BUDGET

BUDGET STRATEGY AND OUTLOOK

BUDGET PAPER NO. 1

2008-09

CIRCULATED BY

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Notes

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

- 'real' means adjusted for the effect of inflation;
- real growth in expenses is measured by the non-farm Gross Domestic Product (GDP) deflator;
- the budget year refers to 2008-09, while the forward years refer to 2009-10, 2010-11 and 2011-12; and
- one billion is equal to one thousand million.

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

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

(c) For the budget balance, a negative sign indicates a deficit while no sign indicates a surplus.

(d) The following notations are used:

NEC/nec	not elsewhere classified
-	nil
na	not applicable (unless otherwise specified)
(e)	estimates (unless otherwise specified)
(p)	projections (unless otherwise specified)
$m	$ million
$b	$ billion

(e) The Australian Capital Territory and the Northern Territory are referred to as 'the Territories'. References to the 'States' or 'each State' include the Territories. The following abbreviations are used for the names of the States, where appropriate:

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

(f) In this paper the term Commonwealth refers to the Commonwealth of Australia. The term is used when referring to the legal entity of the Commonwealth of Australia.

The term Australian Government is used when referring to the Government and the decisions and activities made by the Government on behalf of the Commonwealth of Australia.

Budget Strategy and Outlook 2008-09 is one of a series of Budget Papers that provides information to supplement the Budget Speech. A full list of the series is printed on the inside cover of this paper.

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STATEMENT 1: BUDGET OVERVIEW

This statement provides an overview of the economic and fiscal outlook, summarises the Government's fiscal strategy and outlines the key budget priorities.

Consumer price inflation has intensified over the past two years, reaching 4.2 per cent in the year to March 2008. As a result of slower global growth, tighter credit conditions and higher interest rates, economic growth is forecast to moderate to 2¾ per cent in 2008-09. With the economy slowing and tight monetary and fiscal policies in place, inflation is expected to ease to 3¼ per cent by mid 2009.

Powerful countervailing forces are confronting the Australian economy. Slower growth in advanced economies and greater global financial market turbulence could slow growth in the Australian economy. Counteracting this, robust growth in emerging economies is expected to lead to further large rises in Australia's terms of trade, which will boost income and increase upward pressure on prices. Through this Budget, the Government is putting downward pressure on inflation and helping to keep the economy strong in the face of difficult global financial conditions.

The Government understands that working families are under pressure from the rising cost of living. This Budget implements election commitments to ease pressure on working families by cutting income tax, reducing the costs of educating and looking after children, and making housing more affordable. In particular, the Government is making substantial cuts to income tax, providing eligible parents with a 50 per cent Education Tax Refund, and increasing the Child Care Tax Rebate from 30 to 50 per cent.

The 2008-09 Budget also demonstrates the Government's commitment to Australia's future by implementing far-sighted initiatives to strengthen education and skills, infrastructure, health, environmental sustainability and innovation. The Government has re-prioritised spending and taxation to these areas and will invest most of the 2007-08 and 2008-09 Budget surpluses in three new funds for education, health and infrastructure for long-term investment to build a modern nation.

Through a genuine commitment to fiscal responsibility, the Government has ushered in a new era of responsible economic management.

An underlying cash surplus of $21.7 billion (1.8 per cent of GDP) is expected in 2008-09 — the largest surplus as a proportion of GDP since 1999-00 — with further strong surpluses projected in the following three years. The Government has invested responsibly, with every dollar of new spending in 2008-09 on election commitments and other priorities offset by spending cuts. Over four years, the Government has achieved total savings from spending cuts and revenue measures of $32.0 billion, which more than offsets new spending of $26.1 billion.

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STATEMENT 1: BUDGET OVERVIEW

INTRODUCTION

This Budget delivers for working families, and assists them in dealing with rising costs of living. The Government is meeting the commitments it made to the Australian people in the 2007 election. The Budget outlines far-sighted steps to address the long-term challenges of education and skills, infrastructure, health and climate change. It is an economically responsible budget, delivering a strong surplus of 1.8 per cent of GDP in 2008-09, to put downward pressure on inflation and help build a strong economy in the face of difficult global financial conditions.

ECONOMIC OUTLOOK

Consumer price inflation has intensified over recent years, reaching 4.2 per cent through the year to March 2008. Powerful countervailing forces are confronting the Australian economy. As a result of slower growth in advanced economies and tighter credit conditions, economic growth is forecast to moderate to 2¾ per cent in 2008-09. This, combined with higher interest rates, is expected to lead to a moderation in employment growth and gradually ease price pressures.

Counteracting this, robust growth in emerging economies is expected to lead to further large rises in Australia's terms of trade, which are already at levels not seen since the early 1950s. Strong rises in the terms of trade will boost income and increase upward pressure on prices. As a result, nominal GDP growth is expected to accelerate to 9¼ per cent in 2008-09, notwithstanding the slowing in real activity. If realised, this would be the fastest rate of growth since the late 1980s. Consumer price inflation is forecast to be 4 per cent through the year to June 2008 and 3¼ per cent through the year to June 2009.

The major economic parameters used in preparing the Budget are contained in Table 1.

Table 1: Major economic parameters[(a)]

	Forecasts		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
Real GDP	3 1/2	2 3/4	3	3	3
Employment	2 1/2	1 1/4	1 1/4	1 1/4	1 1/4
Wage Price Index	4 1/4	4 1/4	4	4	4
CPI	4	3 1/4	2 1/2	2 1/2	2 1/2
Nominal GDP	7 3/4	9 1/4	4 1/4	4 1/4	5 1/4

(a) All parameters except the CPI are year average percentage changes. The CPI is through the year growth to the June quarter. As in previous budgets, projections assume a two-year step down in non-rural commodity prices.

Source: Treasury.

Fiscal strategy

Current economic conditions require a strong budget surplus, in order to:

- bear down on the inflationary pressures in the economy by reducing public demand;
- provide funding through current and future budget surpluses for future capital investment in the infrastructure, education, health and hospital needs of the nation; and
- ensure a strong financial position at a time of heightened uncertainty in the international economy.

Given these conditions, the fiscal strategy for the 2008-09 Budget year honours the Government's commitment to:

- achieve a budget surplus of at least 1.5 per cent of GDP;
- 'bank' rather than spend revisions to tax receipts; and
- reorient spending and taxation arrangements so that new spending is fully offset by savings in existing programs.

The fiscal strategy for the 2008-09 Budget year is consistent with the Government's medium term strategy of ensuring fiscal sustainability by:

- achieving budget surpluses, on average, over the medium term;
- keeping taxation as a share of GDP on average below the level for 2007-08; and
- improving the Government's net financial worth over the medium term.

Fiscal outlook

The Government has achieved the fiscal strategy for the 2008-09 Budget that it promised the Australian people. The 2008-09 Budget:

- delivers a budget surplus of 1.8 per cent of GDP, up from the 1.2 per cent surplus forecast in the *Pre-Election Economic and Fiscal Outlook 2007* (2007 PEFO);
- banks all tax receipt windfalls since the election, adding $3.0 billion to the surplus in 2008-09;

- reins in growth of new spending in 2008-09 to 1.1 per cent in real terms, the lowest rate of growth in nine years. This has been achieved by reprioritising spending so that all new spending in 2008-09 on election commitments and other priorities is offset by spending cuts;
- achieves total cash savings of $7.0 billion from spending cuts and revenue measures in 2008-09 and $32.0 billion over four years, that more than offset new measures over the four years;
- reprioritises spending to achieve the Government's promise to deliver for working families and to meet the Government's commitment to Australia's future by addressing education, infrastructure, health and hospital needs; and
- reduces taxation as a share of GDP from 24.7 per cent in 2007-08 to 23.8 per cent in 2008-09.

An underlying cash surplus of $21.7 billion is expected in 2008-09 compared with an estimated surplus of $14.3 billion at the 2007 PEFO. In accrual terms, a fiscal surplus of $23.1 billion is estimated for 2008-09 compared to $13.6 billion at 2007 PEFO. The fiscal outlook is for continuing underlying cash and fiscal surpluses in the forward years.

Table 2: Budget aggregates

	Actual	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Underlying cash balance ($b)(a)	**17.2**	**16.8**	**21.7**	**19.7**	**19.0**	**18.9**
Per cent of GDP	1.6	1.5	1.8	1.5	1.4	1.3
Fiscal balance ($b)	**17.2**	**20.4**	**23.1**	**22.4**	**23.3**	**22.6**
Per cent of GDP	1.6	1.8	1.9	1.7	1.7	1.6

(a) The 2006-07 figures have been adjusted to reflect the recognition of GST as an Australian Government tax.
Source: Data are for the Australian Government general government sector, sourced from Statement 9.

BUDGET PRIORITIES AND OVERVIEW

The key priorities in the 2008-09 Budget are to:

- deliver on the Government's commitment to help working families cope with day-to-day cost of living pressures through the Government's Working Families Support Package;
- meet the Government's commitment to Australia's future by investing now in education and skills, infrastructure, health and environmental sustainability;

- invest budget surpluses in three new nation building funds — the Education Investment Fund, the Building Australia Fund and the Health and Hospitals Fund. From 2009-10, these funds will finance ongoing critical investment in higher and vocational education facilities, transport and broadband infrastructure, and hospitals and medical research facilities and projects; and

- usher in a new era of economic responsibility, to deliver a strong budget surplus and reprioritise spending to put downward pressure on inflation and secure the economy against current economic uncertainties.

A responsible budget

Strong inflationary pressures have emerged in the Australian economy in recent years, leading to a tightening of interest rates. Fiscal policy has an important role in supporting monetary policy to bring inflation back under control.

The Government has been highly disciplined in spending, with increases in spending in 2008-09 on election commitments and other priorities more than offset by savings, through cutting inefficient and wasteful programs and delivering administrative efficiencies. Important initiatives are taken in this Budget to restore fairness and integrity to the tax and transfer systems, to ensure that welfare payments are targeted to where they are needed most, and to underpin the sustainability of public finances.

Building productive capacity

The supply capacity of the economy has not kept pace with strong demand in the face of a surge in the terms of trade. This has been reflected in a build up in inflationary pressures.

The Government is addressing the challenge of high inflation by lifting productivity, expanding participation and investing in infrastructure. Productivity in the market sector has averaged 1.4 per cent per year over the past five years, lower than in any other five-year period since the early 1990s. By putting in place education, skills and innovation policies that lift productivity, the Government can help ease pressure on inflation, lift Australia's economic growth in the medium term and sustain prosperity into the future.

The Government's practical initiatives to expand participation in the workforce include reducing income tax, improving access to lower cost and better quality child care, improving fairness in the workplace, helping people build up their education and skills, and increasing skilled migration.

The Government is also working with business and the States to take immediate action to expand infrastructure to ease capacity constraints and invest in a better, faster broadband network.

Rewarding working families

This Budget ensures that working families are rewarded for their effort and helps ease cost of living pressures. The Government is helping working families by cutting income tax and reducing the costs of looking after and educating children. The Government is implementing a housing affordability package which makes it easier for families to buy their first home and boosts the supply of affordable housing for rent and purchase. The Government is also taking practical steps to make sure that grocery and petrol prices are competitive.

The Government values the contribution made by older Australians and carers, and is providing much-needed financial relief to them, including by making payments before 30 June 2008. The Government is also working to close the gap on Indigenous disadvantage, to support the homeless, and to increase overseas development assistance.

Investing in our future

The Government will establish three new nation building funds — a Building Australia Fund (BAF), an Education Investment Fund (EIF) and a Health and Hospitals Fund (HHF). Subject to final budget outcomes, the Government intends to make initial contributions to these funds from the 2007-08 and 2008-09 Budget surpluses, once realised. Including transfers from the Higher Education Endowment Fund and Communications Fund, which will be absorbed into the EIF and BAF respectively, this will provide in the order of $40 billion for future capital investment in infrastructure, higher and vocational education and health to modernise and reinvigorate the Australian economy. This meets the Government's commitment to invest in a National Broadband Network with disbursements dependent on the final outcome of the recently commenced Requests for Proposals process and the Government's consideration of the Glasson Review.

Both the capital and earnings of these funds will be available over time to finance appropriate projects. All projects financed from the funds will need to satisfy rigorous evaluation criteria assessed by independent bodies. Provision for financing such projects has been incorporated into the budget aggregates from 2009-10 onwards. The Government will make further contributions from future surpluses as appropriate.

Where funds are used to finance projects with the States, they will be channelled to the States through a new Council of Australian Governments (COAG) Reform Fund. The COAG Reform Fund will also channel funding provided in future budgets to the States for recurrent expenditure in areas of COAG national reforms through National Partnership payments.

To ensure that total spending from the funds is consistent with the Government's macroeconomic goals, the Loan Council will provide advice to Governments on whether the proposed spending envelope from the funds each year can be delivered in the prevailing economic conditions without prejudicing the Government's inflation target. The Loan Council will not approve or advise on individual infrastructure projects.

The Government will make an early start to identify suitable projects by funding infrastructure feasibility studies in 2007-08 with the States on high-priority projects, with the intention of improving major transport networks and easing congestion.

The creation of the new funds does not prejudice the objectives of the Future Fund, which remains on track to fully fund superannuation liabilities for Australian Government employees by the target date of 2020. The Future Fund Board of Guardians will also manage these three new funds.

The 2008-09 Budget lays the foundation for a more modern Australian economy. With major initiatives in education and skills, infrastructure, health and environmental sustainability, the Government is investing in Australia's future prosperity.

Making federalism work

Cooperative federalism is an important element of responsible economic management in Australia. Through COAG, the Government is now working closely with the States to deliver better services and produce the right outcomes on matters that affect the daily life of Australians — health and ageing, education and training, climate change and water, infrastructure, business regulation and competition, housing, and Indigenous disadvantage.

The Government is restructuring the system of payments from the Commonwealth to the States, streamlining specific purpose payments and creating new National Partnership payments.

WORKING FAMILIES SUPPORT PACKAGE

The Government is delivering its commitment to help working families cope with day-to-day cost of living pressures through its Working Families Support Package. In this Budget, the Government is helping working families by cutting income tax, reducing the costs of educating and looking after children, making housing more affordable, and making sure that grocery and petrol prices are competitive.

Personal income tax cuts

The Government will deliver its election commitment to cut personal income tax over the next three years. The tax cuts will increase disposable incomes for all Australian taxpayers and provide further incentives for individuals, including part-time workers, to participate in the workforce.

From 1 July 2008, the 30 per cent threshold will increase from $30,001 to $34,001, the 40 per cent threshold will increase from $75,001 to $80,001, and the 45 per cent threshold will increase from $150,001 to $180,001. In addition, from 1 July 2009, the 30 per cent threshold will be further increased to $35,001 and the 40 per cent tax rate will be reduced to 38 per cent. From 1 July 2010, the 30 per cent threshold will be increased again to $37,001 and the 38 per cent tax rate will be reduced to 37 per cent.

Table 3 outlines the personal tax rates and thresholds over the next three years.

Table 3: Personal tax rates and thresholds

Current		From 1 July 2008		From 1 July 2009		From 1 July 2010	
Taxable income ($)	Rate (%)	Taxable income ($)	Rate (%)	Taxable income ($)	Rate (%)	Taxable income ($)	Rate (%)
0 - 6,000	0	0 - 6,000	0	0 - 6,000	0	0 - 6,000	0
6,001 - 30,000	15	6,001 - **34,000**	15	6,001 - **35,000**	15	6,001 - **37,000**	15
30,001 - 75,000	30	**34,001** - **80,000**	30	**35,001** - 80,000	30	**37,001** - 80,000	30
75,001 - 150,000	40	**80,001 - 180,000**	40	80,001 - 180,000	**38**	80,001 - 180,000	**37**
150,001 +	45	**180,001 +**	45	180,001 +	45	180,001 +	45
LITO	$750		$1,200		$1,350		$1,500
Effective tax free threshold	$11,000		$14,000		$15,000		$16,000

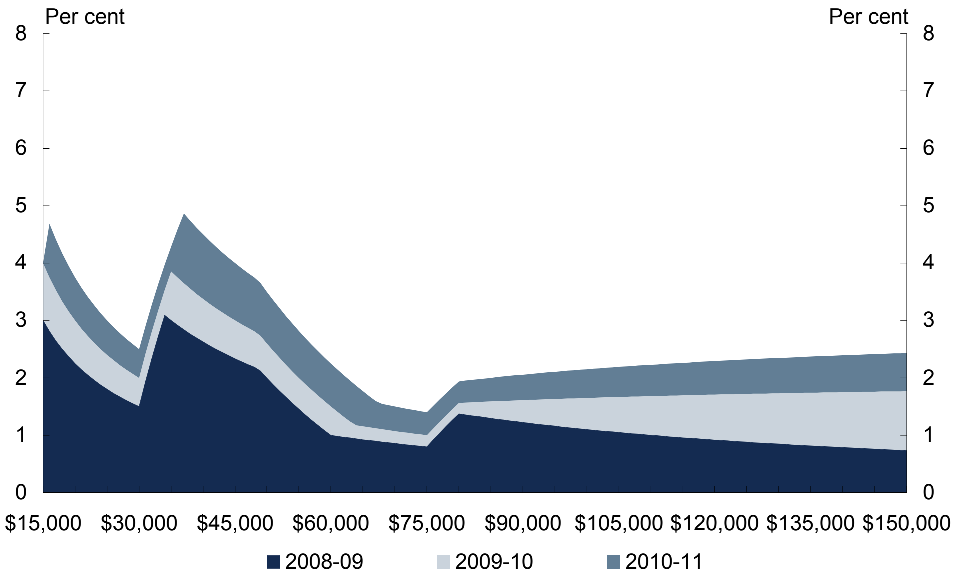
Low and middle income earners will be further assisted through an increase in the low income tax offset (LITO). From 1 July 2008, the LITO will increase from $750 to $1,200. It will continue to be withdrawn from an income level of $30,000. Those eligible for the full LITO will not pay tax after assessment until their annual income exceeds at least $14,000 (up from the current level of $11,000). Further increases in the LITO, to $1,350 from 1 July 2009 and to $1,500 from 1 July 2010, will mean that the effective tax free threshold will increase further to at least $15,000 in 2009-10 and $16,000 in 2010-11.

Given the large increase in the amount of the LITO, new withholding schedules will be created so that low and average income earners will receive half of the benefits of the LITO through their regular pay, rather than receiving the total as a lump sum when their income tax returns are assessed. This will bolster participation incentives by allowing people to gain sooner the rewards from work.

Senior Australians will also benefit from these changes. Senior Australians eligible for the senior Australians tax offset (SATO) and the LITO currently do not pay tax until they reach an annual income of at least $25,867 for singles and $21,680 for each member of a couple. As a result of the Government's tax plan, from 1 July 2008 these income levels will be lifted to $28,867 for singles and $24,680 for each member of a couple. By 2010-11, the income levels will be $30,685 for singles and $26,680 for each member of a couple.

Chart 1 shows the 2008-09 tax cuts as a per cent of taxable income.

Chart 1: Tax cut as a per cent of taxable income



Source: Treasury.

Aspirations for the tax system

The Government has a goal over the next six years that by 2013-14 the personal income tax system will have the following features:

- a reduction in the number of marginal tax rates from four to three;
- a reduction in the current 45 per cent rate to 40 per cent; and
- a reduction in the current 40 per cent rate (which by 2010-11 will be 37 per cent) to 30 per cent.

The Government also has a goal of increasing the LITO to $2,100 by 2012-13 so as to create an effective tax free threshold of $20,000. The effective tax free threshold for senior Australians eligible for the SATO will increase commensurately. The fringe benefits tax rate will be reduced reflecting reductions in the top marginal tax rate.

Achieving this six year goal will depend on economic conditions and the need to maintain fiscal responsibility.

The Government has taken the first steps towards achieving this goal by delivering the planned tax cuts in 2008-09 to 2010-11 and by making an initial provision to enable further tax cuts to be delivered from 2011-12.

Helping families meet the cost of caring for and educating their children

The 2008-09 Budget includes initiatives to help families cover the cost of caring for and educating their children.

Helping families meet the cost of caring for their children

The Government will increase the Child Care Tax Rebate from 30 per cent to 50 per cent at a cost of $1.6 billion over four years. This will ensure that in addition to any Child Care Benefit payable, half of a family's total out of pocket child care costs will be met each year. The cap on the amount that can be paid will also be lifted from the current amount of $4,354 to $7,500 per child. In addition, the Government will pay the 50 per cent Child Care Tax Rebate every three months, instead of once a year, providing support to families closer to when costs are incurred.

Helping families meet the cost of educating their children

From 1 July 2008, the Government will provide eligible parents with an Education Tax Refund. Parents who receive Family Tax Benefit Part A and have children undertaking either primary or secondary school studies or whose school children receive Youth Allowance or a related payment will be able to claim a 50 per cent refund every year on eligible educational expenses.

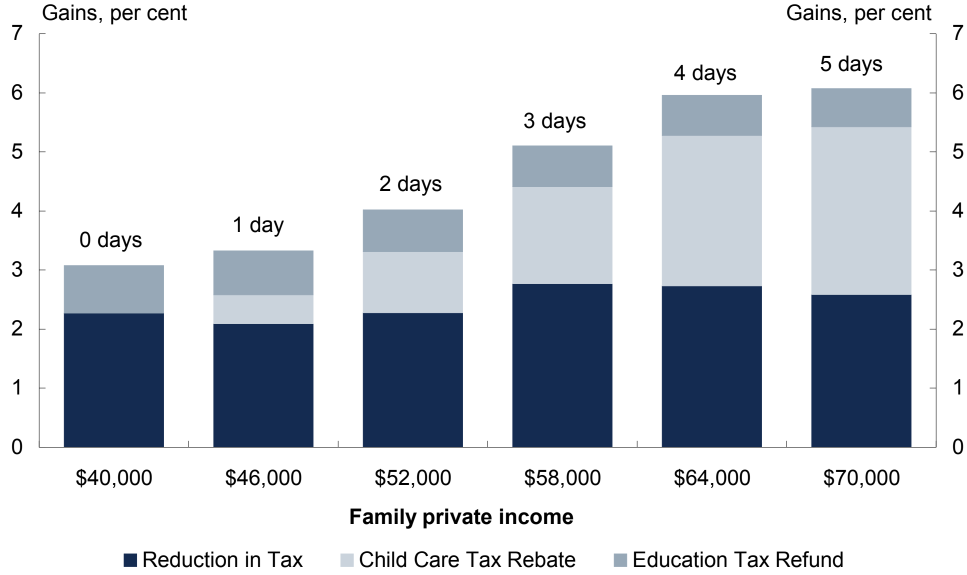
The amount that can be claimed is up to:

- $750 for each child undertaking primary school studies, giving a refund of up to $375 per child, per year; and
- $1,500 for each child undertaking secondary school studies, giving a refund of up to $750 per child, per year.

The Education Tax Refund is expected to cost $4.4 billion over four years.

These changes will make a genuine difference to the daily lives of working families. Chart 2 shows the increase in disposable income from 2007-08 to 2008-09 that a couple with one child in long day care and one child in primary school could expect to receive under the new tax, child care and education arrangements. The example shows the gains in family disposable income for a family with the primary earner on $40,000 and the secondary earner on $30,000 when full-time, at different days worked for the second earner.

Chart 2: Working families benefit from the tax cuts and additional financial support for child care and education



Source: Treasury.

Improving housing affordability

The Government recognises that rising interest rates and house prices are making it difficult for families to buy their own home and that rental costs have been increasing strongly. This Budget includes significant measures to assist home buyers and renters and to drive reforms that boost housing supply. The Budget provides $2.2 billion of assistance over four years to help make housing more affordable.

One of the greatest obstacles to buying a first home is saving for a deposit. The Government recognises that home ownership is important to the wellbeing of Australians and will introduce enhanced low tax First Home Saver Accounts to assist first home buyers in meeting this challenge. These Accounts will also encourage households to increase their own saving by providing significantly higher after-tax returns than conventional savings accounts.

The first $5,000 of individual contributions to First Home Saver Accounts each year will now attract a Government contribution of 17 per cent. Earnings will be taxed at a low rate of 15 per cent, and withdrawals will be tax-free if used to purchase or build a first home in which to live. The rate of Government contribution has been changed to a flat 17 per cent in order to increase assistance to low and middle income earners. Other changes have been made to simplify the operation of the Accounts for both providers and users. This initiative will help strengthen a savings culture. The Government will provide $1.2 billion for the Accounts over the first four years.

To encourage construction of affordable rental housing for households with limited means, the Government will provide $623 million over four years for a National Rental Affordability Scheme. The Scheme will provide incentives for investors to build up to 50,000 new rental properties by 2011-12 to be rented at least 20 per cent below market rates. Subject to market conditions, the Government will expand the Scheme to build a further 50,000 new dwellings from 2012-13.

The Government will also introduce a Housing Affordability Fund worth $500 million over five years to increase the supply of housing and reduce final costs to home buyers. The fund will help reduce the costs of providing new housing related infrastructure and improve development approval processes, to generate savings for home buyers. The Fund will commit up to $30 million to roll out the Electronic Development Assessment project across the country to help speed up planning processes.

The Government will also establish a National Housing Supply Council to assess the adequacy of housing supply over the next 20 years, and will be identifying surplus Commonwealth land that could be developed into additional new housing.

To help Australians experiencing rental or mortgage stress, the Government is increasing funding for financial counselling services. Funding for Centrelink's Financial Information Service will be increased by $10 million over four years, and funding for the Commonwealth Financial Counselling program will be doubled, bringing it to $10 million over four years. This funding is aimed at improving financial literacy and management skills in the community, particularly in those areas with little or no access to financial counselling services. The extra funds will be used for practical tools and resources to provide individuals and families with support and information to better manage their personal financial affairs, including coping with increased mortgage payments.

Fair and competitive grocery and petrol prices

The Government recognises that families face significant cost of living pressures caused by rising grocery and petrol prices. The Government has undertaken practical initiatives to help ensure all Australians do not pay more than they have to for groceries and petrol.

Groceries

The Government is committed to doing all it can to ensure that prices at the supermarket are fair.

The Australian Competition and Consumer Commission (ACCC) has been directed to undertake an inquiry into the competitiveness of grocery prices in Australia and report its findings by 31 July 2008. The Government wants to ensure consumers have access to a more competitive market for basic food items and has instructed the ACCC to take a broad approach to its inquiry so that all aspects of the grocery supply chain are included — from the farm gate to the checkout counter.

The Government has also directed the ACCC to undertake a monthly survey of grocery prices for a typical basket of groceries (for example, meat, vegetables and dairy products) across Australia, and establish a dedicated website for grocery prices. Consumers will benefit as they will be able to determine which supermarket chain in their region provides the lowest price for different baskets of goods.

The Government has also made it easier for foreign supermarket chains to enter the Australian market by relaxing restrictions that previously limited their capacity to acquire and hold vacant land to build new supermarkets. Foreign retailers had advised that previous arrangements were limiting their ability to plan new developments in growth areas.

Petrol

The Government understands the pressures that high petrol prices place on the family budget and is determined to ensure competition and transparency in Australia's retail petrol market.

The ACCC has been given tough new powers to conduct formal monitoring of the prices, costs and profits relating to the supply of unleaded petrol products in the petroleum industry, and to provide an annual report of its findings. This will help improve retail price transparency and understanding of retail price movements. In addition, the Government has also asked the ACCC to renew its focus on informal monitoring of liquefied petroleum gas (LPG) and diesel prices to determine whether any further powers for the ACCC in this area are appropriate.

The Government has created the new position of Petrol Commissioner at the ACCC. The Petrol Commissioner is responsible for overseeing the ACCC's formal monitoring of unleaded petrol prices in Australia and the establishment of a National FuelWatch Scheme.

The National FuelWatch Scheme

The Government will introduce a National FuelWatch Scheme on 15 December 2008 that is designed to promote competition and improve price transparency in the Australian retail petrol market.

The National FuelWatch Scheme will require petrol stations to notify the ACCC of their next day's prices by 2 pm each day and to maintain this advised price for a 24 hour period. It will apply to fuel products, including unleaded petrol, premium unleaded petrol, LPG and diesel. The National FuelWatch Scheme will ensure that consumers are able to make an informed decision about where to buy the cheapest petrol in their area.

The Government will review the effectiveness of the National FuelWatch Scheme 12 months after its commencement.

Supporting older Australians and carers

The Government values the important contribution made to our community by older Australians and carers, and is committed to providing both groups with ongoing support.

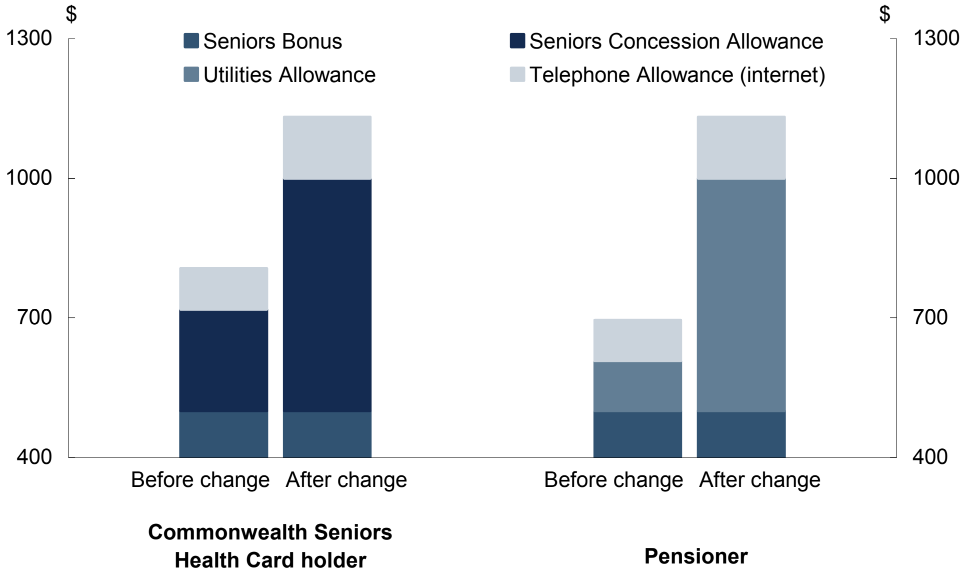
Helping seniors and carers make ends meet

To assist with the cost of household bills, the Government has increased the Utilities Allowance from $107.20 per year to $500 per year (with annual indexation) for those of age or service pension age in receipt of income support, and for people receiving the Mature Age Allowance, the Partner Allowance and the Widow Allowance. For the first time, eligibility for the Utilities Allowance has been extended to recipients of the Disability Support Pension and the Carer Payment, irrespective of age. Further, the Government has increased the Seniors Concession Allowance from $218 per year to $500 per year (with annual indexation) to assist self funded retirees with a Commonwealth Seniors Health Card. These payments are now being paid quarterly to better coincide with the arrival of household bills. The Government has also increased the Telephone Allowance from $88 to $132 per year for those with an internet connection. These increases took effect on 20 March 2008 and will cost $5.6 billion over five years.

The Government will provide a further $1.4 billion in lump sum payments to eligible seniors by 30 June 2008. A $500 bonus will be provided to every Australian over age-pension age (or service pension age, where qualifying) in receipt of an income support payment and recipients of the Seniors Concession Allowance, Mature Age Allowance, Partner Allowance, Widow Allowance, Widow B Pension and Wife Pension (see Chart 3).

In recognition of the concern by senior Australians that their cost of living can rise faster than the Consumer Price Index, the Government will introduce new indexation arrangements for the Age and Service Pensions. The Government will index these pensions to the highest of the Consumer Price Index, the Male Total Average Weekly Earnings benchmark or the Living Cost Index for Age Pensioner Households. These arrangements will ensure that the Age and Service Pensions keep pace with both increases in prices and improvements in community living standards.

Chart 3: The Government has increased allowances to help with household bills



Source: Treasury.

Recognising and rewarding carers

The Government will provide a further $1.1 billion over five years to carers. This includes $239 million for extending eligibility for the Utilities Allowance to Carer Payment recipients and $15 million relating to the increase in the Telephone Allowance.

By 30 June 2008, the Government will provide $427 million in lump sum payments to eligible carers. A $1,000 bonus will be paid to all recipients of Carer Payment and a $600 bonus will be paid to recipients of Carer Allowance for each eligible person in their care. Recipients of both the Carer Payment and Carer Allowance will be eligible for both payments. These payments are in addition to the annual payment of $1,000 on 1 July to recipients of the Carer Allowance for each child being cared for under the age of 16 years.

Fairer assessment arrangements for accessing the Carer Payment (child) will apply from 1 July 2009, at a cost of $274 million over five years. As a result, an additional 19,000 carers of children with severe disabilities are expected to be able to access the Carer Payment (child) in 2009-10.

The Government will also provide $20 million over four years to help families adjust when a child has experienced a catastrophic event such as a severe illness, a major disability or an injury due to an accident.

Further, the Government will immediately provide an extra $100 million in capital funding to the States to build new supported accommodation for people with disabilities. Up to 35 new facilities will benefit approximately 200 people who do not have access to appropriate accommodation or whose older carers can no longer provide long term care. This new housing will be supported by the Government's election commitment to redirect $900 million over four years into the Commonwealth, State and Territory Disability Agreement.

MEETING OUR COMMITMENTS TO AUSTRALIA'S FUTURE

The Government is meeting its commitment to Australia's future by investing in education and skills, infrastructure, health and hospitals and environmental sustainability.

Funding for the future

The Government will invest funds from the 2007-08 and 2008-09 surpluses in three nation building funds — the Building Australia Fund, the Education Investment Fund and the Health and Hospitals Fund — to finance transport and broadband infrastructure, higher education and vocational education and training facilities, and health, hospitals and medical research facilities and projects.

Education Revolution

Education and training are crucial to Australia's economic and social future. Targeted and sustained investment in high quality education contributes to improved economic growth. By helping lift productivity and participation in the economy, education also provides individuals with greater freedom and capacity to take up employment opportunities throughout their lifetime.

In recognition of the importance of education outcomes and the need to improve the quality of training and the skill level of the Australian workforce, the Government committed to an Education Revolution. This Budget implements a range of early actions to ensure a solid foundation for a long-term education reform agenda.

The Government's plan to improve education and training covers the whole system, from early childhood education to universities. The Budget includes funding of $5.9 billion over five years, focusing on election commitments that will lift educational outcomes and ensure that all Australians have the opportunity to take up further education or training.

Key initiatives in this Budget include:

- $115 million over four years to build the first 38 of 260 planned child care centres in priority areas. The remaining 222 centres will form part of a National Partnership agreement with the States ;

- $534 million over five years to provide a universal preschool year for all four year old children. By 2013 all four year olds will have access to 15 hours a week of play based learning, delivered by a degree qualified early childhood teacher, for 40 weeks per year;

- $577 million over four years to improve literacy and numeracy outcomes for students in Australian schools, following the Government's commitment for a National Action Plan for Literacy and Numeracy;

  – Details of supporting initiatives are to be finalised during 2008 with the States and non-government school systems;

- $1.2 billion over five years to provide up to $1 million per school to deliver computers and communications technologies to all students in Years 9 to 12, as part of the Government's Digital Education Revolution;

- $2.5 billion over ten years to provide secondary schools with grants of between $500,000 and $1.5 million to build or upgrade trade training facilities to enhance vocational training for students in Years 9 to 12;

- $62 million over three years for the National Asian Languages and Studies in Schools Program;

- $1.9 billion over five years to deliver up to 630,000 additional training places in the vocational education and training sector to help address current and future skills shortages;

- $626 million over four years to reduce the cost of studying maths and science at university and provide a 50 per cent reduction in HECS repayments for new science and maths graduates who undertake work in a relevant field, such as maths or science teaching;

- $500 million of extra funding before 30 June 2008 to help universities upgrade and maintain teaching, research and other student facilities, to ensure needed capital funding is available in the lead up to financing from the Education Investment Fund;

- $249 million over four years to phase out full-fee paying domestic undergraduate places at public universities; and

- $239 million over four years to double the number of undergraduate Commonwealth scholarships from 44,000 to 88,000 by 2012.

These measures, along with the Government's National Curriculum commitments, represent the first stages of the Education Revolution. The Government will continue to develop a long-term reform agenda, including with the States through COAG, and through the Higher Education Review, to ensure that our education and training systems deliver the skills the economy and individuals need to continue to prosper.

Education Investment Fund

This reform will be underpinned by a new Education Investment Fund (which absorbs and extends the Higher Education Endowment Fund, HEEF). The Education Investment Fund will provide financing for capital investment in higher education and vocational education and training. Subject to final budget outcomes in 2007-08 and 2008-09, the Government will make an initial contribution to the fund of $5 billion, bringing its total to around $11 billion. The capital and the earnings of the fund will be drawn down over time to invest in the nation's future education and training needs, with funding for specific projects subject to rigorous evaluation criteria assessed by an independent body. Under these arrangements, the amount of funds available for capital investment in higher education and vocational education and training in coming years will be substantially greater than under the previous arrangements for the HEEF. In the future, this fund could be extended to include schools infrastructure as further contributions are made to the fund.

High quality health services for all Australians

Health is a key economic and fiscal priority, particularly given Australia's ageing population and the rising costs of new medical technologies. As the population ages, it will be essential to ensure that the workforce is as productive as possible. If, due to poor health, people are unable to contribute during their working years or their working years are shortened, wellbeing and economic growth will be reduced. In order to improve the nation's health and reap efficiencies, the Commonwealth and the States need to plan and work cooperatively together for the future.

The Budget starts this process and focuses on rebuilding and strengthening public health services and improving preventative health care.

Investing in our health and hospital system

The Government has committed an immediate allocation of $1 billion to relieve pressure on public hospitals. Overall, this means an increase in Commonwealth funding for public hospitals between 2006-07 and 2008-09 of more than 10 per cent.

The Government will also spend $3.2 billion over five years on the *National Health and Hospitals Reform Plan*, addressing pressing needs of the public health system to ensure all Australians have access to high quality public health services. Funding includes:

- up to $600 million over four years to reduce elective surgery waiting lists, including $150 million to conduct an additional 25,000 procedures in 2008;
- $491 million over five years to assist families cover the cost of an annual preventative dental check-up for eligible teenagers aged between 12 and 17 years;

- $290 million over three years to reduce public dental waiting lists by funding up to one million additional dental consultations through the Commonwealth Dental Health Program;

- $275 million over five years for GP Super Clinics, bringing GPs and allied health professionals together in the one place to improve chronic disease management;

- $249 million over five years for the Government's comprehensive National Cancer Plan to foster a holistic approach to tackling the many aspects of this disease;

- $390 million over five years to invest in upgrading hospital and community health infrastructure and improving access to essential medical equipment; and

- $55 million over five years for the National Perinatal Depression Plan to improve the prevention and early detection of antenatal and postnatal depression, as well as improving treatment and support services.

Health and Hospitals Fund

The Government will establish a Health and Hospitals Fund for capital investment in health facilities, including renewal and refurbishment of hospitals, medical technology equipment and major medical research facilities and projects. Subject to final budget outcomes, the Government will make an initial contribution of around $10 billion from the 2007-08 and 2008-09 Budget surpluses, once realised. Both the capital and the earnings of the fund will be fully drawn down over time after specific capital projects are identified. All spending on specific projects will be subject to rigorous evaluation criteria assessed by an independent body. This arrangement ensures that substantial funding is available for worthwhile capital investment in health and hospitals over the next few years.

Boosting the health workforce

The Government will spend $39 million over five years to bring nurses back into the workforce. Financial incentives will be provided to nurses who are currently working outside the nursing profession and agree to return. Incentives will also be provided to hospitals to assist with the re-skilling of returned nurses. As announced under the Government's Skilling Australia for the Future package, up to 50,000 additional health vocational training places will be created in areas of chronic shortage, including dental health, nursing and indigenous health.

To build the rural health workforce, the Government will expand the Specialist Obstetrician Locum Scheme, increase assistance to the Medical Specialists Outreach Assistance Program, establish the rural and remote placement scheme for allied health students, and double the number of John Flynn Scholarships available to medical students to train in rural and remote practices.

In addition, $35 million over four years will be provided to fund training subsidies for mental health nurses and psychologists. This measure will assist in addressing the nurse workforce shortage, particularly in the mental health sector.

Preventative health care

The Government is determined to improve preventative health.

Addressing binge drinking

The Government's new national strategy to address the problem of binge drinking by young Australians includes bringing the tax treatment of ready-to-drink alcoholic beverages into line with full-strength spirits. This measure addresses a distortion in the tax treatment of spirits and will discourage the consumption of these beverages by some young people. It is expected to increase revenue to the Government by $3.1 billion over five years. A proportion of this revenue will be redirected to preventative health following the development of the National Health Prevention Strategy, and in conjunction with the States through the COAG process.

The Government will also spend $19 million in early intervention programs that assist young people to assume responsibility for their binge drinking. This initiative targets people under the age of 18 who have been involved in an episode of alcohol abuse and will require participants to undertake educational activities.

These initiatives are in addition to the $35 million previously announced for communities to confront the culture of binge drinking particularly around sporting activities, and to ensure young people are informed about the costs and consequences of binge drinking.

Cancer, obesity and diabetes

This Budget introduces measures to tackle obesity, improve early detection of bowel cancer, improve management of type 1 diabetes, and develop the National Preventative Health Care Strategy. For example, to tackle the growing number of overweight or obese Australians, the Government is fostering healthy eating habits among children, spending $26 million over four years to conduct a basic health assessment of all children starting school and $3 million over two years for the Healthy Habits for Life Guide for parents.

