table are higher than those presented elsewhere in the MYEFO, as explained in the introduction to this Appendix.

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

**Table B9: Commonwealth total non-financial public sector balance sheet**

	2002-03 \$m
<b>GFS assets</b>	
Financial assets	
Cash and deposits	1,466
Advances paid	19,344
Investments, loans and placements	10,410
Other non-equity assets	19,135
Equity	14,249
<i>Total financial assets</i>	<i>64,604</i>
Non-financial assets	
Land	4,320
Buildings	12,014
Plant, equipment and infrastructure	43,768
Inventories	3,757
Other non-financial assets	4,092
<i>Total non-financial assets</i>	<i>67,952</i>
<b>Total GFS assets</b>	<b>132,556</b>
<b>GFS liabilities</b>	
Deposits held	300
Advances received	0
Government securities	51,386
Loans	11,756
Other borrowing	13,382
Superannuation liability	83,710
Other employee entitlements and provisions	15,782
Other non-equity liabilities	18,583
<b>Total GFS liabilities</b>	<b>194,898</b>
<b>Shares and other contributed capital</b>	<b>33,707</b>
<b>Net worth(a)</b>	<b>-96,050</b>
Net financial worth(b)	-164,001
Net debt(c)	45,603

- (a) Net worth is calculated as total assets minus total liabilities minus shares and other contributed capital.
- (b) Net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital.
- (c) Net debt equals the sum of deposits held, advances received, government securities, loans and other borrowings, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

**Table B10: Commonwealth total non-financial public sector cash flow statement<sup>(a)</sup>**

	2002-03 \$m
<b>Cash receipts from operating activities</b>	
Taxes received	185,300
Receipts from sales of goods and services(b)	30,189
Grants and subsidies received	0
Interest receipts	912
Dividends	1,827
GST input credit receipts(b)	0
Other receipts	2,308
<b>Total receipts</b>	<b>220,535</b>
<b>Cash payments for operating activities</b>	
Payments for goods and services(b)	-48,176
Grants and subsidies paid	-70,252
Interest paid	-5,458
Personal benefit payments	-65,796
Salaries, wages and other entitlements	-20,027
GST payments to taxation authority(b)	0
Other payments for operating activities	-29
<b>Total payments</b>	<b>-209,737</b>
<b>Net cash flows from operating activities</b>	<b>10,798</b>
<b>Cash flows from investments in non-financial assets</b>	
Sales of non-financial assets	2,169
Purchases of new and secondhand non-financial assets	-7,163
<b>Net cash flows from investments in non-financial assets</b>	<b>-4,994</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>-404</b>
<b>Cash flows from investments in financial assets for liquidity purposes</b>	
Increase in investments	9,576
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>9,576</b>
<b>Cash flows from financing activities</b>	
Advances received (net)	0
Borrowing (net)	-13,921
Deposits received (net)	0
Distributions paid (net)(c)	-1,420
Other financing (net)	-185
<b>Net cash flows from financing activities</b>	<b>-15,526</b>
<b>Net increase/decrease in cash held</b>	<b>-549</b>
<b>Net cash from operating activities and investments in non-financial assets</b>	<b>5,805</b>
Finance leases and similar arrangements(d)	15
Distributions paid(c)	-1,420
<b>Equals surplus(+)/deficit(-)</b>	<b>4,399</b>

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

(b) GST flows are excluded from these categories as they are intra-sector transactions.

(c) 'Distributions paid' comprise PNFC dividends to external shareholders.

(d) The acquisition of assets under finance leases reduces the surplus/deficit. The disposal of assets previously held under finance leases improves the surplus/deficit.

## LOAN COUNCIL ALLOCATION

Under Loan Council arrangements, every year the Commonwealth and each State and Territory nominate a Loan Council Allocation (LCA). A jurisdiction's LCA incorporates:

- the estimated non-financial public sector cash deficit (made up from the general government and public non-financial corporations sector deficits);
- net cash flows from investments in financial assets for policy purposes; and
- memorandum items. These transactions, though not formally borrowings, have many of the characteristics of borrowing.

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

In March 2002, the Commonwealth nominated, and the Loan Council endorsed, a LCA surplus of \$215 million. In the 2002-03 Budget, the Commonwealth estimated a LCA surplus of \$6,034 million. Table B11 presents a revised estimate for the Commonwealth's 2002-03 LCA of a \$3,153 million surplus.

**Table B11: Commonwealth Loan Council Allocation for 2002-03**

	2002-03 Budget Estimate \$m	2002-03 MYEFO Estimate \$m
General government sector cash deficit(+)/surplus(-)	-2,094	-2,141
PNFC sector cash deficit(+)/surplus(-)	-1,968	-2,258
Non-financial public sector cash deficit(+)/surplus(-)	-4,063	-4,399
<i>less</i> Net cash flows from investments		
in financial assets for policy purposes(a)	2,465	-404
<i>plus</i> Memorandum items(b)	494	842
<b>Loan Council Allocation</b>	<b>-6,034</b>	<b>-3,153</b>

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

(b) For the Commonwealth, memorandum items comprise the change in net present value (NPV) of operating leases (with NPV greater than \$5 million), university borrowings, overfunding of superannuation and an adjustment to exclude the net financing requirements of statutory marketing authorities and Telstra from the LCA.

## Appendix C: AAS31 *Financial Reporting by Governments* statements

This appendix presents financial statements that 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 Appendix E.



**Table C1: Statement of financial performance for the Commonwealth general government sector — AAS31**

	Note	Estimates		Projections	
		2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
<b>Revenues</b>					
Taxation					
Income tax	3	128,183	137,290	145,600	154,330
Indirect tax	4	26,300	27,045	27,295	27,658
Fringe benefits tax		3,360	3,440	3,560	3,680
Other taxes		1,425	1,478	1,374	1,395
<b>Total taxation revenue</b>		<b>159,268</b>	<b>169,253</b>	<b>177,829</b>	<b>187,063</b>
Non-taxation					
Sales of goods and services		4,006	4,149	4,264	4,364
Interest and dividends	5	6,877	6,013	5,721	5,367
Net foreign exchange gains		0	0	0	0
Net gains from sales of assets		21	215	9,530	9,460
Other sources of non-tax revenue	6	2,962	2,557	2,626	2,666
<b>Total non-tax revenue</b>		<b>13,867</b>	<b>12,933</b>	<b>22,141</b>	<b>21,856</b>
<b>Total revenue</b>		<b>173,135</b>	<b>182,187</b>	<b>199,970</b>	<b>208,919</b>
<b>Expenses</b>					
Goods and services					
Employees	7	19,414	19,670	20,152	20,480
Suppliers	8	13,022	13,452	13,745	13,650
Depreciation and amortisation	9	3,821	4,040	4,233	4,033
Net write down of assets		1,814	1,138	1,128	1,102
Net foreign exchange losses		445	0	0	0
Net losses from the sale of assets		0	0	0	0
Other goods and services expenses		5,999	6,303	6,628	7,000
<b>Total goods and services</b>		<b>44,516</b>	<b>44,604</b>	<b>45,886</b>	<b>46,265</b>
Subsidies, benefits and grants					
Personal benefits		77,608	81,884	87,379	93,039
Subsidies		8,850	9,112	9,509	9,550
Grants	10	35,558	36,182	38,180	38,967
<b>Total subsidies benefits and grants</b>		<b>122,015</b>	<b>127,178</b>	<b>135,068</b>	<b>141,556</b>
Interest and other financing costs					
Interest		6,831	5,575	4,918	4,057
Other financing costs		61	55	53	53
<b>Total interest and other financing costs</b>		<b>6,891</b>	<b>5,629</b>	<b>4,971</b>	<b>4,109</b>
<b>Total expenses</b>		<b>173,422</b>	<b>177,411</b>	<b>185,926</b>	<b>191,930</b>
<b>Operating result</b>		<b>-287</b>	<b>4,775</b>	<b>14,045</b>	<b>16,989</b>
Extraordinary items		0	0	0	0
<b>Operating result after extraordinary items</b>		<b>-287</b>	<b>4,775</b>	<b>14,045</b>	<b>16,989</b>

**Table C2: Statement of financial position for the Commonwealth general government sector — AAS31**

	Note	Estimates		Projections	
		2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
<b>Assets</b>					
Financial assets					
Cash		821	234	485	262
Receivables		27,489	28,399	29,566	30,504
Investments	11	27,010	27,138	25,510	23,877
Accrued revenue		540	507	539	580
Other financial assets		42	42	42	42
<b>Total financial assets</b>		<b>55,901</b>	<b>56,321</b>	<b>56,143</b>	<b>55,265</b>
Non-financial assets					
Land and buildings	12	16,334	16,411	16,214	16,219
Infrastructure		43,947	45,742	47,348	49,523
Intangibles		1,221	1,231	1,221	1,222
Inventories		3,757	3,662	3,561	3,476
Other non-financial assets		1,029	1,049	1,055	1,063
<b>Total non-financial assets</b>		<b>66,288</b>	<b>68,095</b>	<b>69,400</b>	<b>71,503</b>
<b>Total assets</b>		<b>122,189</b>	<b>124,416</b>	<b>125,543</b>	<b>126,769</b>
<b>Liabilities</b>					
Debt					
Government securities	11	51,386	47,303	32,757	15,415
Loans		5,729	5,626	5,591	5,586
Leases		195	172	160	156
Deposits		300	300	300	300
Overdrafts		0	0	0	0
Other debt		2,997	2,238	2,050	1,941
<b>Total debt</b>		<b>60,607</b>	<b>55,639</b>	<b>40,858</b>	<b>23,398</b>
Provisions and payables					
Employees	13	90,682	92,852	94,636	96,460
Suppliers		1,936	1,916	1,927	1,942
Personal benefits payable		2,937	3,094	2,594	2,742
Subsidies payable		216	188	161	130
Grants payable	14	8,731	8,776	9,144	9,586
Other provisions and payables		5,991	6,019	6,132	5,313
<b>Total provisions and payables</b>		<b>110,492</b>	<b>112,845</b>	<b>114,593</b>	<b>116,174</b>
<b>Total liabilities</b>		<b>171,098</b>	<b>168,484</b>	<b>155,451</b>	<b>139,573</b>
<b>Net assets</b>	15	<b>-48,909</b>	<b>-44,068</b>	<b>-29,908</b>	<b>-12,804</b>
<b>Equity</b>					
Accumulated results		-80,242	-75,464	-59,767	-41,119
Reserves		31,333	31,396	29,859	28,315
Capital		0	0	0	0
<b>Total equity</b>		<b>-48,909</b>	<b>-44,068</b>	<b>-29,908</b>	<b>-12,804</b>