Further, the Government is committing $5 million over four years towards insulin pump subsidies of up to $2,500 for type 1 diabetes sufferers under 18 years of age. These pumps replace frequent insulin injections and greatly enhance the ease and degree of control patients and their parents have over the condition. The risk of the many complications tied to type 1 diabetes will be significantly reduced for the almost 700 young people expected to benefit from this scheme.

As part of the National Cancer Plan, the Government will invest $87 million to expand the National Bowel Cancer Screening Program to screen all 50 year old Australians, thereby improving early detection and reducing pressure on hospitals. This program will continue to screen all Australians turning 55 and 65 years of aged from 2008 to 2010.

The Government has appointed a taskforce to develop a National Preventative Health Care Strategy, the first of its kind in Australia, to ensure that preventative health is given the attention required to improve wellbeing and protect the future economy from the costs of chronic disease.

Aged care assistance

The Government will increase the conditional adjustment payment from 7.0 per cent to 8.75 per cent of the recurrent basic subsidy, delivering $408 million to providers of residential aged care. This increase in funding is in addition to annual indexation of the subsidy and will contribute to maintaining the financial viability of aged care providers.

The Government will also fund the States to operate 2000 new transition care places by 2012 to help care for older Australians who are currently waiting in hospitals to be moved to an aged care facility. This measure will free up hospital beds and enable these older Australians to access more appropriate care in a nursing home, at a cost of $293 million over four years.

Fairer private health insurance arrangements

In 1997, the Medicare Levy Surcharge was introduced to encourage high income earners to purchase private health insurance. The income thresholds have not been changed since 1997 but incomes have, resulting in people on average wages now becoming liable for the surcharge. To make the surcharge fairer, the Government will increase the income thresholds from $50,000 to $100,000 a year for singles and from $100,000 to $150,000 a year for couples. As a result, around 400,000 people currently paying the surcharge will no longer be liable.

Prepared for pandemics

The Government will replace expiring stock in the National Medical Stockpile at a cost of $167 million over two years. The replenished stock, consisting largely of anti-viral medicines and pre-pandemic H5N1 vaccines, will maintain the capacity of the health system to respond to communicable disease outbreaks and bioterrorism events.

Closing the gap in Indigenous disadvantage

Indigenous Australians face significantly worse outcomes including in areas such as education and health compared to non-Indigenous Australians. The Government is committed to using Australia's prosperity to close the gap in Indigenous disadvantage. The Commonwealth is working closely with the States through COAG to achieve this goal.

Specifically, COAG has agreed to:

- close the 17 year life expectancy gap between Indigenous and non-Indigenous Australians within a generation;
- halve the gap in mortality rates between Indigenous and non-Indigenous children under five within a decade;
- halve the gap in reading, writing and numeracy achievement between Indigenous and non-Indigenous students within a decade;
- halve the gap in employment outcomes and opportunities between Indigenous and non-Indigenous Australians within a decade;
- provide all four-year-olds in remote communities with access to early childhood education within five years; and
- at least halve the gap for Indigenous students in Year 12 or equivalent attainment rates by 2020.

A key platform for improved Indigenous outcomes will be the objectives and outcomes for each of the new COAG national agreements in health, early childhood development and schools, vocational education and training, disability services, and affordable housing. This will be complemented by reforms in areas such as service delivery and workforce planning, protective security, alcohol and substance abuse and economic participation and active welfare.

The Government will invest an additional $90 million over five years to provide child and maternity health services to Indigenous Australians; $56 million over four years for an expansion of evidence-based literacy and numeracy programs; $75 million over two years to further expand welfare and employment reform in the Northern Territory; $99 million over five years for additional teachers to teach the children not currently enrolled in school in the communities involved in the Northern Territory Emergency Response; and $29 million over four years for three new secondary boarding colleges in the Northern Territory. This Budget supports the continuation in 2008-09 of measures initiated under the Northern Territory Emergency Response with overall funding of $321 million. An independent 12 month review of the Response will be conducted in the second half of 2008, following which the Government will make further decisions on the future direction of the intervention.

Tackling climate change

Climate change is one of the most fundamental economic and environmental challenges facing Australia and the world today. The costs of inaction on climate change far outweigh the costs of action. The Government recognises the seriousness of this challenge and the importance of the global community working together to address this issue. Ratifying the Kyoto Protocol was the first official act of the Government, and Australia will play an important role in the post-2012 international negotiations.

The Government is moving quickly to implement its comprehensive framework for tackling climate change. The 2008-09 Budget includes measures costing $2.3 billion over five years from 2007-08 to help reduce Australia's greenhouse gas emissions, adapt to unavoidable climate change, and ensure that Australia shows global leadership in the transition to a low-emissions economy.

The central component of this framework is the introduction of a broad based emissions trading scheme by 2010. Emissions trading, together with complementary measures, is the least cost mechanism for achieving the Government's goal of reducing greenhouse gas emissions by 60 per cent on 2000 levels by 2050. The Government intends to release final scheme design details, including targets and trajectories, by the end of 2008.

The Government has also committed to introducing a Renewable Energy Target to ensure that 20 per cent of Australia's electricity supply is generated from renewable sources by 2020.

Measures to modernise the economy for the future and help reduce Australia's greenhouse gas emissions include:

- $500 million over eight years for a National Clean Coal Fund to support projects and activities that accelerate the development and deployment of clean coal and low emission technologies;
- $500 million over six years for a Renewable Energy Fund to accelerate the development and commercialisation of renewable technologies in Australia and support the new Renewable Energy Target;
- $500 million over five years from 2011-12 for a Green Car Innovation Fund to promote the development and manufacture of low emission vehicles in Australia, promoting the long term sustainability of the Australian automotive industry;
- $150 million over four years for an Energy Innovation Fund to support the development of clean energy technologies in Australia including the establishment of the Australian Solar Institute; and
- $240 million over four years to support business in making the transition to a low-carbon economy through the Clean Business Australia program. This program will provide support to industry to implement cost-saving energy efficiency measures, reduce greenhouse gas emissions and develop products for market that save energy and water.

The 2008-09 Budget also includes measures to help families reduce emissions including:

- $300 million over five years for Green Loans to help Australian households to take practical action on water and energy efficiency at home;
- $150 million over five years for a Low Emissions Plan for Renters to accelerate the use of insulation in existing under-insulated rental homes; and
- $14 million over four years for the Energy Efficiency of Electrical Appliances program, to help families save on their energy bills. This will expand the current six-star Energy Rating Label to a 10 star rating system and will include a greater range of appliances.

The Government is committed to helping countries in our region respond to the challenges of climate change. The 2008-09 Budget includes $150 million over three years to assist countries in our region to prepare for and adapt to the effects of climate change. Australia is also committed to long term cooperation with Papua New Guinea (PNG) through the Australia PNG Forest Carbon Partnership aimed at reducing greenhouse gas emissions from deforestation and forest degradation.

Securing our natural resources

Water for the Future

Water scarcity poses a significant challenge for the economy and the environment. Many of our river systems are under significant stress and water restrictions in urban areas have become commonplace.

The Government's new ten year $12.9 billion national water policy framework, *Water for the Future*, brings a strategic and coordinated approach to address the significant urban and rural water challenges facing the nation.

The 2008-09 Budget improves Australia's water security by establishing:

- the $1 billion National Urban Water and Desalination Plan to attract up to $10 billion worth of investment in desalination, water recycling and major stormwater projects;
- the $255 million National Water Security Plan for Cities and Towns to work in partnership with government and local water authorities to minimise water loss, and invest in more efficient water infrastructure; and
- the $250 million National Rainwater and Greywater Initiative, which will provide rebates of up to $500 for up to 500,000 homes to encourage more households to install rainwater tanks and other household water saving measures.

Recognising the urgent need to tackle the water crisis, the Government is also fulfilling its commitment to accelerate the provision of $400 million for water efficiency measures and buying water entitlements from willing sellers in the Murray-Darling basin.

Caring for our Country

Protecting the unique nature of Australia's environment and improving the sustainable management of our natural resources is vital. The Government will provide $2.2 billion over five years for the Caring for our Country Program, an integrated approach to natural resource management that will rehabilitate, conserve and support our unique Australian environment.

The program will direct funding to six national priority areas through the continued engagement of landholders, local communities and regional groups. It will focus on achieving positive, targeted change such as repairing fragile habitats, improving sustainable land management practices, and enhancing the National Reserve System. Progress will be reviewed each year, and reported to the community through an annual report card.

Infrastructure investment to support growth

Australia needs to undertake further reform of investment, market and institutional arrangements for infrastructure to support future economic growth, particularly at a time when infrastructure bottlenecks are frustrating supply and putting upward pressure on prices. The Government is determined to lift Australia's productive capacity by providing leadership in the planning, financing and provision of significant national infrastructure projects, which encourages private sector involvement, including the best international expertise.

Infrastructure Australia

Infrastructure Australia has been established to ensure there is national leadership on infrastructure development in Australia. It will develop a strategic blueprint for unlocking infrastructure bottlenecks and modernising the nation's transport, water, energy and communication assets.

Infrastructure Australia is a statutory advisory council consisting of 12 members from industry and all levels of government chaired by Sir Rod Eddington. The Parliament has passed legislation establishing Infrastructure Australia (*Infrastructure Australia Act 2008*).

To ensure that investment in the nation's future can start early, the Government is planning infrastructure feasibility studies with the States on high-priority projects, at a cost of $75 million in 2007-08. The studies will examine the feasibility of: upgrading key sections of the Bruce Highway in Far North and North Queensland and the Gateway Motorway in southeast Queensland; upgrading the M5 in Sydney and constructing the Western Metro rail link in western Sydney; upgrading the Western Ring Road and constructing designated projects in the East-West transport corridor in Melbourne; developing an integrated transport plan for Perth airport; and developing a transport sustainability study for Adelaide.

These feasibility studies will feed into the National Infrastructure Audit to be completed by Infrastructure Australia by the end of 2008. The audit will develop an Infrastructure Priority List for consideration by COAG in March 2009. Infrastructure Australia will also develop best practice guidelines for public private partnerships for consideration by COAG by October 2008.

Building Australia Fund

The Government will establish a fund to raise Australia's productive capacity — the Building Australia Fund (BAF). The BAF will help finance the current shortfall in critical economic infrastructure in transport and communications, such as road, rail, and ports facilities, to ease urban congestion and enable growth in trade, and broadband.

Subject to final budget outcomes, the Government will commit funds to the BAF from the 2007-08 and 2008-09 surpluses, once realised. Both the capital and earnings of the fund will be drawn down over time to finance specific infrastructure projects. This arrangement ensures substantial funding is available for capital investment in infrastructure over the next few years. Spending from the fund on specific projects will be subject to rigorous evaluation by Infrastructure Australia.

The BAF will receive, in instalments, an initial allocation of $20 billion, on current projections. The Communications Fund will be closed and its capital of $2.4 billion absorbed into the BAF, along with $2.7 billion from the partial proceeds of the T3 sale, to help finance the Government's commitment to invest in a National Broadband Network and regional telecommunications initiatives. Disbursements from the fund on these will be subject to Government consideration of the outcomes of the National Broadband Network Request for Proposals process and the Glasson Review.

National Broadband Network

In preparing for future infrastructure needs, the Government has started the process to deliver a National Broadband Network (NBN), which will involve a Government investment of up to $4.7 billion. The NBN will be an open access, high-speed, fibre-based broadband network that is expected to deliver a minimum speed of 12 megabits per second and cover 98 per cent of Australian homes and businesses.

In April 2008, the Government released its request for proposals to roll-out and operate the NBN and expects to make a decision on the preferred proponent(s) in October 2008. Construction is expected to commence by the end of 2008.

Road and rail infrastructure — AusLink 2

The Government continues to provide funding for key strategic transport programs through AusLink but with a sharper focus on achieving productivity gains. The Government will invest $22.3 billion in road and rail infrastructure over five years from 2009-10 to 2013-14 under a second AusLink national land transport plan (AusLink 2).

Specific projects of note include:

- $1.1 billion for the Ipswich Motorway Upgrade (Queensland);
- $2.5 billion to upgrade the Pacific Highway from Bulahdelah to the Queensland border; and
- $900 million for the Western Ring Road Upgrade (Victoria).

The Government has also commissioned a comprehensive scoping study for a new Melbourne to Brisbane inland rail link. An inland rail link has the potential to cut rail freight times between Melbourne and Brisbane by up to 15 hours, from 36 to 21 hours, which would result in significant productivity gains.

Energy

The Government continues to work closely with the States on energy market reform. These reforms are to ensure that Australia has reliable and efficient energy supplies into the future. In this Budget, the Government will provide $7 million to establish the Australian Energy Market Operator (AEMO). The AEMO will be the national market operator for both electricity and gas. It will also include a new national transmission network planning function to ensure a more coordinated approach to the development of electricity transmission networks. The costs of establishing AEMO will be recovered in later years through fees on market participants.

An innovative future for Australian industry

Innovation is a key driver of productivity and economic growth. The Government will introduce policies designed to encourage Australian business to become more innovative and internationally competitive.

New ideas and new technology

The Government will provide $251 million over five years to establish Enterprise Connect Innovation Centres. The centres will form an industry support network that will connect small and medium-sized businesses with new ideas, knowledge, and technology. The network is designed to help businesses apply this knowledge and technology to build their internal capacity and lift productivity.

The Government will also provide $42 million over four years to 36 Business Enterprise Centres to help them provide advisory services to business owners and managers engaged in starting, growing, or relocating a business.

Support for research

Recognising the link between research and innovation, the Government will introduce initiatives to boost Australia's research capacity, including:

- $326 million over four years to fund four-year Future Fellowships valued at up to $140,000 a year for 1,000 of Australia's top mid-career researchers; and
- $209 million over four years to double the number of Australian Postgraduate Awards for PhD or Masters by Research students.

Reviewing existing policies

The Government has initiated reviews of the national innovation system, the automotive industry and the textile, clothing and footwear industries. An objective of these reviews is to ensure that future policies underpin further innovation and productivity growth.

Regional development for a sustainable future

The Government has established Regional Development Australia to engage with local communities to deliver regional solutions. The Government has committed $176 million from 2007-08 over four years to implement its Better Regions initiative and will spend $130 million over four years assisting primary industries to adapt and respond to climate change. The Government's Enterprise Connect Innovation Centres will assist small and medium businesses, including those in regional areas, become more productive. The Enterprise Connect Innovation Centres will include a $20 million Innovative Regions Centre in Geelong, and offices in regional Australia including Alice Springs and Mackay. The Government has also established a new Office of Northern Australia, with offices in Darwin and Townsville, to provide advice to the Government on issues relevant to northern Australia.

The Government will provide $271 million over four years to fund the Australian Broadband Guarantee. The guarantee provides equitable access to 'metro-comparable' broadband services in regional and remote communities and blackspot areas.

Addressing skill needs with migration

The Australian labour market is the tightest it has been in a generation, with skill and labour shortages pushing up labour costs and contributing to inflationary pressures. Immigration will continue to be an important contributor to labour supply, with skilled migration in particular helping to address Australia's skill needs in the short-term while also delivering fiscal benefits.

In the medium to longer-term, the level of net overseas migration plays an important role in maintaining sustainable economic growth. Skilled migration helps assist in addressing Australia's skill needs. Migration can reduce the rate of population ageing because new migrants are younger on average than the resident population.

The Government is committed to ensuring that skilled migration continues to contribute to the labour needs of the economy as part of a balanced migration program. To this end, the Government is increasing the Migration Program by 37,500 places from 2008-09, bringing the total program to 190,300. Of these additional places, 31,000 will be for migrants in the skilled stream, following on from a one-off increase of 6,000 places for skilled migrants in 2007-08.

The Government is also providing a one-off increase of 500 offshore refugee places to the Humanitarian Program in 2008-09 for Iraqis affected by the conflict in Iraq, taking the total program to 13,500 places in that year. In addition, the Government will provide up to 600 permanent visa places for Iraqi Locally Engaged Employees and their dependent family members who are at risk partially because of their work for the Australian Government. The Government will also provide an increase of 750 Special Humanitarian places from 2009-10, bringing the total program to 13,750 places.

Overall, the 37,500 additional Migration Program places, including 31,000 skilled migrants, are estimated to deliver $1.9 billion over four years in additional revenue (excluding $1 billion of GST revenue that will be paid to the States), more than offsetting the $1.4 billion cost of these additional places arising from increased demand for government services and benefits.

Strengthening national security

The Government is committed to strengthening Australia's national security. Through the Australian Defence Force (ADF) and Australian Federal Police (AFP), the Government is making significant contributions to international security including in Afghanistan, the Middle East, Timor-Leste, and Solomon Islands. Australia is also increasing both the quantity and effectiveness of development assistance to countries afflicted by poverty, especially in the Asia-Pacific region.

Defence and National Security

The Government is delivering on its commitment to a modern and well equipped ADF by providing adequate funding and ensuring effective use of Defence dollars.

This Budget meets the Government's commitment to provide 3 per cent real growth per year on average in Defence's underlying funding base to 2015-16. To provide even greater funding certainty, the Government has extended this funding guarantee to 2017-18. Growth rates in total Defence spending vary between years due to slippage in acquisitions and other factors. Real growth in total Defence spending is expected to average 4 per cent per year over the next four years, as the Defence White Paper is implemented.

The White Paper and an audit of the Defence budget will ensure best use of the growing Defence budget and better strategic capability planning into the future. This Budget also provides $5 million for annual independent checks of major acquisition projects.

The Government has committed to finding further efficiencies and savings and to reinvesting these in priority Defence projects, while ensuring no adverse impact on operational capacity. The Government has established an operations reserve to fund Defence's overseas operations in 2008-09. The new reserve will be drawn from internal resources and funding, and demonstrates a responsible approach to Defence budget management.

Funding to Defence for ADF commitments in this Budget includes:

- $429 million over three years to extend Australia's military involvement in Afghanistan to June 2009;
- $166 million over two years to extend our military presence in Timor-Leste to June 2009; and
- $14 million in 2008-09 to extend ADF support to the Regional Assistance Mission to Solomon Islands to June 2009.

The Government will meet its commitment to reduce Australia's military presence in Iraq by withdrawing the main land combat force, beginning mid year, with other contingents to remain, at a total cost of $155 million over two years.

The Government will provide $12 million over four years to trial free provision of basic medical and dental care to ADF dependants in five locations. A further $2 million will be provided to improve prevention and early intervention on mental health issues for current and former ADF members, from recruitment through to rehabilitation and resettlement into civilian life. Both of these initiatives will be funded through the reinvestment of internal savings identified by Defence.

The AFP is also contributing to international security and regional stability. Funding to the AFP for Budget initiatives include:

- $53 million over two years for the AFP to assist Afghanistan's police to strengthen counter-narcotics measures;
- $54 million over two years for the AFP to provide capacity building assistance to the Timor-Leste police; and
- $75 million over four years for AFP assistance to Pacific policing, including in Samoa, Nauru, and Papua New Guinea.

Overseas development assistance

In responding to the enormous challenge of global poverty, funding for overseas development assistance will increase to around $3.7 billion in 2008-09, from around $3.2 billion in 2007-08.

The Government has taken significant steps to deliver its long-term commitment to achieve a ratio of Official Development Assistance to Gross National Income of 0.5 per cent by 2015-16 by meeting its interim target of 0.35 per cent a year early in 2009-10 and setting the target for 2011-12 to 0.38 per cent. Furthermore, the Government is focused on ensuring the effectiveness of Australia's aid program, signalled by the publication of Australia's first Annual Review of Development Effectiveness in March 2008.

Australia's overseas development assistance program assists developing countries to achieve long term sustainable growth. Economic growth is fundamental to reducing poverty and achieving the United Nations (UN) Millennium Development Goals (MDGs). By making greater use of multilateral organisations, the Government will strengthen its aid partnerships and improve the reach of Australia's assistance. Reflecting these priorities, new initiatives include:

- $300 million for improving access to clean water and effective sanitation in the Asia Pacific region;
- $200 million to support UN agency leadership of the global efforts to achieve the MDGs, as strengthened UN agency led global responses provide the opportunity for coordinated global development efforts; and
- $127 million to establish a Pacific Region Infrastructure Fund to improve basic infrastructure in the Pacific, as reliable and effective infrastructure is fundamental to achieving economic growth.

Australia as a financial services hub

The Government is committed to securing Australia's place as a financial services hub in the Asia Pacific region. To this end, the Government will improve the international competitiveness of Australian managed investment trusts by replacing the 30 per cent non-final withholding tax rate that applies to certain distributions with a reduced final withholding tax of 7.5 per cent.

In order to safeguard the integrity of the tax system, the new arrangements will be restricted to countries with which Australia has effective exchange of information (EOI) agreements. The arrangements will be phased in over three years. Foreign investors resident in EOI countries will be subject to a 22.5 per cent non-final withholding tax in the first income year, a 15 per cent final withholding tax in the second income year and 7.5 per cent final withholding tax in later income years. Foreign investors in countries without effective EOI arrangements will be subject to a

30 per cent final withholding tax. Consistent with the need for fairness and integrity in the tax system, this is a strong statement of Australia's non-tolerance of international tax evasion and avoidance.

While the current regulatory system has done well in the recent financial market turbulence, changes are required to ensure the integrity and stability of our markets. To maintain the attractiveness of Australia as an investment destination, the Government will ensure greater transparency of covered short selling and will review disclosure requirements for equity derivatives.

A NEW ERA OF RESPONSIBLE ECONOMIC MANAGEMENT

This Budget ushers in a new era of economic responsibility, delivering a strong budget surplus and reprioritising spending to sustain growth in the long term, to ensure that fiscal policy plays its part in putting downward pressure on inflation and to ensure a strong economy at a time of international economic uncertainty. The Government has achieved savings by cutting back inefficient and wasteful programs, better targeting income support to those who need it most, reducing distortions in the business tax system, and making government more efficient.

Reprioritising spending

The Government is reducing spending on programs that do not meet the Government's objectives in the most cost-effective manner. For example, the Government is:

- abolishing Australian Industry Productivity Centres and replacing them with the Enterprise Connect Innovation Centres that will provide greater support to small and medium enterprises particularly in the manufacturing sector;
- closing the Commercial Ready program to avoid supporting projects that would have proceeded without public support and where the national benefits are uncertain, generating savings of $707 million over four years; and
- reforming the workplace relations system, resulting in savings of $394 million over five years.
  - Fair Work Australia will replace a multitude of agencies from 1 January 2010 and the modernisation of the award system and the transition away from individual statutory contracts will result in a decreased workload.

The Government has also reviewed spending within the health system to ensure that it is targeted towards better quality public health services. Savings measures include:

- $201 million over four years from reform of the Practice Incentive Payments Program;
- $105 million over four years from improving funding arrangements for chemotherapy drugs to reduce wastage;
- $103 million over four years from removing rebates for selected pathology tests and $18 million in 2008-09 for reductions in particular collection fees; and
- $70 million over four years from increasing compliance with the Medicare Benefits Schedule.

The Government is seeking greater efficiency across the public sector and has applied a 2 per cent efficiency dividend to most of its agencies to improve cost effectiveness, generating $1.8 billion of savings over five years.

Going forward, through the second stage of its comprehensive review of expenditure, the Government will continue to identify areas where there is scope to achieve further savings.

Employment Services Reforms

The Government is committed to assisting income support recipients improve their skills and move into sustainable employment. From 1 July 2009 the Government will implement a reformed employment services system, with total funding of $3.7 billion over three years. The reformed system will better target assistance to the most disadvantaged job seekers, improve linkages with education and training, create greater flexibility in service delivery and improve engagement with employers.

The reforms will achieve gross savings of $370 million over three years from a more integrated and efficient employment services model.

Pursuing cost-effective service delivery reforms

The Government will spend $10 million in 2008-09 to investigate wide-ranging options to improve the delivery of government services by Centrelink, Medicare Australia and other agencies in the Human Services portfolio.

Funding of $72 million in 2008-09 will also be provided to enable Centrelink to maintain service delivery standards, through more resources for call centres and additional funding to maintain Centrelink's IT capabilities.

Centrelink compliance activities will be increased to maintain the integrity of the social security system, achieving net savings of $589 million over four years. The

Government has abolished the Access Card announced by the previous Government, which will provide savings of $1.2 billion over five years. The Access Card was a costly and complex project which was difficult to integrate with other key initiatives.

Fairness and integrity in the transfer and tax systems

The Government will put fairness and integrity back into the income tax and transfer systems by better targeting benefits to families, making income testing arrangements more comprehensive and tightening the fringe benefits tax and employee share scheme provisions. Fairer systems will generate budget savings and support the delivery of the Government's broader economic and social policy in a fiscally responsible manner.

The Government will introduce a number of measures to improve the fairness and integrity of the tax and transfer systems. These measures are designed to target assistance to where it is needed most and improve the administration and delivery of payments. They include:

- introducing an additional income test on Family Tax Benefit Part B from 1 July 2008 so that it will only be available to families in which the principal earner has an annual income up to and including $150,000 per year;

- introducing an income test of $150,000 on the Dependent Spouse, Housekeeper, Child-Housekeeper, Invalid Relative and Parent/Parent-in-law tax offsets from 1 July 2008;

- from 1 July 2009, aligning the definition of income for income testing these offsets with that applying to family assistance;

- increasing the Baby Bonus to $5,000 from 1 July 2008 and reforming it from 1 January 2009 by introducing an income test so that it will only be available where family income is not greater than $150,000 per year (assessed as not more than $75,000 in the six months after the birth of a child), paying it in instalments over six months for all recipients, indexing it annually, and extending eligibility to parents who adopt children under 16 years of age;

- removing the minimum rate of Child Care Benefit for high income earners, while ensuring that previous minimum rate recipients maintain eligibility for the enhanced Child Care Tax Rebate; and

- improving the administration of family assistance by moving functions from the Australian Taxation Office to Centrelink.

The definitions of income used to income-test government financial assistance have not kept pace with the range of remuneration and investment structures now available to selected people in the workforce. This has enabled some high income earners to structure their affairs to access financial assistance. The Government will improve fairness by broadening the definition of income to include certain salary sacrificed contributions to superannuation, net financial investment and rental property losses and reportable fringe benefits, amounting to $522 million of savings over four years.

In recent years, innovative tax planning arrangements and changes in technology have eroded the fringe benefits tax (FBT) base. The Government will restore fairness and integrity in the taxation of fringe benefits by subjecting 'meal card' type arrangements to FBT, restricting the FBT exemption for work-related items (such as laptops) to those used primarily for work-related purposes, and removing depreciation deductions to employees for FBT exempt work-related items. Closing these loopholes will save $1.4 billion in revenue over four years.

The Government will also amend the FBT law to restore equity between taxpayers who incur expenses on jointly held investments.

The Government supports employee share schemes as a means to promote increased workplace productivity, but this objective must be achieved in an equitable manner. To ensure integrity, the Government will tighten the rules for choosing the time of assessment for shares and rights to ensure that income is properly included in taxpayer assessments.

Fairness and integrity in the business tax system

As part of its broader review of expenditures, the Government has commenced a systematic examination of spending through the tax system to ensure tax concessions operate as intended and are consistent with the Government's objectives of promoting equity and boosting productivity.

In addition to the FBT changes, the Government will abolish or improve the operation of other tax concessions. All together, this will reduce the drain on tax revenue overall by $8.7 billion over four years. Collectively, these measures will contribute to a fairer tax system, a more productive economy and a fairer return for the use of Australia's non-renewable resources.

Reducing tax distortions to investment decisions fosters productivity and supports economic growth. Capital expenditure on computer software will now be depreciated over four years, which is the same period as computer hardware. To remove a bias in favour of capital protected investments, the interest expense apportionment rules will also be changed.

In addition, the Government will end the crude oil excise exemption for condensate — a light crude oil extracted from natural gas — increasing the return to the community from the use of this non-renewable resource.

Since 1979, successive Australian Governments have taxed 'luxury' vehicles more heavily than other vehicles. The Government believes that Australians who can afford luxury vehicles have the capacity to contribute to revenue at a higher rate than other car buyers. The Government considers it appropriate to increase the luxury car tax rate from 25 per cent to 33 per cent from 1 July 2008. The measure is expected to raise $555 million over four years.

Australia's Future Tax System

A major theme of the 2020 Summit was 'the need for a holistic tax system that is fair, simple and efficient. Australia needs a tax system that supports the global competitiveness of our economy, provides incentives, minimises distortions and supports fiscal responsibility.'

The Government has commissioned a comprehensive review of Australia's tax system to create a tax structure that will position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century. The review will encompass Australian Government and State taxes, and interactions with the transfer system. It will reflect the Government's policies not to increase the rate or broaden the base of the GST and to preserve the tax-free status of superannuation payments for those aged over 60. It will take into account the Government's aspirational goals for the income tax scale.

The review will consider:

- the balance of taxes on work, investment and consumption and the role for environmental taxes;
- further improvements to the tax and transfer system facing individuals, working families and retirees;
- the taxation of savings, assets and investments, including the role and structure of company taxation;
- the taxation of consumption (excluding GST), and property and other State taxes;
- simplifying the tax system, including across the Australian Federation; and
- interrelationships between these systems as well as the proposed emissions trading system.

An initial discussion paper will be released by the end of July 2008 and a final report provided to the Treasurer by the end of 2009.

STATEMENT 2: ECONOMIC OUTLOOK

This statement presents the economic forecasts that underlie the budget estimates.

Statement 2: Economic Outlook

Powerful countervailing forces are confronting the Australian economy. Slower global growth, tighter credit conditions and higher interest rates are expected to slow Australia's economic growth. Counteracting this, robust growth in emerging economies is supporting large rises in Australia's terms of trade, providing further stimulus to incomes and contributing to already heightened price pressures.

Overview

After a sustained period of strong growth, the global economy is expected to slow in 2008 and 2009. A sharp slowdown in the US economy is now evident in official data, with implications for growth in other countries, including Australia. Turbulence in global financial markets also remains an impediment to global growth, particularly in advanced economies.

These global developments come at a time when several years of strong demand in the Australian economy has not been matched by a commensurate expansion in supply capacity. This has led to a significant build-up in underlying inflationary pressures. In response, the Reserve Bank of Australia has tightened monetary policy substantially.

The slowdown in global growth, tighter credit conditions and significantly higher interest rates are expected to slow growth in the Australian economy. As a result, conditions in the labour market are expected to ease, with some rise in the unemployment rate. Tighter monetary and fiscal policies are expected to gradually ease underlying inflation from 16-year highs.

While the outlook for the global economy has weakened, areas of strength remain, particularly in emerging economies. The Chinese economy has so far remained largely insulated from negative developments elsewhere, reflecting both its lower level of integration into world capital markets and its substantial capacity for internally generated growth. Demand from China and other emerging economies is supporting large rises in non-rural commodity prices, particularly for iron ore and coal and, as a result, Australia's terms of trade are forecast to reach new highs. This will lead to an acceleration in domestic incomes, which will contribute to already heightened price pressures.

Slower global growth and financial market turbulence, and the further stimulus from the terms of trade, are powerful opposing forces buffeting the economy. On balance, these forces, combined with the significant tightening in monetary policy that has occurred over recent years, are likely to result in a slowing in real GDP growth even as income growth remains high.

Summary of forecasts

Global growth, in real terms, is expected to be 4 per cent in 2008 and 2009. Growth in the advanced economies is expected to slow significantly, while the emerging economies are forecast to grow robustly, notwithstanding some slowing from growth rates recorded in recent years.

Australia's real GDP is forecast to increase by 2¾ per cent in 2008-09. The non-farm economy is forecast to grow by 2¼ per cent, while the farm sector is forecast to contribute ½ of a percentage point to growth given a recovery from drought. It is expected that the main contributors to growth will be household consumption and business investment, with net exports subtracting 1 percentage point from growth.

Household consumption is expected to grow by 2¾ per cent in 2008-09. Significantly higher interest rates, tighter credit conditions, an easing in labour market conditions and confidence impacts from uncertainty in global financial markets are expected to weigh on consumption.

Dwelling investment is also expected to be affected by higher interest rates and tighter credit conditions, with growth forecast to be a subdued 2 per cent in 2008-09. Most of the growth is likely to come from alterations and additions. Higher interest rates are expected to result in slower house price growth, and subdued dwelling investment will continue to add pressure to rents.

Business investment is expected to grow by 8½ per cent in 2008-09. The outlook for both machinery and equipment and non-dwelling construction is favourable, but the risks around these forecasts are heightened. Businesses are facing higher interest rates, and labour and material cost pressures persist. The potential for further deterioration in global capital markets is a risk for the business investment outlook.

Public final demand is forecast to grow by 3 per cent in 2008-09. The slowing in growth reflects a moderation in Australian Government consumption expenditure and a slowing in State and local government investment from high growth rates in 2007-08.

Exports are expected to grow by 6 per cent in 2008-09, with more than three quarters of this growth coming from commodity exports. Rural exports are expected to rebound as the farm sector recovers from drought, while the increase in non-rural commodity exports reflects the continuing ramp-up and commencement of mining investment projects. Growth in exports of elaborately transformed manufactures and services is expected to be subdued, given the higher exchange rate and slower global growth.

Imports are forecast to grow by 9 per cent in 2008-09, with the moderation in growth from 11 per cent in 2007-08 reflecting an easing in the non-farm economy. It is expected that growth in consumption and services imports will ease as household consumption slows, and intermediate imports will ease as domestic production slows. However, strong growth in business investment is expected to support capital imports.

The **terms of trade** are expected to rise by a strong 16 per cent in 2008-09, from levels that are already the highest in more than 50 years. Australian coal contracts have recently been settled for US dollar price increases in the range from 125 to 240 per cent, while iron ore contract prices are expected to increase by at least 65 per cent in US dollar terms. In contrast, falls in base metal prices are expected, with the slowdown in global growth adding more uncertainty to this outlook. Rural prices and import prices are also expected to support the terms of trade.

The **current account deficit** is forecast to narrow to 5 per cent of GDP in 2008-09, reflecting higher expected national saving as a share of GDP and relatively unchanged national investment. A small trade surplus is forecast given the strong rise in the terms of trade. The net income deficit is likely to widen significantly. This reflects strong growth in corporate profits, particularly mining profits, and rising net interest payments from a higher stock of net foreign debt.

Employment growth is expected to moderate to 1¼ per cent in 2008-09. The participation rate is forecast to average 65¼ per cent, and the unemployment rate is expected to average 4½ per cent. The unemployment rate is forecast to rise to 4¾ per cent by the June quarter 2009, as conditions in the labour market ease. This reflects an easing in non-farm GDP growth due to slower global growth, tighter credit conditions and higher interest rates.

Wages are expected to grow by 4¼ per cent in 2008-09, which is in line with wage price growth in recent times. While wages are expected to grow strongly, they are not forecast to accelerate given the anticipated easing in labour market conditions.

Inflation is forecast to be 4 per cent through the year to the June quarter 2008. Strong demand in the Australian economy, which has not been matched by a commensurate increase in supply capacity, has led to a build-up in underlying inflation. Upward pressure is also expected from the continuing effects of recent increases in oil prices and from specific items such as food and housing costs. Tighter monetary and fiscal policies are expected to gradually ease underlying inflation from 16-year highs. Inflation is forecast to be 3¼ per cent through the year to the June quarter 2009.

Nominal GDP is forecast to grow by 9¼ per cent in 2008-09, which would be its fastest rate of growth since the late 1980s. The growth reflects real GDP growth of 2¾ per cent and growth in broader economy prices — the GDP deflator — of 6¼ per cent, largely due to significant rises in non-rural commodity export prices.

Table 1: Domestic economy forecasts[(a)]

	Outcomes(b)	Estimates	Forecasts	
	2006-07 year average	2007-08 year average	2008-09 year average	Four quarters to June 2009
Demand and output(c)				
Household consumption	3.6	4 1/2	2 3/4	2 1/2
Private investment				
Dwellings	2.4	2 1/2	2	1
Total business investment(d)	6.7	9 1/2	8 1/2	4 1/2
Non-dwelling construction(d)	12.4	8 1/2	5 1/2	3
Machinery and equipment(d)	2.9	9 1/2	11	4 1/2
Private final demand(d)	4.0	5 1/4	4	3
Public final demand(d)	4.3	4 3/4	3	2 3/4
Total final demand	4.1	5 1/4	3 3/4	2 3/4
Change in inventories(e)	0.1	1/4	- 1/4	0
Gross national expenditure	4.2	5 1/2	3 1/2	2 3/4
Exports of goods and services	3.8	3	6	7 1/2
Imports of goods and services	8.9	11	9	7
Net exports(e)	-1.2	-2	-1	- 1/4
Real gross domestic product	3.2	3 1/2	2 3/4	2 3/4
Non-farm product	3.9	3 3/4	2 1/4	2
Farm product	-22.8	2	20	36
Nominal gross domestic product	8.2	7 3/4	9 1/4	6 1/2
Other selected economic measures				
External accounts				
Terms of trade	6.7	4 3/4	16	3 1/4
Current account balance (per cent of GDP)(f)	-5.6	-6 1/4	-5	-5 3/4
Labour market				
Employment (labour force survey basis)	2.7	2 1/2	1 1/4	3/4
Unemployment rate (per cent)(f)	4.5	4 1/4	4 1/2	4 3/4
Participation rate (per cent)(f)	64.8	65 1/4	65 1/4	65
Prices and wages				
Consumer Price Index(g)	2.1	4	3 1/2	3 1/4
Gross non-farm product deflator	4.8	4	6 1/4	4 1/4
Wage Price Index	4.0	4 1/4	4 1/4	4 1/4

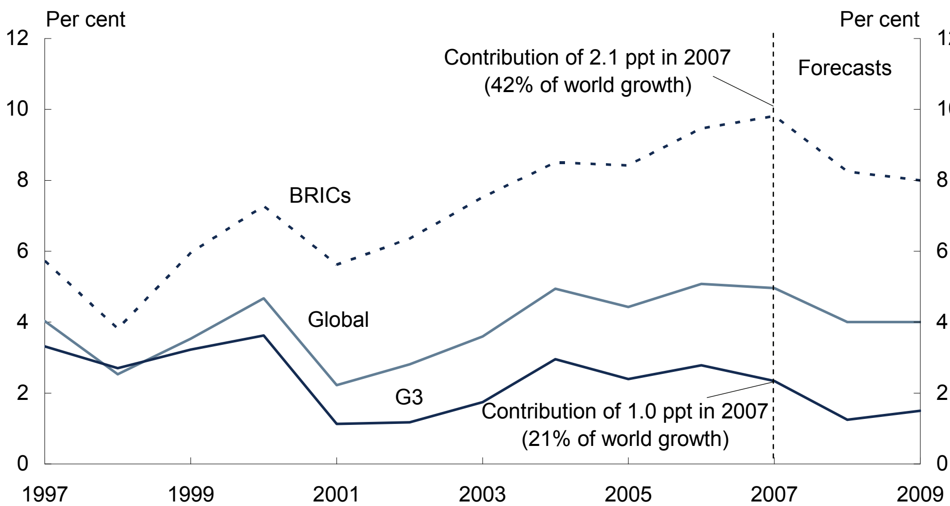
(a) The forecasts are based on several technical assumptions. The exchange rate is assumed to be around 93 US cents, with a trade weighted index of around 71. Domestic interest rates are assumed to remain unchanged. World oil prices (West Texas Intermediate) are assumed to be around US$115 per barrel. Farm sector forecasts assume average seasonal conditions, but account for low water storage levels.
(b) Calculated using original data.
(c) Chain volume measures except for nominal gross domestic product which is in current prices.
(d) Excluding second-hand asset sales from the public sector to the private sector and including the impact of the privatisation of Telstra.
(e) Percentage point contribution to growth in GDP.
(f) The estimate in the final column is the forecast rate in the June quarter 2009.
(g) Through the year growth rate to the June quarter for 2006-07 and 2007-08.
Source: Australian Bureau of Statistics (ABS) cat. no. 5206.0, 5302.0, 6202.0, 6345.0, 6401.0, unpublished ABS data and Treasury.

THE OUTLOOK FOR THE INTERNATIONAL ECONOMY

The outlook for the global economy has deteriorated significantly since last year, as the crisis in the global financial system has deepened and started to hamper economic activity. Complicating the outlook, global inflationary pressures are building, reflecting capacity constraints in some areas and rising energy and food prices.

The global economy is expected to expand by 4 per cent in 2008 and 2009 (Chart 1 and Table 2). Financial market difficulties have been most acute in the US (Box 1), where a severe housing contraction was already slowing growth. In contrast, emerging economies have experienced little impact to date. The contrasting exposure to credit market difficulties is expected to result in a continued large divergence between growth in advanced and emerging economies. The collapse of securitised lending, the increase in borrowing costs, tightening credit standards, and an associated impact on confidence, are expected to significantly constrain advanced economy growth (Box 2), with the US expected to experience a mild recession. Any further escalation in financial market turbulence would represent a significant downside risk to global growth.

Chart 1: Global growth[(a)]



(a) Global GDP growth rates are calculated using GDP weights based on purchasing power parity. The BRICs comprise Brazil, Russia, India and China, while the G3 comprises the US, euro area and Japan.
Source: International Monetary Fund (IMF) and Treasury.

Despite the forecast for slower global growth, global inflationary pressures remain elevated and represent another key risk to the outlook. High energy and food prices have lifted headline rates of inflation in most countries, and the risk remains that elevated rates of headline inflation could feed into higher inflation expectations. If this risk were to materialise, it could restrict the degree to which global monetary policy might be eased in response to any further deterioration in growth.