**Table C3: Statement of cash flows for the Commonwealth general government sector — AAS31**

	Note	Estimates		Projections	
		2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
<b>Operating activities</b>					
Cash received					
Taxes	16	157,529	167,801	176,356	185,686
Sales of goods and services		4,117	4,213	4,329	4,442
Interest		3,198	2,699	2,550	2,643
Dividends		3,590	3,246	3,038	2,586
GST input credit receipts		2,308	2,367	2,358	2,360
Other		2,417	2,410	2,492	2,546
<b>Total operating cash received</b>		<b>173,158</b>	<b>182,736</b>	<b>191,123</b>	<b>200,263</b>
Cash used					
Payments to employees		17,145	17,500	18,368	18,657
Payments to suppliers		15,361	15,739	15,988	15,907
Subsidies paid		8,278	8,578	8,975	9,299
Personal benefits		77,457	81,788	88,037	93,062
Grant payments		35,341	36,137	37,812	38,525
Interest and other financing costs		6,768	5,628	4,891	4,768
GST payments to taxation authority		118	112	114	114
Other		5,988	6,296	6,598	6,971
<b>Total operating cash used</b>		<b>166,457</b>	<b>171,777</b>	<b>180,782</b>	<b>187,302</b>
<b>Net cash from operating activities</b>		<b>6,702</b>	<b>10,959</b>	<b>10,342</b>	<b>12,961</b>
<b>Investing activities</b>					
Cash received					
Proceeds from asset sales program		10	7	11,280	11,280
Proceeds from sales of property, plant and equipment and intangibles		1,425	888	642	278
Net loans, advances and HECS		0	0	0	0
Other net investing cash received		0	0	0	0
<b>Total investing cash received</b>		<b>1,435</b>	<b>895</b>	<b>11,922</b>	<b>11,558</b>
Cash used					
Purchase of property, plant and equipment and intangibles		6,339	6,651	6,206	6,491
Net loans, advances and HECS		189	714	819	614
Other net investing cash paid	11	-9,587	106	200	170
<b>Total investing cash used</b>		<b>-3,058</b>	<b>7,471</b>	<b>7,225</b>	<b>7,275</b>
<b>Net cash from investing activities</b>		<b>4,493</b>	<b>-6,576</b>	<b>4,697</b>	<b>4,283</b>
<b>Financing activities</b>					
Cash received					
Net cash received from currency issues		0	0	0	0
Other		28	0	0	0
<b>Total financing cash received</b>		<b>28</b>	<b>0</b>	<b>0</b>	<b>0</b>
Cash used					
Net repayments of borrowings	11	12,608	4,186	14,581	17,347
Other		0	783	207	120
<b>Total financing cash used</b>		<b>12,608</b>	<b>4,969</b>	<b>14,788</b>	<b>17,467</b>
<b>Net cash from financing activities</b>		<b>-12,579</b>	<b>-4,969</b>	<b>-14,788</b>	<b>-17,467</b>
<b>Net increase/decrease in cash held</b>		<b>-1,385</b>	<b>-586</b>	<b>251</b>	<b>-223</b>

## 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 appendix 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, a statement of financial performance, a statement of financial position 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.

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* (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 MYEFO financial statements.

Appendix C: AAS31 Financial Reporting by Governments statements

**Note 2: Reconciliation of cash**

	Estimates		Projections	
	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
<b>Operating result (revenues less expenses)</b>	<b>-287</b>	<b>4,775</b>	<b>14,045</b>	<b>16,989</b>
<i>less</i> <b>Revenues not providing cash</b>				
Foreign exchange gains	0	0	0	0
Gains from asset sales programme	-22	-10	9,454	9,454
Gains from sale of assets	43	225	75	5
Other	390	60	60	51
<b>Total revenues not providing cash</b>	<b>411</b>	<b>275</b>	<b>9,590</b>	<b>9,511</b>
<i>plus</i> <b>Expenses not requiring cash</b>				
Increase/(decrease) in employee entitlements	2,269	2,171	1,784	1,823
Depreciation/amortisation expense	3,821	4,040	4,233	4,033
Provision for bad and doubtful debts	278	266	247	218
Provision for diminution in value of assets	615	105	103	105
Losses from asset sales programme	0	0	0	0
Losses from sale of assets	0	0	0	0
Foreign exchange losses	445	0	0	0
Other	0	0	0	0
<b>Total expenses not requiring cash</b>	<b>7,427</b>	<b>6,582</b>	<b>6,368</b>	<b>6,179</b>
<i>plus</i> <b>Cash provided by working capital items</b>				
Decrease in inventories	42	96	101	84
Decrease in receivables	222	0	0	0
Decrease in other financial assets	32	33	0	0
Decrease in other non-financial assets	66	0	0	0
Increase in benefits subsidies and grants payable	482	202	368	591
Increase in suppliers' liabilities	0	0	11	15
Increase in other provisions and payables	0	28	113	0
<b>Total cash provided by working capital items</b>	<b>843</b>	<b>358</b>	<b>593</b>	<b>691</b>
<i>less</i> <b>Cash used by working capital items</b>				
Increase in inventories	0	0	0	0
Increase in receivables	0	418	512	495
Increase in other financial assets	0	0	32	41
Increase in other non-financial assets	0	16	2	3
Decrease in benefits subsidies and grants payable	0	27	528	30
Decrease in other provisions and payables	724	0	0	818
Decrease in suppliers' liabilities	146	20	0	0
<b>Total cash used by working capital items</b>	<b>871</b>	<b>482</b>	<b>1,074</b>	<b>1,387</b>
<i>equals</i> <b>Net cash from/(to) operating activities</b>	<b>6,702</b>	<b>10,959</b>	<b>10,342</b>	<b>12,961</b>
<b>Net cash from/(to) investing activities</b>	<b>4,493</b>	<b>-6,576</b>	<b>4,697</b>	<b>4,283</b>
<b>Net cash from operating activities and investment</b>	<b>11,195</b>	<b>4,382</b>	<b>15,039</b>	<b>17,244</b>
<b>Net cash from/(to) financing activities</b>	<b>-12,579</b>	<b>-4,969</b>	<b>-14,788</b>	<b>-17,467</b>
<i>equals</i> <b>Net (increase)/decrease in cash</b>	<b>-1,385</b>	<b>-586</b>	<b>251</b>	<b>-223</b>

**Note 3: Income tax — accrual AAS31**

	Estimates		Projections	
	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
Individuals and other withholding tax(a)				
Gross income tax withholding	85,680	92,890	99,620	106,500
Gross other individuals	17,430	19,210	20,350	21,150
<i>less</i> Refunds	11,130	11,970	13,070	13,970
Total individuals and other withholding tax	91,980	100,130	106,900	113,680
Companies(b)	30,073	31,030	32,680	34,570
Superannuation funds				
Contributions and earnings	3,630	3,980	4,190	4,460
Surcharge	850	850	830	800
Total superannuation funds	4,480	4,830	5,020	5,260
Petroleum resource rent tax	1,650	1,300	1,000	820
<b>Total income tax</b>	<b>128,183</b>	<b>137,290</b>	<b>145,600</b>	<b>154,330</b>

(a) Consistent with the treatment at Budget, the family tax benefit and private health insurance rebates are recorded as expenses.

(b) On a GFS basis (Part III), it was reported that the company tax revenue estimate for 2002-03 is \$29.2 billion. However, on a AAS31 basis, the company tax revenue estimate is \$30.1 billion. This difference represents the unwinding of a AAS31 accounting provision, introduced in 1999-2000, of around \$0.8 billion in relation to a High Court ruling on the taxation of general insurers. The Taxation Laws Amendment Bill (No. 3) 2002, which received Royal Assent on 10 November 2002, prevents the loss of revenue resulting from the High Court ruling, and therefore the accounting provision has been removed. There was no equivalent GFS provision to unwind (see footnote (a) to Note 3 in the Final Budget Outcome 1999-2000).

**Note 4: Indirect tax — accrual AAS31**

	Estimates		Projections	
	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
Excise duty				
Petroleum products	13,100	13,310	13,440	13,620
Other excise	7,060	7,160	7,270	7,370
Total excise duty revenue	20,160	20,470	20,710	20,990
Customs duty revenue	5,330	5,675	5,655	5,708
Other indirect tax revenue	810	900	930	960
GST	29,940	31,230	32,920	34,710
<i>less</i> transfers to States and Territories in relation to GST revenue	29,940	31,230	32,920	34,710
GST revenue	0	0	0	0
Mirror taxes	257	270	284	299
<i>less</i> transfers to States and Territories in relation to mirror tax revenue	257	270	284	299
Mirror tax revenue	0	0	0	0
<b>Indirect tax revenue</b>	<b>26,300</b>	<b>27,045</b>	<b>27,295</b>	<b>27,658</b>

**Note 5: Interest and dividend revenue**

	Estimates		Projections	
	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
Interest				
Interest from other governments				
State and Territory debt	52	39	29	17
Housing agreements	181	178	174	170
<b>Total interest from other governments</b>	<b>233</b>	<b>216</b>	<b>203</b>	<b>187</b>
Interest from other sources				
Swap interest	2,222	1,866	1,630	1,338
Advances	18	19	19	20
Deposits	12	12	13	15
Bills receivable	6	6	6	6
Bank deposits	141	146	157	164
Indexation of HECS receivable and other student loans	277	283	307	330
Other	378	218	348	720
<b>Total interest from other sources</b>	<b>3,054</b>	<b>2,550</b>	<b>2,481</b>	<b>2,593</b>
<b>Total interest</b>	<b>3,287</b>	<b>2,767</b>	<b>2,683</b>	<b>2,781</b>
Dividends				
Dividends from associated entities	3,561	3,226	3,014	2,556
Other dividends	29	20	24	31
<b>Total dividends</b>	<b>3,590</b>	<b>3,246</b>	<b>3,038</b>	<b>2,586</b>
<b>Total interest and dividends</b>	<b>6,877</b>	<b>6,013</b>	<b>5,721</b>	<b>5,367</b>

**Note 6: Other sources of non-taxation revenue**

	Estimates		Projections	
	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
Industry contributions	98	97	97	93
International Monetary Fund related revenue	61	61	61	61
Other	2,802	2,399	2,468	2,512
<b>Total other sources of non-taxation revenue</b>	<b>2,962</b>	<b>2,557</b>	<b>2,626</b>	<b>2,666</b>

**Note 7: Employee expenses**

	Estimates		Projections	
	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
Salaries and wages(a)	10,518	10,666	11,025	11,201
Leave and other entitlements	1,355	1,360	1,376	1,398
Separations and redundancies	63	62	62	72
Workers compensation premiums	0	0	0	0
Other (including superannuation)	7,478	7,582	7,689	7,809
<b>Total employee expenses</b>	<b>19,414</b>	<b>19,670</b>	<b>20,152</b>	<b>20,480</b>

(a) Salaries and wages do not include superannuation.