Box 1: Global financial market turbulence

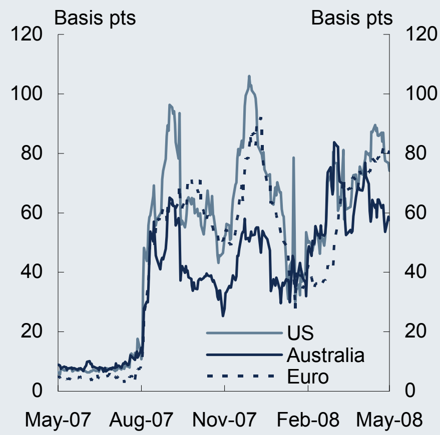
Beginning in mid-2007, increasing default rates on US sub-prime mortgages — and associated declines in the value of financial securities backed by these mortgages — led to a fundamental reassessment of the risks inherent in a broad range of structured credit securities. In turn, concerns over the value of structured credit securities offered as collateral quickly led to the almost total evaporation of liquidity in the US asset-backed commercial paper (ABCP) market.

As a result, an array of complex investment vehicles that had previously relied on the ABCP market for much of their funding were unable to rollover their existing liabilities and were forced to call upon emergency lines of credit with their sponsoring banks. Funding demands from these notionally 'off-balance sheet' vehicles and direct losses on holdings of structured credit securities have resulted in a significant erosion of banks' balance sheet positions.

In response, banks have increasingly chosen to shore up their own capital positions by restricting their lending to counterpart institutions. This 'liquidity hoarding' has manifested itself in dramatically increased liquidity premiums and a reduction in the availability of funding in inter-bank lending markets. Despite concerted central bank action aimed at alleviating these pressures, spreads in inter-bank markets in most advanced economies remain elevated (Chart A).

More recently, ongoing tightness in funding markets has exposed balance sheet fragilities amongst institutions whose financial health is important to the stability of the US and international financial systems. For example, a weakening in the balance sheet positions of US 'mono-line' bond insurers — who offer insurance against the possibility that bond issuers might default — has raised questions over the soundness of the market for credit default swaps.

Chart A: Inter-bank lending rates (spread over risk-free rates)



Note: Data are as at close 7 May 2008.
Source: Reuters EcoWin.

The virtual collapse of Bear Stearns, a large US investment bank, prompted the US Federal Reserve to take the extraordinary policy action of providing funding for its ultimate purchase by JP Morgan Chase. To limit the potential for another investment bank to suffer a similar liquidity crisis, access to the Federal Reserve's emergency lending facility has subsequently been extended to include investment banks.

Table 2: International GDP growth forecasts(a)

	Actual	Estimate	Forecasts	
	2006	2007	2008	2009
United States	2.9	2.2	3/4	1 1/2
Euro area(b)	2.9	2.6	1 1/2	1 1/2
Japan	2.4	2.1	1 1/4	1 1/2
China(c)	11.6	11.9	10	9 1/2
India(c)	9.7	9.1	7 1/2	7 3/4
Other East Asia(d)	5.9	5.8	4 1/4	4 3/4
Major Trading Partners	5.1	5.2	3 3/4	4
World	5.0	5.0	4	4

(a) World and euro area growth rates are calculated using GDP weights based on purchasing power parity. Calculations for Major Trading Partners and Other East Asia use export trade weights.
(b) Euro area numbers are working-day adjusted.
(c) Production-based measures of GDP.
(d) Other East Asia comprises the Newly Industrialised Economies (NIEs) of Hong Kong, Korea, Singapore and Taiwan, and the Association of Southeast Asian Nations group of five (ASEAN-5), which consists of Indonesia, Malaysia, the Philippines, Thailand and Vietnam.
Source: National statistical publications, IMF and Treasury.

The US economic outlook has deteriorated significantly since the start of the year. Given deteriorating consumer confidence and continued stress in credit markets, a mild US recession is now expected. For 2008 as a whole, US consumers face the possibility of further house price falls, deteriorating employment prospects, tighter borrowing conditions, lower equity market returns and higher energy costs.

Moreover, tighter credit conditions and weaker business sentiment are likely to restrain business investment over 2008 and into 2009. The housing sector is also likely to continue to detract from growth until at least early 2009. In contrast to the softness in the domestic economy, net exports are expected to remain solid, with exports boosted by solid trading partner growth and a lower exchange rate, while weaker domestic demand should restrain imports. This development should help to reduce the sizable US current account deficit, although the risk of a disorderly adjustment of current account imbalances remains a concern for the US economy and global outlook.

With the deteriorating outlook, US authorities have acted quickly to support growth. The Federal Reserve has aggressively cut interest rates and taken a series of steps to improve liquidity and boost confidence in the financial system. Supporting these monetary policy actions, the US Administration has implemented a fiscal stimulus package (of 1 per cent of GDP) that is targeted at boosting household spending and business investment, with the effects most likely to be seen in the second half of 2008.

Despite weakening advanced economy growth, strength in emerging economies, particularly China and India, has continued. While demand for emerging economy exports will soften, growth is expected to remain robust.

China's growth in 2007, at close to 12 per cent, was its strongest in over a decade. The outlook is for continued strong Chinese growth, albeit at a slightly slower rate than last year. Urbanisation and infrastructure investment are continuing at a brisk pace, driving rising demand for energy and raw materials. The rapid economic expansion is generating strong growth in incomes, which will continue to support the momentum in private consumption.

Self-sustaining growth from domestic sources is likely to continue, and the Chinese Government has ample financial resources to support growth should the slowdown in the US have a more serious adverse impact than is currently anticipated. The lack of highly sophisticated financial markets in China, along with the relatively closed capital account, should also limit the impacts arising from the current financial turmoil. However, China will not remain immune from spillovers that arise from trade linkages with the developed world. Export growth is expected to continue to slow, given softer external demand and further appreciation of the Chinese currency.

The main challenge facing the Chinese economy this year is expected to arise from accelerating inflation. Until recently, the increase in inflation has been contained to food prices. However, inflationary pressures have intensified and now appear more broadly based.

In 2007, the Indian economy recorded the third largest contribution to world growth after China and the US. Growth in India's economy is expected to slow, but remain strong, over the next two years reflecting the impacts of tighter monetary conditions and slower global growth. Consumption will be supported through fiscal stimulus in the 2008-09 budget and significant increases to public sector wages.

In the Newly Industrialised Economies (NIEs) and ASEAN-5, growth is expected to ease this year before accelerating slightly in 2009 as advanced economy demand recovers. The moderation in growth in 2008 largely reflects slowing exports.

As mentioned above, other major advanced economies are also expected to slow sharply this year. Following two consecutive years of strong growth, the euro area is forecast to slow in 2008. A key feature of the recent growth performance has been strong export growth — both intra-regional and to emerging economies, particularly emerging Europe. Strong export growth has boosted investment in the region. However, with a deteriorating world growth outlook, export growth is expected to slow significantly while tightening credit conditions are expected to dampen investment and consumption growth.

The Japanese economy finished 2007 on a strong note as it has benefited from strong intra-regional trade. However, while the Japanese financial sector has not been significantly affected by disruptions in the US and euro area financial markets, growth is still expected to slow over the next few years. Consumption growth is expected to only partially offset moderating business investment and exports as global growth slows.

Box 2: Financial and credit market disruptions in advanced economies

Disruptions in US and euro area financial markets have led to a re-appraisal of the outlook for the global economy. The provision of credit is one of the key functions of financial markets in supporting the real economy.

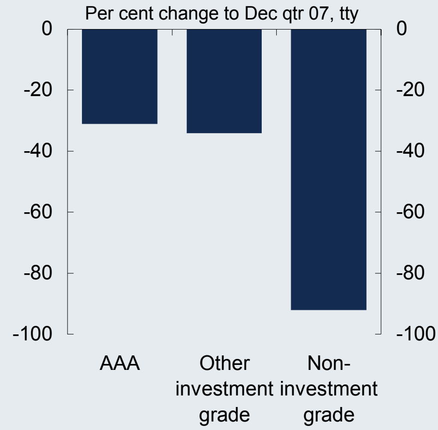
Dislocations in credit and funding markets can reduce the capacity of the financial system to channel funds from savers to borrowers, raising the overall cost of credit and restricting the access to liquid funds. This can hamper investment and economic growth.

Within a modern financial system, the provision of credit generally occurs either via issuance of debt securities (such as those backed by household and commercial mortgages, and corporate bonds and notes) or via traditional bank intermediation of savings deposits.

Securities markets

The seizing up of markets for a range of financial securities has restricted the ability to raise capital in these markets. An important example of this is the sharp fall in issuance of securities backed by household mortgages in most advanced economies. Total issuance of international debt securities remains well below levels seen prior to the current turmoil, due largely to a decline in issuance by US private financial institutions. Issuance has fallen across all credit ratings, but by more amongst non-investment grade ratings (Chart A).

Chart A: Decline in gross international bond issuance



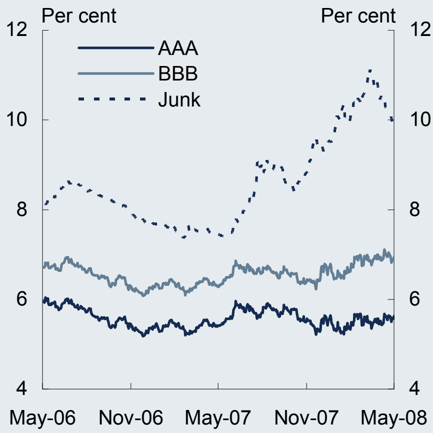
Source: Bank for International Settlements.

In advanced economy corporate bond markets, risk premiums attached to all classes of borrowers have risen, but by proportionally more for higher risk borrowers. At the same time, long-term government bond yields — which form the base, or risk-free, component of most long-term interest rates — have generally declined as investors have sought the relative safety of this asset class. For higher risk corporate borrowers, the increase in risk premiums has more than offset the decline in risk-free interest rates so that borrowing costs have risen substantially. In contrast, increases in the cost of credit for lower risk corporate borrowers have been comparatively muted (Chart B).

Indeed, borrowing costs for lower risk borrowers have fallen in some cases. At shorter maturities, particularly in the US, borrowing costs for investment-grade borrowers have fallen, with aggressive reductions in official US policy rates.

Box 2: Financial and credit market disruptions in advanced economies (continued)

Chart B: US corporate bond yields



Note: Data are as at close 6 May 2008.
Source: Reuters EcoWin.

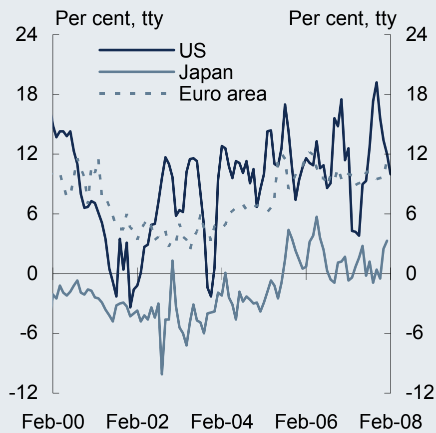
Bank intermediation

Difficulty raising finance in securities markets has forced borrowers to rely on more traditional bank finance. As a result, business credit growth in most major advanced economies rose in the second half of 2007. Moreover, given their dependence on wholesale short-term funding markets, non-bank finance providers have become a less prominent source of finance for households and a rising proportion of mortgage finance demand has been met by commercial banks.

In aggregate, total loan growth in the US and euro area has remained reasonably robust given the current turmoil (Chart C).

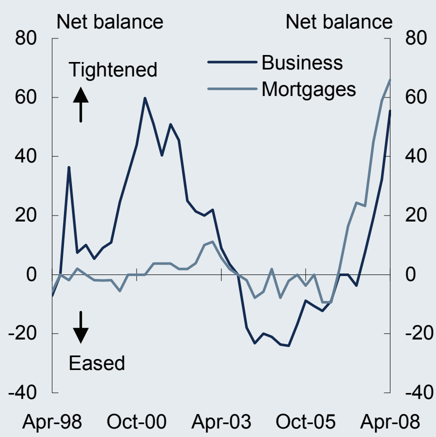
The added demand for credit from banks has put further pressure on their already constrained capital positions. Banks have generally responded by charging higher risk premiums and tightening lending standards, particularly for higher risk household and corporate borrowers. Bank lending surveys in most major advanced economies point to a broad-based tightening in lending standards since mid-2007 (Chart D).

Chart C: Total loan growth



Note: Data are a three-month moving average.
Source: IMF World Economic Outlook April 2008.

Chart D: US lending standards



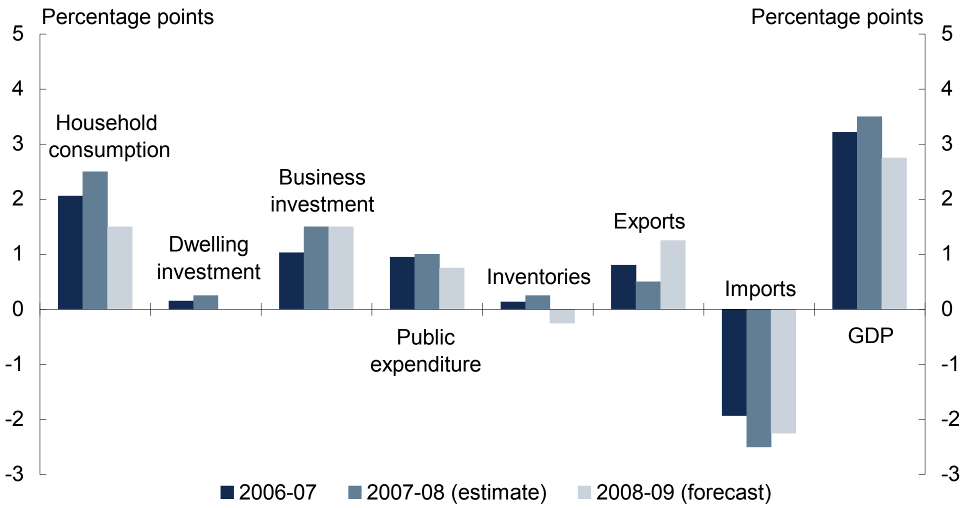
Source: Reuters EcoWin.

THE OUTLOOK FOR THE DOMESTIC ECONOMY

Demand and output

The slowing in global growth, tighter credit conditions and higher interest rates are expected to slow growth in the Australian economy. Real GDP is forecast to grow by 2¾ per cent in 2008-09, with growth in domestic final demand slowing to 3¾ per cent and net exports subtracting 1 percentage point. The farm sector is forecast to contribute ½ of a percentage point to growth, reflecting a recovery from drought. It is expected that household consumption and business investment will be the main contributors to economic growth (Chart 2). The slowing in growth in the non-farm economy is forecast to result in a moderation in employment growth and a gradual easing of upward pressure on wages and prices. However, price growth is expected to remain elevated over the forecast horizon.

Chart 2: Contributions to GDP growth[(a)]



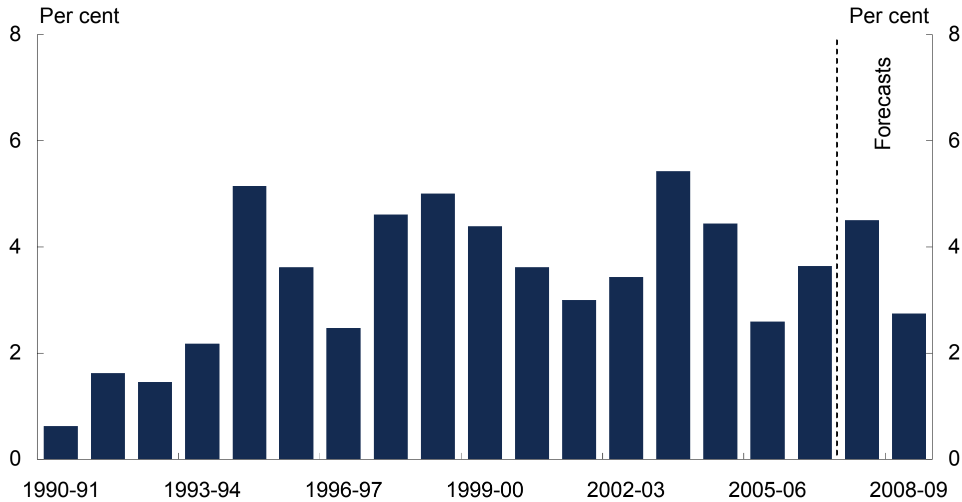
(a) Adjusted for second-hand asset sales and includes the impact of the privatisation of Telstra.
Source: ABS cat. no. 5206.0 and Treasury.

While some industries will be affected by higher interest rates and the higher exchange rate, the mining and construction sectors are expected to grow strongly given the current strength and further expected rises in non-rural commodity prices.

Household consumption

Growth in household consumption is expected to moderate from 4½ per cent in 2007-08 to 2¾ per cent in 2008-09 (Chart 3). The moderation reflects the cumulative impact of rising official interest rates, which have risen by 200 basis points since March 2005, and an easing in labour market conditions. It also reflects tighter credit conditions and increased uncertainty from global financial market developments.

Chart 3: Growth in household consumption



Source: ABS cat. no. 5206.0 and Treasury.

In addition to increases in official interest rates, commercial banks have increased their average standard variable mortgage rates by around a further 40 basis points. Increased interest rates are constraining household consumption directly and, in the current environment, households are likely to reassess their financial positions and reduce debt accumulation. Cumulative interest rate rises and the uncertainty around the global environment have led consumer sentiment to weaken sharply in recent months. This is expected to weigh on consumption in the period ahead.

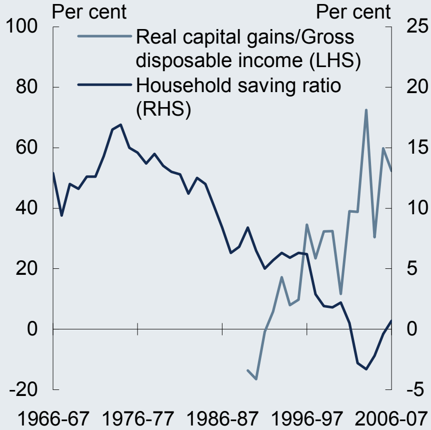
The current turbulence in global financial markets has also reduced growth in household wealth. Australian share prices fell by almost 10 per cent from the end of July 2007 (when the turbulence in financial markets began) to the end of April 2008. Lower returns and instability in the stock market will also increase people's desire to save for precautionary reasons, leading to a continued rise in the household saving ratio over the forecast horizon (Box 3). Growth in housing wealth is expected to slow as house price growth moderates.

Over the past 15 years, households have become much more indebted. This increases the impact of any given rise in interest rates. In the current circumstances, where interest rates have risen considerably over a long period of time, there has been an increase in the number of individuals experiencing financial stress.

Box 3: The household saving ratio

Australia's household saving ratio is expected to rise in 2008-09, continuing the recent reversal of its previous 30-year decline since the mid-1970s (Chart A).

Chart A: Household saving ratio and capital gains as a share of income



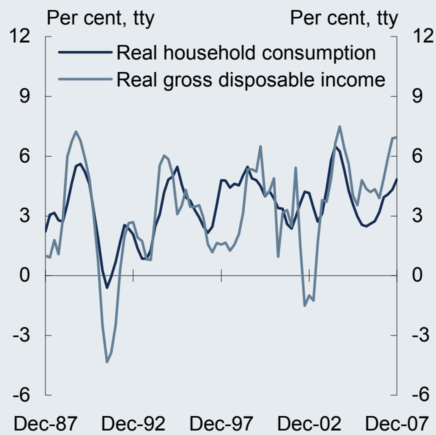
Source: ABS cat. no. 5204.0 and 5206.0.

The long-term decline in the saving ratio is largely attributable to three factors. First, financial innovation and deregulation have improved access to credit, reducing the need to save to meet large expenditures or for precautionary reasons. Second, the increasing trend towards incorporation has meant that some small business saving is now reflected in corporate saving rather than household saving.

Third, substantial capital gains have allowed wealth to be built without the need to forgo current consumption. The decline in the saving ratio between 1995-96 and 2003-04 corresponds to a period of increasing capital gains (Chart A). Since 2003-04 there has been some moderation in capital gains, which might have contributed to the turn-around in the saving ratio.

This turn-around has also occurred at a time of strong growth in disposable income, largely due to the terms of trade boom. Another possible explanation for the rise in the saving ratio is that this strong income growth is perceived to be temporary, inducing households to increase saving to smooth consumption over time. Consistent with this hypothesis, consumption growth is normally less variable than income growth (Chart B).

Chart B: Household consumption and income growth



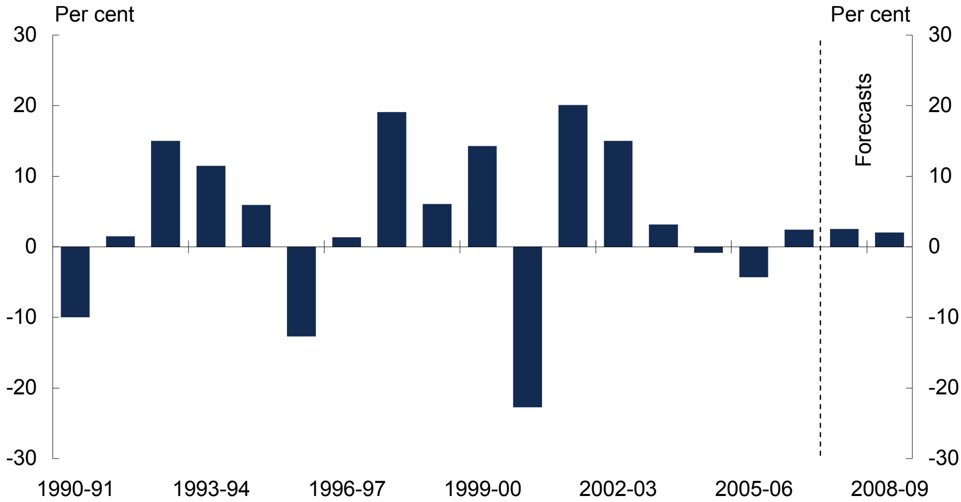
Note: Data are a two-quarter moving average and are not adjusted for the effects of *The New Tax System*.
Source: ABS cat. no. 5206.0 and Treasury.

Another possible explanation relates to the precautionary motive to save. Given high levels of indebtedness, rises in interest rates in recent years may have prompted households to increase saving in order to protect against adverse shocks.

Dwelling investment

With dwelling investment mainly funded by mortgages, this sector is particularly sensitive to increases in interest rates. Growth in dwelling investment is forecast to be a subdued 2 per cent in 2008-09 (Chart 4), with growth largely expected to come from alterations and additions.

Chart 4: Growth in dwelling investment



Source: ABS cat. no. 5206.0 and Treasury.

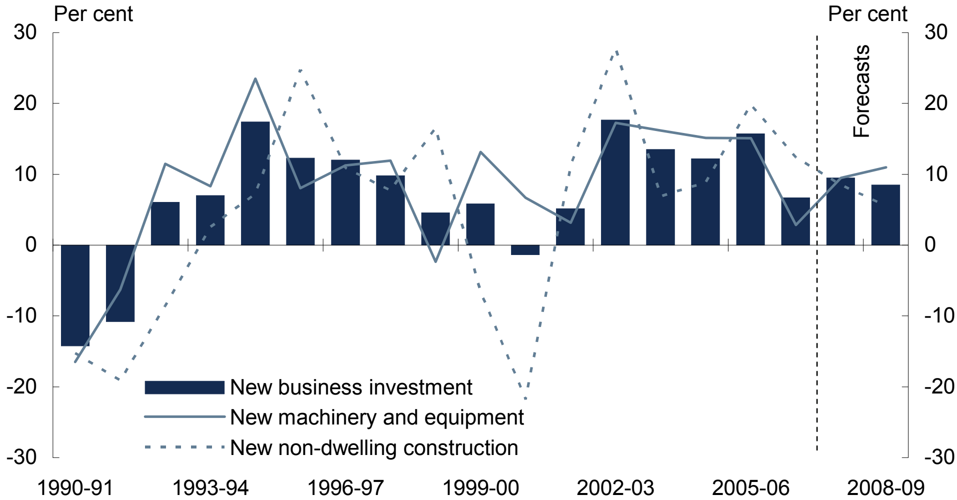
Alterations and additions have grown more strongly than new dwelling investment over the past four years. Alterations and additions grew by 5.3 per cent over the first half of 2007-08, while new dwelling investment fell by 0.9 per cent.

Over the forecast period, the cumulative effects of increases in interest rates and tighter credit conditions are expected to have a moderating impact on growth in house prices. There is also a risk that lower levels of investor activity could put additional pressure on an already stretched rental market. Rental vacancy rates are currently at very low levels across Australia. The rental prices component of the Consumer Price Index rose by 7.1 per cent through the year to the March quarter 2008.

Business investment

New business investment has grown at well-above-average rates over the past five years, bringing investment as a share of GDP to around 33-year highs in nominal terms. Strong rates of growth are expected to continue, although higher interest rates, tighter credit conditions and uncertainty in world equity and debt markets will have a dampening effect. New business investment is forecast to increase by 9½ per cent in 2007-08 and 8½ per cent in 2008-09 (Chart 5).

Chart 5: Growth in new business investment

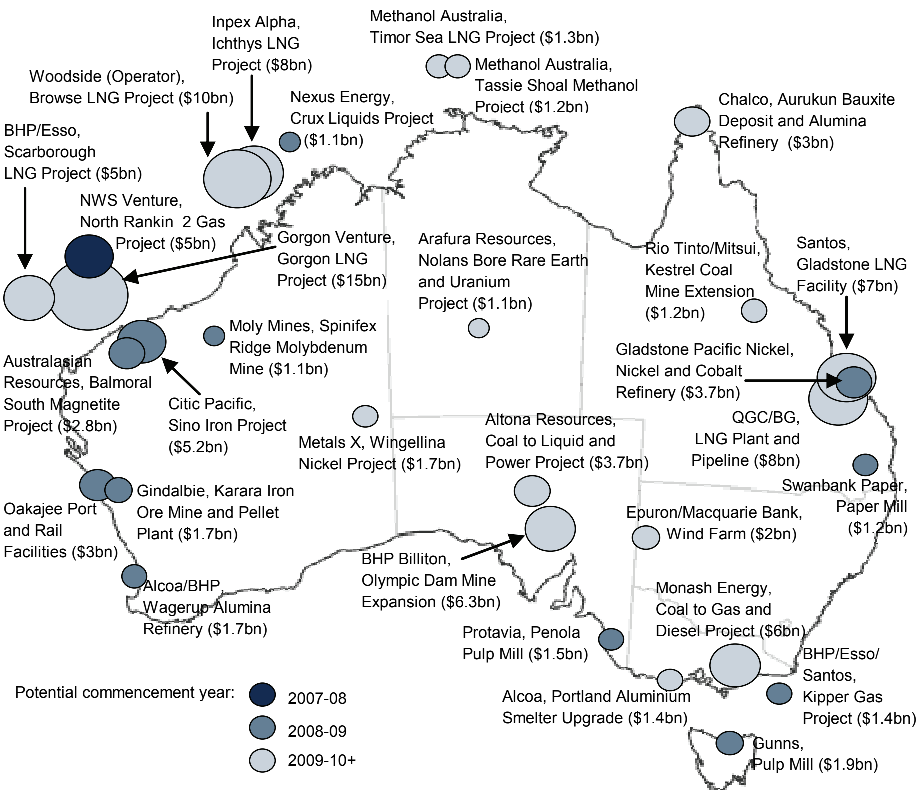


Note: Includes the impact of the privatisation of Telstra.
Source: ABS cat. no. 5206.0 and Treasury.

New machinery and equipment investment is forecast to increase by 11 per cent in 2008-09. The latest Australian Bureau of Statistics *Survey of Private New Capital Expenditure and Expected Expenditure* (CAPEX) implies strong rates of machinery and equipment investment. The construction, property and business services, and transport and storage sectors show particularly strong investment intentions. The mining industry will also continue to be a positive contributor, with further rises in non-rural commodity prices supporting mining profits and investment. The strong Australian dollar is expected to further support machinery and equipment investment, as a large proportion of this investment is imported. Agricultural machinery and equipment investment, which is not included in the CAPEX, is also likely to be solid as the farm sector recovers from drought.

Total new non-dwelling construction is forecast to grow by 5½ per cent in 2008-09. Engineering construction is expected to be supported by a large number of projects, particularly mining projects, currently under construction. The amount of engineering construction work commenced but not yet completed remains at around record highs. Large projects currently in the construction phase include the Pluto liquefied natural gas (LNG) project, the North West Shelf LNG expansion, the Rapid Growth Project 4 iron ore expansion, the Pyrenees oil field and the Boddington gold mine expansion. There are also a large number of projects planned to begin construction over the next several years (Chart 6). However, there remains a risk that increased costs and labour supply constraints will delay some of this construction. Investment in non-residential buildings is expected to be solid, with strong approvals for the construction of office, retail and other business premises.

Chart 6: Selected upcoming engineering construction projects



Note: All the projects shown are planned, but are yet to begin construction. The size of the circle indicates the estimated size of the project.
Source: March 2008 Access Economics Investment Monitor and Treasury liaison.

Notwithstanding the forecast for strong growth in business investment, there will be some dampening effect from higher interest rates, tighter credit conditions and global financial market uncertainty. These developments have seen business sentiment weaken considerably. Further volatility in global financial markets poses a risk to the business investment outlook.

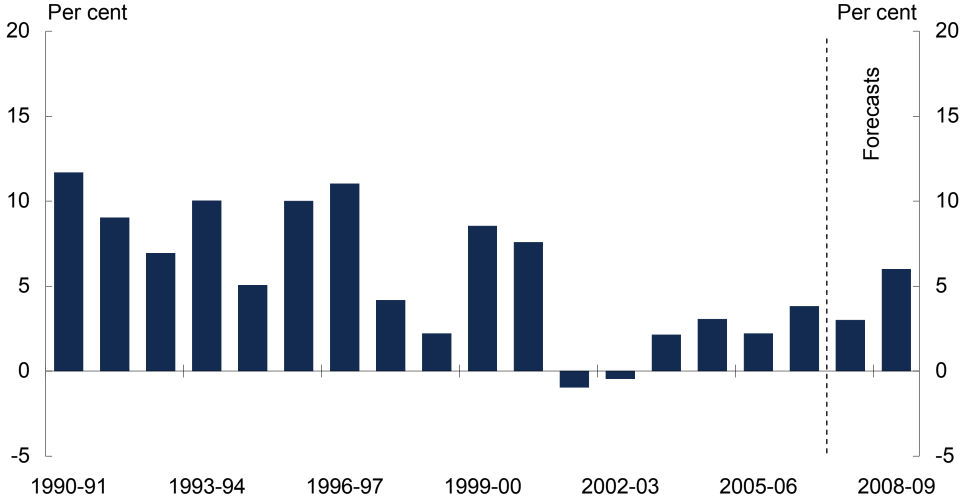
Public final demand

Growth in public final demand is expected to slow from 4¾ per cent in 2007-08 to 3 per cent in 2008-09. Australian Government consumption and State and local government investment growth is forecast to slow. However, some of the expected State and local government investment in 2007-08 may carry over into 2008-09, given competing demands on construction resources from the private sector.

Exports and imports

Slower global growth and the higher exchange rate are expected to subdue exports of elaborately transformed manufactures and services in 2008-09. However, rural exports are forecast to grow strongly given the assumed recovery from drought, and non-rural commodity exports are expected to grow as mining projects expand or commence production. Overall, exports are forecast to grow by 3 per cent in 2007-08 and 6 per cent in 2008-09 (Chart 7). Commodity exports account for more than three quarters of the growth in exports in 2008-09.

Chart 7: Growth in export volumes



Source: ABS cat. no. 5302.0 and Treasury.

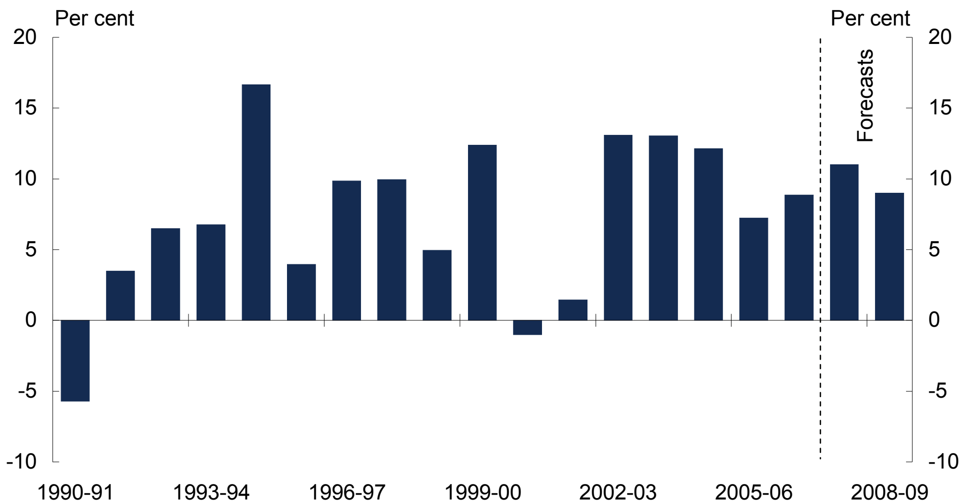
Rural exports fell by 3.3 per cent in 2006-07, reflecting a significant fall in farm production due to drought. The continuation of drought conditions is likely to result in rural exports falling even more in 2007-08, reflecting no recovery in farm production and low levels of inventories. Rural exports are expected to rebound strongly in 2008-09 with the assumption of average seasonal conditions, but are forecast to remain slightly below their pre-drought levels (Box 4).

Growth in non-rural commodity exports continues to show volatility and divergences between components. The overall outlook for these exports remains positive as investment projects continue to come on line. However, for some key commodities, particularly coal, export volumes will be constrained by the capacity and efficiency of transport infrastructure (see Budget Statement No. 4). Iron ore and mineral fuel exports are forecast to grow particularly strongly. Since the beginning of 2006, over $20 billion worth of iron ore, oil and gas mining and related infrastructure projects have begun production. In 2006-07, mineral fuel exports grew by 20.5 per cent after recording average annual falls of 5.8 per cent over the preceding four years.

Growth in exports of elaborately transformed manufactures has recently been driven by pharmaceutical and road vehicle exports, while services exports have recorded strong growth in education-related services. However, the higher exchange rate and a slowing in global growth are expected to weigh on these exports in 2008-09.

Import volumes are forecast to grow by 11 per cent in 2007-08 and 9 per cent in 2008-09 (Chart 8). The slight moderation in 2008-09 largely reflects the outlook for the domestic economy, partly offset by the higher exchange rate which makes imports cheaper. Consumption and services imports are anticipated to slow in line with the moderation in household consumption, while intermediate imports will ease with the slowing in domestic production. Capital imports are expected to be solid, consistent with strong growth in business investment.

Chart 8: Growth in import volumes

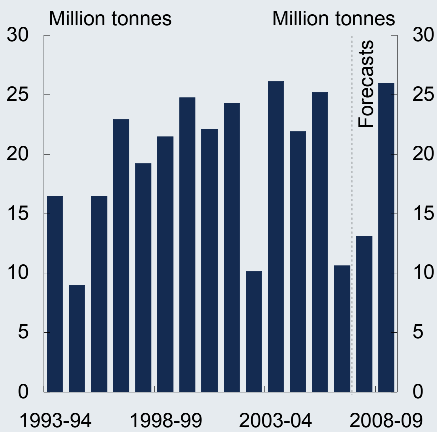


Source: ABS cat. no. 5302.0 and Treasury.

Box 4: The outlook for farm production

Farm production is forecast to increase by 20 per cent in 2008-09 following two consecutive drought years. The recovery is underpinned by a rebound in the production of cereal crops such as wheat and barley. The Australian Bureau of Agricultural and Resource Economics (ABARE) is forecasting a near doubling in wheat production in 2008-09 (Chart A).

Chart A: Wheat production

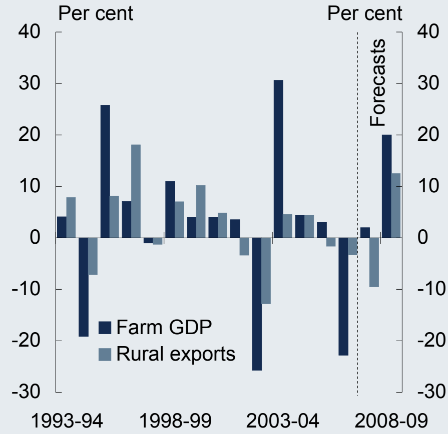


Source: ABARE.

High world wheat prices and widespread summer rainfall are likely to encourage increased crop plantings, particularly as farmers aim to recover lost earnings from two poor seasons. This increased production is expected to translate into a significant increase in rural exports (Chart B).

Growth in livestock production is expected to remain subdued over the forecast horizon. While the improved seasonal conditions are expected to result in increased herd rebuilding, the number of livestock slaughtered is expected to fall.

Chart B: Growth in rural production and export volumes



Source: ABS cat no. 5206.0, 5302.0 and Treasury.

While wheat production is expected to recover significantly, the recovery in total farm GDP is forecast to be weak by historical standards due to low water storage levels.

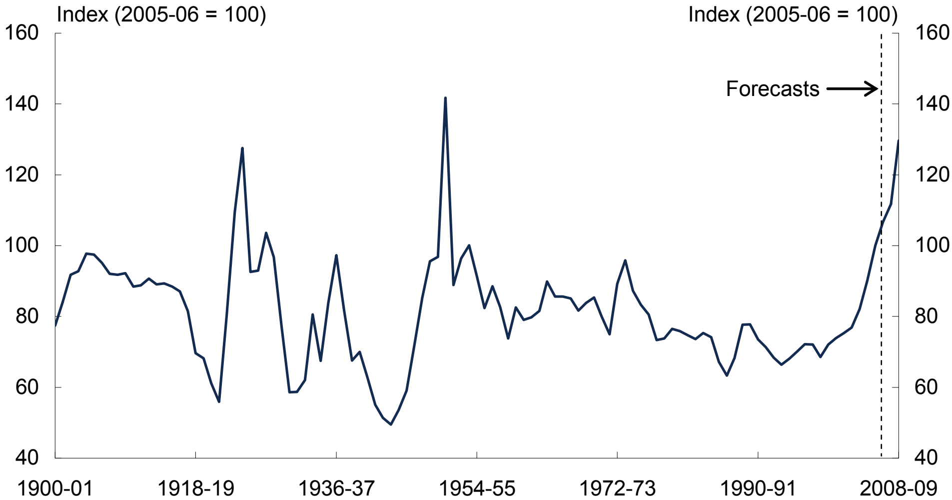
Despite good rainfall over large parts of Australia during summer, low water storage levels still persist in some of Australia's key farming regions. This is particularly the case for the Murray-Darling Basin, which accounts for around 40 per cent of Australia's gross value of agricultural production. Constrained growth in this region will weigh on aggregate farm production.

The outlook for the farm sector assumes average seasonal conditions and remains subject to considerable downside risk. The success of the 2008-09 crop is contingent on further timely rainfall. Failure to receive sufficient rain during the critical spring period would greatly reduce the size of the harvest.

Terms of trade

Robust growth in the emerging economies is supporting further large rises in Australia's terms of trade from levels that are already the highest in more than 50 years. This will lead to an acceleration in domestic incomes, which will contribute to already heightened price pressures. The terms of trade are forecast to increase by 4¾ per cent in 2007-08 and 16 per cent in 2008-09 (Chart 9). Over the 2008 calendar year, the terms of trade are forecast to rise by over 20 per cent which, if realised, would be the largest increase in a generation.

Chart 9: Terms of trade



Source: ABS cat. no. 5302.0, Reserve Bank of Australia and Treasury.

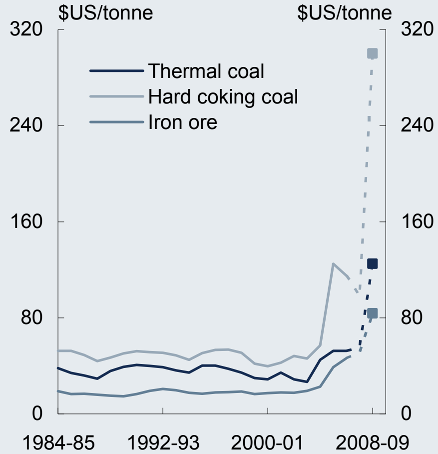
World markets for iron ore and coal remain exceptionally tight, driven by both demand and supply factors (Box 5). Recently settled Australian coal contracts have seen US dollar prices rise by between 125 and 240 per cent for the 2008-09 Japanese fiscal year (1 April 2008 to 31 March 2009). For iron ore, negotiation of contract prices between some overseas producers and steelmakers has resulted in US dollar price increases of at least 65 per cent for the same period. While a slowdown in global growth would be expected to dampen demand and therefore world prices, this has been overshadowed in the current market for bulk commodities, where a large shortfall of supply is supporting higher prices. In contrast, base metal prices are expected to fall, reflecting increased supply in these markets and slower world growth.

Strong rural prices and falling import prices are also expected to support Australia's terms of trade. Rural prices have risen in recent times, driven by temporary supply-side factors such as drought, as well as rising demand from emerging economies and increased biofuel production. Australian dollar import prices are expected to continue to fall, but at a slower rate given some upward pressure from higher world inflation.

Box 5: World bulk commodity markets

Strong growth in world demand for coal and iron ore has rapidly outstripped supply in recent years. This has driven bulk commodity prices to record highs (Chart A).

Chart A: Bulk commodity prices



Source: ABARE and Treasury.

Prices for thermal and metallurgical coal have surged due to strong demand in China for coal used in electricity generation and steelmaking. Benchmark US dollar prices for the current contract period (the 2008-09 Japanese fiscal year (JFY)) for hard coking coal are 550 per cent higher than five years ago, and for thermal coal are 365 per cent higher.