**Note 8: Suppliers expenses**

	Estimates		Projections	
	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
Supply of goods and services	11,539	11,968	12,245	12,130
Operating lease rental expenses	1,460	1,464	1,469	1,491
Other	23	20	32	29
<b>Total suppliers</b>	<b>13,022</b>	<b>13,452</b>	<b>13,745</b>	<b>13,650</b>

**Note 9: Depreciation and amortisation**

	Estimates		Projections	
	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
Depreciation				
Specialist military equipment	2,056	2,179	2,367	2,029
Buildings	478	487	466	532
Other infrastructure, plant and equipment	996	1,046	1,054	1,138
<b>Total depreciation</b>	<b>3,531</b>	<b>3,712</b>	<b>3,888</b>	<b>3,699</b>
<b>Total amortisation</b>	<b>290</b>	<b>328</b>	<b>345</b>	<b>334</b>
<b>Total depreciation and amortisation</b>	<b>3,821</b>	<b>4,040</b>	<b>4,233</b>	<b>4,033</b>

**Note 10: Grants**

	Estimates		Projections	
	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
State and Territory governments	23,745	24,098	25,230	26,572
Non-profit organisations	1,579	1,692	1,778	1,848
Overseas	731	273	850	373
Private sector	929	860	857	814
Local governments	291	395	349	105
Other	8,282	8,865	9,116	9,255
<b>Total grants</b>	<b>35,558</b>	<b>36,182</b>	<b>38,180</b>	<b>38,967</b>



**Note 11: Government securities**

For 2002-03 and the forward years, transactions relating to government securities and financial assets acquired for debt management purposes have been netted in the statement of financial position and cash flows. In the statement of financial position, the *financial asset – investments* category excludes financial assets acquired for debt management purposes, while the *debt – government securities* category is shown net of financial assets acquired for debt management purposes. Likewise, in the statement of cash flows, the *investing activities – cash used – other* category excludes cash used to acquire financial assets for debt management purposes.

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 12: Total non-financial assets**

	Estimates		Projections	
	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
Land and buildings				
Land	4,320	4,187	4,067	4,083
Buildings	12,014	12,225	12,147	12,136
<b>Total land and buildings</b>	<b>16,334</b>	<b>16,411</b>	<b>16,214</b>	<b>16,219</b>
Infrastructure				
Specialist military equipment	31,904	33,789	35,472	37,852
Other	12,042	11,952	11,876	11,671
<b>Total infrastructure</b>	<b>43,947</b>	<b>45,742</b>	<b>47,348</b>	<b>49,523</b>
Intangibles				
Computer software	1,122	1,156	1,169	1,170
Other	100	75	52	52
<b>Total intangibles</b>	<b>1,221</b>	<b>1,231</b>	<b>1,221</b>	<b>1,222</b>
Inventories	3,757	3,662	3,561	3,476
<b>Total inventories</b>	<b>3,757</b>	<b>3,662</b>	<b>3,561</b>	<b>3,476</b>
Other non-financial assets				
Prepayments	912	929	931	934
Other	117	120	124	129
<b>Total other non-financial assets</b>	<b>1,029</b>	<b>1,049</b>	<b>1,055</b>	<b>1,063</b>
<b>Total non-financial assets</b>	<b>66,288</b>	<b>68,095</b>	<b>69,400</b>	<b>71,503</b>

**Note 13: Employee liabilities**

	Estimates		Projections	
	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
Superannuation	83,710	85,708	87,377	89,047
Leave and other entitlements	3,498	3,581	3,665	3,813
Accrued salaries and wages	332	334	262	277
Workers compensation claims	1,269	1,254	1,243	1,233
Separations and redundancies	25	24	24	24
Workers compensation premiums	1,425	1,513	1,607	1,607
Other	423	438	459	459
<b>Total employee entitlements</b>	<b>90,682</b>	<b>92,852</b>	<b>94,636</b>	<b>96,460</b>

**Note 14: Grants payable**

	Estimates		Projections	
	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
State and Territory governments	3,353	3,605	3,835	4,081
Non-profit organisations	27	27	28	28
Private sector	66	69	76	76
Overseas	1,101	840	1,190	1,089
Local governments	2	2	2	2
Other	4,182	4,232	4,013	4,311
<b>Total grants payable</b>	<b>8,731</b>	<b>8,776</b>	<b>9,144</b>	<b>9,586</b>

**Note 15: Net asset movements**

	Estimates		Projections	
	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
<b>Opening net assets</b>	<b>-48,473</b>	<b>-48,909</b>	<b>-44,068</b>	<b>-29,908</b>
Operating result after extraordinary items	-287	4,775	14,045	16,989
Asset revaluation reserve	-125	66	116	116
Other movements	-24	-1	-1	-1
<b>Closing net assets</b>	<b>-48,909</b>	<b>-44,068</b>	<b>-29,908</b>	<b>-12,804</b>

Appendix C: AAS31 Financial Reporting by Governments statements

**Note 16: Taxes — cash AAS31**

	Estimates		Projections	
	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
Total tax receipts	187,460	199,091	209,351	220,486
<i>less</i> payments to States and Territories in relation to GST revenue	29,630	31,020	32,710	34,500
<i>less</i> payments to States and Territories in relation to mirror tax revenue	301	270	284	299
<b>Tax receipts</b>	<b>157,529</b>	<b>167,801</b>	<b>176,356</b>	<b>185,686</b>

## Appendix D: Risks to the Budget

### Statement of Risks

#### **OVERVIEW**

Full details of fiscal risks and contingent liabilities are provided in *Budget Strategy and Outlook 2002-03 – Budget Paper No. 1*. The following statement updates (where necessary) those fiscal risks and contingent liabilities that have changed since the 2002-03 Budget and includes any new risks or contingencies that have arisen since the 2002-03 Budget.

The forward estimates of revenue and expenses in the 2002-03 MYEFO incorporate assumptions and judgements based on information available at the time of publication. A range of factors may influence the actual budget outcome in future years. The *Charter of Budget Honesty Act 1998* requires these factors be disclosed in a Statement of Risks in each Economic and Fiscal Outlook Report.

Events that 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 and/or likelihood; and
- the realisation of contingent liabilities.

#### **Fiscal risks**

Fiscal risks are general developments or specific events that may have an effect on the fiscal outlook. In some cases, the events simply raise the possibility of some fiscal impact. In other cases, some fiscal impact may 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 on expenses, revenue and/or the budget balance.

#### **Contingent liabilities**

Contingent liabilities are defined by the accounting standard AASB 1044, which came into effect from 1 July 2002. Broadly, they represent possible costs to the Commonwealth arising from past events that will be confirmed by the outcome of uncertain future events. Contingent liabilities include loan guarantees, non-loan guarantees, warranties, indemnities, uncalled capital and letters of comfort. These

possible costs are in addition to those recognised as liabilities in the consolidated financial statements of the General Government Sector of the Commonwealth.

### **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 – that have arisen or changed since the 2002-03 Budget are outlined below.

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

## **FISCAL RISKS — EXPENSES**

### **Agriculture, Fisheries and Forestry**

#### ***Exceptional Circumstances Assistance for drought-affected farmers***

Exceptional Circumstances Assistance is available, subject to eligibility criteria, to drought-affected farmers by way of interest rate subsidies and/or the Exceptional Circumstances Relief Payment. Continuation of dry climatic conditions could result in increases in expenses. It is not possible to quantify the cost arising from such potential development as this depends on the intensity, duration and scale of the drought.

### **Health and Ageing**

#### ***Medical Indemnity Insurance — Incurred-But-Not-Reported Scheme***

In announcements on the medical indemnity package in May and October 2002, the Prime Minister indicated that the Commonwealth would assume the liability for the unfunded Incurred-But-Not-Reported (IBNR) liabilities of Medical Defence Organisations (MDOs), with this liability to be funded by doctors who were members of the organisations as at 30 June 2000, subject to a number of conditions.

Legislation has been introduced to give effect to the IBNR scheme. An estimate of the liability for United Medical Protection/Australasian Medical Insurance Limited was reported as an expense in the 2001-02 Final Budget Outcome, however further data for other MDOs is, as yet, unavailable.

## **Industry, Tourism and Resources**

### ***Corporatisation of the Snowy Mountains Hydro-electric Scheme — sharing of company tax collected from Snowy Hydro Limited with New South Wales and Victoria***

The Commonwealth, New South Wales and Victorian Governments have entered into a Tax Compensation Deed in respect of company tax collected by the Commonwealth and land tax collected by New South Wales from Snowy Hydro Limited. The Department of Industry, Tourism and Resources will make the Commonwealth's tax compensation payments for company tax to New South Wales and Victoria in proportion to the Governments' shareholdings in Snowy Hydro Limited.

## **Treasury**

### ***International Monetary Fund (IMF) assistance to Thailand***

Australia's offer to provide bilateral financing of up to \$US1 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. From March 2001, the Bank of Thailand began repaying the swaps as scheduled. Currently, \$US204.3 million of the facility remains outstanding. Repayment in full is scheduled to occur no later than July 2004. Changes to the schedule of repayments outstanding may result in the RBA dividend stream in the forward estimates being affected.

## **CONTINGENT LIABILITIES — QUANTIFIABLE**

### **Communications, Information Technology and the Arts**

#### ***Art Indemnity Australia***

The Government indemnifies cultural objects loaned to exhibitions held in museums and galleries. The estimated indemnified amount of exhibitions in 2002-03 is \$610 million. However, the exact amounts involved would vary with the exchange rate applying at the time any claim for loss or damage to an artwork or heritage object loaned from overseas is paid and the extent of the loss or damage. Most of the Commonwealth risk in indemnifying exhibitions is insured through Comcover. Uninsurable risk continues to be borne solely by the Commonwealth.