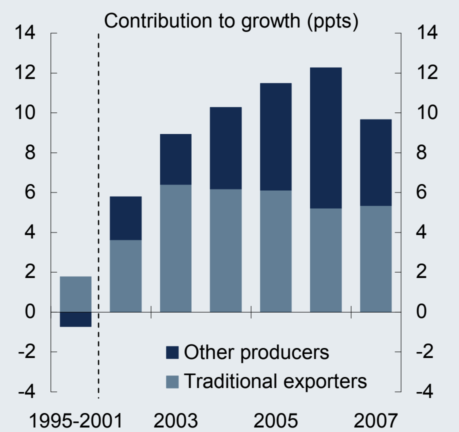
A fall in China's net exports of coal provides an indication of their increase in demand. Chinese exports of coal fell by almost 40 million tonnes over the past four years.

While the fall in China's net supply to international markets represents only a small share of world coal output, it has had a large price impact due to the inability of other exporters to expand supply in the near term. Recent tightness in world coal markets has been exacerbated by flooding in Australia and Indonesia, infrastructure constraints in Australia and South Africa, and world shortages of mining materials and personnel, which have put further upward pressure on prices.

Iron ore contract prices have also risen significantly. Expected $US contract prices for the 2008-09 JFY are almost five times higher than in 2002-03.

As with coal, the large price rises reflect strong demand and the limited ability of traditional iron ore exporting nations (Brazil, Australia, India, South Africa, Canada and Sweden) to meet this demand. The lack of supply from traditional exporters has meant that some of the increase in demand has come from non-traditional, higher-cost producers, especially China (Chart B).

Chart B: World iron ore production

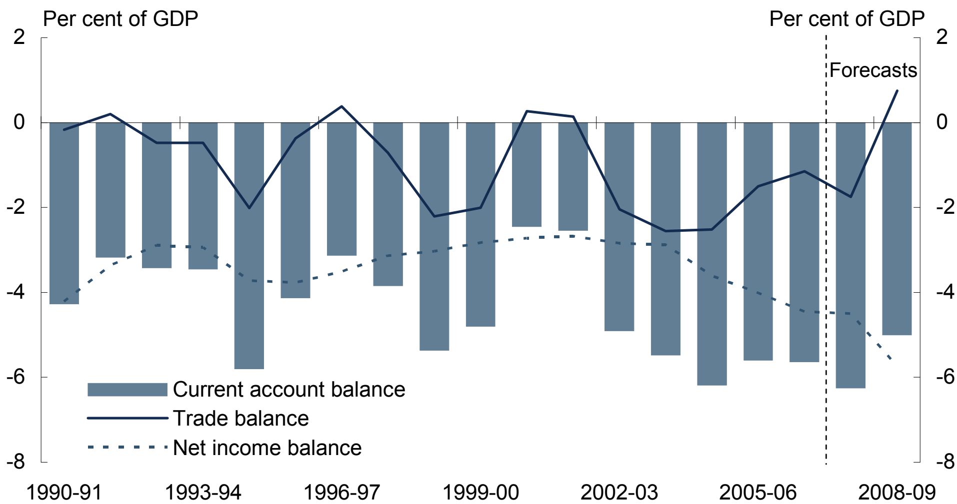


Source: International Iron and Steel Institute, ABARE and Treasury.

Current account balance

The strong rise in the terms of trade is forecast to result in a small trade surplus in 2008-09. However, the net income deficit is forecast to widen significantly, reflecting robust growth in corporate profits, particularly mining profits, and rising net interest payments from a higher stock of net foreign debt. Overall, the current account deficit is forecast to narrow to 5 per cent of GDP in 2008-09 (Chart 10).

Chart 10: Current account balance



Source: ABS cat. no. 5302.0, 5206.0 and Treasury.

The turbulence in world debt and equity markets is affecting the outlook for the net income deficit. In the nine months to the end of April 2008, the US Federal Reserve cut its target interest rate by 325 basis points while, at the same time, corporate spreads in both the US and Australia widened substantially. This is making the outlook for future world interest rates particularly uncertain.

The outlook for the net income deficit is also heavily dependent on the relative performance of domestic and foreign profits, particularly US corporate profits. While further strength in the terms of trade is expected to support growth in Australian profits, the range of possible outcomes has widened. This is particularly the case in the US, where the extent of losses suffered by financial institutions from the recent sub-prime mortgage crisis is still being uncovered.

From a saving and investment perspective, the narrowing of the current account deficit reflects expected higher national saving as a share of GDP and relatively unchanged national investment (Box 6).

Box 6: Net lending and the current account balance

Historically, investment in Australia has been greater than domestic saving. This has been reflected in persistent current account deficits, as Australia draws on foreign saving to fund that portion of national investment that is not funded by domestic saving.

Chart A decomposes Australia's net lending position — the difference between national gross saving and investment — into each of the sectors of the economy. The national net lending position represents the balance on the current and capital accounts.

Chart A: Net lending by sector

Source: ABS cat. no. 5204.0 and 5206.0.

For much of the past 50 years, households have been net lenders. However, over the 1980s and 1990s, households shifted to a net borrowing position in part due to financial deregulation and innovation. In the early-2000s, there was a rapid expansion of household borrowing for housing, particularly in 2002-03. However, the past three years have seen a fall in household net borrowing.

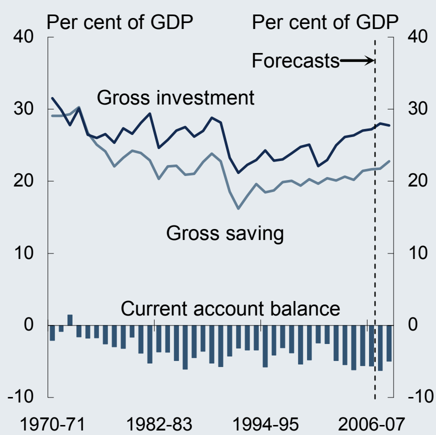
The household saving ratio is expected to continue to rise over the forecast horizon (Box 3).

The government sector has increasingly become a net lender, with general government saving more than offsetting general government investment.

Despite strong growth in non-financial corporate profits over the past five years, the non-financial sector has remained a net borrower, reflecting high rates of investment during this time. Gross investment as a share of GDP by the non-financial corporate sector has increased by 3.8 percentage points over this period.

Business investment is forecast to remain strong. Nevertheless, the combined effect of higher household and government saving is expected to result in a narrowing of the current account deficit in 2008-09 (Chart B).

Chart B: Saving and investment



Source: ABS cat. no. 5206.0 and Treasury.

Labour market, wages and consumer prices

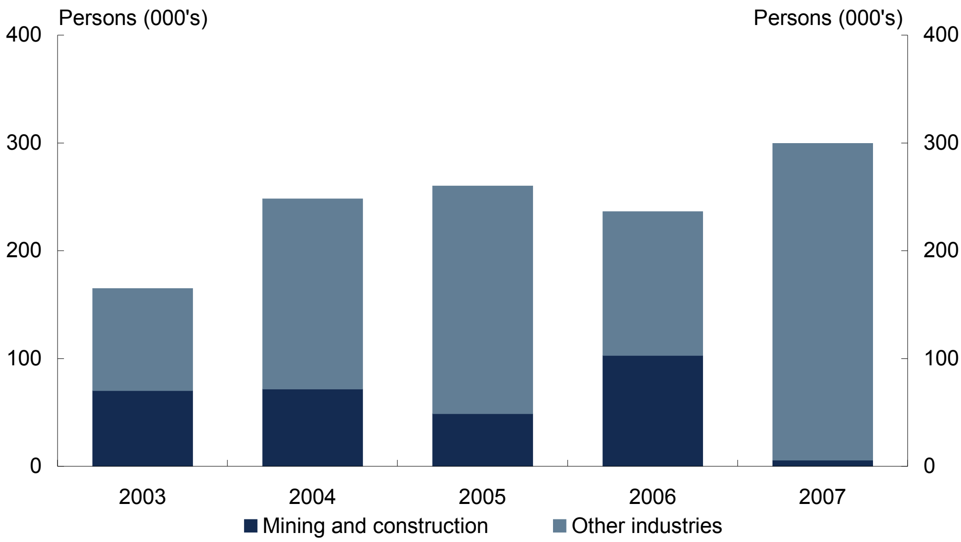
Labour market

The expected slowing in non-farm GDP growth from slower global growth, tighter credit conditions and higher interest rates is expected to see employment growth ease to 1¼ per cent in 2008-09, resulting in a gradual rise in the unemployment rate to 4¾ per cent by the June quarter 2009. The participation rate is forecast to fall slightly to 65 per cent.

The strong rise in the terms of trade to date has driven strong labour market outcomes. Since the beginning of 2004, employment has grown at an average annual rate of 2.7 per cent, while the unemployment rate has fallen from 5.6 per cent in January 2004 to 4.2 per cent in April 2008. The participation rate has also risen, and immigration has become an increasingly important source of labour supply (Box 7).

Consistent with the strong rise in non-rural commodity prices, employment growth in the mining and construction sectors has contributed solidly to total employment growth (Chart 11). Around 30 per cent of the rise in employment between 2004 and 2006 occurred in these industries, despite their share of total employment being only around 10 per cent. During 2007, however, almost all employment growth came from a range of other industries, reflecting higher incomes from the terms of trade rises flowing back through the economy, as well as capacity constraints in the mining and construction sectors. While further rises in the terms of trade will provide ongoing support for employment growth, the slowing in real economic activity is expected to have an offsetting impact over the forecast horizon.

Chart 11: Increase in employment by industry



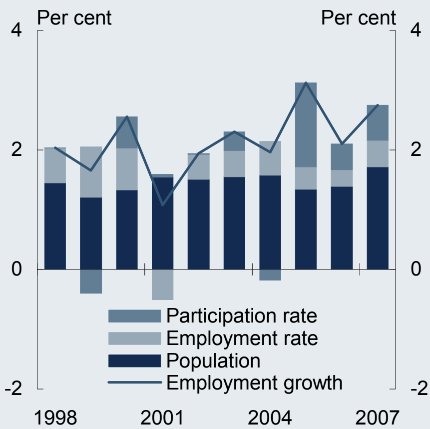
Note: Data are through the year to December.
Source: ABS cat. no. 6291.0.55.003.

Box 7: Skilled immigration and the labour market

Employment growth can have three sources — increases in the population (from either immigration or natural increase); increases in the participation rate; and reductions in the unemployment rate.

Between 2004 and 2007, employment in Australia rose at an annual average rate of nearly 270,000 persons, of which 56 per cent was due to population growth, 30 per cent to increases in the participation rate and 14 per cent to reductions in the unemployment rate (Chart A).

Chart A: Sources of employment growth



Source: ABS cat. no. 6202.0 and Treasury.

There are clearly limits to which employment can be increased through participation. In addition, as baby boomers reach retirement age, the proportion of the population of traditional working age (15 to 64 years) will decline. And with the unemployment rate currently around its lowest level in 33 years, immigration will play an important role in driving further growth in employment.

Immigration has been an important contributor to Australia's recent strong labour market outcomes. Employment increased by 290,000 persons over the year to February 2007, with almost 40 per cent of these people being recent migrants (those who arrived in Australia in 2003 or later).

The participation and unemployment rates of migrants depend on a variety of factors, including age, skill level, English language proficiency and length of time in Australia. For example, migrants who enter via skilled programs tend to have better labour market outcomes. In 2004, permanent skilled migrants had a participation rate of 82.4 per cent, higher than the general population, and an unemployment rate of 4.2 per cent, below the national average at that time.

Immigration will also remain important to meet areas of skill shortages in the economy. Skilled migrants and their dependants accounted for 66 per cent of immigrant visas in 2006-07.

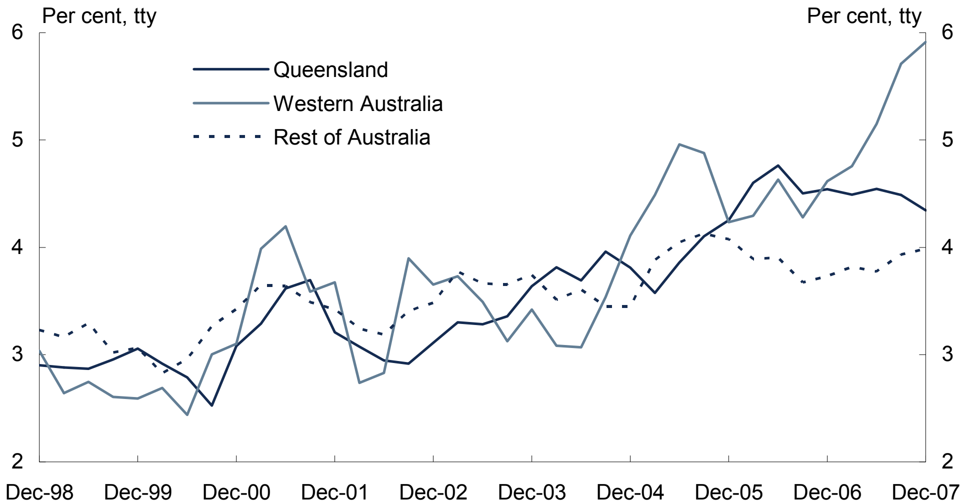
The Government is committed to meeting skill shortages in the economy through a carefully targeted skilled migration program. The Government will increase the skilled stream of the Migration Program by 31,000 places from 2008-09 and is intending to improve the integrity and responsiveness of temporary business long-stay visas.

Wages

Wages are expected to grow strongly, but are not forecast to accelerate given the anticipated easing in labour market conditions. The Wage Price Index is forecast to grow by 4¼ per cent in 2007-08 and 2008-09, with growth also 4¼ per cent through the year to the June quarters in both 2008 and 2009.

In recent times, wage growth has been strongest in the resource-rich States, a trend that is likely to be reinforced by further rises in non-rural commodity prices. Wage growth over the past two years has averaged 5.3 per cent per annum in Western Australia, 4.4 per cent per annum in Queensland, and 3.9 per cent per annum in the rest of Australia (Chart 12). This partly reflects strong wage growth in the mining and construction industries.

Chart 12: Growth in the Wage Price Index

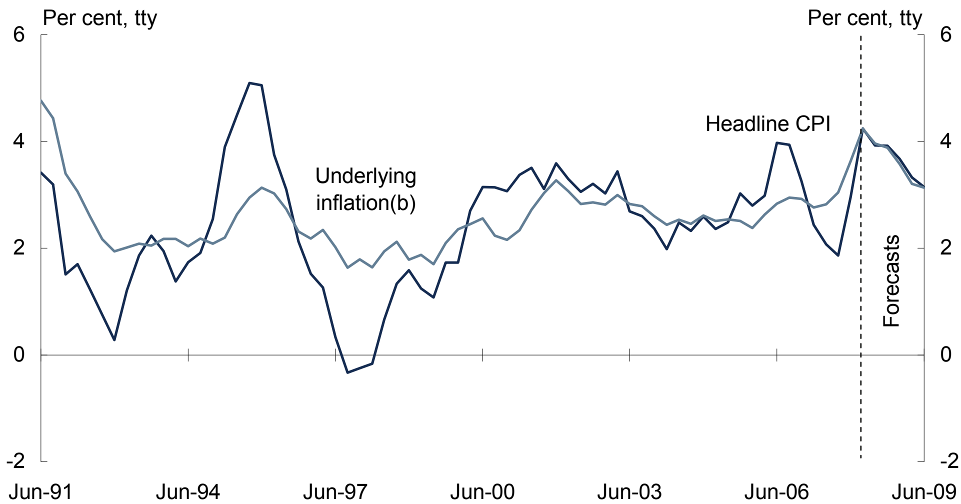


Source: ABS cat. no. 6345.0.

Consumer prices

Several years of strong demand in the Australian economy has not been matched by a commensurate expansion in supply. This has led to a significant build-up in underlying inflationary pressures (Box 8). The Consumer Price Index is forecast to increase by 4 per cent through the year to the June quarter 2008 and by 3¼ per cent through the year to the June quarter 2009 (Chart 13). The corresponding figures for underlying inflation are also 4 per cent and 3¼ per cent. The current broad-based strength in price pressures reflects an economy that has been running at close to full capacity. Inflation has also been exacerbated by high energy and food prices, and specific pressures from housing costs.

Chart 13: Headline and underlying inflation[(a)]



(a) Adjusted for the effects of *The New Tax System.*
(b) The underlying inflation measure is the average of the RBA trimmed mean and weighted median.
Source: ABS cat. no. 6401.0, Reserve Bank of Australia and Treasury.

Growth in nominal unit labour costs has been strong over the past three years, reflecting a slowdown in productivity growth and a modest pick-up in wages. As capacity constraints gradually ease, growth in nominal unit labour costs will moderate, helping to ease inflationary pressures.

Adverse supply conditions, including in Australia, have placed upward pressure on food prices both domestically and globally. Food prices rose by 5.7 per cent through the year to the March quarter 2008. There has also been strong world demand for agricultural food products. The expected recovery in Australia's farm sector may place some downward pressure on prices, although strong global demand pressures remain.

Housing costs are also expected to contribute to inflation over the forecast period. While house price growth is forecast to moderate, rising rental costs will continue to place upward pressure on inflation.

Incomes

In contrast to the slowing in real GDP growth, nominal GDP growth is forecast to pick-up. Nominal GDP is forecast to grow by 9¼ per cent in 2008-09 which, if realised, would be the fastest rate of growth recorded since the late 1980s. The divergence between nominal and real growth reflects strong growth in Australia's terms of trade, as well as elevated domestic price pressures that are reflected in the gross national expenditure (GNE) deflator (Chart 14).

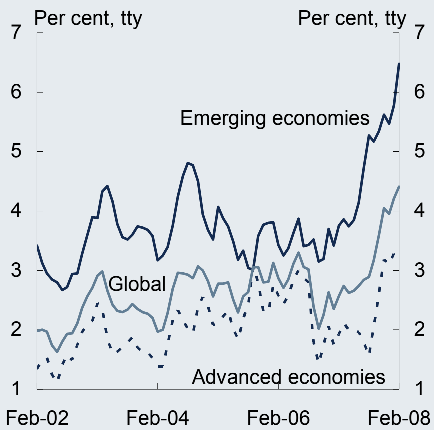
Box 8: The emergence of inflationary pressures

Underlying inflationary pressures have been building in Australia. While the risks of higher inflation have been identified for some time, recent data have revealed the extent of these pressures.

Underlying inflation picked up from 2.4 per cent over 2005 to 2.9 per cent over 2006 and 3.6 per cent over 2007. It is currently running at 4.2 per cent, its highest rate in over 16 years.

In common with other countries, Australia has experienced higher prices for energy and, more recently, food. These price pressures have seen inflation rise around the world (Chart A).

Chart A: Global inflation



Source: IMF WEO April 2008.

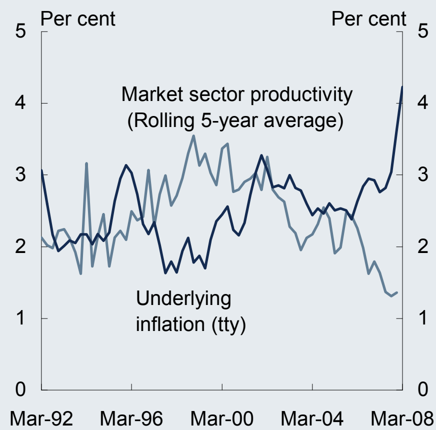
However, in contrast to the experience of other advanced economies, Australia has also faced strong domestic demand pressures. A long period of economic expansion, supported in recent years by the terms of trade boom, has absorbed much of the economy's spare capacity.

Demand growth has been broadly based, with particular strength in business investment. The labour market has tightened, with record-high participation and the unemployment rate at around 33-year lows.

The tight labour market, combined with shortages of skills in many industries, has led to stronger growth in wages as firms compete for suitably skilled staff.

Stronger growth in wages has occurred at the same time that productivity growth has slowed. Market sector productivity growth over the past five years averaged 1.4 per cent per annum; lower than in any five-year period since the early 1990s (Chart B). This has increased price pressures as firms seek to recover higher input costs.

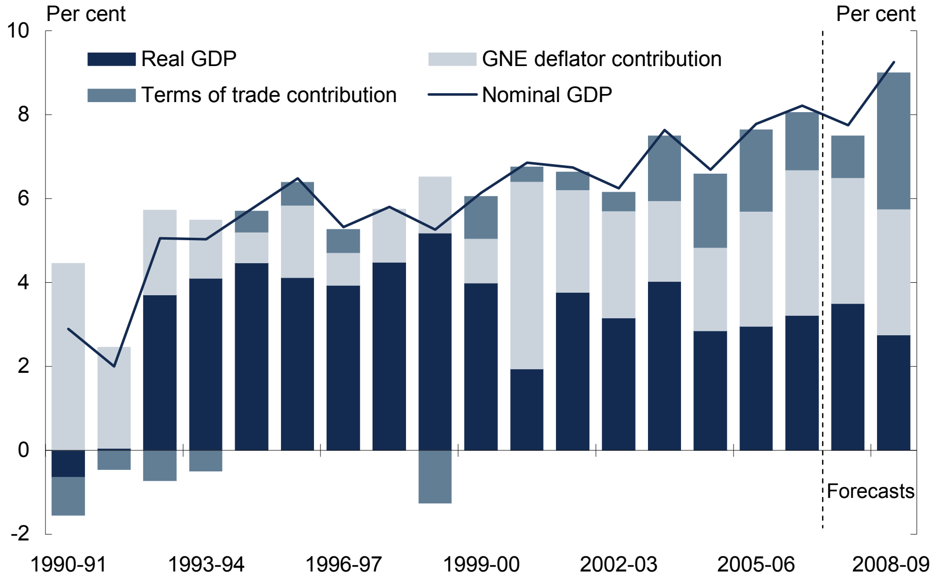
Chart B: Inflation and productivity



Source: ABS cat. no. 5206.0 and RBA.

Inflation is forecast to remain elevated, but to gradually ease with an increase in the economy's supply capacity and a slowing in demand.

Chart 14: Decomposition of nominal GDP growth



Note: The small discrepancy between nominal GDP and the sum of its components is due to interactions which cannot be attributed to individual components.
Source: ABS cat. no. 5206.0 and Treasury.

Broadly, nominal GDP is distributed throughout the economy as compensation of employees, gross operating surplus and gross mixed income. Compensation of employees reflects the total salary and wages paid to employees. It is forecast to grow by 8 per cent in 2007-08 and 6¼ per cent in 2008-09. The moderation in growth reflects the easing in labour market conditions, with wage growth expected to remain strong.

Gross operating surplus is a broad measure of profits. Corporate profits are expected to grow strongly over the forecast horizon, reflecting further strong rises in non-rural commodity prices. The profits of private non-financial corporations are forecast to rise by 8¼ per cent in 2007-08 and 18¾ per cent in 2008-09, with the sharp acceleration primarily due to strong profit growth in the mining sector.

Gross mixed income, which includes the wages and profits of farm and other unincorporated enterprises, is also forecast to increase strongly. Profits in the farm sector are expected to be strong, consistent with a recovery in farm production and high world prices for rural commodities.

The nominal economy has grown at an average annual rate of 7.6 per cent over the past three years, compared to an average annual rate of 6.2 per cent over the preceding decade. It is estimated that the cumulative addition to nominal GDP from the rise in the terms of trade is around $260 billion over the five years to 2008-09 (Box 9).

Box 9: The impact of the terms of trade boom on the economy

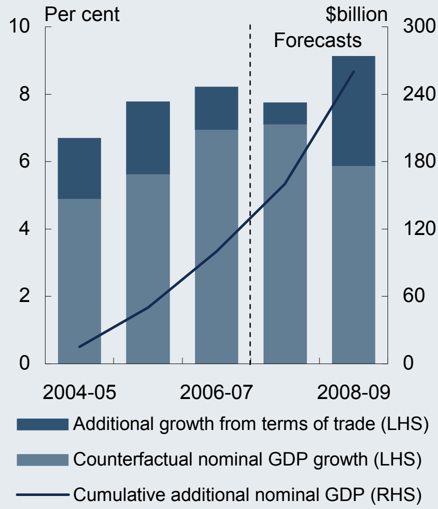
Rapid growth in the terms of trade since 2003-04 has boosted nominal incomes. As a result, aggregate real incomes have grown considerably faster than real GDP. Over the past three years, average annual growth in real gross domestic income has been 1.7 percentage points higher than growth in real GDP.

Quantifying this impact on nominal incomes depends on views as to how the economy would have evolved in the absence of the terms of trade rise.

The simplest approach is to recalculate nominal GDP with the terms of trade held constant at their average 2003-04 level. This captures the direct effect of higher export prices on nominal incomes. On this basis, nominal GDP is expected to be around 9 per cent, or $100 billion, higher in 2008-09 than it would have been had the terms of trade remained at their 2003-04 level (Chart A). Over the five years to 2008-09, the cumulative nominal GDP gain is estimated to be around $260 billion.

This approach assumes that the growth path of real variables, such as employment, is unaffected by the rise in the terms of trade. An alternative approach is to assume that key variables would have grown in line with their previous trends had the terms of trade not risen rapidly. Any divergence from trend is assumed to be due to terms of trade effects.

Chart A: Nominal GDP



Source: ABS cat. no. 5206.0 and Treasury.

Using this approach, total factor incomes are estimated to be 11 per cent higher in 2008-09 than in the counterfactual. This approach also provides an indication of effects on components of GDP.

The largest income boost is to corporate profits, which are estimated to be 20 per cent higher in 2008-09. Employees are also estimated to have benefited significantly from the terms of trade boom. Labour income is estimated to be 9 per cent higher in 2008-09 than in the counterfactual. Part of the increase in labour income is due to stronger growth in employment. The level of employment in 2008-09 is estimated to be 2 per cent, or 200,000 persons, higher than in the counterfactual.

STATEMENT 3: FISCAL STRATEGY AND OUTLOOK

This statement assesses the fiscal outlook against the Government's fiscal strategy.

The Government's fiscal strategy aims to ensure fiscal sustainability over the medium term.

The Government's medium-term fiscal strategy involves:

- achieving budget surpluses, on average, over the medium term;
- keeping taxation as a share of GDP on average below the level for 2007-08; and
- improving the Government's net financial worth over the medium term.

The Government is budgeting for an underlying cash surplus for 2008-09 of $21.7 billion (1.8 per cent of GDP), compared with the *Pre-Election Economic and Fiscal Outlook 2007* (PEFO) estimate of $14.3 billion (1.2 per cent of GDP). This honours the Government's commitment to deliver an underlying cash surplus in 2008-09 of at least 1.5 per cent of GDP, while banking upward revisions to tax receipts. All tax receipt revisions ($3.0 billion) since PEFO have been saved and added to the 2008-09 surplus.

All new spending since PEFO in 2008-09, including the Government's election commitments, has been offset by spending cuts. Overall, the Government has made total cash savings of $32.0 billion over four years, including $7.0 billion in 2008-09. These savings more than offset new policy in 2008-09 by $2.0 billion.

Overall, real government spending is forecast to grow by 1.1 per cent in 2008-09 — the lowest rate of growth in nine years.

Appendix A outlines budget accounting policy for the 2008-09 Budget and implications for the financial statements. Appendix B illustrates the sensitivity of the budget estimates to changes in the economic outlook.

Contents

STATEMENT 3: FISCAL STRATEGY AND OUTLOOK

THE GOVERNMENT'S FISCAL STRATEGY

The Government's fiscal strategy aims to ensure fiscal sustainability over the medium term. Sustainability is a core requirement of fiscal policy since government has a responsibility to ensure that it can meet its current and future spending commitments. A sustainable fiscal position provides greater certainty for decision makers, supports broader economic sustainability (including macroeconomic stability) and requires a focus in the budget on policies which strengthen the structure of the economy.

Key elements of a sustainable fiscal strategy

The Government's medium-term fiscal strategy involves:

- achieving budget surpluses, on average, over the medium term;
- keeping taxation as a share of GDP on average below the level for 2007-08; and
- improving the Government's net financial worth over the medium term.

Achieving budget surpluses on average

The Government's fiscal strategy provides necessary flexibility for the budget balance to vary in line with economic conditions. This allows the 'automatic stabilisers' — the tendency for both revenue and spending to vary in line with economic conditions — to automatically contribute to the stability of aggregate demand. Surpluses over the medium term also contribute to a strong government balance sheet.

Keeping taxes below the level of 2007-08

The Government's commitment to keeping taxes on average below the level in 2007-08 of 24.7 per cent of GDP ensures that budget surpluses will be delivered through disciplined spending, not higher taxation. By directing expenditure to priority areas — such as skills and infrastructure — the fiscal strategy can help to achieve the Government's policy priority of ensuring that Australia is investing in the long-term drivers of productivity and competitiveness. Focusing on quality spending, and reducing wasteful expenditure, allows the Government to allocate resources to high priority areas without placing an additional burden on taxpayers.

Improving the Government's net financial worth

Responsible fiscal policy looks beyond the forward estimates period — promoting fiscal sustainability over a much longer period of time. One indicator of the Government's longer term financial position and ability to withstand adverse economic shocks is its available stock of financially liquid net assets. To promote balance sheet sustainability, the fiscal strategy includes a commitment to improving the Government's net financial worth over the medium term.

The Government's commitment to improving net financial worth puts the focus on sustainability, thereby encouraging policies which structurally improve participation and productivity for the long-term benefit of the economy. This forward-looking perspective ensures that expenditure is directed at areas which help to promote the development of Australia's long-term productive capacity, and the wellbeing of future generations.

ASSESSMENT OF THE FISCAL OUTLOOK AGAINST THE STRATEGY

For 2008-09, the Government committed to achieving a surplus of at least 1.5 per cent of GDP to help ease inflationary pressures in the economy. The Government is honouring this commitment by delivering a surplus of 1.8 per cent of GDP. The Government has achieved this by banking upward revisions to tax revenue, rather than spending them. The Government has been highly disciplined in spending, with increases in spending in 2008-09 on election commitments and other priorities more than offset by savings, through cutting ineffective and wasteful programs and delivering administrative efficiencies. This is a responsible fiscal strategy given current economic conditions.

An underlying cash surplus of $21.7 billion is expected in 2008-09 compared with an estimated surplus of $14.3 billion at PEFO. In accrual terms, a fiscal surplus of $23.1 billion is estimated for 2008-09 compared to $13.6 billion at PEFO. The fiscal outlook is for further strong underlying cash and fiscal surpluses in the forward years.

The underlying cash balance is the Government's key fiscal indicator since the cash position has a more immediate impact on the macroeconomy than the accruing position measured by the fiscal balance. The fiscal balance is a better indicator of the longer term economic consequences of government decisions.

Table 1: Australian Government general government sector budget aggregates

	Actual	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue ($b)	**278.0**	**303.8**	**319.5**	**336.9**	**350.9**	**366.9**
Per cent of GDP	26.6	26.9	25.9	26.2	26.2	26.1
Expenses ($b)	**258.9**	**280.6**	**292.5**	**310.5**	**323.1**	**339.2**
Per cent of GDP	24.7	24.9	23.8	24.2	24.1	24.1
Net operating balance ($b)	19.4	23.3	27.0	26.4	27.8	27.7
Net capital investment ($b)	1.9	2.8	3.9	4.1	4.5	5.1
Fiscal balance ($b)	**17.2**	**20.4**	**23.1**	**22.4**	**23.3**	**22.6**
Per cent of GDP	1.6	1.8	1.9	1.7	1.7	1.6
Underlying cash balance ($b)(a)	**17.2**	**16.8**	**21.7**	**19.7**	**19.0**	**18.9**
Per cent of GDP	1.6	1.5	1.8	1.5	1.4	1.3
Memorandum item:						
Headline cash balance ($b)	26.7	25.4	23.6	20.9	20.5	20.5

(a) Excludes expected Future Fund earnings.

The 2008-09 underlying cash surplus is the largest budget surplus as a proportion of GDP since 1999-2000 and the second highest in 35 years (1973-74). On a consistent accounting basis which includes Future Fund earnings, it is the highest budget surplus as a percentage of GDP since 1970-71. A strong budget surplus ensures fiscal policy is playing its part to take pressure off inflation.

This Budget includes significant savings, many from cutting ineffective and poorly targeted programs and delivering administrative efficiencies. The savings reduce inflationary pressures in the economy, safe-guard the fiscal position against economic shocks and allow taxes to remain at levels consistent with supporting long-term economic growth.

All new policy for 2008-09 since PEFO, including the Government's election commitments, has been more than offset by savings (Table 2). For 2008-09, the Government has identified gross savings of $7.0 billion (of which, $1.6 billion are election commitments) and $32.0 billion over the forward estimates period. These savings from spending cuts and revenue measures more than offset election commitments and other spending priorities across the forward estimates.

Moreover, the Government has met all new expenditure measures in 2008-09 by spending cuts through reprioritising existing programs.

Table 2: Assessment against the fiscal target

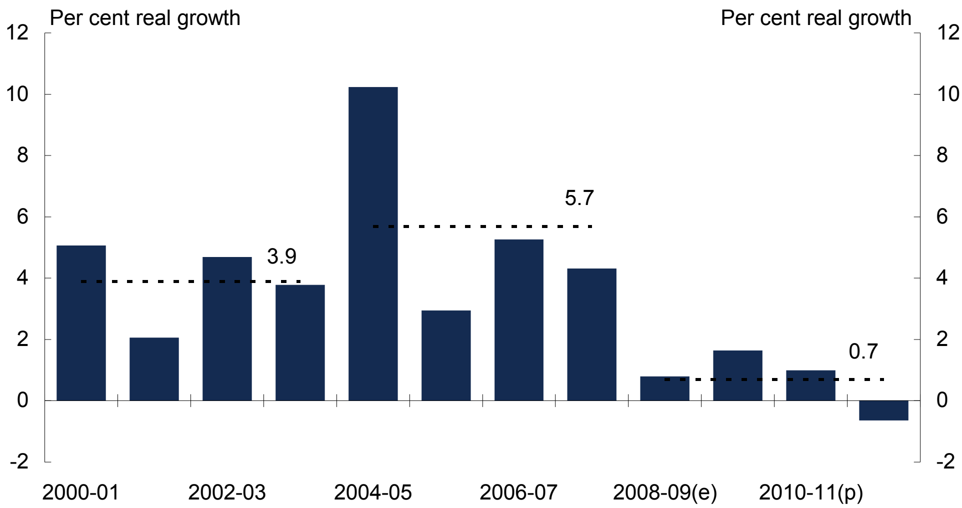
	2008-09 $m
2007 PEFO underlying cash balance	**14,319**
Per cent of GDP	1.2
Effect of policy decisions(a)	
Spending	**-5,009**
Receipts	*13*
Payments	*-5,022*
Savings	**7,005**
Receipts	*1,918*
Payments	*5,087*
Total effect of policy decisions	**1,996**
Parameter and other variations (excluding tax)	**2,426**
Surplus (before banking of tax variation)	**18,741**
Per cent of GDP	1.5
Tax receipt variations	**2,962**
2008-09 Budget underlying cash balance	**21,703**
Per cent of GDP	1.8

(a) Excludes GST receipts and payments of $371 million, which have no net impact on policy decisions.

Real spending is estimated to grow by only 1.1 per cent in 2008-09, down from the estimate at the *Mid-Year Economic and Fiscal Outlook 2007-08* of 2.9 per cent. Spending growth has fallen by about two thirds and is estimated to grow by the slowest pace in nine years. Over the budget and forward estimates period, spending is projected to grow on average by 2.3 per cent a year. This is significantly lower than the 4.0 per cent growth in spending over the preceding four years to 2007-08.

Government operating expenses include spending on wages and salaries of public servants. It excludes transfers (such as pensions), interest payments and government capital investment spending. The Government has significantly reduced forecast growth in real operating expenses, from an average 5.7 per cent over the four years to 2007-08 to 0.7 per cent over the four years to 2011-12 (Chart 1 below).

Chart 1: Government operating expenses

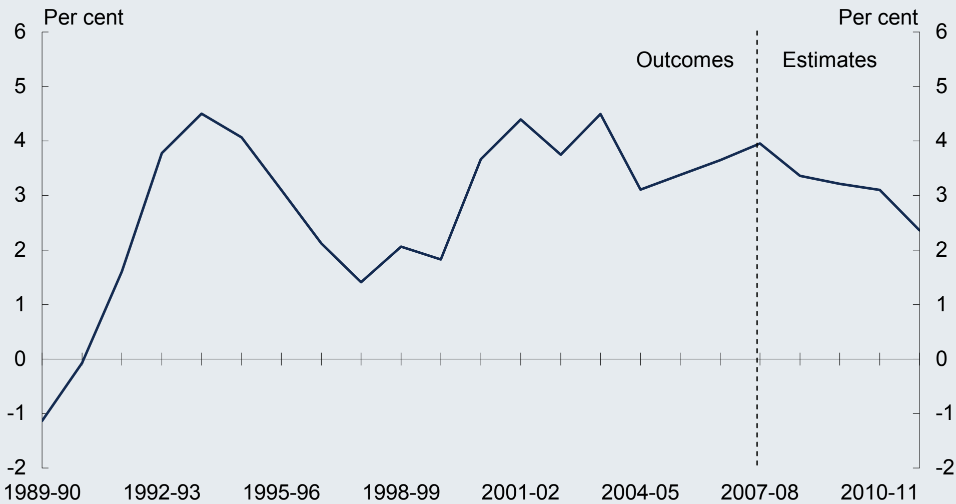


Source: Australian Government Final Budget Outcomes and Treasury estimates.

Box 1: Recent spending trends

At times, past fiscal policy settings have not restrained government spending and allowed large increases in spending growth. Chart A illustrates the growth in real government payments from the early 1990s through to 2008-09 using a moving 4 year average. The growth in payments during the early 1990s reflects an increase in higher social and welfare payments in a period when the economy was generally regarded as being in recession. The rise at the end of the 1990s partly represents an increase in payments associated with the introduction of the GST, while the rise since 2004-05 reflects higher spending financed by increased revenues associated with the commodities boom.

Chart A: Trend growth in real government spending

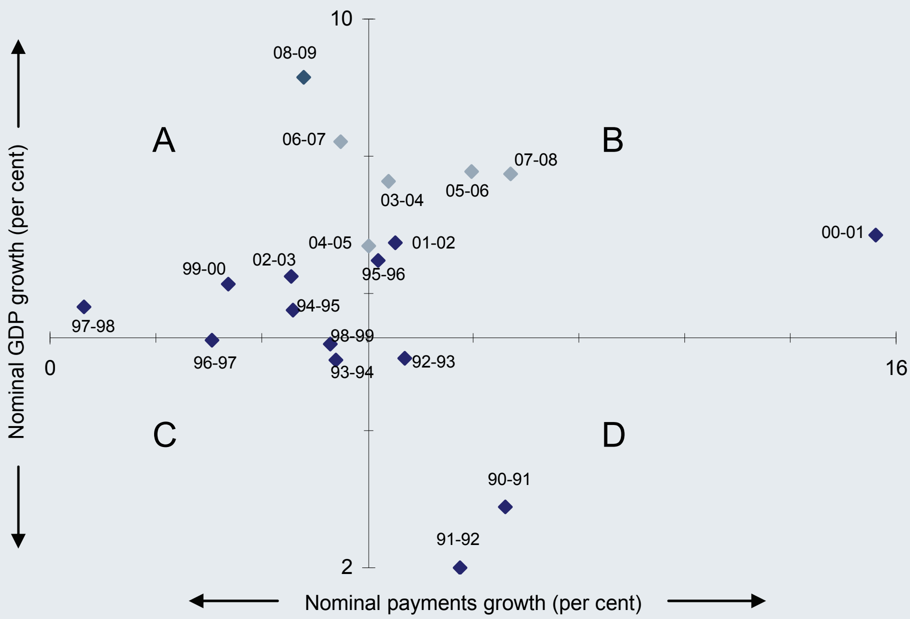


Source: Australian Government Final Budget Outcomes and Treasury estimates.

The 2008-09 Budget aims to ease pressure on inflation by exercising restraint on spending. From 2008-09, real spending is forecast to grow on average by 2.3 per cent per year over the four years to 2011-12. This compares with the previous four year period (to 2007-08) where real spending grew on average by 4.0 per cent per year.

Spending can add to inflationary pressures if it is pro-cyclical; that is, increases in spending stimulate demand in a strongly growing economy. Chart B below shows that spending in 2008-09 is restrained compared to recent spending growth.

Chart B: Spending and nominal GDP growth (1990-91 to 2008-09)



Source: Australian Government Final Budget Outcomes and Treasury estimates.

Chart B plots nominal GDP growth against nominal spending growth over the period 1990-91 to 2008-09. The chart's axes are located at the averages prior to the start of the commodities prices boom in 2003-04 (5.4 per cent for nominal GDP growth and 6.0 per cent for spending growth).

In quadrant *A*, nominal GDP growth is above average and spending growth is below average, which is consistent with a scenario of strong economic growth combined with low budget spending (for example on unemployment benefits). Quadrant *D* shows the opposite scenario, where low economic growth is combined with higher than average budget spending. *A* and *D* are consistent with fiscal policy which is relatively counter-cyclical. In contrast, quadrant *B* has higher than average spending and nominal GDP growth, while quadrant *C* has both below average.

Three of the four outcome years since the start of the commodities prices boom (2003-04 to 2006-07) as well as the estimate for 2007-08 are either inside or on the edge of quadrant *B*, where high nominal GDP growth is combined with high spending growth. By contrast, the estimate for 2008-09 is in quadrant *A*, as a result of spending cuts at the same time as continued strong nominal GDP growth. The 2000-01 growth in nominal payments partly reflects the introduction of the GST.