## **Education, Science and Training**

### ***Commonwealth loan guarantees — Group Training***

The Minister for Education, Science and Training has authorised 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. The Commonwealth issued three guarantees to Group Training companies over the period July 1999 to June 2001. Two of these guarantees, for \$175,000 each, were still active as of 1 October 2002.

## **Employment and Workplace Relations**

### ***Special Employee Entitlement Scheme for Ansett group employees***

A contingent liability of \$104 million exists in relation to the Special Employee Entitlements Scheme for Ansett group employees (SEESA). This scheme was established by the Federal Government on 9 October 2001 under section 22 of the *Air Passenger Ticket Levy (Collection) Act 2001* to provide a safety net arrangement for staff of the Ansett Group of companies who were terminated after 12 September 2001 due to their employer's insolvency. Contingent revenue also exists in relation to the SEESA.

## **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. The Commonwealth also has in place a \$200 million callable capital facility available to EFIC on request to cover liabilities, losses and claims. As at 30 September 2002, the Commonwealth's total contingent liability was \$7.1 billion, comprising EFIC's liabilities to third parties (\$3.4 billion) and EFIC's contracts of insurance and guarantees (\$3.7 billion). The National Interest Account accounted for \$2.8 billion of these liabilities.

## **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 to finance redundancy-related payments in the stevedoring and maritime industries. Outstanding borrowings covered by the guarantee as at 30 September 2002 were \$136 million.

***Aviation War Risk Insurance — indemnities for Australian carriers, airports and service providers***

Following terrorist attacks in the United States on 11 September 2001, regular insurance cover for claims arising out of war and terrorism was withdrawn or significantly limited, placing global aviation operations at risk. In common with other aviation countries, the Commonwealth has been providing temporary third party war risk indemnity cover to air operators, airports and other aviation service providers, initially rolled over on a monthly basis.

On 30 August 2002, the Government entered into three-monthly indemnity deeds with 22 operators — 6 carriers (4 airlines and 2 cargo carriers), 11 airports and 5 other service providers. Indemnity deeds are being entered into on the basis of the recipient paying a charge and taking out commercial insurance when available.

The notional upper limit of the Government's contingent liability for these indemnities is approximately \$20.6 billion, based on the difference between the amount of commercial insurance currently held by an entity and the level of cover held prior to cancellation. Individual contingent liabilities range from \$100 million to \$2 billion. It is extremely unlikely that the total liability would be called upon as facilities are spread across Australia. Nonetheless, a terrorist incident could involve claims from several indemnified parties.

**Treasury**

***Reserve Bank of Australia (RBA) guarantee***

This contingent liability relates to the Commonwealth's guarantee of the liabilities of the RBA. The major component of RBA liabilities relates to Notes (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 2 October 2002, Notes on Issue totalled \$31.5 billion. In total, the guarantee for the RBA was \$49.4 billion as at 2 October 2002.

***Terrorism insurance — commercial cover***

On 25 October 2002, the Government announced the detailed plans for a scheme for replacement terrorism insurance, to operate until the market recovers. The Scheme will cover commercial property and infrastructure facilities, and include associated business interruption and public liability. It will commence on 1 July 2003.

The Scheme will provide for a pool of funds (initially planned to accumulate to about \$300 million) funded by premiums. The pool will be supplemented by a back-up bank line of credit of \$1 billion, underwritten by the Commonwealth, as well as a Commonwealth Government indemnity of \$9 billion, giving aggregate cover of up to \$10.3 billion when the pool is fully funded.



The notional upper limit of Government contingent liabilities under the Scheme is \$10.3 billion (which assumes a full utilisation of all Scheme resources). However, as the Commonwealth may recoup payouts made under the Scheme, any liability is likely to be considerably less than this amount. Such repayments to the Commonwealth may take some years.

***Uncalled capital subscriptions – international financial institutions***

The liability relates to the value of the uncalled portion of the Commonwealth's shares at 30 June 2002 in the International Bank for Reconstruction and Development (\$US2.8 billion – estimated value \$A4.9 billion), the Asian Development Bank (\$US2.4 billion – estimated value \$A4.3 billion), the European Bank for Reconstruction and Development (\$US81.7 million plus EUR77.5 million – estimated value \$A280 million), and the Multilateral Investment Guarantee Agency (\$US26.5 million – estimated value \$A46.9 million).

**CONTINGENT LIABILITIES – UNQUANTIFIABLE**

**Defence**

***Australian Submarine Corporation (ASC) – indemnity provided to Electric Boat Corporation (EBC) under the Services Agreement***

In October 2002, the Department of Defence and ASC entered into a Services Agreement with EBC of the United States and its subsidiary, Electric Boat Australia, to provide commercial advice to ASC as a Capability Partner to the company. For the purpose of this agreement, EBC and its subsidiaries were granted a warranty that the Department of Defence and ASC had a right to disclose certain information provided to EBC under the Services Agreement; and an indemnity to EBC against any claims brought by third parties arising out of EBC's use of information provided by the Department of Defence and ASC for the purposes of the Services Agreement.

***HMAS MELBOURNE and HMAS VOYAGER damages claims***

Former crew members of HMAS MELBOURNE have instituted legal proceedings against the Commonwealth, claiming damages for injuries allegedly caused by the HMAS VOYAGER/HMAS MELBOURNE collision on 10 February 1964. About 200 claims have been made of which some 60 claims have so far been settled. A number of dependency claims arising from that collision have also been foreshadowed by the dependants of deceased former members of the crew of HMAS VOYAGER. Further claims are likely to be made in connection with the collision. There are also claims outstanding in relation to other naval incidents.

### ***Litigation cases***

The Department of Defence is involved in a wide range of litigation and other claims for compensation and/or damages that may result in litigation where the matters have yet to be finalised by negotiation or, where required, litigation. Various claims, the subject of cases that have yet to be heard or are part heard, await a decision on what (if any) damages and/or costs should be paid to the claimant. The litigated and non-litigated claims include common law liability claims and claims before the Human Rights and Equal Opportunity Commission. The litigation also includes asbestos claims and claims from injury resulting from the F111 Deseal/Reseal programmes. In total there are about 350 claims at present, with a value in excess of \$120 million. There is identified potential for additional claims from known incidents of non-military asbestos exposure and the F111 Deseal/Reseal project of some 130 claims with a value of some \$30 million.

### **Finance and Administration**

#### ***Australian Submarine Corporation (ASC) – directors' indemnities***

The Commonwealth has indemnified the members of the Board of ASC for any claim associated with the provision of information to the Electric Boat Corporation (EBC) of the United States. Certain information is to be provided to EBC under a Process Agreement between it, the Commonwealth and ASC. This indemnification has been separately extended to include any claim associated with the provision of information to EBC and its subsidiary, Electric Boat Australia under the Services Agreement between ASC, the Department of Defence, EBC and Electric Boat Australia.

### **Health and Ageing**

#### ***United Medical Protection (UMP)/Australasian Medical Insurance Ltd (AMIL) Guarantee***

In the 2002-03 Budget the Government announced that the Commonwealth would guarantee to the provisional liquidator, or to any other subsequently appointed liquidator, the obligations of UMP/AMIL to pay any amount properly payable in the period 29 April 2002 to 30 June 2002 in respect of claims made under a current or past policy to provide coverage for claims incurred during that period.

On 31 May 2002, the Prime Minister announced an offer to extend the Commonwealth Guarantee provided to UMP/AMIL and the companies' provisional liquidator to 31 December 2002 on a claims made basis. In his 23 October 2002 press release on the medical indemnity package, the Prime Minister announced a further extension to 31 December 2003.

The guarantee will provide Commonwealth financial support to allow UMP/AMIL to meet the following payments under the cover provided to its members:

#### Appendix D: Risks to the Budget

- amounts payable in respect of claims incurred in the period 29 April 2002 to 30 June 2002;
- amounts payable in the period 29 April 2002 to 31 December 2003 in respect of claims notified or finalised prior to 29 April 2002; and
- amounts payable in respect of claims notified in the period 29 April 2002 to 31 December 2003, whenever the claim is finalised (including after 31 December 2003).

The guarantee will apply to the extent that the provisional liquidator is unable to meet UMP/AMIL's obligations under these policies from UMP/AMIL's assets. The liabilities cannot be quantified, as a reliable estimate cannot be produced at this time.

Both extensions of the guarantee will be funded, if necessary, via a levy on doctors. At present, the Provisional Liquidator has not called on the Commonwealth guarantee.

### **Industry, Tourism and Resources**

#### ***Snowy Hydro Limited – directors' indemnities***

The Commonwealth has, together with the co-shareholder Governments of New South Wales and Victoria, indemnified the members of the Board of Snowy Hydro Limited for liabilities arising from entering into agreements to implement corporatisation of the Snowy Mountains Hydro-electric Scheme, and from liabilities transferred to Snowy Hydro Limited at corporatisation. The indemnity will apply to liabilities arising within five years of corporatisation, and for which a claim is notified to the Governments within eleven years of the corporatisation date of 28 June 2002.

#### ***Snowy Hydro Limited – water releases***

The Commonwealth, New South Wales and Victorian Governments have indemnified Snowy Hydro Limited for liabilities arising from water releases in the Snowy River below Jindabyne Dam, where these releases are in accordance with the water licence and related regulatory arrangements agreed between the three Governments. The indemnity will apply to liabilities for which a claim is notified within twenty years from 28 June 2002.

The Commonwealth, New South Wales and Victorian Governments will provide financial support to the company if this is necessary to avoid the company breaching its loan covenants to fund the cost of civil works required to address a cold water pollution offence. The undertaking applies for seven years from 28 June 2002.

## **Transport and Regional Services**

### ***Australian Maritime Safety Authority (AMSA) – incident costs***

In the normal course of operations, AMSA is initially responsible for the provision of funds necessary to meet the clean-up costs arising from ship-sourced marine pollution and in all circumstances the Authority is responsible for making appropriate efforts to recover the costs of any such incidents. The Government meets costs that cannot be recovered from such incidents through contingency provisions specifically made for this purpose.

## **Treasury**

### ***HIH litigation***

The HIH Liquidator filed a claim on 11 November 2002 in the ACT Supreme Court against the Commonwealth of Australia and the Australian Prudential Regulation Authority (APRA) for damages, interest and costs. The claim is based on an alleged duty of care owed by the Insurance and Superannuation Commission (ISC) and APRA to the HIH companies, which it allegedly breached in its regulation of the FAI companies. The liquidator proposes to serve the documents after the HIH Royal Commission has reported in February 2003. The Commonwealth is being sued as the successor to the liabilities of the ISC.