Cash flows

Variations in the underlying cash balance estimates

In 2008-09, an underlying cash surplus of $21.7 billion is expected, compared with the PEFO estimate of $14.3 billion. Table 3 provides a summary of Australian Government general government sector cash flows.

Table 3: Summary of Australian Government general government sector cash flows

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$b	$b	$b	$b	$b
Cash receipts					
Operating cash receipts					
excluding Future Fund earnings	291.7	309.0	326.6	340.1	355.4
Future Fund earnings	3.7	3.5	3.2	3.3	3.4
Total operating receipts	295.4	312.5	329.8	343.4	358.8
Capital cash receipts(a)	0.3	0.5	0.3	0.3	0.2
Total cash receipts	295.6	313.0	330.1	343.7	359.0
Cash payments					
Operating cash payments	267.5	278.5	297.8	311.4	326.7
Capital cash payments(b)	7.5	8.8	9.5	10.0	10.0
Total cash payments	275.1	287.3	307.3	321.4	336.7
Finance leases and similar arrangements(c)	0.0	-0.5	0.0	0.0	0.0
GFS cash surplus(+)/deficit(-)	**20.5**	**25.2**	**22.8**	**22.3**	**22.3**
Per cent of GDP	1.8	2.0	1.8	1.7	1.6
less Future Fund earnings	3.7	3.5	3.2	3.3	3.4
Underlying cash balance(d)	**16.8**	**21.7**	**19.7**	**19.0**	**18.9**
Per cent of GDP	1.5	1.8	1.5	1.4	1.3
Memorandum items:					
Net cash flows from investments in financial					
assets for policy purposes	4.8	-1.5	-2.0	-1.8	-1.8
plus Future Fund earnings	3.7	3.5	3.2	3.3	3.4
Headline cash balance	**25.4**	**23.6**	**20.9**	**20.5**	**20.5**

(a) Equivalent to cash receipts from the sale of non-financial assets in the cash flow statement.
(b) Equivalent to cash payments for purchases of new and second-hand non-financial assets in the cash flow statement.
(c) The acquisition of assets under finance leases decreases the underlying cash balance. The disposal of assets previously held under finance leases increases the underlying cash balance.
(d) Excludes expected Future Fund earnings.

While the 2008-09 underlying cash surplus is $7.4 billion higher than estimated at PEFO, the fiscal balance has increased by $8.4 billion (to $23.1 billion) compared to the PEFO estimate of $14.7 billion. A headline cash surplus of $23.6 billion is forecast for 2008-09, compared with a surplus of $18.3 billion at PEFO. The higher surplus largely reflects the increase in the underlying balance.

Since PEFO, total policy decisions in 2008-09 have had a positive impact of $2.0 billion on the underlying cash balance (see Table 4) and $0.9 billion on the fiscal balance

(Table 5). This difference primarily reflects the timing impacts of government decisions where an expense may accrue in the budget year, but the cash payment may not be paid until a subsequent year. In particular, the Education Tax Refund reduces the fiscal balance by $1.0 billion but has no impact on the underlying cash balance in 2008-09.

Since PEFO, total parameter and other variations have had a positive impact of $5.4 billion on the underlying cash balance and $7.5 billion on the fiscal balance. Part of this difference is due to the variance between tax receipts and tax revenue, reflecting compliance activity, new tax debts arising and the repayment or write-off of past tax debts. These differences will exist for all revenue heads and vary between years. Further, updates in the forecast Future Fund investment portfolio have a positive impact of $0.4 billion on the fiscal balance, but no impact on the underlying cash balance.

Table 4 provides a reconciliation of the variations in the underlying cash balance estimates. The variations driving the changes in the underlying cash balance are largely the same as the variations driving the change in the fiscal balance. Further details are provided in the 'Variations to the fiscal balance' section below.

Table 4: Reconciliation of 2007-08 Budget, 2007-08 MYEFO, 2007 PEFO and 2008-09 Budget underlying cash balance estimates

	Estimates		Projections	
	2007-08	2008-09	2009-10	2010-11
	$m	$m	$m	$m
2007-08 Budget underlying cash balance	**10,637**	**12,712**	**13,812**	**12,447**
Per cent of GDP	1.0	1.1	1.2	1.0
Changes between 2007-08 Budget and MYEFO				
Effect of policy decisions(a)	-3,886	-10,840	-13,859	-17,996
Effect of parameter and other variations	8,083	12,525	17,776	20,638
Total variations	**4,197**	**1,685**	**3,917**	**2,642**
2007-08 MYEFO underlying cash balance(b)	**14,834**	**14,396**	**17,729**	**15,089**
Per cent of GDP	1.3	1.2	1.4	1.2
Changes between MYEFO and PEFO				
Effect of policy decisions(a)	-406	-53	11	-35
Effect of parameter and other variations	-61	-24	-29	-33
Total variations	**-467**	**-77**	**-18**	**-68**
2007 PEFO underlying cash balance(b)	**14,367**	**14,319**	**17,711**	**15,021**
Per cent of GDP	1.3	1.2	1.4	1.2
Changes from PEFO to 2008-09 Budget				
Effect of policy decisions(a)	-2,777	1,996	13	1,874
Effect of parameter and other variations	5,225	5,388	1,945	2,101
Total variations	**2,448**	**7,384**	**1,958**	**3,975**
2008-09 Budget underlying cash balance(b)	**16,815**	**21,703**	**19,669**	**18,996**

(a) Excludes the public debt net interest effect of policy measures.
(b) Excludes expected Future Fund earnings.

Variations in fiscal balance estimates

Table 5 provides a reconciliation of the fiscal balance estimates.

Table 5: Reconciliation of 2007-08 Budget, 2007-08 MYEFO, 2007 PEFO and 2008-09 Budget fiscal balance estimates(a)

	Estimates		Projections	
	2007-08	2008-09	2009-10	2010-11
	$m	$m	$m	$m
2007-08 Budget fiscal balance	**9,999**	**11,860**	**14,101**	**13,704**
Per cent of GDP	0.9	1.0	1.2	1.1
Changes between 2007-08 Budget and MYEFO				
Effect of policy decisions(b)	-3,909	-10,766	-13,748	-17,836
Effect of parameter and other variations	8,792	12,548	18,062	21,256
Total variations	**4,883**	**1,781**	**4,314**	**3,421**
2007-08 MYEFO fiscal balance	**14,882**	**13,642**	**18,415**	**17,125**
Per cent of GDP	1.3	1.1	1.5	1.3
Changes between MYEFO and PEFO				
Effect of policy decisions(b)	-387	-64	0	-35
Effect of parameter and other variations	-61	-24	-29	-33
Total variations	**-447**	**-87**	**-29**	**-68**
2007 PEFO fiscal balance (as published)	**14,435**	**13,554**	**18,386**	**17,057**
Per cent of GDP	1.3	1.1	1.5	1.3
Adjustment to recognise GST	1,080	1,165	1,090	1,250
2007 PEFO fiscal balance (includes GST)	**15,515**	**14,719**	**19,476**	**18,307**
Per cent of GDP	1.4	1.2	1.6	1.4
Changes between PEFO and 2008-09 Budget				
Effect of policy decisions(b)				
Revenue	239	2,352	4,098	6,370
Expenses	3,120	1,324	4,204	4,533
Net capital investment	-98	136	77	7
Total policy decisions impact on fiscal balance	-2,784	892	-184	1,830
Effect of parameter and other variations				
Revenue	8,191	6,427	5,128	5,403
Expenses	-859	-3,054	-947	-1,282
Net capital investment	1,338	1,970	3,012	3,505
Total parameter and other variations impact on fiscal balance	7,712	7,512	3,064	3,179
2008-09 Budget fiscal balance	**20,443**	**23,122**	**22,357**	**23,316**
Per cent of GDP	1.8	1.9	1.7	1.7

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

Variations in revenue estimates

Total revenue in 2008-09 is expected to be $8.8 billion higher than forecast at PEFO.

Policy decisions taken since PEFO increase revenue by $2.4 billion in 2008-09. The major policy decisions affecting revenue include:

- the Government's election commitment to defer tax cuts for the highest income earners, providing savings of $5.3 billion over the forward estimates period;
- $640 million in 2008-09 ($3.1 billion from 27 April 2008 to 2011-12) from increased excise on 'other excisable beverages' (including 'ready-to-drinks') ;
- $564 million in 2008-09 ($2.5 billion from Budget night to 2011-12) from removing the current exemption of condensate from the crude oil excise;
- $226 million in 2008-09 ($2.9 billion over four years from 2008-09) from increasing the Migration Program by providing an additional 31,000 skilled stream places and 6,500 family stream places;
- a special dividend from Australia Post of $150 million; and
- $105 million in 2008-09 ($2.0 billion over four years from 2008-09) from increasing funding for compliance activities by the Australian Taxation Office.

Taxation revenue parameter and other variations have contributed $3.6 billion to this revision. Taxation revenue is expected to be subject to opposing forces. Stronger growth is expected in individuals' incomes, from increased employment and wages, and strong rises in commodity prices contribute to higher company profits and additional petroleum resource rent tax. Offsetting these influences are recent falls in share prices, which are expected to reduce capital gains, and higher interest expenses for business.

Non-taxation parameter and other revenue in 2008-09 is expected to be $2.8 billion higher than forecast in the PEFO, largely reflecting:

- an $814 million increase in the Reserve Bank of Australia's projected dividend (largely reflecting additional realised capital gains by the Reserve Bank);
- a $432 million increase in Future Fund earnings reflecting an increase in interest earnings ($751 million) partly offset by a reduction in estimated dividends ($319 million) due to revisions to the Future Fund's forecast portfolio; and
- an increase in interest received by the Australian Office of Financial Management on its investments.

Further detail on how the revised outlook for the economy has affected individual revenue heads over the forward estimates is provided in Statement 5. An analysis of the sensitivity of the taxation revenue estimates to changes in the economic parameters is provided in Appendix B.

Variations in expense estimates

Since PEFO, estimated total expenses for 2008-09 have decreased by $1.7 billion reflecting increased expenses from new policy decisions of $1.3 billion, offset by parameter and other variations of $3.1 billion.

Major policy decisions since PEFO that have increased expenses include:

- $400 million in 2008-09 ($1.2 billion over five years from 2007-08) to provide eligible schools with new or upgraded computers and communications technology as part of the *Digital Education Revolution*;

- $340 million in 2008-09 ($1.6 billion over four years from 2008-09) for increases to the Child Care Tax Rebate from 30 per cent to 50 per cent for out-of-pocket child care expenses;

- $233 million in 2008-09 ($993 million over four years from 2008-09) for the *Trade Training Centres in Schools Program* to provide facilities to enhance vocational education opportunities for Years 9 to 12 secondary school students;

- $233 million in 2008-09 ($1.9 billion over five years from 2007-08) to provide 630,000 additional training places under the *Skilling Australia for the Future* package to help address skills and labour shortages in Australia; and

- $227 million in 2008-09 ($2.4 billion over four years from 2008-09) for expenses resulting from the additional 37,500 permanent migrants under the Migration Program, comprising $132 million ($1.4 billion over four years from 2008-09) in health, education, employment and other services and $95 million ($1.4 billion over four years from 2008-09) additional GST payments to the states.

The impact of these policy decisions on expenses has been substantially offset by savings, including:

- $634 million in 2008-09 ($959 million over three years from 2007-08) for the termination of the OPEL contract due to OPEL's Implementation Plan not satisfying the condition precedent of the funding agreement;

- $412 million in 2008-09 ($1.8 billion over five years from 2007-08) for the application of the one-off 2 per cent efficiency dividend to departmental funding of Australian Government agencies;

- $307 million in 2008-09 ($1.1 billion over five years from 2007-08) for the abolition of the Access Card project which was to replace existing health and social services cards and vouchers;

- $305 million in 2008-09 of savings from Defence for overseas defence operations;

- $286 million in 2008-09 ($256 million over four years to 2011-12) from the recovery of overpaid compensation paid to the States for the decision to allow certain small businesses and non-profit organisations to pay their GST on an annual rather than monthly or quarterly basis; and
- $232 million in 2008-09 ($960 million over four years from 2008-09) from reduced public health insurance rebate costs as a result of the increases to the Medicare levy surcharge thresholds.

In 2008-09, parameter and other variations have decreased forecast expenses by $3.1 billion since PEFO. This primarily reflects a change in accounting treatments whereby purchases of Defence weapon systems are now classified as capital expenditures rather than expense. The new budget accounting framework is discussed in further detail in Appendix A. The remaining decrease in expenses primarily reflects:

- a $326 million reduction in estimated expenses primarily due to delays in Defence capital acquisition projects;
- a $318 million reduction in estimated expenses for Parenting Payment reflecting an increase in the number of people no longer eligible for the payment due to higher reported incomes;
- a $178 million reduction in estimated expenses for Pharmaceuticals and Pharmaceutical Services driven by a lower than expected growth in usage of a range of drugs on the Pharmaceutical Benefits Scheme;
- a $128 million reduction in estimated expenses for Family Tax Benefit driven by a decrease in customer numbers due to higher reported incomes; and
- the regular draw-down of the conservative bias allowance[1] reducing estimated expenses by around $1.2 billion.

In 2008-09, these decreases in expenses are partially offset by:

- a $562 million increase in estimated expenses for the Disability Support Pension (DSP) reflecting a lower than anticipated movement of customers from the DSP to Newstart Allowance under the Welfare to Work package;

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1 The forward estimates include an allowance for the established tendency of expenses for existing Government policy (particularly demand driven programs) to be higher than estimated in the forward years. To offset this, the contingency reserve includes an allowance based on past experience to preserve the overall integrity of the forward estimates. This allowance, known as the conservative bias allowance, is progressively reduced so that the budget year conservative bias is zero by budget night.

- a $240 million increase in estimated expenses for interest rate subsidies available under Exceptional Circumstances assistance, primarily due to a higher than expected take-up by eligible farmers;
- a $221 million increase in estimated expenses for the Child Care Benefit resulting from higher than forecast use of child care services; and
- a $207 million increase in estimated expenses for Medicare Services reflecting increases in demand for a range of medical services including services provided by general practitioners, pathology services and diagnostic imaging services.

In 2007-08, estimated total expenses have increased by $2.3 billion since PEFO. This reflects new spending of $3.1 billion, including:

- $1.4 billion for the Seniors Bonus to provide a payment of $500 to eligible individuals before 30 June 2008;
- $500 million for additional funding to the States for public hospitals to be delivered through the Australian Health Care Agreements to relieve the pressure on public hospitals;
- $500 million for grants to Australian Universities for capital investment in priority areas;
- $427 million for the Carers' Bonus for a lump sum payment to carers before 30 June 2008, in recognition of their contribution in caring for people with disabilities and the frail aged;
- $100 million for capital funding to the States to build new supported accommodation for those with disabilities; and
- $75 million for the development of feasibility and planning studies for projects to address urban congestion.

The impact of these policy measures on expenses has been partially offset by reductions in estimated expenses due to parameter and other variations, including a $187 million reduction in Newstart Allowance, reflecting a lower number of recipients than previously forecast, and a $177 million reduction in Parenting Payment reflecting an increase in the number of people no longer eligible for the payment due to higher reported incomes.

More detailed information on expenses can be found in Statement 6. A full description of all policy measures since PEFO can be found in Budget Paper No. 2, *Budget Measures 2008-09*.

Variations in net capital investment estimates

In 2008-09, forecast net capital investment has increased by $2.1 billion since PEFO. This primarily reflects an increase of $2.8 billion due to a change in accounting treatment under the new accounting framework whereby purchases of Defence weapon systems are now classified as capital expenditures rather than being expensed. The new budget accounting framework is discussed in further detail in Appendix A.

The impact of the change in accounting treatment has been partially offset by a net reduction in capital investment of $679 million largely comprising:

- a reduction of $923 million reflecting delays in Defence capital acquisition projects, partially offset by an increase of $54 million for various capital projects for the Department of Immigration and Citizenship including investment in information technology systems and refurbishment of accommodation; and
- increases arising from new policy measures of $143 million, including an increase of $125 million for the National Medical Stockpile to replace expiring pharmaceuticals and pandemic vaccines and $21 million for capital purchases for the establishment of First Home Saver Accounts.

Net financial worth, net worth and net debt

Net financial worth measures a government's net holdings of financial assets and can be calculated from the balance sheet by subtracting financial assets from total liabilities. Net financial worth includes debt, but also superannuation liabilities, equity and other financial assets offsetting that liability. Net financial worth is a key indicator of financial sustainability since it is a broader measure of the financial position than net debt. Net financial worth for the Australian Government general government sector is forecast to be -$3.6 billion in 2008-09 and expected to become positive in 2009-10.

Net worth is forecast to be $86.0 billion in 2008-09, compared with $33.6 billion at PEFO. This primarily reflects the Government adopting a new accounting standard at this Budget which requires that defence weapons be treated as an asset (see Appendix A for more information).

Since PEFO, the forecast level of net debt has fallen from -$33.9 billion to -$45.0 billion, largely reflecting a higher than anticipated underlying cash surplus for 2008-09. With negative net debt, the Government is expected to earn net interest receipts of $2.2 billion in 2008-09.

Table 6 provides a summary of Australian Government general government sector net financial worth, net worth, net debt and net interest payments.

Table 6: Australian Government general government sector net financial worth, net worth, net debt and net interest payments

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$b	$b	$b	$b	$b
Financial assets	183.9	212.1	237.3	256.7	283.6
Non-financial assets	86.7	89.6	93.4	97.8	103.0
Total assets	**270.6**	**301.7**	**330.7**	**354.5**	**386.6**
Total liabilities	**209.8**	**215.7**	**219.3**	**216.2**	**221.5**
Net worth	**60.8**	**86.0**	**111.4**	**138.3**	**165.1**
Net financial worth(a)	**-25.8**	**-3.6**	**18.0**	**40.4**	**62.1**
Per cent of GDP	-2.3	-0.3	1.4	3.0	4.4
Net debt(b)(c)	**-42.6**	**-45.0**	**-65.4**	**-86.5**	**-106.7**
Per cent of GDP	-3.8	-3.7	-5.1	-6.5	-7.6
Net interest payments	**-1.3**	**-2.2**	**-2.8**	**-3.1**	**-5.4**
Per cent of GDP	-0.1	-0.2	-0.2	-0.2	-0.4

(a) Net financial worth equals total financial assets minus total liabilities. That is, it excludes non-financial assets.
(b) Net debt equals the sum of deposits held, advances received, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.
(c) The net debt estimates include the expected impact of the Future Fund rebalancing its portfolio allocation by increasing its holding of equities, which are not included in the calculation of net debt.

Box 2: Budget transparency

The 2008-09 Budget includes a number of reforms to fiscal reporting frameworks that allow the community to understand more clearly the Government's fiscal policy and overall financial performance.

The Government has adopted major accounting policy reforms that improve the transparency, reliability and understanding of the budget financial statements. In this Budget, the Government is presenting a single set of financial statements, rather than the three sets presented in previous budgets. Many commentators have noted the confusion and reduced government accountability from presenting financial statements based on three different reporting frameworks — the Australian Bureau of Statistics Government Finance Statistics (ABS GFS), the Uniform Presentation Framework and Australian Accounting Standards (AAS). Further, a single accounting policy framework will apply right through all whole of government budget papers, from the budget to the consolidated financial statements (CFS). Previous budget statements were prepared on a different accounting basis from the financial statements audited in the CFS.

The budget financial statements will comply with both ABS GFS and AAS, except for disclosed departures. ABS GFS remains the basis of budget accounting policy, except where the Government decides to depart because AAS provides a better conceptual basis for presenting information of relevance to users of public sector financial reports. In this Budget, consistent with both AAS and ABS GFS, the goods and services tax is recognised as a Commonwealth tax. Further information on these changes to accounting policy can be found in Appendix A to this statement.

This Budget also includes:

- Fiscal projections for the underlying cash balance going forward 20 years in the medium-term fiscal outlook.
- A more comprehensive analysis of the sensitivity of budget financial aggregates to specific economic scenarios. Further information can be found at Appendix B to this statement.
- Updated and extended historical fiscal data. Further information can be found at Statement 10.

This information is important for budget transparency as it allows analysis of fiscal policy.

Improving budget transparency is an ongoing process. The Government is committed to reforms previously announced as part of *Operation Sunlight*, including better management of tax expenditures, enhanced reporting of long-term fiscal pressures and improved program reviews.

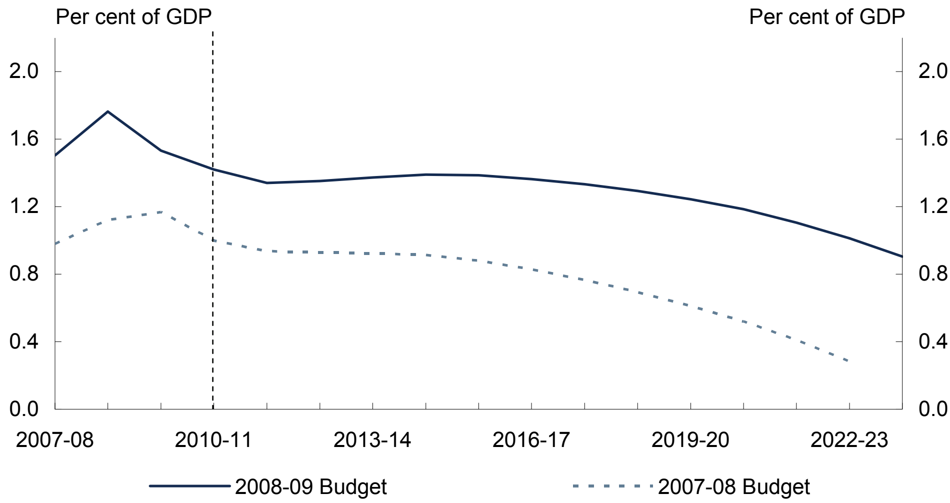
MEDIUM-TERM FISCAL OUTLOOK

Sustainability of public finances is the primary objective of the Government's medium-term fiscal strategy.

Fiscal sustainability is important for broader economic sustainability, including meeting the challenges of an ageing society, dealing with climate change and improving participation and productivity. Maintaining fiscal sustainability is also a core requirement of improving intergenerational equity (Box 3).

Chart 2 below shows that over a 20 year projection period on a consistent underlying cash balance basis, in the absence of policy changes, spending pressures associated with an ageing population increase. These pressures will constrain the capacity of governments to meet the community's future needs. Targeting policies towards expanding the productive capacity of the economy, through investments in skills and infrastructure, is the key to raising productivity and prosperity to meet the challenges of the future. Lifting the real growth rate of the economy in sustainable ways increases the ability of governments to finance future spending, as well as directly improving the wellbeing of Australians.

Chart 2: Fiscal projections over the medium term



Source: Treasury projections.

These projections are based on the same estimation methodology used in the second Intergenerational Report 2007 (IGR2), except net interest payments are included and IGR2 growth rates for spending apply from the end of the current forward estimates period. Like IGR2, revenue is assumed to remain at a constant percentage of GDP from the end of the forward estimates period. The projections incorporate the effect on the forward estimates of the 2008-09 Budget, which lowers the expense starting point for the projections. Structural effects on spending growth rates for the Government's policies in this Budget have not been included and will be updated following the full estimates review process normally conducted as part of the next Intergenerational Report.

Box 3: Economic and fiscal sustainability

Economic sustainability requires resources to be allocated in a way that improves the expected wellbeing of current and future generations, with no generation suffering lower wellbeing than any past generation. This recognises that people tend to aspire to higher living standards, a cleaner environment and less risky economic circumstances for both current and future generations. Rather than simply maintaining existing levels of wellbeing, in practice a more sustainable economy is one that provides well founded expectations of persistent improvements in wellbeing through time.

To be sustainable, an economy needs to improve both efficiency and intergenerational equity. A more efficient economy — with high levels of productivity and participation — is able to satisfy a higher level of overall wellbeing. Intergenerational equity means future generations should always expect to be no worse off than previous generations.

Policies which support economic growth are more likely to meet both the efficiency and equity elements of sustainability. A more efficient, growing economy is likely to improve the chances of achieving a more equitable society. More resources means governments are better able to redistribute within and between generations. Current generations may also feel inclined to maintain the wellbeing of future generations if their own wellbeing is improving. Economic growth is generally of benefit to current and future generations.

A key way governments impact on economic sustainability is through their fiscal policy. In particular, fiscal sustainability is important for delivering sustainable improvements in living standards over time. Fiscal sustainability can be defined as the ability of government to manage its finances so it can meet its spending commitments, both now and in the future. When governments do not manage their finances in a sustainable manner, economic growth and ultimately the services that the government provides the community suffer. The wasting of scarce resources reduces economic sustainability.

Fiscal sustainability can be assessed by looking at the expected path of spending in the future and what that implies for taxes, as well as the risks around that path. A fiscal policy focused on sustainability provides greater stability and certainty of future tax burdens and is likely to lead to better long-term decision making, encouraging investment and economic growth.

Appendix A: A New Budget Accounting Framework

The Australian Government has adopted a new accounting and financial reporting framework for the 2008-09 Budget. This framework improves transparency and the accountability of government financial reporting.

Background

Under the *Charter of Budget Honesty Act 1998* (the Charter) the Australian Government is required to produce financial statements that are based on two external reporting standards: the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) and the Australian Accounting Standards (AAS).

The previous Government adopted the ABS GFS (with certain departures) as the basis for its primary budget financial statements, with the AAS statements also produced and presented as a separate statement in Budget Paper No. 1. In addition, financial statements under the Uniform Presentation Framework, agreed to by the Commonwealth and States, were included in each budget publication. This meant that three separate sets of financial statements were prepared and published at each Budget, Mid-Year Economic and Fiscal Outlook and Final Budget Outcome (FBO). Each of these financial statements measured the same economic activities of the Commonwealth but reported different key financial aggregates.

In 2002, the Financial Reporting Council (the body established by the Australian Government to oversee financial reporting in Australia) directed the Australian Accounting Standards Board (AASB) to harmonise the ABS GFS and AAS frameworks. In October 2007, the AASB issued *AASB 1049 Whole of Government and General Government Sector Financial Reporting* as the standard to harmonise these two frameworks.

The new accounting standard

AASB 1049 has made significant progress in harmonising ABS GFS and AAS. In particular, where there was previously choice in the treatment of some transactions under AAS, AASB 1049 now prescribes the ABS GFS treatment be adopted provided that the choice is not inconsistent with other Australian accounting standards. Further, government financial information prepared according to AASB 1049 is now more closely aligned with the presentation prescribed under the ABS GFS framework. For example, AASB 1049 has introduced the concept of a 'statement of other economic flows' into the operating statement for changes in economic value during a period resulting from price and volume changes. Most importantly, AASB 1049 recognises the general government sector as a reporting entity outside of the normal requirement to base the reporting entity on the concept of control.

However, the new standard does not fully harmonise the two frameworks. Instead, AASB 1049 prescribes AAS measurement of budget aggregates on the face of the financial statements with reconciliation in the notes to the ABS GFS measurement of budget aggregates. These reconciliation notes are likely to cause confusion since they imply that a single economic concept can have more than one measurement basis. For example, AASB 1049 would require the Government to show a AASB cash surplus in the cash flow statement and an ABS GFS cash surplus in the notes.

There are a number of other areas where the new standard is not well suited to the Australian Government's financial management framework. For example, the AASB 1049 requirement for the general government sector FBO to be released with the whole of government consolidated financial statements (CFS) would reduce the timeliness of government financial reporting. The *Charter of Budget Honesty Act 1998* requires that the FBO be released by the end of September, whereas the CFS is not generally released until December after final audit clearance. The Government will continue to engage with the AASB with the aim of addressing these issues.

The Government's accounting policy

The Government has decided that the budget financial statements will continue to be based on ABS GFS, subject to departures where AAS provides a better conceptual treatment for specific items. The ABS GFS is a financial reporting framework specifically designed for economic analysis of the public sector by the International Monetary Fund. Importantly, given the Australian Government's key role as a manager of the macroeconomy, ABS GFS fiscal aggregates are consistent with measurement principles underlying the National Accounts.

The Government's budget accounting policy means that:

- the Government will fully comply with AAS and ABS GFS where each framework is in mutual agreement;
- where there are differences in the frameworks, the Government will only depart from ABS GFS where AAS provides a better conceptual treatment meeting the needs of users of public sector financial reports; and
- departures will be limited to complying with either ABS GFS or AAS. Importantly, this rules out departures from both, such as excluding GST from the Commonwealth financial statements.

The accounting policy has a number of consequences for the presentation of the financial statements that improve transparency. The Government will produce only one set of financial statements, down from the three sets produced in previous budgets. Further, a single accounting policy framework will apply right through all whole of government budget papers, from budget to the consolidated financial statements.

A single set of financial statements will comply with the requirement under the Charter for financial information to be based on both frameworks with all the departures disclosed. In practice, the ABS GFS presentation has largely been retained along with most of the previous departures from ABS GFS. The most significant changes are some new departures in moving from ABS GFS to the AASB 1049 treatment where the latter provides a conceptually superior accounting basis for measuring or presenting information in the financial statements. The Government has also removed a significant departure from both ABS GFS and AAS by recording the GST as a Commonwealth tax. A list of the departures and the reasoning for them is outlined at Note 2 of Statement 10.

Overall, the new accounting policy results in no changes to the underlying cash balance, while net worth improves by $31.6 billion, largely due to adopting the AASB 1049 requirement for defence weapons to be treated as an asset. The most significant departures from ABS GFS are likely to be eliminated as the GFS framework is updated. For example, recent updates to the Systems of National Accounts require defence weapons to be treated as assets. Since ABS GFS depends on the SNA framework, this change is likely to flow through to ABS GFS.

These reforms will allow the community to better hold governments accountable for their budget decisions. A single set of financial statements will reduce confusion among users, while for the first time preparing the audited CFS on the same accounting policy basis as the budget will improve financial accountability. Adopting ABS GFS as the basis for accounting policy will ensure that the financial statements continue to reflect the specific needs of users of public sector financial reports. Avoiding departures from both frameworks and opting for AAS where it is conceptually better will improve the accuracy of the financial statements. Overall, the Government's reforms will significantly simplify the presentation of Australian Government financial reports, while improving the financial information that is available to the Parliament and the general public.

APPENDIX B: SENSITIVITY OF BUDGET ESTIMATES TO ECONOMIC DEVELOPMENTS

The estimates contained in the Budget are based on forecasts of the economic outlook. Changes to the economic assumptions underlying the budget estimates will impact on receipts and payments, and hence the size of the underlying cash balance.

This section examines the impact on receipts and payments of altering some of the key economic assumptions underlying the budget estimates. Tables B2 and B4 illustrate the sensitivity of key components of receipts and payments to possible variations in the economic outlook. The two scenarios considered are:

- Scenario 1: a 1 per cent reduction in nominal GDP due to a fall in the terms of trade.
- Scenario 2: a 1 per cent increase in real GDP driven by an equal increase in labour productivity and labour force participation.

The economic scenarios provide a rule of thumb indication of the impact on revenue, expenses and the underlying cash balance of changes in the economic outlook. They represent a partial economic analysis only and do not attempt to capture all the economic feedback and other policy responses related to changed economic conditions. In particular, the analysis assumes no change in the exchange rate, interest rates or discretionary policy. The impact of the two scenarios on the economic parameters would be different if the full feedback response on economic variables and likely policy actions were taken into account. The analysis does not aim to provide an alternate picture of the economic forecasts under these scenarios, but instead gives an indication of the sensitivity associated with different components of revenue and expenses to changes in the economy. As such, the changes in the economic variables and their impact on the fiscal outlook are only illustrative.

The impacts shown in the tables below are broadly symmetrical. That is, impacts of around the same magnitude but in the opposite direction would apply if the terms of trade were to increase or if real GDP were to decrease.

Scenario 1

The first scenario involves a permanent fall in world prices of non-rural commodity exports, which causes a fall in the terms of trade, consistent with a 1 per cent fall in nominal GDP by Year 2. The sensitivity analysis evaluates the flow-on effects on the economy, the labour market and prices. The impacts in Table B1 are highly stylised and refer to per cent deviations from the baseline levels of the respective economic parameters.

Table B1: Illustrative impact of a permanent commodity price fall consistent with a 1 per cent fall in nominal GDP in Year 2 (per cent deviation from the baseline level)

	Year 1 per cent	Year 2 per cent
Real GDP	0	-¼
Non-farm GDP deflator	-¾	-¾
Employment	-¼	-½
Wages	0	-¼
CPI	0	-¼
Company profits	-3	-3
Consumption	-¼	-½

Assuming no change in exchange rates or interest rates, the fall in export prices leads directly to a lower non-farm GDP deflator (from the exports component of GDP) and lower domestic incomes. Lower domestic incomes cause both consumption and investment to fall, resulting in lower real GDP, lower employment and lower wages. The fall in aggregate demand puts downward pressure on domestic prices.

In reality, a fall in the terms of trade would be expected to put downward pressure on the exchange rate, although the magnitude is particularly difficult to model. In the event of a fall in the exchange rate, the real GDP effects would be dampened through the stimulus to the external sector, and there would be some offsetting upward pressure on prices.

Given these assumptions, the overall impact of the fall in the terms of trade is a reduction in the underlying cash balance of around $1.9 billion in Year 1 and around $4.8 billion in Year 2 (see Table B2).

Table B2: Illustrative sensitivity of the budget balance to a 1 per cent reduction in nominal GDP due to a fall in the terms of trade

	Year 1 $b	Year 2 $b
Receipts		
Individuals and other withholding taxation	-0.5	-1.9
Superannuation taxation	-0.1	-0.1
Company tax	-1.3	-2.7
Goods and services tax	-0.1	-0.2
Excise and customs duty	-0.1	-0.1
Other taxation	0.0	0.0
Total receipts	**-2.0**	**-5.0**
Payments		
Income support	0.1	0.1
Other payments	-0.2	-0.3
GST payments	-0.1	-0.2
Total payments	**-0.2**	**-0.4**
Interest change on surplus change	-0.1	-0.3
Underlying cash balance impact	**-1.9**	**-4.8**

On the receipts side, the fall in the terms of trade results in a fall in nominal GDP which reduces tax collections. The largest impact falls on company tax receipts as the fall in export income reduces company profits. Lower company profits are expected to flow through to lower Australian equity prices, reducing the collection of capital gains tax from individuals, companies and superannuation funds.

A slowing of the economy results in lower aggregate demand which lowers employment and wages. For these reasons, individuals' income tax collections fall and the reduction in disposable incomes leads to lower consumption which decreases GST receipts (and decreases GST payments to the States by the same amount) and other indirect tax collections.

On the payments side, a significant proportion of government expenditure is partially indexed to movements in costs (as reflected in various price and wage measures). Some forms of expenditure, in particular income support payments, are also driven by the number of beneficiaries.

The overall estimated expenditure on income support payments (including pensions and allowances) increases due to a higher number of unemployment benefit recipients. This is partly offset by lower expenditure on other income support payments (especially age pensions) reflecting lower growth in benefit rates flowing from lower wages growth. At the same time other payments linked to inflation fall in line with the reduced growth in prices.

The lower underlying cash balance also has a negative interest impact in both years due to interest forgone from reduced surpluses.

As noted above, under a floating exchange rate, the depreciation of the exchange rate would dampen the effects of the fall in the terms of trade on real GDP, meaning the impact on the fiscal position could be substantially more subdued. Also, to the extent that the fall in the terms of trade is temporary rather than permanent, the impact on the economic and fiscal position would be more subdued.

Scenario 2

The second scenario involves a combination of an equal 0.5 per cent increase in the participation rate and in labour productivity, resulting in a 1 per cent increase in real GDP by Year 2. Once again, the sensitivity analysis evaluates the flow-on effects on the economy, the labour market and prices. The impacts in Table B3 are highly stylised and refer to per cent deviations from the baseline levels of the respective parameters.

The 1 per cent increase in real GDP increases nominal GDP by around the same amount but the magnitude of the effects on receipts, payments and the underlying cash balance differ from the first scenario because this variation in the outlook affects different parts of the economy in different ways.

Table B3: Illustrative impact of an ongoing equal increase in both labour productivity and participation consistent with a 1 per cent increase in real GDP in Year 2 (per cent deviation from the baseline level)

	Year 1 per cent	Year 2 per cent
Nominal GDP	¾	¾
Non-farm GDP deflator	-¼	-¼
Employment	½	½
Wages	¼	¼
CPI	-¼	-¼
Company profits	1¾	1¾
Consumption	1	1

The increase in labour force participation and labour productivity have the same impact on output, but different impacts on the labour market. Higher productivity leads to higher real GDP and higher real wages, while an increase in the participation rate increases employment and real GDP. Imports are higher in this scenario, reflecting higher domestic incomes.

Since the supply side of the economy expands, inflation falls relative to the baseline. The fall in domestic prices makes exports more attractive to foreigners, with the resulting increase in exports offsetting higher imports, leaving the trade balance unchanged. The exchange rate is assumed to be constant.

The overall impact of the increase in labour productivity and participation is an increase in the underlying cash balance of around $2.8 billion in Year 1 and around $4.1 billion in Year 2 (see Table B4).

Table B4: Illustrative sensitivity of the budget balance to a 1 per cent increase in real GDP due to an equal increase in both productivity and participation (per cent deviation from the baseline level)

	Year 1 $b	Year 2 $b
Receipts		
Individuals and other withholding taxation	1.5	1.7
Superannuation taxation	0.0	0.1
Company tax	0.8	1.6
Goods and services tax	0.4	0.4
Excise and customs duty	0.4	0.4
Other taxation	0.0	0.0
Total receipts	**3.0**	**4.1**
Payments		
Income support	0.0	0.1
Other payments	-0.1	-0.2
GST payments	0.4	0.4
Total payments	**0.3**	**0.3**
Interest change on surplus change	0.1	0.3
Underlying cash balance impact	**2.8**	**4.1**

On the receipts side, individuals' income tax collections increase because of the rise in the number of wage earners and, additionally, higher real wages. The stronger labour market also increases superannuation fund taxes through greater contributions (including compulsory contributions) to superannuation funds. The increase in personal incomes leads to higher consumption which increases GST receipts (and increases GST payments by the same amount) and other indirect tax collections.

In addition, the stronger economy results in higher levels of corporate profitability, boosting company taxes. Higher profits are assumed to increase Australian equity prices, generating additional capital gains tax from individuals, companies and superannuation funds.

On the payments side, overall estimated expenditure on income support payments (including pensions and allowances) is slightly higher reflecting higher benefit rates flowing from higher wages growth. Higher income support payments are offset by a fall in other payments linked to inflation due to the lower growth in prices.

The higher underlying cash balance also has a positive interest impact in both years due to interest earned from higher surpluses.

To the extent that the increase in productivity and participation are temporary rather than permanent, the impact on the economic and fiscal position would be more subdued.

Statement 4: Boosting Australia's Productive Capacity: The Role of Infrastructure and Skills

This statement outlines some of the major influences on Australia's productive capacity, with a focus on the role of infrastructure and skills. The statement outlines key elements which could contribute to an improved policy and institutional framework to achieve better outcomes in infrastructure and skills, education and training and boost Australia's productive capacity.

Statement 4: Boosting Australia's Productive Capacity: The Role of Infrastructure and Skills

Introduction

The Australian economy is in its 17th year of expansion, with average growth of 3.6 per cent per annum over this period. This robust performance reflects the boost to productive capacity from the microeconomic reforms of the past quarter-century, the economy soaking up spare capacity, and a rise in aggregate labour force participation to historical highs, reflecting, among other things, the 'baby boom' generation moving into the 'prime working age' cohorts (Australian Government 2007).

However, the economy is now pushing up against its 'full capacity' levels of production and employment and this has been associated with an acceleration in inflation and more rapid wages growth in some regions and industries. Sustaining the economy's growth rate in the future will depend on increasing its productive capacity, rather than any further soaking up of spare capacity. This statement examines how Government policy can help to expand Australia's productive capacity and support growth over the medium term.

The ultimate test of economic reforms is in their effect on the wellbeing of the Australian people. A more efficient economy, with high levels of productivity and participation, provides the means to deliver higher incomes and a more equitable society.

It is now widely recognised that the comprehensive reforms to labour, capital and product markets and improved frameworks for macroeconomic policy introduced over the past quarter-century underpinned the length and stability of the current growth cycle. The challenge for economic policy now is to build on those reforms by expanding the productive capacity of the economy and to operate it as closely as possible to that capacity. An important issue for policy is to assess whether there are areas in which capacity constraints are more binding or restrictive than others, and how to improve policy or institutional frameworks to ensure investment contributes to stronger economic growth with low inflation over the medium term.

The impact of a once-in-50 years boom in Australia's terms of trade at a time of little 'spare' capacity in the economy has highlighted the importance of the microeconomic response to shocks. As noted in Statement 2, there has been a substantial rise in business investment, particularly in mining and construction, in response to the rapid rise in the terms of trade. On the other hand, questions have been raised over the response of the economy's physical infrastructure and the skills of the workforce to these changed circumstances.

Accordingly, in this statement the main focus is on the scope for improved policy and institutional frameworks for infrastructure investment, and investment in skills and training, as these are areas where there would appear to be significant scope to lift Australia's productive capacity.[1]

THE PRODUCTIVE CAPACITY OF THE ECONOMY

The productive capacity of the economy can be thought of as the maximum level of production of goods and services that can be generated, given the economy's resource endowments, physical capital stock, population, labour force and technology, while maintaining reasonably stable inflation rates and wages growth.

Growth accounting frameworks for analysing productive capacity

It is important to have a framework that allows us to analyse the economy's productive capacity. While there is a range of such frameworks[2], the framework employed by the Treasury disaggregates real economic output (GDP) into three components: population, participation and productivity (the '3Ps').

Each of the 3Ps can, in turn, be further disaggregated to reflect a range of demographic and economic factors. The demographic factors relate to fertility, mortality and migration, which affect the number of people of working age (population) as well as the composition of the population by age and gender. Because employment and hours worked differ substantially across age-gender cohorts, changes in the composition of the population also significantly affect participation. In this decomposition, the labour productivity measure used is output per hour worked.

Employing the 3Ps, the *Intergenerational Report 2007* highlighted the importance of demographic factors for Australia's future growth.[3] Real annual GDP growth for the next 40 years was projected to average 2.4 per cent, down from an annual average of 3.5 per cent over the past 40 years. This primarily reflects projected lower growth in population. Australia's population growth was projected to fall from the annual average rate of 1.4 per cent over the past 40 years to 0.8 per cent over the next 40 years,

1 In this statement, the term 'infrastructure' refers to the underlying physical capital in a society, including roads, transport systems, communications, water and sewerage, electricity, gas and ports. These facilities are often collectively termed 'hard infrastructure' or 'economic infrastructure'. The important contribution of 'soft infrastructure' or 'social infrastructure', such as schools, universities, research facilities, hospitals, and libraries to the development of Australia's human capital is addressed in the context of the discussion on skills, education and training.

2 See for example Solow (1956), Swan (1956), Barro and Sala-i-Martin (1995) and Mankiw (1995).

3 The Productivity Commission employed a similar approach in its study into the economic impacts of Australia's ageing population (PC 2005a).

reflecting falls in fertility rates starting in the 1970s. Real annual growth in GDP per capita was projected to fall from 2.1 per cent over the past 40 years to 1.6 per cent over the next 40 years, reflecting the impact of a projected decline in the share of the population of traditional working age (15-64 years) on participation.

For this statement, it is useful to re-arrange the 3Ps framework slightly to provide a greater focus on the role and importance of the capital stock — including public and private infrastructure — and skills, education and training to Australia's GDP growth. Australia's productive potential is largely driven by the interactions between and combined effects of the following:

- The rate at which the volume and quality of Australia's physical capital stock increases. This, in turn, will reflect trends in the size and economic efficiency of both the business or private capital stock, and public sector infrastructure.

- The rate at which the size and skill base of Australia's workforce increases, including the rate of overall population growth, the changing age structure of the population, the rate of active participation in the labour force across age groups and genders, and changing levels of education and training and attainment.

- The extent of 'pure' productivity, or multi-factor productivity, growth.[4] This represents improvements in allocative and dynamic efficiency that are not already captured in the elements discussed above.

This breakdown of the components of GDP growth highlights the role of particular factors that affect both productivity and participation. Well targeted investment in physical infrastructure can increase productivity by both increasing the capital stock and improving the efficiency of other factors of production. Sound investment in education and training results in a workforce with a better mix of skills leading to higher productivity, higher participation, lower unemployment and increased incomes and living standards.

Factors influencing expansion in productive capacity

Efficient investment in new capacity and the optimal utilisation of existing capacity are critical factors in raising an economy's productive capacity. A third factor, well-functioning markets with effective price signals, is necessary to support the first two. These factors provide a conceptual framework for assessing the appropriate role of government in improving outcomes in infrastructure and skills markets.

Efficient investment

The expected return on investment is generally relied upon to guide commercial investment decisions, with respect to how much to invest and in which areas. Expected

4 See for example: Banks (2002), Parham et al. (2001) and PC and ANU (1998).

social rates of return can be used as a major guide in decision making with respect to public infrastructure projects, to help ensure that both the level and composition of public infrastructure investment are consistent with achieving maximum possible wellbeing. Only public infrastructure projects which at least meet a minimum benchmark social rate of return — determined through rigorous cost-benefit analysis, including ex post evaluation and review — should be funded, and relative social rates of return above the minimum benchmark should be used to prioritise the funding of projects. While there are differences between the private and public components of the physical capital stock, there is a clear role for expected rates of return to drive investment decisions in both cases.

Expected rates of return on investment, both private and public, should also play a critical role in guiding investment decisions in the area of education and training. One challenge for policy is to ensure that expected private rates of return play an important role in guiding private decisions on whether to undertake higher education or training and in which areas. This requires appropriate price signals in the labour market and education and training institutions which are flexible and responsive to changing demands.

In some instances, however, private rates of return will not capture the full spectrum of benefits to investment in physical infrastructure or education and training. Infrastructure often involves 'network' effects, where one project has large effects (positive or negative) on other infrastructure. Problems may arise if these network effects are not recognised during the planning of infrastructure projects, and this may require coordination across a number of infrastructure providers.

There is also the potential for positive 'spillovers' stemming from education and training. Early childhood, primary and secondary school education play a critical role in increasing social cohesion in addition to their role in giving students the skills to enter the workforce. The possibility that the social returns to physical infrastructure and education and training potentially exceed the private returns has critical implications for assessing the appropriate level of, and allocation of, public funding for physical infrastructure and education.

Utilisation of existing capacity

Even with efficiently targeted investment, the long economic life of infrastructure assets means that it is also important for Australia to make the most efficient use of the existing stock of infrastructure at any point in time. Similarly, it is important to make efficient use of the skills of the workforce.

A number of reforms have improved efficiency across a range of areas of Australia's public infrastructure over the past two decades. The resulting increases in the productivity of Australia's stock of infrastructure, in turn, helped to raise Australia's potential level of output. Analysis by the Productivity Commission has highlighted that there are further gains to be made through additional infrastructure reforms.[5] Similarly, the Productivity Commission (2005b, 2007, 2008) has noted the important role played by reforms designed to make more efficient use of the existing stock of skills in the workforce in meeting identified shortages in a range of areas.

Effective price signals

A key mechanism that guides investments in infrastructure and education and allocates existing labour and capital to different uses is a market determined set of relative prices and relative wages. Above average wage growth in recent years in the engineering, construction and energy sectors has reflected increased demand for skills in those areas. Such differential rates of wages growth across industries and occupations are a sign that market signals are working to address areas of shortage, both by helping to efficiently allocate existing workers and by providing incentives for new workers to train in those areas.

In practice, problems can arise that mean that price signals do not always operate effectively in infrastructure and skills markets. Ensuring that the Australian economy has the appropriate level of skills and infrastructure requires effective solutions to these problems.

ACHIEVING BETTER OUTCOMES IN INFRASTRUCTURE

The physical infrastructure of the economy is an important component of Australia's productive capacity. The above framework can be applied to infrastructure in a way that ensures infrastructure funding and provision respond appropriately to changes in demand, albeit with substantial challenges given the characteristics of infrastructure.

Trends and emerging challenges in infrastructure

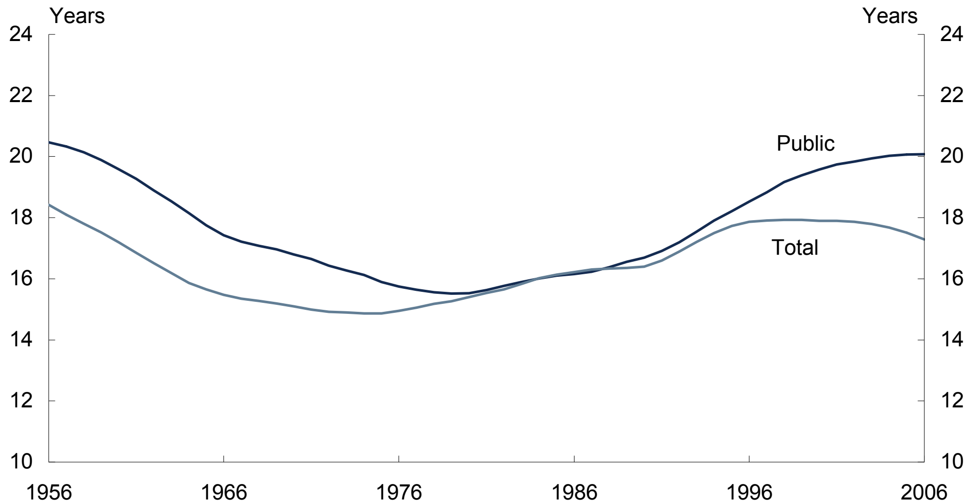
While there is no definitive summary measure of infrastructure adequacy, a range of data, including historical trends, international comparisons, and survey based information, can be used as possible pointers to the adequacy of Australia's infrastructure stock and investment performance over time.

5 The Productivity Commission (2006) estimated that improving productivity and efficiency in energy, transport, infrastructure and other activities could, after a period of adjustment, increase GDP by nearly 2 per cent.

Total investment in economic infrastructure, comprising both public and private investment, has increased as a share of GDP over the past 20 years, from around 2.2 per cent of GDP in 1988 to around 3.2 per cent in 2007.[6] It is important to recognise that this measure does not, in itself, directly measure costs and benefits or rates of return and therefore does not provide conclusive evidence about the adequacy of infrastructure. The contribution of private investment in economic infrastructure has increased strongly in recent decades to now account for around half of total infrastructure investment. This change in composition can, in part, be attributed to competition based reforms which have resulted in the privatisation of government owned businesses.

As physical infrastructure tends to have a long economic life, the flow of investment is unlikely to be a reliable indicator of infrastructure adequacy. The average age of Australia's public sector infrastructure has generally been rising since the 1970s (Chart 1), providing some support for the view that we are approaching, or past, the point where much of the large amount of public infrastructure put in place in the 1950s and 1960s will need to be renewed or replaced.[7]

Chart 1: Average age of infrastructure



Source: Coombs and Roberts (2007).

The different mix in public and private ownership of infrastructure between countries makes direct international comparisons difficult with respect to trends in infrastructure investment. However, a survey of a wide range of countries indicates

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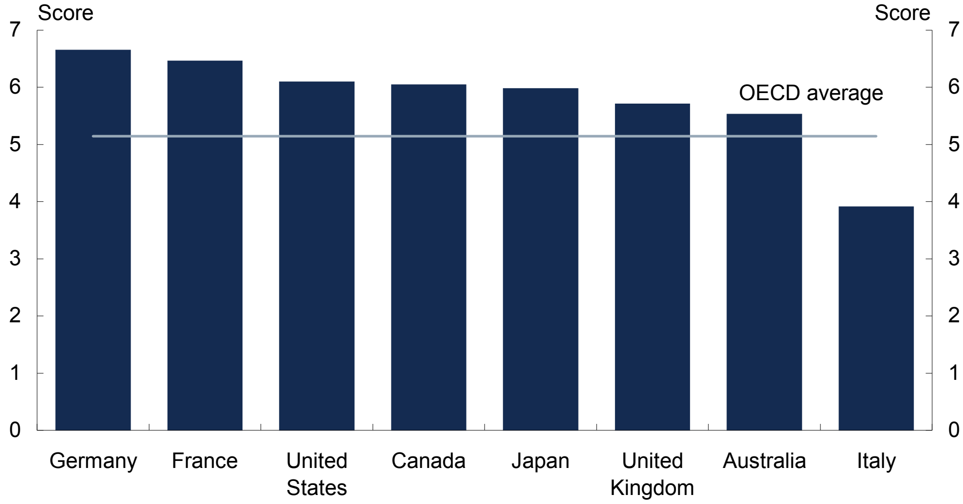
6 Series based on Coombs and Roberts (2007) revised to include updated data (ABS cat. no. 8762.0) and includes: bridges; electricity generation, transmission and distribution; harbours; pipelines; railways; roads, highways and subdivisions; sewerage and drainage; and telecommunications.

7 This issue is discussed in more detail in Coombs and Roberts (2007).

that while Australia is slightly above the OECD average in terms of the perceived ability of infrastructure to support economic activity (Chart 2), it is below the average of leading advanced economies (World Economic Forum 2007).

Chart 2: Index of the ability of infrastructure to support economic activity



Source: World Economic Forum (2007). Countries included comprise Australia and the G7.

Emerging challenges: Infrastructure bottlenecks and the terms of trade boom

The Australian economy has recently been operating closer to full capacity than it has been for many years. A number of studies have examined the question of whether constraints such as infrastructure bottlenecks and congestion are likely to impact on the productive capacity of the Australian economy as a whole and in particular industries and sectors.

The Business Council of Australia (BCA 2005, 2007), for example, highlighted concerns about infrastructure bottlenecks in a range of areas, including bulk and container ports, intermodal transport hubs, rail freight networks, urban roads, urban and agricultural water supply, and electricity networks. In 2005, the Export and Infrastructure Taskforce (the Fisher Taskforce), reported that there seemed to be export infrastructure constraints in some areas which had emerged in the context of the sharp increase in world demand for Australia's resource commodities. Although the Taskforce noted that these constraints were localised in nature, it also suggested that without policy action, significant additional bottlenecks in key areas could occur in the next 5 to 10 years (Fisher et al. 2005).[8]

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8 The areas of principal concern identified in the study were port channels, road and rail access to major ports and rail track. The study also noted that new water supply infrastructure, electricity generation plants and gas pipelines would also be needed.

These concerns reflect a view among commentators that the economy's physical infrastructure has not responded quickly enough to the shift in demand for our commodity exports reflected by the new highs in the terms of trade. Edwards (2007, p. 37), for example, noted that:

> The lesson of the new decade is that failures of supply can be as damaging as failures of demand. … Policies that influence supply … include the removal of infrastructure bottlenecks, the provision of additional infrastructure to meet expected demand, programs in education, and training and retraining that increase the supply of skilled workers.

Concerns over Australia's infrastructure constraints and export performance in recent years were key factors in the Government's announcement in February 2008 of a review into Australia's export policies and programs, to be chaired by Mr David Mortimer AO. (Transport infrastructure bottlenecks are discussed in Box 1.)

Policies to improve the efficiency of infrastructure development and use

Effective policies to address identified capacity constraints or infrastructure bottlenecks should encompass both efficient investment by the private and public sectors and efficient utilisation of existing capacity. The long lead times and illiquid nature of much infrastructure investment highlight the importance of governments providing certainty around policy frameworks.

While Australia has made substantial progress in reforming its infrastructure markets, most notably through the adoption of National Competition Policy (NCP) in 1995, a range of impediments to the operation of efficient and competitive infrastructure markets remain (PC 2006). These impediments inhibit timely and efficient infrastructure development and use and highlight the need to adopt further measures that facilitate the efficient allocation of scarce resources and minimise waste. Such measures range from pricing and regulatory reforms that encourage private sector participation and promote efficient and competitive outcomes, through to the development of methodologies for improving the efficiency and transparency of individual investment decisions.

Price signals

Effective price signals in infrastructure provide investors and governments with an important guide as to where further investment is required. They are also an important mechanism for improving the efficiency of infrastructure use. The Australian Government is pursuing a range of policy initiatives in this area.

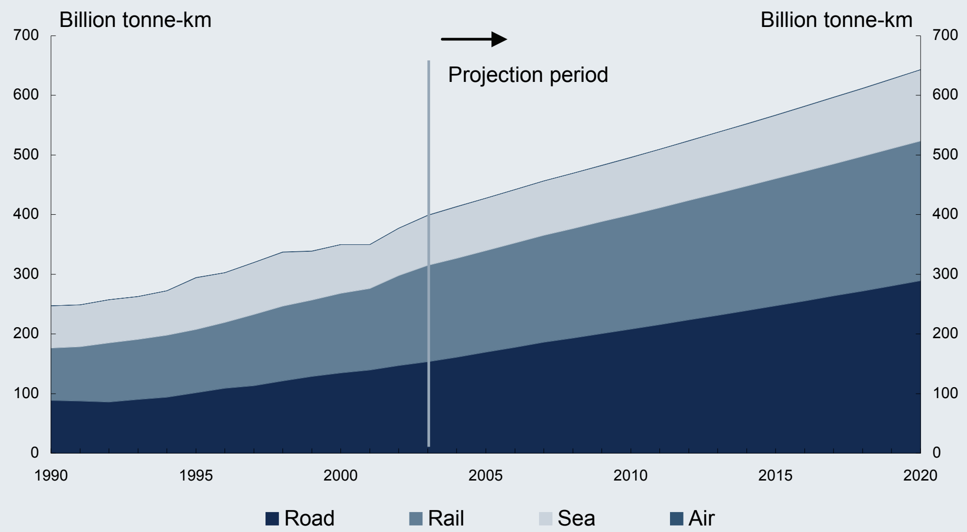
In transport, the Australian Government is working with its State and Territory counterparts through the Council of Australian Governments (COAG) to implement key pricing reforms in freight infrastructure, including the recent agreement amongst the nation's transport ministers to introduce a more efficient heavy vehicle pricing regime.

Box 1: Transport congestion, bottlenecks and future demands

The surge in global demand for resource and energy commodities that began in 2002-03 led to an increased call on Australia's port and rail infrastructure. On several occasions during 2007 and early 2008, a large number of ships sat off the coast between Newcastle and Dalrymple Bay in Queensland awaiting coal loadings. Subsequent efforts to address bottlenecks at port facilities then served to highlight constraints in the supporting rail networks. To a significant extent, these constraints are the result of large rises in global demand for iron ore and coal, experienced by Australia (Fisher et al. 2005) and other exporting countries. They highlight the challenges for Australia's infrastructure systems when there are large demand shifts in infrastructure dependent industries. More recently there have been initiatives to coordinate investment and logistics along the separate Queensland and New South Wales coal supply chains. Coordination bodies have been established that take a whole-of-system approach and involve all operational stakeholders along the mine to port supply chain.

More generally, with the bulk of Australia's population concentrated in large cities, urban transport congestion has considerable economic costs in terms of lost productivity and environmental impacts. As Australia's cities are also transport hubs (for rail, road, sea and air) urban transport congestion has wider impacts on the efficiency and cost of freight and long-distance passenger movement. The Bureau of Transport and Regional Economics (BTRE 2007) projects that the avoidable social costs of congestion to the nation will double from $9.4 billion in 2005 to $20.4 billion in 2020. These estimates are based on aggregate modelling, rather than on detailed network-based location-specific models, and as such, they provide 'order-of-magnitude' estimates of congestion costs rather than precise estimates. Domestic freight transport is also expected to increase substantially between now and 2020 (Chart A), placing pressure on existing transport infrastructure.

Chart A: Australian freight trends



Source: Freight measurement and modelling in Australia, BTRE (2006).

The new heavy vehicle pricing arrangements mark a first significant step in a program of road pricing reforms that seek to improve the efficiency and productivity of the transport sector. Under the regime, the cost of provision of the road network attributable to the heavy vehicle industry will be fully recovered to ensure all heavy vehicles pay their fair share of road infrastructure costs, including construction and maintenance. The new road pricing arrangements are being phased in over time to enable the trucking industry to make necessary adjustments and help mitigate any short-term inflationary pressure associated with the reforms. The broader adoption of efficient pricing signals in the transport sector would be expected to significantly reduce urban congestion (see Box 1).

Reforms to the national electricity market have enabled the creation of a spot market with prices set every half hour according to supply and demand. These prices provide signals to the market regarding new investment in generation, whether through base-load capacity for reliable and continuous supplies or peak capacity which can respond at short notice to high levels of demand. Further improvements could flow from improved market signals for transmission investment and from retail price signals that better reflect the costs of electricity generation at peak times.

There is also scope for pricing reform in water infrastructure. Australia is the world's driest inhabited continent and the recent drought has placed significant pressure on Australia's urban and rural water supplies due to nearly a decade of below average rainfall. Water restrictions have been introduced in most urban centres and water allocations to irrigators have been cut dramatically.

Water supply involves three basic phases; storage in dams and reservoirs, delivery via pipes and pumping stations and the removal of wastewater. Well functioning markets in water would fully account for both its scarcity value and the costs incurred in each phase, through price signals to guide investments in additional supply capacity and the use of existing capacity.

The National Water Initiative (NWI) includes a range of measures to promote well-functioning water markets. To date there have been some gains in rural water reform under the NWI, but progress has been slow, and COAG has recently agreed to accelerate and broaden the water reform agenda.

Optimal government decision making

Where the social return from infrastructure investment is high but the direct financial return is insufficient to generate private-sector involvement, and improving price signals is not possible or practical, there can be a role for government in infrastructure provision.[9] This can be done through direct investment by government or in

9 For example, ensuring the provision of public goods, and other cases where there are broader positive benefits and clearly established market failures that cannot be addressed effectively through other means such as improved regulatory frameworks.

partnership with industry (for example, through public-private partnerships). Where governments invest in infrastructure assets, it is essential that they seek to achieve maximum economic and social benefits, determined through rigorous cost-benefit analysis including ex post evaluation and review.

The Government will establish three funds to invest in Australia's productive capacity — the Building Australia Fund (BAF), the Education Investment Fund (EIF) and the Health and Hospitals Fund (HHF). The Government will provide an initial allocation in the order of $40 billion, largely from the 2007-08 and 2008-09 surpluses, for future capital investment in transport and communications infrastructure, education and health. Both the capital and earnings of the funds may be drawn down over time after specific infrastructure projects have been identified. This arrangement ensures substantial funding is available for capital investment in infrastructure over the next few years. All spending from the funds will be subject to rigorous evaluation criteria. The Government will make further contributions from future surpluses as appropriate.

To improve processes around the assessment of infrastructure investment decisions, the Australian Government established Infrastructure Australia (IA) to advise governments on nationally significant infrastructure. IA's advice will be based on rigorous analysis of the costs and benefits of various infrastructure proposals. IA will identify strategic investment priorities and policy and regulatory reforms to facilitate timely and coordinated delivery of infrastructure investments of national importance between all levels of government and industry. IA's immediate priority is to complete a National Infrastructure Audit by the end of 2008, and develop an Infrastructure Priority List for COAG consideration in March 2009. It is also to develop best practice guidelines for Public Private Partnerships for COAG consideration by October 2008.

The Government is planning infrastructure feasibility studies with the States on high-priority projects, at a cost of $75 million in 2007-08. These feasibility studies will feed into the National Infrastructure Audit to be completed by IA.

Another key challenge is to ensure that infrastructure investment decision making takes into account the impact of the broader macroeconomic environment on infrastructure development. When the economy is at full capacity this would reduce expected social rates of return on investments, pointing to the need for rigorous prioritisation.

A range of measures introduced by Australian governments are supporting the coordinated development of infrastructure capacity and its efficient use.

In the area of transport, COAG has agreed that governments adopt national guidelines to support improved, and nationally consistent, approaches to strategic planning and appraisal of transport initiatives and, as part of a series of road and rail reforms, commit to examining alternative institutional arrangements for better linking road-freight revenues to investment and enhancing decision-making.

COAG has also agreed to a staged approach for the roll out of electricity smart meters. Smart meters will allow consumers to monitor their energy usage in real time. The roll out of smart meters is an important reform because it will help consumers to better manage their energy use and greenhouse gas emissions. Smart meters will also allow for possible future reforms such as the introduction of time of day pricing. Time of day pricing would improve the efficiency of energy usage and assist with reducing the volatility in demand for electricity.

Climate change and the responses to address climate change will have impacts across most areas of infrastructure. Actions being developed through COAG under the National Adaptation Framework will help policymakers factor climate change considerations into decisions regarding long-lived investments such as infrastructure.

To address water shortages, governments have recently commenced significant new water infrastructure investment (particularly in urban areas), including desalination plants and piped irrigation channels. While responsibility for planning urban water investments rests with State and local governments, the Australian Government will help by providing $1 billion in tax credits and grants to eligible projects. Eligible desalination, water recycling and stormwater harvesting plants in urban areas will receive a tax credit or grant equivalent up to 10 per cent of their capital value to a maximum of $100 million per project.

Best practice regulation

A simple, timely and consistent national approach to the economic regulation of significant infrastructure is important to realising Australia’s productive potential. This includes applying regulation only where it is necessary, setting out clear objectives that support commercially negotiated, economically efficient outcomes, and adopting approaches that are timely and consistent across jurisdictions. To achieve this, Australian governments, through COAG, have committed to a range of reforms to the regulation of key port infrastructure, nationally significant railways and other significant infrastructure.

COAG’s energy market reforms have included the development of national regulations and governance for electricity and gas markets including the National Electricity Law and the National Gas Law. These reforms establish the Australian Energy Regulator as the national regulator and the Australian Energy Market Commission. Important ongoing work includes the development of a national framework for electricity retail policy.

The agreement reached on the operation of the Murray-Darling Basin provides for more effective regulation of a nationally significant water resource across jurisdictional boundaries. The agreement includes the imposition of a sustainable cap on surface and groundwater extractions and will allow for uniform trading and market rules, overseen by an independent authority. COAG has also agreed to progress issues in relation to urban water reforms.

Broad principles for public infrastructure investment

In summary, efficient public infrastructure investment requires the development of coordinated, objective and transparent processes for decision-making based on thorough and rigorous cost-benefit analysis. Adoption of high level best practice principles to inform the development of these processes will help governments achieve this. These broad principles would overlay a range of desired best-practice features as part of the investment process. Broad principles should include the following key elements.

1. A nationally coordinated approach to the development of significant strategic infrastructure.

2. The promotion of competitive markets.

3. Decision making based on rigorous cost-benefit analysis to ensure the highest economic and social benefits to the nation over the long term.

4. A commitment to transparency at all stages of the decision making process.

5. A public sector financial management regime with clear accountabilities and responsibilities.

ACHIEVING BETTER OUTCOMES IN EDUCATION, TRAINING AND SKILLS

The skill base of the workforce is a critical component of Australia's productive capacity. A workforce with a level and allocation of skills in tune with those required in the labour market will make better use of available stocks of physical capital and be more productive.

Perspectives on skill shortages

Changes in the supply of and demand for occupational skills are normal features of market economies. In a competitive economy, with price and wage flexibility, these changes can be expected to be reflected in relative wage movements which then assist labour markets for particular skills or in particular regions to clear over time. To achieve this, it is important to have a labour market where wages are set with reference to productivity and where adjustment can occur as smoothly as possible.

However, even with a relatively flexible labour market, adjustment processes do not always happen quickly, which means that some employers can be left with a shortage of the skills they require in the short term. A range of factors can contribute to such inertia in labour markets. For example, it can take time for firms to respond to a shortage of available workers by offering higher wages. Similarly, workers take time to respond to the new wage rates. Delays in recognition of the changing demand patterns can also occur in education and training institutions. During the adjustment process, employers are likely to report shortages, skills gaps and recruitment difficulties (Shah and Burke 2003).

Employers, employees and policy analysts often have varying perspectives on what is meant by the term skill shortages. At one level it is important to differentiate between the concepts of scarcity and shortage. In the case of skills, scarcity could be thought of as a situation where the wage rate for a particular skill in a given region or occupation is relatively high, with demand for and supply of that skill matched at that high wage rate. A shortage, on the other hand, occurs where there is excess demand for skills at the prevailing wage rate.

Skills shortages of a more lasting duration can also occur due to institutional or other rigidities that impede price signals and adjustment mechanisms. In such instances, costs to productive capacity can be substantial and ongoing if not addressed and are therefore an important focus for policy.

Trends and emerging challenges in workforce skills

There has been increasing focus in recent years on the growth and composition of skills across the workforce (NCVER 2008; DEEWR 2008a; PC 2008).

One commonly used source of data to assess the skill requirements of the economy is the DEEWR annual list of skills shortages in professional and trade occupations. This list is based on a combination of employer surveys augmented by market information. It provides qualitative information on skills in demand in each State and Territory and helps inform business and policy makers. It is also used in the preparation of the biannual Migration Occupations in Demand List (MODL) which shows occupations in demand for migration purposes.

An examination of MODL data over the past five years indicates that two key areas of skills demand are highly represented (Table 1). These are trade-related occupations — including carpenters, boilermakers, chefs, electricians, plumbers, mechanics, hairdressers; and health-related occupations — including general and specialist practitioners, nurses, pharmacists, and a range of health professionals.

Sudden changes in demand for skills can necessitate large changes in wage rates to elicit the additional labour sought by the affected industries. An important recent example of has been the labour market responses to the terms of trade boom.

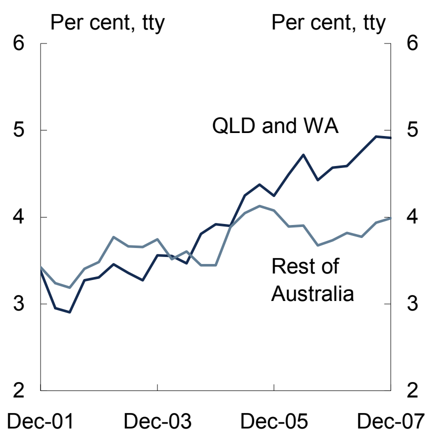
Table 1: Occupations listed in the Migration Occupations in Demand List in the five years to 2007

Listed in all years	Listed in four of the past five years	Listed in three of the past five years
Medical imaging professionals	Medical practitioner (includes GPs and specialist practitioners)	Medical imaging professional
– Radiographer		– Radiation Therapist
– Sonographer	Sheetmetal Worker (First Class)	Dental practitioner
Nursing professionals	Automotive Electrician	– Dentist
– Nurse	Fitter	– Dental specialist
– Midwife	Furniture Upholsterer	Engineer
– Mental Health	Metal Fabricator (Boilermaker)	– Chemical
Occupational Therapist	Metal Machinist (First Class)	– Civil
Physiotherapist	Motor Mechanic	– Mining
Pharmacist	Welder (First Class)	– Petroleum
– Hospital	Panel Beater	Podiatrist
– Retail	Pastrycook	Speech Pathologist
Chef	Accountant	Bricklayer
Hairdresser	Toolmaker	Cabinetmaker
Refrigeration	Vehicle Painter	Carpenter and Joiner
Airconditioning mechanic		Cook
		Electrical trade (Powerline)
		Electrician
		Electronic equipment trade
		Fibrous and solid plasterers
		Plumber

Source: Commonwealth of Australia Gazette (various years).

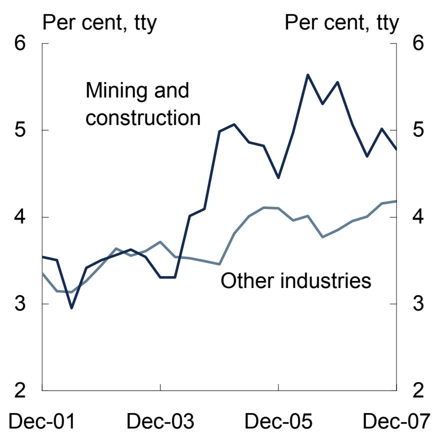
As outlined in Statement 2, the terms of trade boom has resulted in increased demand for skills in affected industries. Occupations in demand include mechanical, electrical, project and geotechnical engineers, geologists, accountants, project managers, and surveyors. This increased demand has been reflected in above average increases in wages in the affected industries and states in recent years (Charts 3 and 4).

Chart 3: Wages growth by state



Source: ABS cat. no. 6345.0.

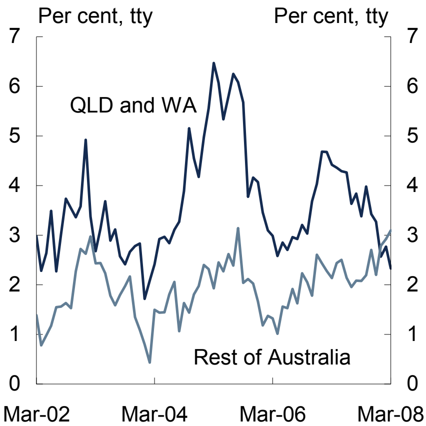
Chart 4: Wages growth by industry



Source: ABS cat. no. 6345.0.

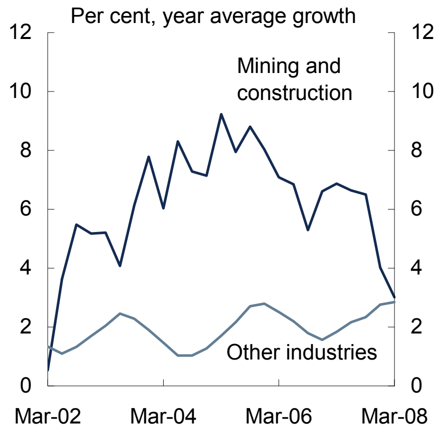
These higher wages have been associated with strong employment growth in the resource related sectors of mining and construction over much of the period, indicating that higher relative wages have helped to attract workers into these industries (Charts 5 and 6).

Chart 5: Employment growth by state



Source: ABS cat. no. 6202.0.

Chart 6: Employment growth by industry



Source: ABS cat. no. 6291.0.

While skills shortages pose a range of challenges to business and may highlight areas in need of policy action, a tight labour market can mean lower adjustment costs for employees. There are a number of adjustment costs associated with a firm's closure to both individuals and the macroeconomy. For individuals, these adjustment costs are both financial (including lost wages, costs of job search and moving costs) and non-financial (for example, the emotional costs associated with unemployment, change and dislocation). These costs tend to be lower and less enduring when labour markets are tight. In particular, workers with higher skills and experience are highly sought after in an economy with a tight labour market. The alternative, a surplus of skilled labour, has costs for the welfare of individuals and the overall economy.

The role of policy in response to skill shortages

In many cases skill shortages will resolve themselves over time through adjustments in relative wage levels and the subsequent responses of employers and employees. Nevertheless, an appropriate policy and institutional framework is important to facilitate this process.

Skilled migration

Immigration can be used as a policy instrument to alleviate specific skill shortages relatively quickly.

In recent decades skilled migrants have come to comprise an increasingly important component of total permanent migration, accounting for just under half of total gross migration in 2006-07. These were mostly concentrated in professional occupations, tradespersons, managers and administrators, and associate professionals. In addition, the number of skilled migrants under the temporary business long-stay visa has also been growing. Temporary migration of skilled workers complements the permanent migration program, in particular in assisting in responding to short term demands for skills in particular areas. In the medium to longer-term, the level of net overseas migration plays an important role in maintaining sustainable economic growth. Migration can reduce the rate of population ageing because new migrants are younger on average than the resident population.

Immigration will continue to be an important contributor to labour supply, with skilled migration in particular helping to address Australia's skill needs in the short-term while also delivering fiscal benefits. To this end, the Government will increase the skilled stream of the Migration Program by 31,000 places from 2008-09 and is intending to improve the integrity and responsiveness of temporary business long-stay visas.

The scope for better outcomes in education and training

The scope for achieving better outcomes in Australia's early childhood and school education, vocational and educational training (VET) and higher education sectors are examined below.

Early childhood and schools

The effectiveness of the early childhood and school education system is an important factor affecting overall skill levels of the Australian workforce. Basic literacy and numeracy provide the necessary foundation for developing higher-order skills that contribute to a more productive workforce.

There is also evidence that early childhood education can play a role in improving long-term developmental outcomes, particularly for children from disadvantaged backgrounds (Heckman and Masterov 2007). The Government will work with the States and Territories to ensure universal access to 15 hours per week of high quality early childhood education for four year olds by 2013. This and a number of other related initiatives outlined in Statement 1 are intended to play a role in improving children's educational outcomes later in life.

Australia's upper secondary attainment rates are lower than several other OECD countries. Following rapid increases through the 1980s and early 1990s, Year 12 retention rates in Australia have remained relatively constant at around 75 per cent over the past 15 years. Completing Year 12 is important not only as a pathway to further education, but because Australians who have not reached this level of attainment are significantly more likely to be unemployed than those who have (Kennedy 2007). Indeed, improving upper-secondary education attainment was one of the five policy priorities the OECD identified for Australia in *Going for Growth* (OECD 2008).

Literacy and numeracy achievement is the most influential factor in Year 9 students staying on to complete Year 12 and the strongest predictor of tertiary entrance performance (McMillan and Marks 2003). Students with low levels of literacy and numeracy achievement are also more likely to leave school earlier. The teaching of literacy and numeracy in schools is therefore a critical element in improving participation and productivity to boost potential growth in the medium- and longer-term.

While there is a range of research indicating that teacher quality is a critically important factor in improving educational outcomes,[10] there is evidence that the literacy and numeracy achievement of teachers has been falling (Leigh and Ryan 2006). Given this, a key reform challenge is to improve the quality of teaching that takes place in the classroom. This means ensuring that well trained high quality people are both attracted to and retained in the teaching profession.

There is also scope to improve the quality of new teachers entering the profession. Ensuring that teacher training is evidence based and grounded in the practical skills required of teachers in the classroom is important. And reducing barriers to entry into teaching from highly skilled members of other professions could be expected to improve the overall quality of the field of candidates seeking to enter the teaching profession. The long and costly process required to obtain the necessary qualifications to teach, over and above existing academic qualifications, may discourage large numbers of potentially gifted teachers from entering the profession.

Finally, public reporting of student and school performance, along with greater school autonomy and demand side pressures from parents to enhance school performance is likely to have significant positive impacts on student performance (Hanushek and Wößmann 2007). OECD (2006) research finds that students in schools that publicly release their performance results performed substantially better than students in schools that did not, even after accounting for the demographic and socioeconomic background of students and schools. The study also found that students in educational systems that give more autonomy to schools to formulate the school budget and to decide on budget allocations within the school tend to perform better.

Vocational education and training

Within the VET sector there is evidence that the effectiveness of training is variable. Many of the trades with low completion rates are also occupations that regularly appear on the national skill shortages list discussed earlier in this statement (NCVER 2006).

10 See for example, Leigh (2007), Rivkin, Hanushek and Kain (2005) and Rowe (2003).

While it is not possible with the available evidence to attribute low completion rates to the training or to broader workforce issues, it is clear that increasing the number of people participating in training alone is unlikely to be a cost-efficient way of addressing reported skills shortages in these areas. Hence, the vocational training system requires reform to ensure that greater investment will deliver more responsive, higher quality training that will contribute to higher productivity growth.

To maximise the effectiveness of vocational education and training in Australia, a fundamental principle should be that those institutions that offer the highest quality and most relevant training to employers and industry should not be excluded from competing for government funding. More competition should be a goal in a more contestable training market.

Higher education

The Government recently announced a major review of Australia's higher education system, which will examine and report on the future direction of the higher education sector, its ability to meet the needs of the Australian community and economy and the options for ongoing reform. Two important challenges for future higher education policy relate to achieving optimal funding levels and funding mechanisms, and ensuring that institutions have sufficient autonomy and flexibility to deliver the best mix of high quality research and educational outcomes.

Private rates of return should play an appropriate role in guiding decisions taken by individuals as to whether to undertake higher education, and, if so, in which area. University graduates (especially in some occupations) earn substantially more on average over their lifetimes than non-university graduates that form the majority of the taxpaying public. A related question is what the balance for university funding should be between taxpayers on the one hand and the students who will benefit from their education on the other. Another important principle in determining the appropriate funding balance is that equity remain a key feature of the system so as to not deter individuals from less privileged backgrounds from attending university. This is a particularly attractive aspect of the HECS-HELP system in Australia, where students can elect for their fees to be payable on an income contingent basis.

It is important that universities have as much flexibility as possible to determine their own particular role to allow diversity and specialisation among institutions. Some universities could be better off specialising as research orientated institutions while others would have a more vocational focus and specialise in teaching. Other institutions might have a more regional specialisation and focus on serving their particular local community.

A policy framework for better outcomes in education and training

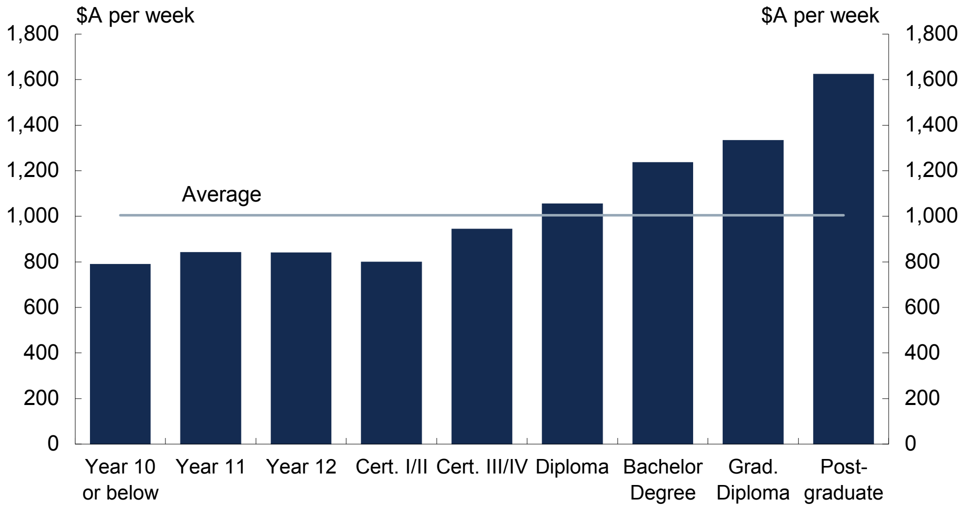
There are a number of policy challenges in ensuring Australia's education and training systems are effective and responsive in providing the skills development needed by individuals and firms. Improved regulatory and policy structures that allow the labour market to better match existing skilled labour to demand provide some safeguards against skill shortages arising and assist in ameliorating any that do arise.

Price signals

Studies for Australia and OECD countries generally indicate high positive private rates of return to education and training. For example, in Australia the latest available data indicate that average weekly full-time earnings for people with Certificate III level qualifications and above are at least 10 per cent above, and up to double, those without these qualifications (Chart 7). Educational attainment is also strongly related to labour force participation and a lower probability of unemployment over an individual's lifetime (Kennedy 2007).

In view of this, the challenge for policy is to ensure that educational institutions deliver high quality education and training services and are responsive to changing student demands, which in turn, reflect students' response to shifts in relative wage signals in the market place. Achieving this goal does not necessarily involve simply increasing public expenditure. Evidence for Australia and other high income countries indicates that, while there is a minimum resource level required to ensure that students achieve at a basic level, the evidence is less clear as to whether additional public spending on education by itself will lift student achievement. [11]

Chart 7: Average weekly full-time earnings by level of qualification, May 2005



Source: ABS cat. no. 6278.0.