## Sensitivity of fiscal aggregates to economic developments

Table D1 provides a guide to the sensitivity of the forward estimates of expenses and revenue to variations in economic parameters in 2002–03. 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. In each case, the analysis presents the estimated effects of a change in one economic variable only, and does not attempt to capture the linkages between economic variables that characterise changes in the economy more broadly.

**Table D1: Sensitivity of financial aggregates to changes in economic parameters**

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
<b>Expenses</b>				
Prices	860	520	810	830
Wages	0	270	360	380
Unemployment benefit recipients	140	280	300	300
Safety net adjustments	0	50	100	180
<b>Revenue</b>				
Prices	10	90	100	100
Wages	730	1570	1680	1810
Employment	480	1040	1110	1200
Private final demand	130	260	260	270
Profits	60	210	220	230

### Expenses

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

#### *Prices*

All price deflators are assumed to change by one percentage point at the start of the March quarter 2003, with wage deflators left unchanged.

- The effect of a change in prices is due to the indexation of Commonwealth expenses and a change in the nominal superannuation interest expense.

#### *Wages*

All wage and salary growth rates are assumed to change by one percentage point from the beginning of the March quarter 2003, with price deflators left unchanged.

- The effect of 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. The wages effect in Table D1 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 March quarter 2003, 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**

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

***Prices***

All price deflators are assumed to change by one percentage point at the start of the March quarter 2003, with wage deflators left unchanged.

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

***Wages***

All wage and salary growth rates are assumed to change by one percentage point from the beginning of the March quarter 2003, with price deflators left unchanged.

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

***Employment***

The level of employment is assumed to change by one percentage point from the beginning of the March quarter 2003, with no change in the composition of employment.

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

***Private final demand***

The level of private final demand (consumption plus investment) is assumed to change by one percentage point from the beginning of the March quarter 2003, with no change in the composition of demand.

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

***Profits***

The level of company profits is assumed to change by one percentage point from the beginning of the March quarter 2003.

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

## Appendix E: External reporting standards and budget concepts

### **EXTERNAL REPORTING STANDARDS**

The Commonwealth *Charter of Budget Honesty Act 1998* requires that the Mid-Year Economic and Fiscal Outlook (MYEFO) be based on external reporting standards. In accordance with the Charter, the major external standards used in the MYEFO are the Australian Bureau of Statistics (ABS) accrual Government Finance Statistics (GFS) framework and Australian accounting standards, including *Australian Accounting Standard No. 31 Financial Reporting by Governments* (AAS31).

The Charter also requires that departures from applicable external reporting standards be identified. Attachment A to Part III, Appendix B and Note 1 in Appendix C disclose departures from the external reporting standards.

The major fiscal aggregates (including the fiscal and underlying cash balances) are based on the accrual GFS framework. The next section provides a brief overview of the GFS framework, including the major fiscal aggregates, and the AAS reporting framework. Further information can be found in *Budget Strategy and Outlook 2002-03, Statement 10: External Reporting Standards and Budget Concepts*.

### **ACCRUAL GFS FRAMEWORK**

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

The GFS conceptual framework is divided into a number of separate statements. The GFS statements reported in the MYEFO are the operating statement, balance sheet, cash flow statement and a statement of other economic flows. Each of these statements 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. 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 defined as transactions that increase net worth and GFS expenses as transactions that decrease net worth – general government net worth is the difference between the stock of assets and liabilities and is further 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 the stock of non-financial assets owned by the government due to transactions. As such, it measures the net effect of purchases, sales and consumption (for example, depreciation of fixed assets and use of inventory) of non-financial assets during an accounting period.

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

### ***Fiscal balance***

The fiscal balance (or GFS net lending/borrowing) is the net operating balance *minus* net capital investment.

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

## **Balance sheet**

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

### ***Net debt***

Net debt is defined as the sum of selected financial liabilities (deposits held; advances received; government securities; loans; and other borrowing) *minus* the sum of selected financial assets (cash and deposits; advances paid; and investments, loans and placements). Net debt does not include superannuation or superannuation related

liabilities. Net debt is a common measure of the strength of a government's financial position. High levels of net debt impose a call on future revenue flows to service that debt.

### ***Net worth***

The net worth of the general government sector is defined as assets *less* liabilities. For the public financial corporations and public non-financial corporations sectors, 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.

### **Cash flow statement**

The cash flow statement identifies how cash is generated and applied in a single accounting period.

The cash flow statement reflects a cash basis of recording (rather than an accrual basis) where 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, reflecting the Commonwealth's cash investment-saving balance. The underlying cash balance measure is conceptually equivalent under the current accrual framework and the previous cash framework. For the general government sector, the underlying cash balance is calculated as shown below.

## Appendix E: External reporting standards and budget concepts

Net cash flows from operating activities
<i>plus</i>
Net cash flows from investments in non-financial assets
<i>less</i>
Net acquisitions of assets acquired under finance leases and similar arrangements <sup>1</sup>
<i>equals</i>
Underlying cash balance

### ***Headline cash balance***

The headline cash balance is calculated by adding 'cash flows from investments in financial assets for policy purposes' to the underlying cash balance. Cash flows from investments in financial assets for policy purposes include equity transactions and net advances.<sup>2</sup> Examples of equity transactions include equity injections into controlled businesses and privatisations of government businesses. Net advances include net loans to the States, net loans to students under the Higher Education Contribution Scheme (HECS), and contributions to international organisations that increase the Commonwealth's financial assets.

### **Statement of other economic flows (reconciliation of net worth)**

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

### **Classification and accounting treatment changes**

Consistent with ABS advice, the 2002-03 MYEFO reflects classification changes to transactions relating to superannuation arrangements for public non-financial corporations' (PNFC) employees from operating transactions to financing transactions. These changes are further discussed in the ABS publication *Government Financial Estimates, Australia* (Cat. No. 5501.0.55.001), released electronically on Wednesday

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- 1 The underlying cash balance treats the acquisition and disposal of non-financial assets in the same manner regardless of whether they occur by purchase/sale or finance lease—acquisitions reduce the underlying cash balance and disposals increase the underlying cash balance. However, finance leases do not generate cash flows at the time of acquisition or disposal equivalent to the value of the asset. As such, net acquisitions of assets under finance leases are not shown in the body of the cash flow statement but are reported as a supplementary item for the calculation of the underlying cash balance.
  - 2 Cash flows from investments in financial assets for policy purposes used to be known as *net advances* under the cash budgeting framework.

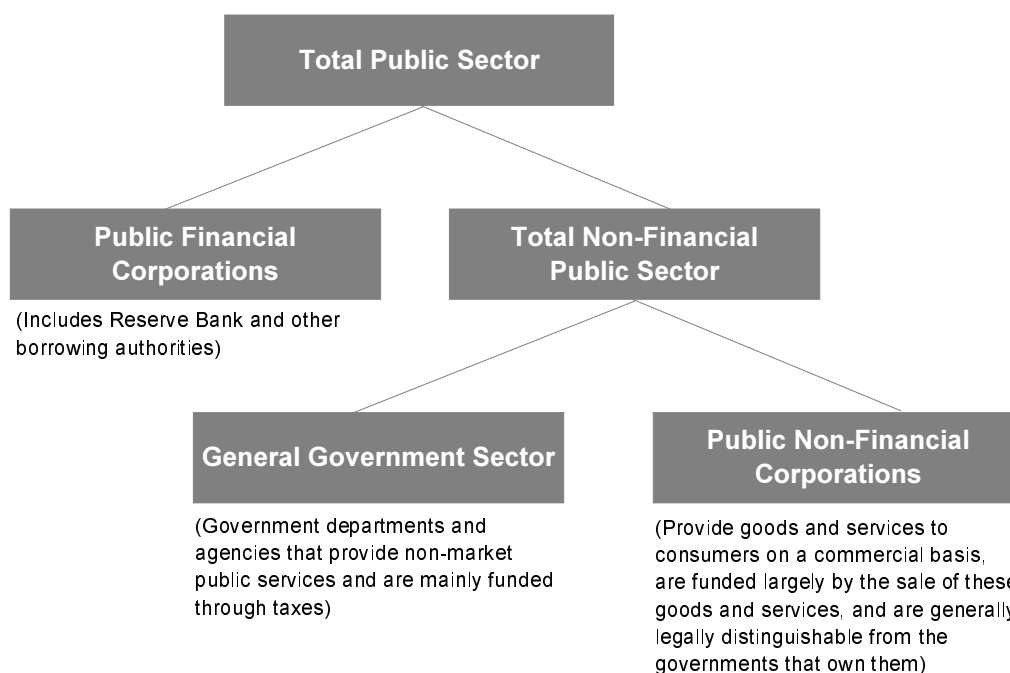
30 October 2002. This reclassification reflects an assessment that these arrangements are not normal operating activities of the general government sector as the superannuants are not general government employees.

This means that Commonwealth payments of the principal amounts of these superannuation payments will now be recorded below the line as financing transactions. However, the interest component of the payments will continue to be recorded as operating transactions, and will continue to directly impact on the underlying cash and fiscal balances.

### Sectoral classifications

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

**Figure E1: Institutional structure of the Public Sector**



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

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

In addition to these 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 Appendix C.

## **RECONCILIATION OF GFS AND AAS31 AGGREGATES**

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

The GFS and 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 and public financial corporations 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

## Appendix E: External reporting standards and budget concepts

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. This differing treatment relates predominantly to the definitions of revenues and expenses under the two frameworks.

In particular, revaluations of assets and liabilities are classified differently under the 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 gains and losses due to changes in foreign exchange rates and interest rates.

Under AAS31 reporting, valuation changes may affect revenues or expenses and therefore the operating result. However, under GFS reporting, revaluations are not considered to be transactions (that is, they are considered to be other economic flows) and accordingly do not form part of revenues or expenses. Therefore, most revaluations are not taken into account in the calculation of the GFS net operating balance or fiscal balance. However, revaluations still impact on GFS assets and liabilities, as can be seen in the statement of other economic flows.

Some of the major differences between the GFS and AAS31 treatments of transactions are outlined in Table E1. Further information on the differences between the two systems is provided in the ABS publication *Information Paper: Accruals-based Government Finance Statistics, 2000* (Cat. No. 5517.0).