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11 See for example, Hanushek and Wößmann (2007), McKinsey (2007) and Leigh and Ryan (2008).

Lack of appropriate price signals is likely to be one of the reasons for the consistent listing of health-related occupations in the MODL. For some health related professions, wages and employment conditions appear to be flexible in response to skill shortages as is generally the case in many other labour markets. However, in many areas of notable skill shortage such as nurses, institutional and other factors limit the degree of labour market flexibility.[12] Another group of public sector workers that would also fall into this category are teachers (Box 2).

Box 2: Skills shortages among teachers and nurses

Reported skills shortages in some areas — for example, teachers and nurses — are not always a reflection of a lack of suitably qualified people. Australian Bureau of Statistics data indicate that there are around 450,000 people aged between 15 and 64 who are trained as teachers, with only around 280,000 working as teachers. In nursing the situation is similar, with around 200,000 people working as nurses from a pool of around 340,000 people of working age with nursing qualifications (ABS cat. no. 4221.0, 6227.0 and unpublished data). To the extent that there are reported shortages in these areas, this does not reflect an absolute shortfall in suitably qualified people, but rather, a choice by many of them not to work in these fields. Given the competing demands for labour, solving skills shortages within schools clearly involves more than simply boosting the number of people qualified as teachers.

Population ageing is likely to see a dramatic increase in the demand for nurses due to changing burdens of disease, higher incomes and consequent expectations of the health system. However, many qualified nurses will be retiring just as the impact of ageing begins to place increased pressure on the health system. Currently, around 46 per cent of nurses are over 45 years of age. While demographic changes do not pose the same challenges on the demand for education services, the age profile within the teaching profession is even more pronounced than that of the nursing profession, with around 49 per cent of primary school teachers and 50 per cent of secondary school teachers over 45 years of age (DEEWR 2008b).

The public sector is often more constrained than the private sector in its ability to respond to staff and skill shortages by paying higher wages. Even so, there is still scope to improve relative price signals in these occupations to make better use of public resources. Research on attitudes to teaching as a career indicates that current pay arrangements are a factor in deterring high-quality graduates from entering teaching and deterring high-quality teachers from staying in the profession.[13] Leigh and Ryan (2006) find that pay dispersion in teaching has stayed the same, or declined,

12 For a discussion of the impacts of institutional factors and the role of professional associations on Australia's health workforce see PC (2005c).

13 DEST (2006), OECD (2005), Lewis and Butcher (2002).

over the past thirty years, while wage dispersion has increased in many alternative occupations. The Productivity Commission (2007, p 252), notes that:

> [P]rice signals have not been able to communicate the shortages in the teaching profession due to the inflexible nature of teachers' pay structures … providing greater flexibility in pay and reward structures would help to address the ongoing shortages.

The MODL lists also regularly include some other types of professionals, such as engineers and accountants, who are employed predominantly in the private sector, without the same restrictions on wages and employment conditions as is the case for nurses and teachers. Their inclusion in the MODL lists may broadly reflect the time it takes to train workers in these skills when demand for them increases sharply. To the extent that this is the case, there may only be limited scope for government intervention to address these shortages from domestic sources in the short term.

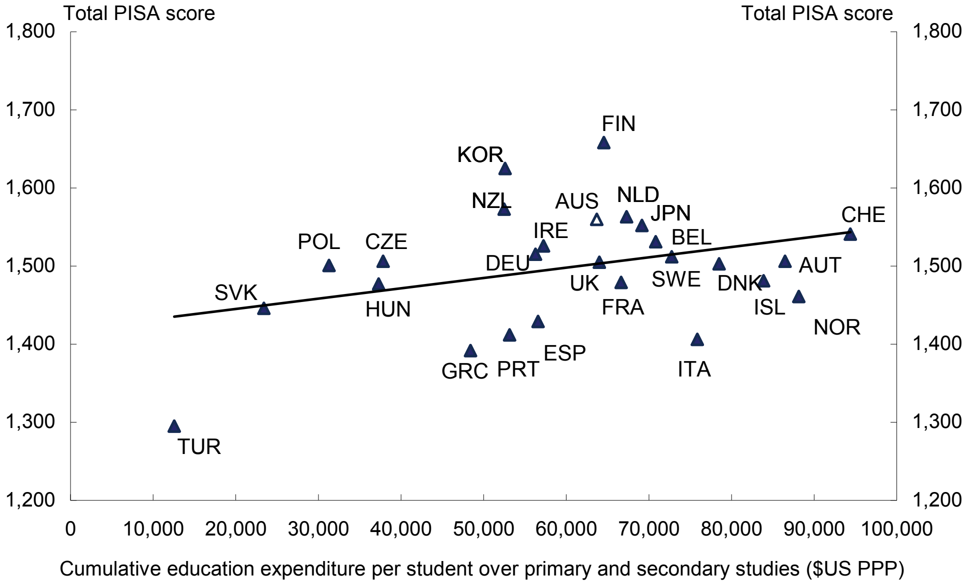
A key role for policy is to identify and reduce, as far as practicable, impediments to geographic mobility including regulatory barriers such as recognition of qualifications across States and Territories (Regulation Taskforce 2006). An example of this would be the introduction of a national registration and accreditation system for health professionals agreed to by COAG at its March 2008 meeting.

Optimal government decision making

The OECD Programme for International Student Assessment (PISA) data indicate only a weak relationship between expenditure and educational outcomes across all OECD countries, and no relationship for high income countries (including Australia, Chart 8). McKinsey (2007) also highlights the weak relationship between expenditure and education outcomes among high income OECD countries. The OECD (2007, p 61), concludes that: 'While spending on educational institutions is a necessary prerequisite for the provision of high quality education, spending alone is not sufficient to achieve high level outcomes'.

Hence, in increasing expenditure on education it is critical to assess the likely effectiveness of such investment. For example, one common approach that governments have introduced to try to improve the quality of teaching in recent years has been to reduce class sizes, requiring substantial additional government expenditure. However, research indicates that reducing class sizes across the board generally has minimal impact on educational outcomes, apart from the very early years (Dee and Keys 2005, Krueger 1997).

Chart 8: PISA 2006 test scores and cumulative education expenditure



Source: OECD (2007).

The importance of a well functioning vocational and educational training (VET) sector is highlighted by the high representation of trade-related occupations in skills in demand lists. This sector is characterised by a relatively low level of competitive pressures, with varying degrees of autonomy and incentives for publicly funded technical and further education institutes (TAFEs) to be flexible and responsive to the needs of students and industry. In addition, employers may not have the right incentives to provide training while employees (apprentices who receive a low wage in conjunction with a training commitment from the employer) would often have access to higher paying employment opportunities.

The Government's recently announced policy, *Skilling Australia for the Future*, adopts a demand driven approach to training delivery, in contrast to past supply driven approaches. As part of this policy, the Productivity Places Program will provide up to 630,000 new training places targeted at occupations facing skills shortages over the next five years. Up to 392,000 of these places will be for employers to train workers already in the workforce and up to 238,000 places will be targeted at job seekers.

A new body, Skills Australia, will provide the Australian Government with advice on the training needs of industry to help ensure that training is delivered in a way that responds to demand for skills. In particular, Skills Australia will undertake research and analysis on skills and workforce development needs; widely distribute this research and analysis to entrepreneurs, businesses and workers; advise the Government on current and future skills needs; and build relationships with State and Territory bodies associated with vocational education and training.

The Government will implement a reformed employment services system from 1 July 2009 with total funding of $3.7 billion over three years. The reformed system will better target assistance to the most disadvantaged job seekers, improve linkages with education and training, create greater flexibility for employment services providers to deliver assistance tailored to job seeker needs and encourage greater engagement with employers.

Under the reformed system, employment services providers will be encouraged to refer job seekers to education or training, including from the 238,000 additional training places (including apprenticeships) available for job seekers under the Government's *Skilling Australia for the Future* policy. Improving the skills of job seekers will boost their opportunity to gain sustainable employment.

CONCLUSION

This statement has identified areas where reform of Government policy can help to expand Australia's productive capacity over time, with the objective of building a more efficient and equitable economy, with high levels of productivity and participation, that is able to deliver a higher level of overall wellbeing.

The focus has been on some of the broad elements which could contribute to an improved policy and institutional framework for better utilising Australia's existing infrastructure stock and skill base, and for improved investment decisions in these areas in future years.

The discussion has emphasised the importance of rigorous cost-benefit analysis in informing infrastructure investment decisions. The discussion has also emphasised the value in enhancing market arrangements so that relative price and wage signals play the maximum possible role in guiding resource allocation. For infrastructure, this means a greater use of market mechanisms as determinants for both the efficient use of existing assets at any point in time and investment in infrastructure to improve longer term productive capacity. For educational and training institutions, there is also a need to be flexible in responding to changing demands in the nature and content of training.

The Productivity Commission (2006) estimated that improving productivity and efficiency in energy, transport, infrastructure and other activities could, after a period of adjustment, increase GDP by nearly 2 per cent. It also estimated that achievement of a 5 per cent improvement in the productivity of health service delivery could add up to 0.4 per cent of GDP in the longer term. Enhancement of workforce participation and productivity though education and work incentives was estimated to result in increases in GDP of up to 3 per cent.

Economic reforms are challenging and will take a period of years to implement and bear fruit. Nevertheless, the Government has moved quickly to establish two new institutions to deliver some elements of these reforms — Infrastructure Australia and Skills Australia. The payoff from successful reform will be a boost to Australia's productive capacity over the medium term — in other words, low and stable inflation accompanied by stronger growth in incomes and living standards.

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STATEMENT 5: REVENUE

This statement contains details of the estimates of Australian Government revenue.

The revenue estimates have been revised up since the *Pre-Election Economic and Fiscal Outlook 2007 (2007 PEFO)*, mainly because of strong employment and wage growth, corporate profits and other business income flowing in part from the significantly higher terms of trade. This has been partly offset by reductions in capital gains tax and higher borrowing costs for business.

The Government will provide personal income tax cuts of $46.7 billion over four years from 2008-09.

STATEMENT 5: REVENUE

OVERVIEW

Relative to the *Pre-Election Economic and Fiscal Outlook 2007* (2007 PEFO), total revenue for 2008-09 is expected to be higher. Stronger growth in nominal incomes, partly due to a strong rise in the terms of trade, is expected to increase taxation revenue from individuals' income and company profits. Additional revenue will be raised from policy decisions such as the deferral of income tax cuts for those earning over $180,000. These gains are partially offset by global financial market turbulence, which are expected to reduce capital gains tax (CGT) collections, and increase borrowing costs.

Revenue estimates for 2007-08 and 2008-09, together with projections for the period from 2009-10, are provided in Table 1.

Table 1: Total Australian Government general government revenue[(a)]

	Actual	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Total taxation revenue ($b)	**262.5**	**286.4**	**299.2**	**317.0**	**329.3**	**344.1**
Real growth on previous year (%)(b)	3.8	5.7	0.9	3.2	1.4	1.9
Per cent of GDP	25.1	25.4	24.3	24.7	24.6	24.4
Non-taxation revenue ($b)	**15.5**	**17.4**	**20.2**	**20.0**	**21.5**	**22.8**
Real growth on previous year (%)(b)	-0.1	9.0	12.0	-3.8	5.2	3.5
Per cent of GDP	1.5	1.5	1.6	1.6	1.6	1.6
Total revenue ($b)	**278.0**	**303.8**	**319.5**	**336.9**	**350.9**	**366.9**
Real growth on previous year (%)(b)	3.6	5.9	1.6	2.8	1.6	2.0
Per cent of GDP	26.6	26.9	25.9	26.2	26.2	26.1

(a) The revenue estimates in this statement include GST revenue, which is collected by the Australian Government and provided to the States and Territories. A discussion of GST revenue is also provided in Budget Paper No. 3, *Australia's Federal Relations 2008-09*.
(b) Real growth is calculated using the consumer price index (CPI).

Information on the effect on the revenue estimates and the tax-to-GDP ratio of accounting for GST in the revenue estimates for the first time is provided in this statement in Box 5.

VARIATIONS IN THE REVENUE ESTIMATES SINCE THE 2007-08 BUDGET

Table 2 is a reconciliation of this budget's revenue estimates with those at the 2007-08 Budget and the 2007 PEFO.

Table 2: Reconciliation of total Australian Government general government revenue estimates from the 2007-08 Budget and the 2007 PEFO

	Estimates		Projections	
	2007-08	2008-09	2009-10	2010-11
	$m	$m	$m	$m
Revenue at 2007-08 Budget	**246,761**	**260,726**	**274,614**	**287,312**
Changes between 2007-08 Budget and MYEFO				
Effect of policy decisions	-225	-6,659	-9,963	-14,604
Effect of parameter and other variations	5,349	9,975	14,088	14,801
Total variations	**5,124**	**3,316**	**4,125**	**197**
Revenue at 2007-08 MYEFO	**251,885**	**264,042**	**278,739**	**287,509**
Changes between MYEFO and PEFO				
Effect of policy decisions	-2	24	-1	-1
Effect of parameter and other variations	-11	-31	-35	-38
Total variations	**-13**	**-7**	**-35**	**-40**
Revenue at 2007 PEFO (as published)	**251,871**	**264,035**	**278,703**	**287,469**
Adjustment to recognise GST	43,530	46,650	48,990	51,620
Revenue at 2007 PEFO (includes GST)	**295,401**	**310,685**	**327,693**	**339,089**
Changes between PEFO and 2008-09 Budget				
Effect of policy decisions	239	2,352	4,098	6,370
Effect of parameter and other variations				
Taxation	6,721	3,627	3,829	4,148
Non-taxation	1,470	2,801	1,299	1,255
Total variations	**8,430**	**8,779**	**9,227**	**11,772**
Revenue at 2008-09 Budget	**303,831**	**319,464**	**336,920**	**350,862**

Variations to total revenue for 2007-08 and 2008-09

Since 2007 PEFO, estimated total revenue for 2007-08 has been revised up by $8.4 billion.

Of this, taxation revenue parameter and other variations contribute $6.7 billion mainly from individuals, companies and superannuation funds. The revisions for individuals largely reflect stronger than anticipated growth in employment and individuals' non-wage income. Companies were only revised up owing to greater than expected revenue from Australian Taxation Office (ATO) audit activities, while superannuation funds had higher earnings in the 2006-07 income year. This has been partly offset by a recent slowing in taxation collections, particularly for companies and superannuation funds relating to lower earnings growth in the 2007-08 income year, reflecting, in part, global financial market turbulence.

Non-taxation revenue has been revised up by $1.4 billion owing mainly to greater interest revenue.

Total revenue for 2008-09 has been revised up by $8.8 billion since the 2007 PEFO.

Policy decisions taken since the 2007 PEFO contribute $2.4 billion to the overall revision in 2008-09.

Taxation revenue parameter and other variations have contributed $3.6 billion to the revision. Taxation revenue is expected to be subject to the powerful opposing forces confronting the economy. Individuals' incomes, including from unincorporated businesses and property, are expected to grow strongly. Company profits are forecast to be higher, reflecting further strong rises in commodity prices. This is partly offset by recent falls in share prices, which are expected to reduce capital gains, and higher interest expenses for business. Revisions to superannuation funds have detracted significantly from revenue as earnings decline.

Non-taxation revenue has been revised up by $3.0 billion in 2008-09. This reflects a $0.8 billion increase in the RBA dividend and an increase in both Future Fund earnings and interest received by the Australian Office of Financial Management on its investments

Box 1: Opposing forces on revenue

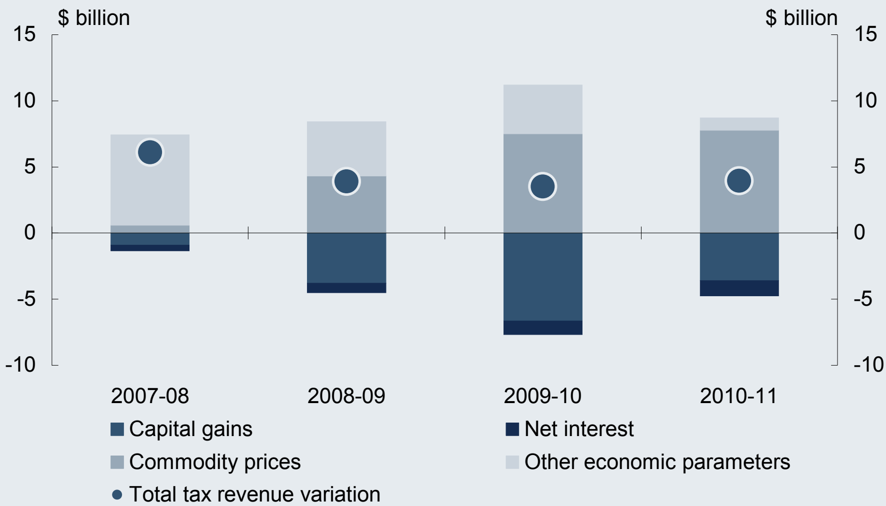
Since 2007 PEFO, there have been opposing economic forces acting on the revenue estimates.

Large rises in Australia's non-rural commodity prices have provided further stimulus to nominal incomes, especially for mining and related companies. Upward revisions in other economic parameters, in particular, compensation of employees, unincorporated business and property income, and consumption, have also been positive for revenue.

Opposing those influences are the higher net interest rate environment weighing on business profits and the decline in recent months in the value of share markets, due to global financial market uncertainty, reducing CGT revenue. Most of the net interest impact flows from non-financial corporations experiencing higher interest rates on borrowings and higher funding costs placing pressure on the margins of financial corporations.

The impact of these conflicting forces on tax revenue is illustrated in Chart A, which provides a summary of changes in taxation revenue estimates since 2007 PEFO by the main sources of those changes.

Chart A: Changes in taxation revenue by source since 2007 PEFO[a][b]



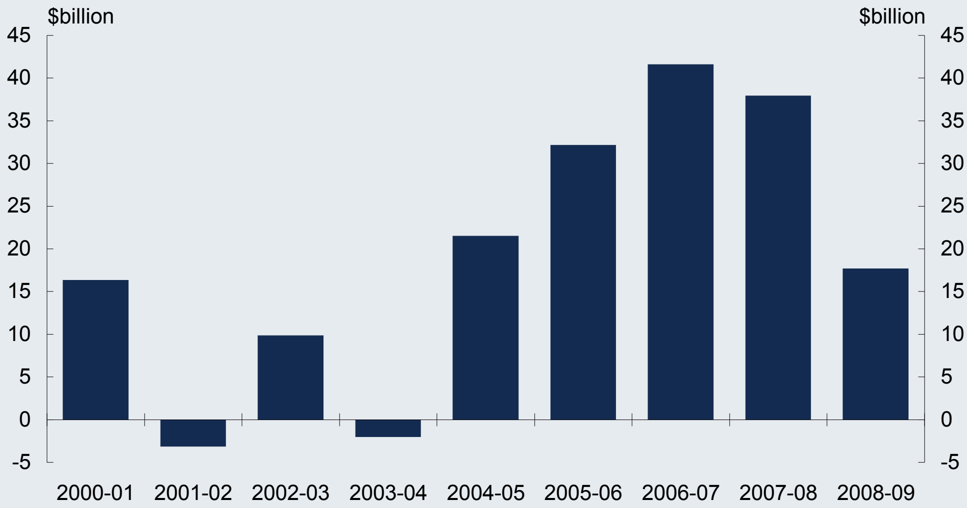
(a) Commodity prices only reflect the direct impact on company tax and the petroleum resource rent tax.
(b) Data excludes GST.
Source: Treasury estimates.

In 2008-09, the direct gain to revenue from higher commodity prices is more than offset by the loss to revenue from lower CGT and higher net interest costs.

Hence, the Government has obtained significantly less revenue benefit from recent economic outcomes and tax collections, and the updated economic outlook over the forward estimates than in recent years, as shown in Chart B.

Box 1: Opposing forces on revenue (continued)

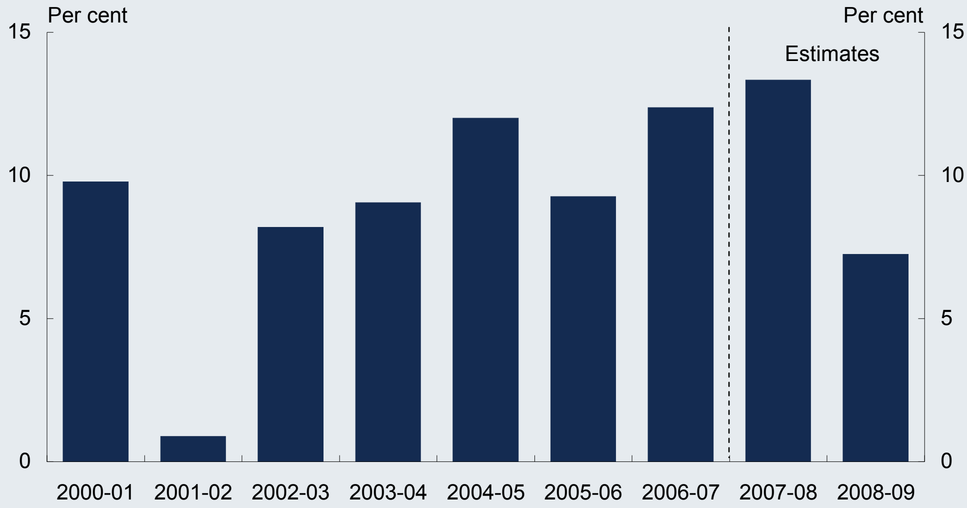
Chart B: Total parameter and other variations to taxation revenue[(a)(b)]
Change MYEFO to Budget



(a) Variation over four years.
(b) For consistency across years, data excludes GST.
Source: Treasury estimates.

Annual growth in underlying tax revenue (which excludes the impact of policy decisions) has also slowed significantly compared to recent years, primarily as CGT is forecast to fall in 2008-09 (see Chart C).

Chart C: Underlying taxation revenue growth[(a)]



(a) For consistency across years, data excludes GST.
Source: Treasury estimates.

Effect of policy decisions

Policy decisions since the 2007 PEFO are expected to increase taxation revenue by $2.4 billion in 2008-09 and $19.7 billion over the forward years.

These policy decisions are targeted at improving productivity and the fairness and integrity of the tax system. The decisions build on election commitments to defer income tax cuts for higher income earners and improve funding for ATO compliance activity which lead to savings of over $6 billion.

As part of its examination of expenditures, the Government has decided to abolish or improve the operation of a range of tax expenditures generating savings of $8.7 billion by 2011-12. Together, these measures will contribute to a fairer tax system, a more productive economy and a fairer return for the use of Australia's non-renewable resources.

Major policy decisions in the Budget include:

- The Government's election commitment to defer the income tax cuts to those earning over $180,000 will provide savings of $5.3 billion over the forward estimates period, which will be diverted to the Government's other priorities.

- Increased excise on 'other excisable beverages' (including 'ready-to-drinks') on and from 27 April 2008 will result in an ongoing gain to revenue, estimated to be $3.1 billion over the forward estimates period, which will help fund increased investment in preventative health.

- Increasing the migration program by providing an additional 31,000 skilled stream places and 6,500 family stream places, estimated to increase revenue by $2.9 billion over the forward estimates.

- Removing the current exemption of condensate from the crude oil excise which will result in an ongoing gain to revenue, estimated to be $2.5 billion from Budget night and over the forward estimates period.

- Increasing funding for compliance activities by the Australian Taxation Office, estimated to increase revenue by $2.0 billion over the forward estimates.

- Aligning the period over which capital expenditure on in-house computer software is depreciated with computer hardware, from 2.5 years to 4 years, with an ongoing gain to revenue estimated to be $1.3 billion over the forward estimates period.

- Tightening the fringe benefits tax (FBT) exemption that applies to the private use of business property on an employer's premises by excluding meals under a salary sacrifice arrangement. This measure will have an ongoing gain to revenue, estimated to be $730 million over the forward estimates period.

- Tightening the FBT exemption for certain employer provided work-related items (including laptop computers, personal digital assistants and tools of trade) by ensuring the exemption only applies where these items are used primarily for work purposes. This measure will have an ongoing gain to revenue, estimated to be $650 million over the forward estimates period.

- Introducing an integrity measure in relation to the goods and services tax and sales of real property which will result in an ongoing gain to revenue, estimated to be $620 million over the forward estimates period.

- Increasing the luxury car tax, providing additional revenue of $555 million over the forward estimates.

- Increasing the passenger movement charge, increasing revenue collections by the Australian Customs Service by $459 million over the forward estimates. The increase will contribute to offsetting the cost of a range of aviation security initiatives that until now have not been cost recovered.

- Reducing the withholding tax on certain distributions of Australian managed funds to foreign residents with effect from 1 July 2008, at a cost of $630 million over the forward estimates.

- Increasing the Medicare levy surcharge thresholds, at a cost to revenue of $660 million over the forward estimates.

- Other measures in the Budget will increase revenue by $763 million. These include a number of measures to improve productivity, and the fairness and integrity of the tax system, including:

  – removing or reducing tax concessions such as those for capital protected borrowings, the entrepreneurs' tax offset and better targeting the concessions for prescribed private funds; and

  – improved targeting of tax relief by better means testing of government support and by tightening eligibility for dependency tax offsets.

Table 3: Revenue policy decisions since the 2007 PEFO

	2007-08 $m	2008-09 $m	2009-10 $m	2010-11 $m	2011-12 $m	Total $m
Personal income tax cuts – better targeting	-	-	1,150.0	2,000.0	2,160.0	5,310.0
Excise and customs duty – increased rates on 'other excisable beverages'	97.9	640.1	716.0	799.3	892.6	3,145.9
Migration program – 37,500 place increase for 2008-09	0.0	321.8	580.0	860.6	1,159.9	2,922.3
Crude oil excise – condensate	93.8	564.0	635.4	625.7	625.7	2,544.6
Increased funding for the ATO compliance dividend	-	105.0	295.0	785.0	795.0	1,980.0
Depreciation of computer software	-	15.0	300.0	681.0	318.0	1,314.0
Fringe benefits tax – meal cards	-	110.0	165.0	205.0	250.0	730.0
Fringe benefits tax – exemption for eligible work-related items	-	50.0	140.0	205.0	255.0	650.0
GST and the sale of real property – integrity measure	-	90.0	150.0	175.0	205.0	620.0
Increasing the luxury car tax	-	130.0	140.0	140.0	145.0	555.0
Increase in the passenger movement charge	-	106.3	111.2	117.7	124.1	459.3
A final withholding tax on certain distributions of Australian managed investment trusts to foreign residents	-	-60.0	-125.0	-210.0	-235.0	-630.0
Personal income tax – increasing the Medicare surcharge thresholds	-	-	-195.0	-235.0	-230.0	-660.0
Other measures	46.9	280.1	34.9	220.4	180.9	763.2
Total impact of revenue measures	**238.6**	**2,352.3**	**4,097.5**	**6,369.7**	**6,646.2**	**19,704.3**

Effect of parameter and other variations

In addition to new policy decisions, revisions to expected revenue are driven by recent economic outcomes and tax collections, and the updated economic outlook. The revenue variations discussed in this section stem from those parameter and other variations. That is, they explicitly exclude the impact of new policy decisions on revenue.

The revenue forecasts are based on the forecasts of economic activity presented in Statement 2, with changes in nominal incomes having consequent impacts on expected taxation revenue. The key economic parameters that influence revenue are shown in Table 4.

Analysis of the sensitivity of the taxation revenue estimates to changes in the economic outlook is provided in Statement 3.

Table 4: Key revenue parameters[(a)]

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	%	%	%	%	%
Revenue parameters at 2008-09 Budget					
Nominal gross domestic product (non-farm)	7.7	8.9	4 1/4	4 1/4	5 1/4
Change since PEFO	*0.8*	*2.3*	*0.0*	*0.0*	*na*
Compensation of employees (non-farm)(b)	7.9	6.2	5 1/4	5 1/4	5 1/4
Change since PEFO	*0.3*	*-0.1*	*0.0*	*0.0*	*na*
Corporate gross operating surplus(c)	6.2	16.4	2	1 1/2	5 1/4
Change since PEFO	*0.0*	*9.2*	*0.3*	*0.2*	*na*
Unincorporated business income	6.6	4.1	5 1/4	5 1/4	5 1/4
Change since PEFO	*6.3*	*1.4*	*0.0*	*0.0*	*na*
Property income(d)	15.0	12.3	5 1/4	5 1/4	5 1/4
Change since PEFO	*1.2*	*1.9*	*0.0*	*0.0*	*na*
Consumption subject to GST	7.2	5.4	5 1/4	5 1/4	5 1/4
Change since PEFO	*0.7*	*-0.3*	*0.0*	*0.0*	*na*

(a) Current prices, per cent change on previous year.
(b) Compensation of employees measures total remuneration earned by employees.
(c) Corporate GOS is an Australian National Accounts measure of company profits.
(d) Property income measures income derived from rent, dividends and interest.
na Data not available.

Parameter and other variations have contributed \$6.7 billion in 2007-08 and \$3.6 billion in 2008-09 to tax revenue since the 2007 PEFO. While parameter and other variations have increased taxes overall, there have been opposing influences acting on the revenue estimates.

Tax revenue has been boosted by stronger forecasts of growth in nominal non-farm GDP, which has been revised up 0.8 and 2.3 percentage points in 2007-08 and 2008-09 respectively from the 2007 PEFO estimates. All components of nominal income have been revised, reflecting upward revisions to compensation of employees, unincorporated business and property income, company profits and consumption in 2007-08.

Gross income tax withholding revenue is expected to be around \$1.3 billion higher in both 2007-08 and 2008-09, largely as a result of higher forecast growth in compensation of employees in 2007-08 (up 0.3 percentage points) primarily due to strong growth in wages.

Upward revisions in 2007-08 and 2008-09 to forecast growth in property income and unincorporated business income, the principal components of individuals' non-wage and salary earnings, have contributed significantly to upward revisions to tax revenue from gross other individuals' income of just over \$2 billion in each of those years. Mitigating these factors are lower expectations for CGT following the recent decline in the share market and fewer forecast high value asset realisations in the 2007-08 income year (on which tax is paid in 2008-09) compared with the 2006-07 income year.

Taxation revenue from superannuation funds in 2007-08 is expected to be $1.6 billion higher than forecast in the 2007 PEFO, as balancing payments related to the earnings of superannuation funds in 2006-07 have been unusually strong, primarily reflecting more taxable contributions. Better wage and employment outcomes (compensation of employees) have increased taxable superannuation contributions, offset partly by weaker other income in 2007-08, including capital gains.

Lower expectations for earnings on realised capital gains following, in part, from the recent falls in share markets is expected to reduce superannuation fund tax revenue in 2008-09, down $1.8 billion on the 2007 PEFO estimate, mitigated slightly by increased contributions from higher wage and other earnings.

Forecast company tax revenue has increased by $1.2 billion in 2007-08 as ATO audits have resulted in greater than expected revenue from amended tax assessments related to previous income years. Little, if any, of this additional revenue is expected to be collected in 2007-08 as taxpayers may dispute these assessments (this accounts for most of the difference between the increase in accrual taxation revenue and cash taxation receipts in 2007-08). Previous experience suggests that revenue will be collected over a number of years as disputes are settled. Without this additional revenue from audits, company tax in 2007-08 would have been weaker than previously forecast, reflecting slowing profit growth, including from global financial market turbulence.

Significant increases in the prices of coal and iron ore are primarily responsible for the large upward revision to corporate GOS in 2008-09 (up 9.2 percentage points). Offsetting the influence of commodity prices on taxable company profits, companies are expected to realise less income from capital gains as a result of lower share prices and accrue less net interest income (as non-financial corporations experience higher interest rates on borrowings and higher funding costs place pressure on financial corporations margins). Taking into account all of these influences, forecast company tax is expected to be $1.7 billion higher in 2008-09.

Estimated revenue from the petroleum resource rent tax (PRRT) has decreased by around $200 million in 2007-08, as lower than expected extraction of oil and related fuels more than offset the rise in the oil price since 2007 PEFO (up A$15 per barrel). In 2008-09, PRRT is expected to increase by around $500 million as the higher forecast oil price (up A$37 per barrel) more than offsets the impact of lower production expectations and an increase in deductible production and exploration costs.

Forecast goods and services tax (GST) revenue has increased by around $500 million in 2007-08, largely reflecting higher than expected growth in consumption subject to the GST in late 2007. For 2008-09, the decrease in forecast revenue of around $400 million primarily reflects GST refunds of around $500 million expected to be paid following the Federal Court of Australia decision in *KAP Motors Pty Ltd v Commissioner of Taxation* [2008] FCA 159, as well as slower growth in consumption subject to GST and private dwelling investment (down 4.4 percentage points) relative to the 2007 PEFO forecasts.

In 2007-08 and 2008-09, revenue from excise duty has been revised up by around $100 million and $400 million respectively, on the back of stronger growth in demand for diesel, tobacco and other refined petroleum products. Overall, demand for fuels continues to grow despite rising prices, but strong business demand and substitution away from petrol engines in the consumer market is particularly supporting diesel excise revenue. Revenue from excise on other refined petroleum products is also increasing from the substitution away from petrol and diesel towards blends containing biofuels.

Customs duty revenue estimates have remained largely unchanged in 2007-08 and 2008-09, although this reflects offsetting movements in revenue components. The relative strength of the Australian dollar and increasing use of bilateral free trade agreements has resulted in a downward revision in the general and textiles, clothing and footwear categories of customs duty revenue. This decline is partly offset by increased importation of products that incur excise-equivalent customs duty, in particular refined petroleum products and beer.

Forecast non-tax revenue has been revised up by $1.5 billion in 2007-08 and $2.8 billion in 2008-09. In 2008-09, this reflects an $814 million increase in the projected RBA dividend largely reflecting additional realised capital gains since 2007 PEFO. The RBA dividend in 2007-08 was impacted by the appreciation in the exchange rate. Dividend payments from the RBA can vary significantly from year to year due to movements in interest rates and the exchange rate. There has also been an increase in Future Fund interest earnings, partly offset by a reduction in estimated Future Fund dividends due to revisions to the Fund's forecast portfolio. In addition there has been an increase in interest received by the Australian Office of Financial Management on its investments.

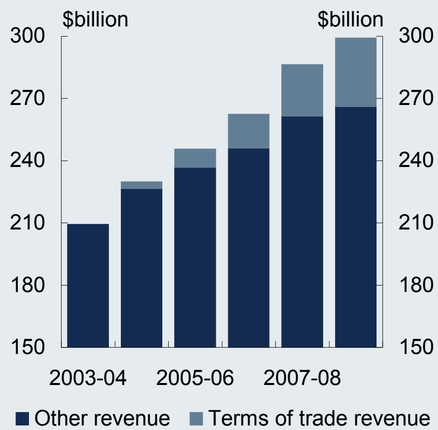
Box 2: Effect of terms of trade increases on tax revenue

The tax revenue implications of the terms of trade boom flow from the impact of the boom on the nominal economy, which is discussed in Box 9 in Statement 2. Overall, the level of GDP is estimated to be around $100 billion or 9 per cent higher in 2008-09 as a result of the terms of trade boom. These estimates provide broad orders of magnitude only and are sensitive to the rate, and composition, of growth assumed for the Australian economy without the terms of trade boom.

The terms of trade boom is estimated to generate $87 billion in tax revenue over the five years to the end of 2008-09, with $33 billion of that in 2008-09 alone (see Chart A). The terms of trade boom is estimated to contribute 11 per cent of tax revenue in 2008-09. These estimates are not a good guide to the effect of the terms of trade increase over the projection years, especially as key commodity prices are assumed to retrace some of their recent gains in the projection period.

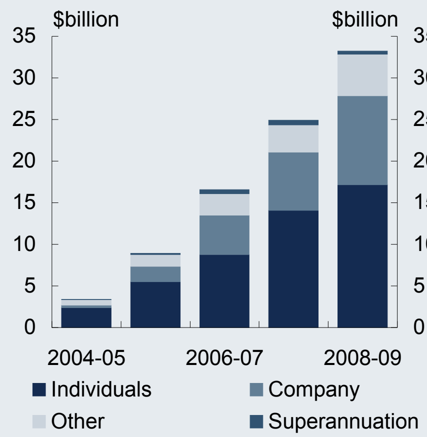
Chart A: Tax revenue

Tax revenue impact



Source: Final budget outcomes and Treasury estimates.

Additional tax revenue by source



Source: Treasury estimates.

The higher tax revenue has been driven primarily by higher income tax collected from individuals and companies, and higher CGT revenue.

Table A: Composition of tax revenue gain

	2004-05 $b	2005-06 $b	2006-07 $b	2007-08 $b	2008-09 $b	Cumulative $b
Company tax	0.3	1.8	4.7	7.0	10.7	24.6
Individuals and other withholding taxation	2.4	5.5	8.8	14.1	17.1	47.9
Superannuation taxation	0.0	0.1	0.5	0.6	0.4	1.7
Goods and services tax	0.4	1.0	1.8	2.3	3.5	8.9
Excise and customs duties	0.3	0.5	0.8	1.0	1.5	4.0
Total taxation revenue	**3.4**	**8.9**	**16.6**	**24.9**	**33.2**	**87.0**

Source: Treasury estimates.

Box 2: Effect of terms of trade increases on tax revenue (continued)

The revenue collected from companies is estimated to be $24.6 billion higher over 2004-05 to 2008-09. In 2008-09, the terms of trade boom is estimated to have contributed $10.7 billion, or 14 per cent, of revenue from company tax. The increase reflects higher levels of company profits flowing from higher bulk commodity prices. Company profits are estimated to be around 20 per cent, or $51 billion higher, in 2008-09 than would have been the case without the terms of trade boom. Mining companies receive higher revenue from commodity prices, boosting their profits and lifting investment. Companies that supply goods and services to the mining industry also benefit from stronger earnings, while many other companies gain indirectly as incomes flow through to other parts of the economy. Company tax revenue does not increase concurrently with higher company profits as companies pay some of their tax in the year following that in which profits are earned. Hence, significant revenue will be collected from companies in 2009-10 as a result of the higher company profits in 2008-09.

The revenue collected from individuals is estimated to be $47.9 billion higher over the period, with $17.1 billion of that in 2008-09. Most of this change reflects higher income tax withholding payments from individuals, due to higher average wages and employment. In 2008-09, non-farm average weekly earnings and employment are estimated to be higher by 6½ per cent and 2 per cent respectively due to the terms of trade boom. Individuals are also assumed to receive higher dividend payments as companies pass on to shareholders part of their increased profits.

The revenue collected from superannuation funds is estimated to be $1.7 billion higher over the period, reflecting higher taxable contributions made to superannuation funds. Contributions are assumed to have risen with higher nominal wages and employment. Superannuation funds will have benefited from higher dividend income, which tends to reduce their net tax payable given that excess franking credits for tax paid by companies and trusts are refundable.

The revenue collected from other taxes would also rise as higher incomes allow people to consume more taxable goods and services. Revenue from the GST, and excise and customs duties are estimated to increase by $8.9 billion and $4.0 billion respectively over 2004-05 to 2008-09. Any increase in revenue from the GST would result in an equal increase in grants to the States.

The revenue collected from CGT on individuals, companies and superannuation funds is estimated to be $7.3 billion higher over 2004-05 to 2008-09 with the terms of trade boom, reflecting higher asset prices. Companies are assumed to retain part of their higher earnings which should result in the value of the Australian share market being higher than would otherwise have been the case, while higher incomes and increases in migration are assumed to increase the demand for housing and hence house prices.

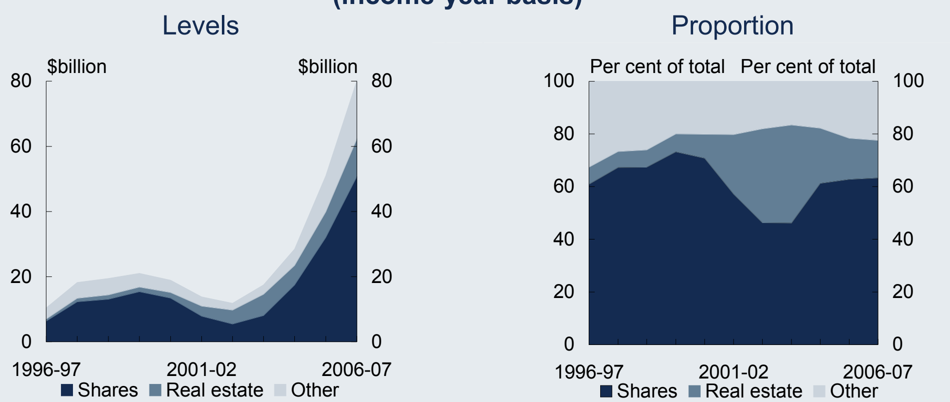
Box 3: Capital gains tax

Capital gains tax (CGT) is a significant, yet volatile, component of individuals, companies and superannuation funds income taxes. Tax payable on net capital gains was $11.4 billion (1.1 per cent of GDP) in 2005-06, a 64 per cent increase on 2004-05. Early data indicates that CGT has grown to almost $17 billion in 2006-07.

Income from capital gains can be broken into three broad sources from tax returns: shares, real estate and other assets, as shown in Chart A. Companies and superannuation funds derive a large proportion of their capital gains from shares, while individuals derive a significant proportion of their capital gains from both shares and real estate.

Compositional shifts in capital gains can occur over time as prices change at different rates across asset markets. From the mid-1990s through to around 2000, share markets generally grew strongly and this led to an increasing proportion of capital gains being derived from shares. In the first few years of the 2000s, house prices grew strongly while share markets slowed, resulting in real estate becoming more significant as a source of capital gains. In the last few years, the share market again grew more strongly than house prices, leading to a higher proportion of capital gains being derived from shares.