Appendix E: External reporting standards and budget concepts

**Table E1: Selected differences between AAS31 and GFS reporting standards**

Issue	AAS31 Treatment	GFS Treatment
Asset writedowns	Treated as part of operating expenses.	Treated as revaluations (other economic flows), except for mutually agreed writedowns, and therefore removed from expenses.
Gains and losses on assets	Treated as part of operating revenues/expenses.	Treated as revaluations (other economic flows) and therefore removed from revenues/expenses.
Provisions for bad and doubtful debts	Treated as part of operating expenses and included in the balance sheet as an offset to assets.	Act of creating provisions is not considered an economic event and is therefore not considered an expense or included in the balance sheet. * Commonwealth does not comply with this latter requirement (see Appendix B).
Interest flows related to swaps and other financial derivatives	Treated as operating revenues and expenses.	Treated as other economic flows and so not included in revenues and expenses.
Acquisition of defence weapons platforms	Treated as capital expenditure. Defence weapons platforms appear as an asset on the balance sheet. Depreciation expense on assets is recorded in the operating statement.	Treated as an expense. Defence weapons platforms do not appear as an asset on the balance sheet and no depreciation is recorded in the operating statement.
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.  This convention does not apply to the cash flow statement, which does not record the acquisition of the asset or the liability.	As per the accounting standard, except that the GFS cash flow statement includes the acquisition of the asset as a supplementary item for the calculation of the surplus/deficit (underlying cash balance).

Table E2 reconciles GFS revenue and expenses with their AAS31 counterparts.

**Table E2: Reconciliation of GFS and AAS31 revenue and expenses**

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
<b>GFS revenue (Appendix B)</b>	<b>199,563</b>	<b>211,315</b>	<b>221,711</b>	<b>232,811</b>
<i>less</i> GST revenue for States and Territories	29,940	31,230	32,920	34,710
<b>GFS revenue (Parts I and III)</b>	<b>169,623</b>	<b>180,085</b>	<b>188,791</b>	<b>198,101</b>
<i>plus</i> defence asset revenue recognised first time	415	0	0	0
<i>plus</i> foreign exchange gains	0	0	0	0
<i>plus</i> other economic revaluations	853	20	20	20
<i>plus</i> profit on the sale of assets	21	215	9,530	9,460
<i>plus</i> swap interest received	2,222	1,866	1,630	1,338
<b>AAS31 revenue (Appendix C)</b>	<b>173,135</b>	<b>182,187</b>	<b>199,970</b>	<b>208,919</b>
<b>GFS expenses (Appendix B)</b>	<b>200,336</b>	<b>208,247</b>	<b>217,920</b>	<b>227,231</b>
<i>less</i> GST Grants to States and Territories	29,630	31,020	32,710	34,500
<i>less</i> GST mutually agreed writedowns	40	50	50	50
<b>GFS expenses (Parts I and III)</b>	<b>170,666</b>	<b>177,177</b>	<b>185,160</b>	<b>192,681</b>
<i>plus</i> revaluations/writedowns from superannuation	0	0	0	0
<i>plus</i> net writedown of assets/bad and doubtful debts	1,579	903	893	867
<i>plus</i> foreign exchange losses	445	0	0	0
<i>plus</i> other economic adjustments	323	0	0	0
<i>plus</i> loss on the sale of assets	0	0	0	0
<i>less</i> other expenses	15	10	175	175
<i>plus</i> swap interest paid	1,710	1,437	1,255	1,036
<i>plus</i> defence weapons platforms depreciation	2,056	2,179	2,367	2,029
<i>less</i> defence weapons platforms investment	3,616	4,274	4,150	4,509
<i>plus</i> AusAid IDA/ADF expenses	274	0	575	0
<b>AAS31 expenses (Appendix C)</b>	<b>173,422</b>	<b>177,411</b>	<b>185,926</b>	<b>191,930</b>

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

AAS31 revenues less expenses calculate the AAS31 net operating result. Similarly, GFS revenues less expenses calculate the GFS net operating balance.

Consequently, the reconciliation between the AAS31 operating result before extraordinary items and the GFS net operating balance relates directly to differences in the definitions of revenues and expenses, as shown in Table E2 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.

As discussed previously, the fiscal balance is calculated as the net operating balance less net capital investment. This is a useful economic indicator as it represents the gap between government saving (less capital transfers) and investment, and so is included at the end of the GFS operating statement. In AAS31 there is no equivalent measure to



Appendix E: External reporting standards and budget concepts

the fiscal balance. That is, the AAS31 statement of financial performance ends with the operating result and includes no information on net capital investment. Under the accounting standards framework, the equivalent indicator to the fiscal balance would measure the extent to which profits (that is, the net operating result) are sufficient to fund net capital investment.

**Table E3: Reconciliation of AAS31 net operating result and fiscal balance**

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
<b>AAS31 operating result before extraordinary items (Appendix C)</b>	<b>-287</b>	<b>4,775</b>	<b>14,045</b>	<b>16,989</b>
Net differences from revenue and expense definitions	-486	-1,706	-10,254	-11,410
<b>GFS net operating balance (Appendix B)</b>	<b>-773</b>	<b>3,069</b>	<b>3,790</b>	<b>5,580</b>
<i>less</i> purchase of property, plant and equipment and intangibles	6,346	6,646	6,201	6,486
<i>less</i> assets acquired under finance leases	-15	1	7	7
<i>less</i> other non-financial assets	-9	4	4	5
<i>less</i> increase in inventories	-42	-96	-101	-84
<i>plus</i> defence weapons platforms investment	3,616	4,274	4,150	4,509
<i>plus</i> proceeds from sales of property, plant and equipment and intangibles	1,394	888	642	278
<i>plus</i> depreciation and amortisation	3,821	4,040	4,233	4,033
<i>less</i> weapons depreciation	2,056	2,179	2,367	2,029
<b>Fiscal balance (GFS net lending) (Appendix B)(a)</b>	<b>-278</b>	<b>3,537</b>	<b>4,336</b>	<b>5,957</b>

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

## Appendix F: Historical fiscal data

This appendix provides historical data for Commonwealth fiscal aggregates.

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

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

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

- classification differences in the data relating to the period prior to 1976-77 (which means that earlier data may not be entirely consistent with data for 1976-77 onwards);
- adjustments in the coverage of agencies included in the accounts of the different sectors. These include the reclassification of Central Banking Authorities from the general government to the PFC sector in 1998-99, and subsequent backcasting to account for this change;
- consistent with the revised GFS treatment announced by the ABS (ABS Cat. No. 5501.0, released October 2002), the general government surplus measures in this appendix, from 1998-99 onwards, incorporate superannuation related interest payments by the Commonwealth general government sector in respect of accumulated PNFC superannuation liabilities;
- transfers of taxing powers between the Commonwealth and the States;
- other changes in financial arrangements between the Commonwealth and the State/local government sector; and
- changes in arrangements for transfer payments, where tax concessions or rebates are replaced by payments through the social security system. This has the effect of increasing both cash revenues and outlays, as compared with earlier periods, but not changing cash balances. Changes in the opposite direction (tax expenditures replacing outlays) reduce both cash outlays and revenue.

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

Appendix F: Historical fiscal data

**Table F1: Commonwealth general government sector receipts, payments and surplus<sup>(a)</sup>**

	Receipts			Payments			Cash surplus	
	\$m	Per cent	Per cent of GDP	\$m	Per cent	Per cent of GDP	\$m	Per cent of GDP
		real growth			real growth			
1970-71	8,000	5.9	20.9	7,176	9.9	18.7	824	2.2
1971-72	8,827	3.2	20.9	7,987	4.1	18.9	840	2.0
1972-73	9,414	0.4	19.9	9,120	7.5	19.2	294	0.6
1973-74	11,890	10.9	20.7	10,829	4.3	18.9	1,061	1.9
1974-75	15,325	5.5	22.7	15,275	15.5	22.6	50	0.1
1975-76	18,316	3.4	23.1	19,876	12.6	25.0	-1,560	-2.0
1976-77	21,418	4.1	23.4	22,657	1.5	24.7	-1,239	-1.4
1977-78	23,491	0.8	23.5	25,489	3.4	25.5	-1,998	-2.0
1978-79	25,666	3.5	22.7	27,753	3.1	24.6	-2,087	-1.8
1979-80	29,780	5.6	23.1	31,041	1.8	24.1	-1,261	-1.0
1980-81	35,148	6.8	24.1	35,260	2.8	24.2	-112	-0.1
1981-82	40,831	3.1	24.4	40,394	1.7	24.1	437	0.3
1982-83	44,675	-1.9	24.7	47,907	6.4	26.5	-3,232	-1.8
1983-84	49,102	3.2	24.1	55,966	9.7	27.5	-6,864	-3.4
1984-85	57,758	11.6	25.7	63,639	7.9	28.3	-5,881	-2.6
1985-86	64,845	5.7	26.1	69,838	3.3	28.1	-4,993	-2.0
1986-87	73,145	5.4	26.9	75,392	0.8	27.7	-2,247	-0.8
1987-88	81,217	3.4	26.1	79,440	-1.9	25.6	1,777	0.6
1988-89	88,369	0.4	25.1	82,202	-4.5	23.4	6,167	1.8
1989-90	95,517	1.8	24.8	88,882	1.8	23.1	6,635	1.7
1990-91	97,705	-2.4	24.5	97,333	4.5	24.5	372	0.1
1991-92	92,966	-6.8	22.9	104,551	5.2	25.7	-11,585	-2.8
1992-93	94,448	0.4	22.2	111,484	5.4	26.1	-17,036	-4.0
1993-94	100,142	5.0	22.4	117,252	4.2	26.2	-17,110	-3.8
1994-95	109,720	8.8	23.3	122,901	4.1	26.1	-13,181	-2.8
1995-96	121,105	7.4	24.1	131,182	3.9	26.1	-10,077	-2.0
1996-97	129,845	5.1	24.5	135,126	0.9	25.5	-5,281	-1.0
1997-98	135,779	3.1	24.2	134,608	-1.8	24.0	1,171	0.2
1998-99	146,496	7.5	24.8	142,159	5.3	24.0	4,337	0.7
1999-00	165,806	na	26.4	153,059	na	24.3	12,747	2.0
2000-01	160,829	-7.1	23.9	155,085	-3.0	23.1	5,743	0.9
2001-02	162,524	-1.4	22.7	163,624	2.9	22.9	-1,100	-0.2
<b>2002-03(e)</b>	<b>172,277</b>	<b>3.6</b>	<b>22.8</b>	<b>170,136</b>	<b>1.6</b>	<b>22.6</b>	<b>2,141</b>	<b>0.3</b>
2003-04(e)	181,639	3.6	22.7	176,740	2.0	22.1	4,899	0.6
2004-05(p)	190,063	2.7	22.6	185,825	3.1	22.1	4,238	0.5
2005-06(p)	199,126	2.8	22.4	193,770	2.3	21.8	5,356	0.6

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

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

**Table F2: Commonwealth general government sector taxation receipts, non-taxation receipts and total receipts<sup>(a)</sup>**

	Taxation receipts			Non-taxation receipts			Total receipts		
	Per cent		Per cent of GDP	Per cent		Per cent of GDP	Per cent		Per cent of GDP
	\$m	real growth		\$m	real growth		\$m	real growth	
1970-71	7,148	5.9	18.7	852	5.9	2.2	8,000	5.9	20.9
1971-72	7,887	3.2	18.7	940	3.2	2.2	8,827	3.2	20.9
1972-73	8,411	0.4	17.7	1,003	0.5	2.1	9,414	0.4	19.9
1973-74	10,832	13.1	18.9	1,058	-7.3	1.8	11,890	10.9	20.7
1974-75	14,141	6.9	20.9	1,184	-8.4	1.8	15,325	5.5	22.7
1975-76	16,920	3.5	21.3	1,396	2.0	1.8	18,316	3.4	23.1
1976-77	19,714	3.7	21.5	1,704	8.7	1.9	21,418	4.1	23.4
1977-78	21,428	-0.1	21.4	2,063	11.3	2.1	23,491	0.8	23.5
1978-79	23,409	3.5	20.7	2,257	3.6	2.0	25,666	3.5	22.7
1979-80	27,473	6.8	21.4	2,307	-7.0	1.8	29,780	5.6	23.1
1980-81	32,641	7.5	22.4	2,507	-1.7	1.7	35,148	6.8	24.1
1981-82	37,880	3.0	22.6	2,951	4.5	1.8	40,831	3.1	24.4
1982-83	41,025	-2.9	22.7	3,650	10.9	2.0	44,675	-1.9	24.7
1983-84	44,849	2.6	22.0	4,253	9.4	2.1	49,102	3.2	24.1
1984-85	52,970	12.0	23.5	4,788	6.8	2.1	57,758	11.6	25.7
1985-86	58,841	4.6	23.7	6,004	18.1	2.4	64,845	5.7	26.1
1986-87	66,467	5.5	24.4	6,678	3.9	2.5	73,145	5.4	26.9
1987-88	75,076	5.1	24.2	6,141	-14.4	2.0	81,217	3.4	26.1
1988-89	83,452	2.6	23.7	4,917	-26.1	1.4	88,369	0.4	25.1
1989-90	90,773	2.4	23.6	4,744	-9.1	1.2	95,517	1.8	24.8
1990-91	92,739	-2.5	23.3	4,966	-0.1	1.2	97,705	-2.4	24.5
1991-92	87,364	-7.7	21.5	5,602	10.5	1.4	92,966	-6.8	22.9
1992-93	88,760	0.4	20.8	5,688	0.4	1.3	94,448	0.4	22.2
1993-94	93,362	4.2	20.9	6,780	18.1	1.5	100,142	5.0	22.4
1994-95	104,921	11.6	22.3	4,799	-29.7	1.0	109,720	8.8	23.3
1995-96	115,700	7.3	23.0	5,405	9.6	1.1	121,105	7.4	24.1
1996-97	124,559	5.5	23.5	5,286	-4.2	1.0	129,845	5.1	24.5
1997-98	130,984	3.6	23.3	4,795	-10.6	0.9	135,779	3.1	24.2
1998-99	141,105	7.4	23.9	5,391	12.1	0.9	146,496	7.5	24.8
1999-00	150,695	na	23.9	15,111	na	2.4	165,806	na	26.4
2000-01	146,056	-7.2	21.7	14,774	-6.4	2.2	160,829	-7.1	23.9
2001-02	147,544	-1.5	20.6	14,980	-1.1	2.1	162,524	-1.4	22.7
<b>2002-03(e)</b>	<b>157,622</b>	<b>4.4</b>	<b>20.9</b>	<b>14,656</b>	<b>-4.4</b>	<b>1.9</b>	<b>172,277</b>	<b>3.6</b>	<b>22.8</b>
2003-04(e)	167,894	4.6	21.0	13,745	-7.9	1.7	181,639	3.6	22.7
2004-05(p)	176,450	3.1	20.9	13,613	-2.8	1.6	190,063	2.7	22.6
2005-06(p)	185,780	3.3	20.9	13,346	-3.8	1.5	199,126	2.8	22.4

(a) There is a break in the series between 1998-99 and 1999-2000. Data for the years up to and including 1998-99 are consistent with the cash ABS GFS reporting requirements. From 1999-2000 onwards, data are derived from an accrual ABS GFS reporting framework. From 1999-2000, the category 'non-taxation receipts' includes many large items that were netted off payments in outcomes prior to this time, namely 'receipts from sales of goods and services', 'receipts from sales of non-financial assets' and 'other receipts'. From 2000-01, the category 'non-taxation receipts' also includes 'GST input credit receipts'. Due to associated methodological and data-source changes, time series data that encompass measures derived under both cash and accrual accounting should be used with caution.

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

Appendix F: Historical fiscal data

**Table F3: Commonwealth receipts (cash basis)**

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Actual	Estimate	Estimate	Projection	Projection
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Tax receipts</b>						
Income tax						
Individuals and other withholding(a)						
Gross income tax withholding(b)	75,009	78,983	85,210	92,700	99,430	106,310
Gross other individuals	13,226	16,290	17,020	18,800	19,940	20,740
less Refunds	10,989	10,637	11,130	11,970	13,070	13,970
Total individuals and other withholding	77,246	84,636	91,100	99,530	106,300	113,080
Companies	31,582	27,230	29,700	30,770	32,400	34,290
Superannuation funds						
Contributions and earnings	4,110	3,550	3,800	4,000	4,210	4,480
Surcharge	690	824	840	840	820	790
Total superannuation funds	4,800	4,373	4,640	4,840	5,030	5,270
Petroleum resource rent tax	2,379	1,361	1,650	1,300	1,000	820
<b>Total income tax</b>	<b>116,006</b>	<b>117,601</b>	<b>127,090</b>	<b>136,440</b>	<b>144,730</b>	<b>153,460</b>
Indirect tax						
Excise duty						
Petroleum products and crude oil	12,445	12,779	13,100	13,310	13,440	13,620
Other excise	6,572	6,837	7,060	7,160	7,270	7,370
Total excise duty	19,017	19,616	20,160	20,470	20,710	20,990
Customs duty	4,584	4,625	4,760	5,110	5,090	5,240
Other indirect taxes(c)	1,929	785	810	900	930	960
<b>Total indirect tax</b>	<b>25,530</b>	<b>25,026</b>	<b>25,730</b>	<b>26,480</b>	<b>26,730</b>	<b>27,190</b>
Fringe benefits tax(d)	3,207	3,272	3,290	3,410	3,530	3,650
Agricultural levies and other taxes	1,312	1,645	1,512	1,564	1,460	1,480
<b>Total tax receipts</b>	<b>146,056</b>	<b>147,544</b>	<b>157,622</b>	<b>167,894</b>	<b>176,450</b>	<b>185,780</b>
Non-tax receipts						
Interest received	1,140	918	912	734	867	1,248
Dividends and other	13,634	14,062	13,744	13,011	12,746	12,098
<b>Total non-tax receipts</b>	<b>14,774</b>	<b>14,980</b>	<b>14,656</b>	<b>13,745</b>	<b>13,613</b>	<b>13,346</b>
<b>Total receipts</b>	<b>160,829</b>	<b>162,524</b>	<b>172,277</b>	<b>181,639</b>	<b>190,063</b>	<b>199,126</b>

(a) Includes Medicare levy receipts (\$4,745 million in 2000-01 and \$4,970 million in 2001-02).

(b) Includes Pay As You Go (Withholding) and other withholding. Other withholding was previously reported under company and other income tax, and includes amounts withheld for failure to quote a Tax File Number or an Australian Business Number, taxes withheld from interest, dividends and royalty payments to non-residents, and payments to aboriginal groups for the use of land for mineral exploration and mining.

(c) Includes the wine equalisation tax, luxury car tax and the final wholesale sales tax liability (abolished on 1 July 2000).

(d) Consistent with GFS reporting standards, excludes fringe benefits tax collected from Commonwealth government agencies (\$285 million in 2000-01 and \$360 million in 2001-02).

**Table F4: Commonwealth general government sector net debt and net interest payments<sup>(a)</sup>**

	Net debt		Net interest payments(b)	
	\$m	Per cent of GDP	\$m	Per cent of GDP
1974-75	-1,901	-2.8	-267	-0.4
1975-76	-341	-0.4	-389	-0.5
1976-77	898	1.0	-161	-0.2
1977-78	2,896	2.9	-106	-0.1
1978-79	4,983	4.4	126	0.1
1979-80	6,244	4.9	290	0.2
1980-81	6,356	4.4	444	0.3
1981-82	5,919	3.5	475	0.3
1982-83	9,151	5.1	654	0.4
1983-84	16,015	7.9	1,327	0.7
1984-85	21,896	9.7	2,462	1.1
1985-86	26,889	10.8	3,626	1.5
1986-87	29,136	10.7	4,387	1.6
1987-88	27,359	8.8	4,019	1.3
1988-89	21,982	6.2	3,722	1.1
1989-90	16,121	4.2	3,848	1.0
1990-91	16,936	4.3	2,834	0.7
1991-92	31,132	7.7	2,739	0.7
1992-93	55,218	13.0	2,912	0.7
1993-94	70,223	15.7	4,549	1.0
1994-95	83,492	17.7	6,310	1.3
1995-96	95,831	19.1	7,812	1.6
1996-97	96,281	18.2	8,449	1.6
1997-98	82,935	14.8	7,381	1.3
1998-99	70,402	11.9	6,901	1.2
1999-00	53,106	8.4	6,326	1.0
2000-01	39,258	5.8	5,082	0.8
2001-02	35,568	5.0	4,355	0.6
<b>2002-03(e)</b>	<b>34,116</b>	<b>4.5</b>	<b>3,545</b>	<b>0.5</b>
2003-04(e)	29,033	3.6	3,520	0.4
2004-05(p)	12,752	1.5	3,003	0.4
2005-06(p)	-5,684	-0.6	3,626	0.4

(a) Source: ABS Cat. No. 5513.0, 5501.0, Commonwealth Final Budget Outcomes and Treasury estimates.

(b) Excludes superannuation related interest flows.

Appendix F: Historical fiscal data

**Table F5: Commonwealth general government sector revenue, expenses, net capital investment, fiscal balance and net worth<sup>(a)</sup>**

	GFS revenue		GFS expenses		Net capital investment		Fiscal balance		Net worth <sup>(b)</sup>	
	\$m	Per cent of GDP	\$m	Per cent of GDP	\$m	Per cent of GDP	\$m	Per cent of GDP	\$m	Per cent of GDP
1996-97	141,688	26.7	145,809	27.5	90	0.0	-4,211	-0.8	-74,354	-14.0
1997-98	146,820	26.2	148,646	26.5	147	0.0	-1,973	-0.4	-68,544	-12.2
1998-99	151,897	25.7	146,620	24.8	1,433	0.2	3,844	0.6	-76,150	-12.9
1999-00	166,595	26.5	154,373	24.5	-1,225	-0.2	13,447	2.1	-36,130	-5.7
2000-01	161,508	24.0	156,782	23.3	-1,168	-0.2	5,894	0.9	-41,210	-6.1
2001-02	162,370	22.7	166,482	23.3	-369	-0.1	-3,743	-0.5	-46,985	-6.6
<b>2002-03(e)</b>	<b>169,623</b>	<b>22.5</b>	<b>170,666</b>	<b>22.6</b>	<b>-495</b>	<b>-0.1</b>	<b>-548</b>	<b>-0.1</b>	<b>-45,847</b>	<b>-6.1</b>
2003-04(e)	180,085	22.6	177,177	22.2	468	-0.1	3,377	0.4	42,891	-5.4
2004-05(p)	188,791	22.4	185,160	22.0	-546	-0.1	4,176	0.5	-39,467	-4.7
2005-06(p)	198,101	22.3	192,681	21.7	-377	0.0	5,797	0.7	-34,371	-3.9

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

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

**Table F6: Commonwealth general government sector accrual taxation revenue, non-taxation revenue and total revenue**

	Taxation revenue			Non-taxation revenue			Total revenue		
	\$m	Per cent		\$m	Per cent		\$m	Per cent	
		real growth	Per cent of GDP		real growth	Per cent of GDP		real growth	Per cent of GDP
1999-00	152,576	na	24.2	14,020	na	2.2	166,595	na	26.5
2000-01	151,156	-5.1	22.5	10,352	-29.3	1.5	161,508	-7.2	24.0
2001-02	149,848	-3.3	20.9	12,522	18.0	1.7	162,370	-1.9	22.7
<b>2002-03(e)</b>	<b>158,528</b>	<b>3.4</b>	<b>21.0</b>	<b>11,096</b>	<b>-13.4</b>	<b>1.5</b>	<b>169,623</b>	<b>2.1</b>	<b>22.5</b>
2003-04(e)	169,347	4.9	21.2	10,738	-4.9	1.3	180,085	4.3	22.6
2004-05(p)	177,923	3.1	21.1	10,867	-0.7	1.3	188,791	2.8	22.4
2005-06(p)	187,157	3.2	21.1	10,944	-1.2	1.2	198,101	2.9	22.3

na Data not available.



Appendix F: Historical fiscal data

**Table F7: Commonwealth revenue (accrual basis)**

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Actual	Estimate	Estimate	Projection	Projection
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Tax revenue</b>						
Income tax						
Individuals and other withholding(a)						
Gross income tax withholding(b)	75,614	79,822	85,680	92,890	99,620	106,500
Gross other individuals	13,426	17,237	17,430	19,210	20,350	21,150
less Refunds	10,989	10,637	11,130	11,970	13,070	13,970
Total individuals and other withholding	78,051	86,422	91,980	100,130	106,900	113,680
Companies	35,136	27,133	29,240	31,030	32,680	34,570
Superannuation funds						
Contributions and earnings	4,652	3,341	3,630	3,980	4,190	4,460
Surcharge	634	830	850	850	830	800
Total superannuation funds	5,286	4,171	4,480	4,830	5,020	5,260
Petroleum resource rent tax	2,388	1,306	1,650	1,300	1,000	820
<b>Total income tax</b>	<b>120,861</b>	<b>119,032</b>	<b>127,350</b>	<b>137,290</b>	<b>145,600</b>	<b>154,330</b>
Indirect tax						
Excise duty						
Petroleum products and crude oil	12,447	12,793	13,100	13,310	13,440	13,620
Other excise	6,572	6,837	7,060	7,160	7,270	7,370
Total excise duty	19,019	19,630	20,160	20,470	20,710	20,990
Customs duty	4,606	5,214	5,330	5,675	5,655	5,708
Other indirect taxes(c)	1,976	791	810	900	930	960
<b>Total indirect tax</b>	<b>25,601</b>	<b>25,634</b>	<b>26,300</b>	<b>27,045</b>	<b>27,295</b>	<b>27,658</b>
Fringe benefits tax(d)	3,456	3,675	3,360	3,440	3,560	3,680
Agricultural levies and other taxes	1,238	1,506	1,517	1,572	1,468	1,489
<b>Total tax revenue</b>	<b>151,156</b>	<b>149,848</b>	<b>158,528</b>	<b>169,347</b>	<b>177,923</b>	<b>187,157</b>
Non-tax revenue						
Interest income	1,105	1,188	1,065	901	1,053	1,443
Dividends and other	9,247	11,334	10,031	9,838	9,814	9,502
<b>Total non-tax revenue</b>	<b>10,352</b>	<b>12,522</b>	<b>11,096</b>	<b>10,738</b>	<b>10,867</b>	<b>10,944</b>
<b>Total revenue</b>	<b>161,508</b>	<b>162,370</b>	<b>169,623</b>	<b>180,085</b>	<b>188,791</b>	<b>198,101</b>

(a) Includes Medicare levy revenue (\$4,745 million in 2000-01 and \$4,970 million in 2001-02).

(b) Includes Pay As You Go (Withholding) and other withholding. Other withholding was previously reported under company and other income tax, and includes amounts withheld for failure to quote a Tax File Number or an Australian Business Number, taxes withheld from interest, dividends and royalty payments to non-residents, and payments to aboriginal groups for the use of land for mineral exploration and mining.

(c) Includes the wine equalisation tax, luxury car tax and the final wholesale sales tax liability (abolished on 1 July 2000).

(d) Consistent with GFS reporting standards, excludes fringe benefits tax from Commonwealth government agencies (\$285 million in 2000-01 and \$360 million in 2001-02).

**Table F8: Commonwealth cash receipts, payments and cash surplus by institutional sector (\$m)<sup>(a)</sup>**

	General government			Public non-financial corporations			Non-financial public sector		
	Receipts	Payments	Cash surplus	Receipts	Payments	Cash surplus	Receipts	Payments	Cash surplus
1987-88	81,217	79,440	1,777	4,129	5,006	944	84,333	83,439	2,721
1988-89	88,369	82,202	6,167	4,177	6,035	257	91,544	87,188	6,424
1989-90	95,517	88,882	6,635	3,926	11,322	-5,261	98,387	99,081	1,374
1990-91	97,705	97,333	372	4,804	9,351	-2,139	101,315	105,476	-1,767
1991-92	92,966	104,551	-11,585	3,899	7,713	101	95,063	110,448	-11,484
1992-93	94,448	111,484	-17,036	4,385	7,819	-196	97,327	117,775	-17,232
1993-94	100,142	117,252	-17,110	5,178	6,476	1,482	103,065	121,457	-15,628
1994-95	109,720	122,901	-13,181	5,262	7,318	1,956	113,013	128,247	-11,225
1995-96	121,105	131,182	-10,077	4,927	8,190	-527	123,269	136,607	-10,604
1996-97	129,845	135,126	-5,281	4,782	7,373	473	131,512	139,385	-4,808
1997-98	135,779	134,608	1,171	6,238	7,923	1,119	139,560	140,006	2,290
1998-99	146,496	142,159	4,337	na	na	-353	na	na	3,984
1999-00	165,806	153,059	12,747	na	na	-2,594	na	na	10,153
2000-01	160,829	155,085	5,743	na	na	391	na	na	6,135
2001-02	162,524	163,624	-1,100	na	na	1,210	na	na	110
<b>2002-03(e)</b>	<b>172,277</b>	<b>170,136</b>	<b>2,141</b>	<b>na</b>	<b>na</b>	<b>2,258</b>	<b>na</b>	<b>na</b>	<b>4,399</b>
2003-04(e)	181,639	176,740	4,899	na	na	na	na	na	na
2004-05(p)	190,063	185,825	4,238	na	na	na	na	na	na
2005-06(p)	199,126	193,770	5,356	na	na	na	na	na	na

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

na Data not available.

Appendix F: Historical fiscal data

**Table F9: Commonwealth accrual revenue, expenses and fiscal balance by institutional sector (\$m)<sup>(a)</sup>**

	General government			Public non-financial corporations			Non-financial public sector		
	Revenue	Expenses	Fiscal balance	Revenue	Expenses	Fiscal balance	Revenue	Expenses	Fiscal balance
1996-97	141,688	145,809	-4,211	27,431	26,015	-331	na	na	-4,542
1997-98	146,820	148,646	-1,973	29,618	26,999	2,360	na	na	387
1998-99	151,897	146,620	3,844	27,687	26,088	-816	175,682	168,806	3,028
1999-00	166,595	154,373	13,447	25,270	23,327	1,062	188,347	173,026	14,508
2000-01	161,508	156,782	5,894	25,640	24,533	-826	183,000	177,167	5,069
2001-02	162,370	166,482	-3,743	26,461	25,164	793	184,577	187,392	-2,951
<b>2002-03(e)</b>	<b>169,623</b>	<b>170,666</b>	<b>-548</b>	<b>26,659</b>	<b>24,845</b>	<b>434</b>	<b>192,030</b>	<b>191,259</b>	<b>-113</b>
2003-04(e)	180,085	177,177	3,377	na	na	na	na	na	na
2004-05(p)	188,791	185,160	4,176	na	na	na	na	na	na
2005-06(p)	198,101	192,681	5,797	na	na	na	na	na	na

(a) The fiscal balance is equal to revenue less expenses less net capital investment. Net capital investment is not shown in this table.  
na Data not available.