Chart A: Total capital gains income by asset type (income-year basis)[(a)]

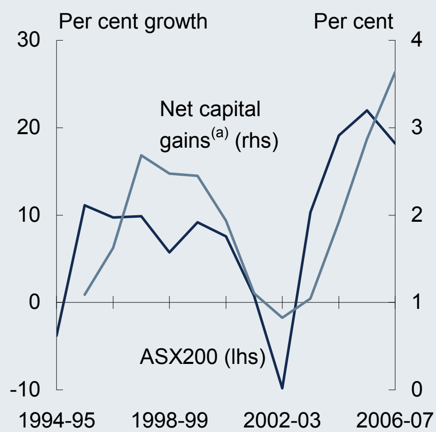


(a) This data is sourced from the CGT schedule, which taxpayers are generally required to complete if their net capital gains in that year are more than $10,000. On average, over 90 per cent of all capital gains by value are reported in the CGT schedule.
Source: ATO *Taxation Statistics* and Treasury estimates for 2006-07.

Box 3: Capital gains tax (continued)

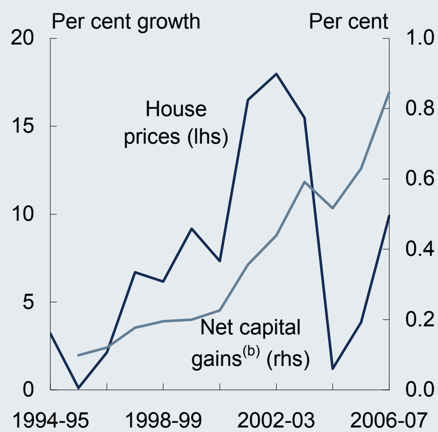
In recent years, capital gains from shares and real estate have not always moved in line with changes in Australian shares and house prices, respectively. Capital gains income is also affected by the length of time assets are held, when assets are disposed of and the availability of capital losses to offset capital gains. Charts B and C compare capital gains as a percentage of the total capital stock with the relevant price. Capital gains from shares generally move with changes in Australian share prices, but there is significant uncertainty regarding the timing of the gains. As real estate assets tend to be turned over less frequently than shares, capital gains from real estate tends to follow the trend in house prices rather than year to year movements.

Chart B: Capital gains from shares and share prices



(a) Per cent of total market capitalisation.
Source: RBA Bulletin, ATO *Taxation Statistics* and Treasury estimates for 2006-07.

Chart C: Capital gains from real estate and house prices



(b) Per cent of total capital stock.
Source: ABS cat. no. 6416, ATO *Taxation Statistics* and Treasury estimates for 2006-07.

The CGT estimates in this Budget are shown in Table A and assume some decline in CGT receipts in 2008-09 and 2009-10, reflecting recent falls in the share market and a forecast slowing in house price growth from 2008-09. There is often a lag of up to one year between an asset being sold and when CGT is assessed and collected.

Table A: Capital gains tax forecasts (cash basis)

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$b	$b	$b	$b	$b
Capital gains tax receipts	17.4	15.7	14.2	15.4	17.0
Revisions since 2007 PEFO	-0.9	-3.8	-6.6	-3.6	na

Source: Treasury estimates.

CASH RECEIPTS

Total receipts are expected to be $8.2 billion lower than revenue in 2007-08, including $7.8 billion in taxation receipts, and $6.5 billion lower than revenue in 2008-09, including $6.6 billion in taxation receipts. Tax receipts are generally driven by the same factors as revenue. However, there will generally be some differences, such as from compliance activity, new tax debts arising and the repayment or write off of past tax debts. These differences will exist for all revenue heads and vary between years.

Since 2007 PEFO the difference between revenue and receipts has been revised up significantly for 2007-08. The increase largely reflects an unusually strong rise in company debt, which has been caused by the issuing of amended assessments and penalties following ATO audits, relating to a number of income years. It is expected that receipts from these audits will be generated across a number of years. The gap between revenue and receipts is expected to fall as receivables growth returns to a more standard level in 2008-09, increasing slightly over the projection years with growth more in line with underlying receipts.

Table 5 provides a reconciliation of the Budget's receipts estimates with those at the 2007 PEFO.

Table 5: Reconciliation of total Australian government general government receipt estimates from the 2007 PEFO

	Estimates		Projections	
	2007-08	2008-09	2009-10	2010-11
	$m	$m	$m	$m
Receipts at 2007 PEFO	**289,915**	**304,687**	**321,556**	**332,603**
Per cent of GDP	25.9	25.5	25.8	25.6
Changes between PEFO and 2008-09 Budget				
Effect of policy decisions	180	2,302	4,007	6,190
Effect of parameter and other variations				
Taxation	4,228	2,962	3,084	3,344
Non-taxation	1,298	3,009	1,447	1,568
Total variations	**5,706**	**8,274**	**8,538**	**11,102**
Receipts at 2008-09 Budget	**295,622**	**312,961**	**330,095**	**343,705**
Per cent of GDP	26.2	25.4	25.7	25.7

Since 2007 PEFO, total receipts have been revised up by $5.7 billion in 2007-08.

Taxation receipts account for $4.4 billion of the revision, with higher receipts from individuals and superannuation funds, partly mitigated by lower receipts from companies. Taxation receipts from individuals largely reflect stronger than anticipated growth in employment and individuals' non-wage income, while superannuation funds had higher earnings in the 2006-07 income year. This has been partly offset by a recent slowing in earnings growth in the 2007-08 income year for companies and superannuation funds.

Since 2007 PEFO, total receipts have been revised up by $8.3 billion in 2008-09.

Taxation receipts have been revised up by $3.0 billion from parameter and other variations reflecting the expected continued strength in individuals' incomes and higher forecast company profits, reflecting further strong rises in commodity prices. This is partly offset by recent falls in share prices reducing capital gains and higher interest expenses for business.

As outlined in the Government's fiscal strategy in Statement 1: Budget Overview, the Government is banking rather than spending revisions to taxation receipts in 2008-09.

Further information on the difference between the accrual and cash taxation estimates is in Appendix F: Taxation revenue recognition.

REVENUE ESTIMATES BY REVENUE HEAD

The revenue estimates for 2007-08 and 2008-09 are constructed using the outcomes for 2006-07, information on revenue collections in the year to date and the revised economic forecasts for 2007-08 and 2008-09. Revenue estimates for the projection years — 2009-10 to 2011-12 — are based mainly on underlying trends in economic parameters and take no account of cyclical influences on economic activity. Following the practice adopted in the 2006-07 and 2007-08 Budgets, this Budget incorporates a technical assumption that the prices of key non-rural commodities will retrace some of their recent gains over the first two years of the projection period.

Table 6: Australian Government general government revenue

	Actual	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m	$m
Individuals and other withholding taxes						
Gross income tax withholding	107,809	114,610	117,410	124,180	131,740	136,750
Gross other individuals	26,952	30,130	31,300	31,500	32,990	33,740
less: Refunds	17,147	19,640	22,010	23,130	24,720	24,800
Total individuals and withholding taxation	117,614	125,100	126,700	132,550	140,010	145,690
Fringe benefits tax	3,754	3,900	4,110	4,190	4,260	4,140
Superannuation funds	7,879	11,710	9,750	10,450	11,140	12,400
Company tax	58,538	66,480	73,490	80,770	82,520	86,460
Petroleum resource rent tax	1,594	1,840	2,920	3,470	2,830	2,790
Income taxation revenue	**189,378**	**209,030**	**216,970**	**231,430**	**240,760**	**251,480**
Sales taxes						
Goods and services tax	41,208	44,370	46,900	49,960	52,680	55,560
Wine equalisation tax	651	670	680	690	710	730
Luxury car tax	365	440	580	610	630	650
Other sales taxes	60	-20	0	0	0	0
Total sales taxes	42,284	45,460	48,160	51,260	54,020	56,940
Excise duty						
Petrol	7,128	6,700	6,970	6,890	6,820	6,860
Diesel	6,197	6,700	6,860	7,100	7,350	7,610
Other fuel products	803	1,060	1,210	1,380	1,570	1,700
Crude oil and condensate	525	470	1,060	1,070	1,100	1,110
Beer	1,826	1,880	1,910	1,960	2,020	2,080
Potable spirits	208	200	190	190	190	190
Other excisable beverages(a)	665	850	1,430	1,610	1,790	2,010
Tobacco	5,382	5,530	5,550	5,590	5,630	5,660
Total excise duty revenue	22,734	23,390	25,180	25,790	26,470	27,220
Customs duty						
Textiles, clothing and footwear	932	950	990	760	520	560
Passenger motor vehicles	1,253	1,360	1,450	1,160	790	820
Excise-like goods	2,204	2,410	2,540	2,710	2,860	3,010
Other imports	1,485	1,500	1,560	1,620	1,680	1,740
less: Refunds and drawbacks	230	230	240	240	240	240
Total customs duty revenue	5,644	5,990	6,300	6,010	5,610	5,890
Other indirect taxation						
Agricultural levies	608	577	595	398	342	353
Other taxes	1,862	1,935	2,031	2,070	2,141	2,202
Other indirect taxation revenue	2,470	2,512	2,625	2,467	2,483	2,555
Indirect taxation revenue	**73,132**	**77,352**	**82,265**	**85,527**	**88,583**	**92,605**
Taxation revenue	**262,511**	**286,382**	**299,235**	**316,957**	**329,343**	**344,085**
Sales of goods and services	5,064	5,369	5,699	5,898	6,177	6,401
Dividends	2,999	2,904	4,637	3,863	3,882	3,950
Interest received	3,921	5,195	6,041	6,511	7,684	8,899
Other non-taxation revenue	3,520	3,982	3,852	3,691	3,776	3,587
Non-taxation revenue	**15,504**	**17,449**	**20,229**	**19,963**	**21,518**	**22,837**
Total revenue	**278,015**	**303,831**	**319,464**	**336,920**	**350,862**	**366,922**

(a) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol.

Total revenue is expected to increase by $25.8 billion in 2007-08, 9.3 per cent growth on revenue in 2006-07. Driving this growth are strong increases in taxes from companies and superannuation funds, which are expected to grow by 14 per cent and 54 per cent respectively.

In 2008-09, total revenue is forecast to increase by $15.6 billion, an increase of 5.1 per cent. Strong growth in commodity prices boosting company tax and PRRT and interest and dividend earnings from the Australian Government's investments underlie this growth.

Income Tax Revenue

Gross income tax withholding

Estimated revenue from gross income tax withholding in 2007-08 is expected to increase by $6.8 billion, principally reflecting the level of employment significantly expanding the tax base and partially offset by tax cuts. In 2008-09, slowing employment growth and the effect of increases in tax thresholds are expected to slow growth in income taxation revenue, which is expected to increase by $2.8 billion.

Over the projection period, trend growth in employment and wages should see modest growth in gross income tax withholding, reduced by the continued impact of announced tax cuts.

The Government has, subject to economic conditions, committed to an aspriational tax goal of reducing the number of personal income tax rates from four to three by 2013-14. As a first step towards this goal the government has set aside $6 billion for this purpose. In addition to gross income tax withholding, this allowance includes impacts on revenue related to gross other individuals, individuals' refunds and fringe benefits tax.

Gross other individuals

Gross revenue from other individuals is expected to increase by $3.2 billion in 2007-08, reflecting the strength of small unincorporated business earnings and the lagged collection of capital gains realised in the 2006-07 income year. The 2006-07 income year includes an unusually high number of large capital gains events.

In 2008-09, revenue from other individuals is expected to increase by $1.2 billion, reflecting tax cuts and a slowdown in non-wage income growth, including a decline in the value of capital gains realised in 2007-08.

Further out, unincorporated business income growth is projected to slow, growing in line with nominal GDP, and capital gains are expected to again contribute to revenue growth.

Income tax refunds for individuals

Refunds for individuals are expected to increase by $2.5 billion in 2007-08, reflecting the strong labour outcomes of 2006-07. Workers who are engaged in salary work for only a part-year have tax withheld at a full-year rate, typically resulting in over payment of tax through the year.

In 2008-09 individuals' refunds are expected to increase by a further $2.4 billion, reflecting both the continued strength in labour market conditions and stronger growth in non-wage income in 2007-08. The increased value of offsets and deductions is also expected to continue contributing to growth in individuals' refunds.

Growth over the projection period largely follows fluctuations in individuals' income tax payments, growing throughout the period.

Medicare levy

Revenue from the Medicare levy is expected to increase by $200 million in 2007-08, and by $210 million in 2008-09. Movements in revenue from the Medicare levy are generally consistent with growth in personal taxable income, mitigated in part by increases in the Medicare levy and surcharge thresholds.

Fringe benefits tax

Revenue from FBT is expected to increase by $150 million in 2007-08, reflecting stronger labour market outcomes largely offset by a reduction in the take up of fringe benefits taxable forms of remuneration.

FBT is expected to grow by $210 million in 2008-09, and remain largely unchanged over the forward estimates period as the reduction in the take up of fringe benefits taxable forms of remuneration continues.

Superannuation funds

Taxation revenue from superannuation funds is expected to increase by $3.8 billion in 2007-08, principally reflecting unusually high balancing payments relating to the 2006-07 income year.

Superannuation funds achieved unusually strong growth in taxable contributions and net capital gains in 2006-07. With strong labour market outcomes and superannuation changes, taxable contributions have grown strongly and increased the funds available for investment. Superannuation funds also benefited from the pace of growth in share prices in 2006-07.

Revenue from superannuation funds is expected to fall by $2 billion in 2008-09 in line with the recent performance of both the domestic and many overseas share markets. Recent market developments are expected to lead to lower capital gains tax revenue and an increase in capital losses.

Over the projection period, growth in revenue from superannuation funds is projected to return to modest levels, reflecting more moderate employment and wage outcomes and a gradual recovery in realised capital gains.

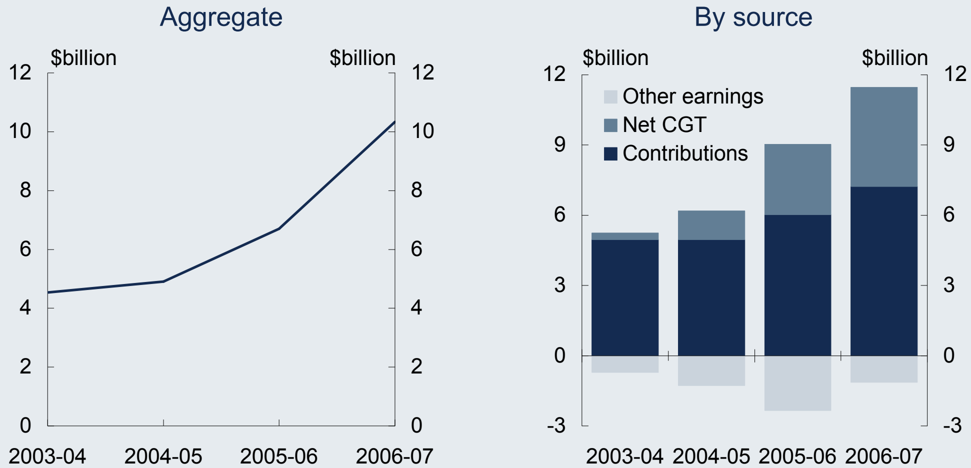
While the abolition of the superannuation surcharge extinguishes future liabilities from accruing, allowance has been made in relation to liabilities which accrued prior to

1 July 2005. Revenue from the superannuation surcharge is expected to decrease by $260 million in 2007-08, and a further $40 million in 2008-09.

Box 4: Growth in revenue from superannuation funds

The revenue collected from superannuation funds has grown strongly since 2004-05 (see Chart A). Revenue from superannuation funds, excluding the superannuation surcharge, grew by 39 per cent in the 2005-06 income year and 54 per cent in the 2006-07 income year. The revenue growth reflects strength in realised net capital gains earned by superannuation funds and higher taxable net contributions made to superannuation funds.

Chart A: Revenue from superannuation funds
Income-year basis



Source: ATO *Taxation Statistics* and Treasury estimate for 2006-07.

Net capital gains realised by superannuation funds are generally taxed at an effective rate of 10 per cent. Between 2003-04 and 2006-07, the CGT collected from superannuation funds is estimated to have risen over fourteen-fold to $4 billion, primarily due to higher realised capital gains on shares and more superannuation funds realising capital gains. Box 3 provides more information on capital gains tax.

A 15 per cent tax rate generally applies to contributions made by employers and contributions made by the self-employed or others where the fund has been advised that the individual is intending to claim a deduction. Over 90 per cent of taxable contributions are made by employers, including contributions made under the superannuation guarantee, award and salary sacrifice arrangements.

Box 4: Growth in revenue from superannuation funds (continued)

Taxable contributions grew strongly in 2005-06 and 2006-07. In 2006-07, the estimated tax collected from contributions, excluding taxable contributions transferred to pooled superannuation trusts or life insurance companies, was around $7.2 billion.

Strong labour market outcomes and superannuation changes have been supportive of growth in taxable contributions to superannuation. The ageing of the Australian workforce will also tend to support strong growth in contributions as older workers, on average, make higher voluntary contributions.

Other deductions, rebate and tax offsets are allocated to other earnings for simplicity and many of these deductions relate to earning investment income. Other earnings typically decreases tax collected given that unused franking credits on company distributions are refundable and superannuation funds are allowed credits for any foreign tax paid on foreign income. In 2006-07, other earnings are estimated to have reduced the amount of tax collected from superannuation funds by about $1.1 billion.

Company and other related income taxation

Company income taxation

Company income tax revenue is expected to increase by $7.9 billion in 2007-08, growth of 13.6 per cent on the 2006-07 outcome. Company tax revenues are received partly with a lag to the year in which the income is earned, so the continued strength in revenues in 2007-08 partly reflects the strength in corporate income in 2006-07. Underpinning this strength is strong capital gains income, and lower depreciation expenses, reducing offsets against companies' taxable income. Audit activity by the ATO relating to previous income years has raised additional one-off revenue in 2007-08.

Growth in company tax is expected to moderate slightly in 2008-09, increasing by $7.0 billion, following weaker growth in corporate income in 2007-08 (due to more moderate growth in corporate operating incomes and a substantial slowdown in capital gains income), mitigated by the forecast strong increase in the terms of trade in 2008-09.

Company income taxation revenue over the projection years, 2009-10 to 2011-12, incorporates a technical assumption that the prices of key non-rural commodities will retrace some of their recent gains over the first two years of the projection period.

Petroleum resource rent tax

Estimated revenue from PRRT is expected to increase by $250 million in 2007-08, as sales revenue mirrors the increase in the crude oil price (in Australian dollar terms), with deductions from costs carried forward from previous years moderating the impact on tax revenue. The rising price for oil appears to have led to increased exploration activity by extractors, a deductible cost under the PRRT regime designed to reduce the risk associated with exploration activity.

In 2008-09 petroleum resource rent tax revenue is expected to increase by $1.1 billion, reflecting recent rises in the price of oil and related energy resources.

Further out, the production levels of some new fields are expected to see them commence payment of PRRT, lifting revenue before the general decline in production volumes as older fields mature sees expected revenue begin to decline.

Sales taxation revenue

Goods and services tax

GST revenue is expected to increase by $3.2 billion in 2007-08 on the back of strong growth in nominal household consumption subject to GST, particularly in the first half of the financial year. In line with the expected slowing in growth in consumption and continued moderate private dwelling investment, a smaller increase in GST revenue of $2.5 billion in 2008-09 is expected.

The decision of the Federal Court of Australia in *KAP Motors Pty Ltd v Commissioner of Taxation* [2008] FCA 159 is expected to result in around $500 million of refunds that reduce GST revenue in 2008-09.

Over the forward estimates period, GST is expected to grow at a moderate pace, in line with the assumed trend growth in nominal consumption.

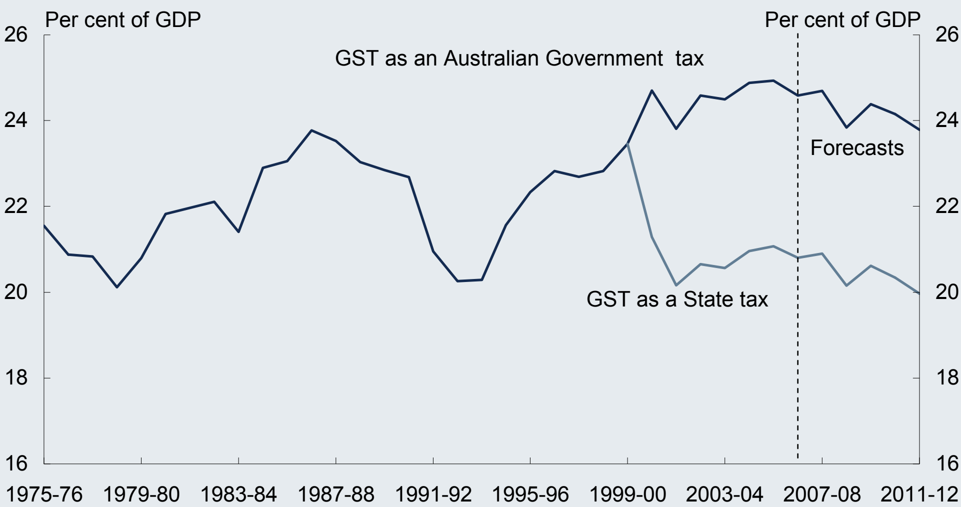
In accordance with the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, the Commonwealth administers the GST on behalf of the States and GST revenue is paid to the States.

Box 5: Reporting the GST as an Australian Government tax

The 2008-09 Budget is the first to record the GST in accordance with the reporting standards specified in the *Charter of Budget Honesty Act 1998*, the Australian Bureau of Statistics' *Government Finance Statistics* (GFS) and Australian Accounting Standards (AAS). This budget records the GST as an Australian Government tax — previous budgets recorded it as a state government tax.

The reclassification of the GST results in an increase in reported tax revenue by the amount of the GST for all years since its introduction in 2000-01 and increases the Australian Government's tax-to-GDP ratio, as shown in Chart A. (There is a similar increase in grants to the States and Territories on the expense side of the budget.) On average, the GST adds 3.8 percentage points per year to the reported tax-to-GDP ratio since its introduction.

Chart A: Australian Government tax receipts-to-GDP ratio



The reclassification of GST also results in small changes to the amount of GST reported compared with the numbers published in previous budget documents. A reconciliation of the differences for revenue and receipts is provided in Table A.

Non-general interest charge (non-GIC) penalties are primarily penalties paid by taxpayers who fail to lodge their returns on time. GST-related non-GIC penalties are retained by the Commonwealth rather than paid to the States because the definition of GST receipts, which was agreed with the States and legislated, does not include them. The GFS standard requires that penalties relating to a particular tax are to be recorded together with that tax so GST-related non-GIC penalties are now reported as part of GST. Previously they were reported in the 'other taxes' category because there was no GST in the Commonwealth accounts to report it with. GST-related non-GIC penalties have been explicitly identified only since 2004-05.

Box 5: Reporting the GST as an Australian Government tax (continued)

GST collected through normal business transactions by Commonwealth agencies but which has not yet been remitted to the ATO is now recorded as GST cash receipts. These amounts are now considered GST once they have entered the Commonwealth general government sector. Previously, amounts were only recognised as GST receipts once they had been received by the ATO.

Information about GST payments to the States is provided in Budget Paper No. 3, *Australia's Federal Relations 2008-09*.

Table A: Reconciliation of GST outcomes

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	$m	$m	$m	$m	$m	$m	$m
Previous GST revenue	**23,854**	**27,389**	**31,257**	**34,121**	**35,793**	**38,884**	**41,006**
plus GST non-GIC penalties	na	na	na	na	182	234	202
Revenue at 2008-09 Budget	**23,854**	**27,389**	**31,257**	**34,121**	**35,975**	**39,118**	**41,208**
Previous GST receipts	**23,777**	**26,898**	**30,699**	**33,195**	**35,063**	**37,442**	**39,560**
plus Commonwealth agency adjustment	-202	-75	14	-126	79	-144	-34
plus GST non-GIC penalties	na	na	na	na	45	44	87
Receipts at 2008-09 Budget	**23,575**	**26,822**	**30,713**	**33,069**	**35,187**	**37,342**	**39,614**

Other sales taxes

Other sales taxes include the luxury car tax and wine equalisation tax and residual liabilities and disputed amounts related to the abolished wholesale sales tax.

Revenue from other sales taxes is expected to grow by $14 million in 2007-08 and by a further $170 million in 2008-09.

For the luxury car tax this reflects the impact of the increase in the luxury car tax rate from 1 July 2008. Wine equalisation tax revenue is expected to rise moderately throughout the forecast and projection periods reflecting the balance of slow volumes growth and moderate price growth.

Excise and customs revenue

Excise duty

In 2008-09, revenue from excise duty on refined petroleum products is expected to increase by $580 million, following an increase of $330 million in 2007-08.

Despite rising pump prices for refined petroleum products, demand continues to grow. The strong performance of the business (and particularly mining) sector is supporting growth in demand for diesel, as is the increased demand for diesel fuelled passenger vehicles. Longer term, demand for gasoline appears to be declining, reflecting consumer substitution to more fuel-efficient vehicles and blends containing biofuels.

Crude oil excise revenue is expected to decline in 2007-08 by $55 million, reflecting the gradual decline in volumes from (generally) older fields and the lower progressive tax rate these lower volumes incur. The policy decision to remove the crude oil excise exemption on condensate production is expected to increase revenue in 2008-09 by $590 million.

Estimated revenue from other excisable goods (other excise) is expected to increase by $380 million in 2007-08 and by $620 million in 2008-09. This reflects a general trend towards declining volumes of consumption of both tobacco and alcohol being more than offset by the policy decision to increase the excise rate on pre-mixed alcoholic beverages.

Customs duty

Customs duty revenue is expected to increase by $350 million in 2007-08, reflecting strong import demand for excise-like products and passenger motor vehicles. Increased importation of automotive components has also played a significant role in this increase.

Growth of customs revenue is expected to slow as household nominal consumption and domestic demand ease, partly offset by the effect of a higher exchange rate on import prices.

Growth in customs duty revenue in the projection years is dominated by the impact of the tariff rate reductions scheduled to occur on 1 January 2010, leading to the declines in revenue in the first two projection years even as the value of imports continues to increase.

Other taxation revenue

Revenue from agricultural levies is expected to remain relatively constant in 2008-09 but will decline from 2009-10 primarily due to the scheduled cessation of the Dairy Industry Restructure Package levy in 2009.

Non-taxation revenue

Non-taxation revenue is expected to increase by $2.8 billion (up 15.9 per cent) in 2008-09 largely reflecting an increase in dividends from the RBA. This increase is mainly due to an increase in the RBA dividend, which largely reflects that the RBA has realised higher capital gains on its portfolio than in the previous year. Also, the RBA dividend paid in 2007-08 was impacted by the appreciation in the exchange rate.

Appendix A: Revenue and Receipts Forward Estimates

Table A1: Australian Government general government revenue (accrual basis)

	Actual	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m	$m
Individuals and other withholding taxes						
Gross income tax withholding	107,809	114,610	117,410	124,180	131,740	136,750
Gross other individuals	26,952	30,130	31,300	31,500	32,990	33,740
less: Refunds	17,147	19,640	22,010	23,130	24,720	24,800
Total individuals and withholding taxation	117,614	125,100	126,700	132,550	140,010	145,690
Fringe benefits tax	3,754	3,900	4,110	4,190	4,260	4,140
Superannuation funds	7,879	11,710	9,750	10,450	11,140	12,400
Company tax	58,538	66,480	73,490	80,770	82,520	86,460
Petroleum resource rent tax	1,594	1,840	2,920	3,470	2,830	2,790
Income taxation revenue	**189,378**	**209,030**	**216,970**	**231,430**	**240,760**	**251,480**
Sales taxes						
Goods and services tax	41,208	44,370	46,900	49,960	52,680	55,560
Wine equalisation tax	651	670	680	690	710	730
Luxury car tax	365	440	580	610	630	650
Other sales taxes	60	-20	0	0	0	0
Total sales taxes	42,284	45,460	48,160	51,260	54,020	56,940
Excise duty						
Petrol	7,128	6,700	6,970	6,890	6,820	6,860
Diesel	6,197	6,700	6,860	7,100	7,350	7,610
Other fuel products	803	1,060	1,210	1,380	1,570	1,700
Crude oil and condensate	525	470	1,060	1,070	1,100	1,110
Beer	1,826	1,880	1,910	1,960	2,020	2,080
Potable spirits	208	200	190	190	190	190
Other excisable beverages(a)	665	850	1,430	1,610	1,790	2,010
Tobacco	5,382	5,530	5,550	5,590	5,630	5,660
Total excise duty revenue	22,734	23,390	25,180	25,790	26,470	27,220
Customs duty						
Textiles, clothing and footwear	932	950	990	760	520	560
Passenger motor vehicles	1,253	1,360	1,450	1,160	790	820
Excise-like goods	2,204	2,410	2,540	2,710	2,860	3,010
Other imports	1,485	1,500	1,560	1,620	1,680	1,740
less: Refunds and drawbacks	230	230	240	240	240	240
Total customs duty revenue	5,644	5,990	6,300	6,010	5,610	5,890
Other indirect taxation						
Agricultural levies	608	577	595	398	342	353
Other taxes	1,862	1,935	2,031	2,070	2,141	2,202
Other indirect taxation revenue	2,470	2,512	2,625	2,467	2,483	2,555
Indirect taxation revenue	**73,132**	**77,352**	**82,265**	**85,527**	**88,583**	**92,605**
Taxation revenue	**262,511**	**286,382**	**299,235**	**316,957**	**329,343**	**344,085**
Sales of goods and services	5,064	5,369	5,699	5,898	6,177	6,401
Dividends	2,999	2,904	4,637	3,863	3,882	3,950
Interest received	3,921	5,195	6,041	6,511	7,684	8,899
Other non-taxation revenue	3,520	3,982	3,852	3,691	3,776	3,587
Non-taxation revenue	**15,504**	**17,449**	**20,229**	**19,963**	**21,518**	**22,837**
Total revenue	**278,015**	**303,831**	**319,464**	**336,920**	**350,862**	**366,922**

(a) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol.

Table A2: Australian Government general government receipts (cash basis)

	Actual	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m	$m
Individuals and other withholding taxes						
Gross income tax withholding	107,119	113,790	116,530	123,230	130,740	135,690
Gross other individuals	25,797	28,800	29,950	30,100	31,530	32,190
less: Refunds	17,145	19,640	22,010	23,130	24,720	24,800
Total individuals and withholding taxation	115,770	122,950	124,470	130,200	137,550	143,080
Fringe benefits tax	3,761	3,860	4,020	4,100	4,170	4,050
Superannuation funds	8,211	11,740	9,730	10,430	11,120	12,370
Company tax	57,100	62,800	71,720	78,670	80,060	83,550
Petroleum resource rent tax	1,510	1,710	2,630	3,380	2,950	2,760
Income taxation receipts	**186,353**	**203,060**	**212,570**	**226,780**	**235,850**	**245,810**
Sales taxes						
Goods and services tax	39,614	42,788	45,368	48,365	50,989	53,788
Wine equalisation tax	650	660	670	680	700	720
Luxury car tax	364	440	580	610	630	650
Other sales taxes	-6	0	0	0	0	0
Total sales taxes	40,621	43,888	46,618	49,655	52,319	55,158
Excise duty						
Petrol	7,139	7,020	6,840	6,760	6,680	6,720
Diesel	6,207	6,700	6,860	7,100	7,350	7,610
Other fuel products	792	1,060	1,210	1,380	1,570	1,700
Crude oil and condensate	525	400	1,050	1,060	1,100	1,110
Beer	1,829	1,880	1,910	1,960	2,020	2,080
Potable spirits	209	200	190	190	190	190
Other excisable beverages(a)	666	850	1,430	1,610	1,790	2,010
Tobacco	5,382	5,530	5,550	5,590	5,630	5,660
Total excise duty receipts	22,749	23,640	25,040	25,650	26,330	27,080
Customs duty						
Textiles, clothing and footwear	928	950	990	760	520	560
Passenger motor vehicles	819	960	1,050	830	560	590
Excise-like goods	2,204	2,410	2,540	2,710	2,860	3,010
Other imports	1,482	1,490	1,550	1,610	1,670	1,730
less: Refunds and drawbacks	370	370	380	380	380	380
Total customs duty receipts	5,063	5,440	5,750	5,530	5,230	5,510
Other indirect taxation						
Agricultural levies	608	577	595	398	342	353
Other taxes	1,999	1,930	2,071	2,136	2,071	2,355
Total other indirect taxation receipts	2,607	2,508	2,666	2,534	2,413	2,708
Indirect taxation receipts	**71,039**	**75,476**	**80,074**	**83,368**	**86,292**	**90,457**
Taxation receipts	**257,392**	**278,536**	**292,644**	**310,148**	**322,142**	**336,267**
Sales of goods and services	4,802	5,340	5,694	5,913	6,155	6,373
Dividends	3,197	2,904	4,637	3,863	3,932	4,000
Interest received	3,731	5,102	5,865	6,381	7,568	8,770
Other non-taxation receipts(b)	3,462	3,740	4,121	3,790	3,909	3,607
Non-taxation receipts	**15,192**	**17,086**	**20,316**	**19,946**	**21,563**	**22,751**
Total receipts	**272,584**	**295,622**	**312,961**	**330,095**	**343,705**	**359,018**

(a) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol.
(b) These numbers are lower than previously published, reflecting the move to GFS reporting. Other non-taxation receipts no longer include GST input credits received by general government, worth $3.6 billion in 2006-07.

Appendix B: Changes Since 2007 PEFO

Table B1: Reconciliation of 2007-08 general government revenue (accrual basis)

	Estimates		Change on PEFO	
	PEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	113,329	114,610	1,281	1.1
Gross other individuals	28,110	30,130	2,020	7.2
less: Refunds	19,792	19,640	-152	-0.8
Total individuals and withholding taxation	121,648	125,100	3,452	2.8
Fringe benefits tax	3,970	3,900	-70	-1.8
Superannuation funds	10,130	11,710	1,580	15.6
Company tax	65,250	66,480	1,230	1.9
Petroleum resource rent tax	2,060	1,840	-220	-10.7
Income taxation revenue	**203,058**	**209,030**	**5,972**	**2.9**
Sales taxes				
Goods and services tax	43,760	44,370	610	1.4
Wine equalisation tax	680	670	-10	-1.5
Luxury car tax	400	440	40	10.0
Other sales taxes	0	-20	-20	0.0
Total sales taxes	44,840	45,460	620	1.4
Excise duty				
Petrol	7,110	6,700	-410	-5.8
Diesel	6,400	6,700	300	4.7
Other fuel products	980	1,060	80	8.2
Crude oil and condensate	340	470	130	38.2
Beer	1,890	1,880	-10	-0.5
Potable spirits	210	200	-10	-4.8
Other excisable beverages(a)	740	850	110	14.9
Tobacco	5,420	5,530	110	2.0
Total excise duty revenue	23,090	23,390	300	1.3
Customs duty				
Textiles, clothing and footwear	1,000	950	-50	-5.0
Passenger motor vehicles	1,360	1,360	0	0.0
Excise-like goods	2,340	2,410	70	3.0
Other imports	1,540	1,500	-40	-2.6
less: Refunds and drawbacks	230	230	0	0.0
Total customs duty revenue	6,010	5,990	-20	-0.3
Other indirect taxation				
Agricultural levies	589	577	-11	-1.9
Other taxes	1,812	1,935	123	6.8
Total other indirect taxation revenue	2,400	2,512	112	4.6
Indirect taxation revenue	**76,340**	**77,352**	**1,012**	**1.3**
Taxation revenue	**279,399**	**286,382**	**6,983**	**2.5**
Sales of goods and services	5,191	5,369	178	3.4
Dividends	2,707	2,904	197	7.3
Interest received	4,656	5,195	539	11.6
Other non-taxation revenue	3,447	3,982	534	15.5
Non-taxation revenue	**16,002**	**17,449**	**1,447**	**9.0**
Total revenue	**295,401**	**303,831**	**8,431**	**2.9**

(a) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol.

Table B2: Reconciliation of 2008-09 general government revenue (accrual basis)

	Estimates		Change on PEFO	
	PEFO $m	Budget $m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	115,988	117,410	1,422	1.2
Gross other individuals	29,140	31,300	2,160	7.4
less: Refunds	21,833	22,010	177	0.8
Total individuals and withholding taxation	123,295	126,700	3,406	2.8
Fringe benefits tax	4,100	4,110	10	0.2
Superannuation funds	11,590	9,750	-1,840	-15.9
Company tax	71,849	73,490	1,641	2.3
Petroleum resource rent tax	2,380	2,920	540	22.7
Income taxation revenue	**213,214**	**216,970**	**3,757**	**1.8**
Sales taxes				
Goods and services tax	46,910	46,900	-10	0.0
Wine equalisation tax	700	680	-20	-2.9
Luxury car tax	410	580	170	41.5
Other sales taxes	0	0	0	0.0
Total sales taxes	48,020	48,160	140	0.3
Excise duty				
Petrol	7,030	6,970	-60	-0.9
Diesel	6,580	6,860	280	4.3
Other fuel products	1,130	1,210	80	7.1
Crude oil and condensate	170	1,060	890	523.5
Beer	1,940	1,910	-30	-1.5
Potable spirits	210	190	-20	-9.5
Other excisable beverages(a)	840	1,430	590	70.2
Tobacco	5,450	5,550	100	1.8
Total excise duty revenue	23,350	25,180	1,830	7.8
Customs duty				
Textiles, clothing and footwear	1,060	990	-70	-6.6
Passenger motor vehicles	1,450	1,450	0	0.0
Excise-like goods	2,480	2,540	60	2.4
Other imports	1,600	1,560	-40	-2.5
less: Refunds and drawbacks	240	240	0	0.0
Total customs duty revenue	6,350	6,300	-50	-0.8
Other indirect taxation				
Agricultural levies	599	595	-5	-0.8
Other taxes	1,906	2,031	125	6.5
Total other indirect taxation revenue	2,505	2,625	120	4.8
Indirect taxation revenue	**80,225**	**82,265**	**2,040**	**2.5**
Taxation revenue	**293,440**	**299,235**	**5,795**	**2.0**
Sales of goods and services	5,322	5,699	377	7.1
Dividends	4,017	4,637	620	15.4
Interest received	4,440	6,041	1,602	36.1
Other non-taxation revenue	3,467	3,852	385	11.1
Non-taxation revenue	**17,245**	**20,229**	**2,984**	**17.3**
Total revenue	**310,685**	**319,464**	**8,779**	**2.8**

(a) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol.

Table B3: Reconciliation of 2007-08 general government receipts (cash basis)

	Estimates		Change on PEFO	
	PEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	112,729	113,790	1,061	0.9
Gross other individuals	27,140	28,800	1,660	6.1
less: Refunds	19,792	19,640	-152	-0.8
Total individuals and withholding taxation	120,078	122,950	2,872	2.4
Fringe benefits tax	3,880	3,860	-20	-0.5
Superannuation funds	10,120	11,740	1,620	16.0
Company tax	63,830	62,800	-1,030	-1.6
Petroleum resource rent tax	1,950	1,710	-240	-12.3
Income taxation receipts	**199,858**	**203,060**	**3,202**	**1.6**
Sales taxes				
Goods and services tax	42,397	42,788	391	0.9
Wine equalisation tax	670	660	-10	-1.5
Luxury car tax	390	440	50	12.8
Other sales taxes	0	0	0	0.0
Total sales taxes	43,457	43,888	431	1.0
Excise duty				
Petrol	7,070	7,020	-50	-0.7
Diesel	6,400	6,700	300	4.7
Other fuel products	980	1,060	80	8.2
Crude oil and condensate	340	400	60	17.6
Beer	1,890	1,880	-10	-0.5
Potable spirits	210	200	-10	-4.8
Other excisable beverages(a)	740	850	110	14.9
Tobacco	5,420	5,530	110	2.0
Total excise duty receipts	23,050	23,640	590	2.6
Customs duty				
Textiles, clothing and footwear	1,000	950	-50	-5.0
Passenger motor vehicles	960	960	0	0.0
Excise-like goods	2,340	2,410	70	3.0
Other imports	1,530	1,490	-40	-2.6
less: Refunds and drawbacks	370	370	0	0.0
Total customs duty receipts	5,460	5,440	-20	-0.4
Other indirect taxation				
Agricultural levies	589	577	-11	-1.9
Other taxes	1,700	1,930	231	13.6
Total other indirect taxation receipts	2,288	2,508	219	9.6
Indirect taxation receipts	**74,255**	**75,476**	**1,221**	**1.6**
Taxation receipts	**274,113**	**278,536**	**4,423**	**1.6**
Sales of goods and services	5,188	5,340	152	2.9
Dividends	2,692	2,904	212	7.9
Interest received	4,475	5,102	626	14.0
Other non-taxation receipts(b)	3,447	3,740	293	8.5
Non-taxation receipts	**15,802**	**17,086**	**1,283**	**8.1**
Total receipts	**289,915**	**295,622**	**5,706**	**2.0**

(a) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol.
(b) These numbers are lower than previously published, reflecting the move to GFS reporting. Other non-taxation receipts no longer include GST input credits received by general government, worth $3.6 billion in 2006-07.

Table B4: Reconciliation of 2008-09 general government receipts (cash basis)

	Estimates		Change on PEFO	
	PEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	115,338	116,530	1,192	1.0
Gross other individuals	28,050	29,950	1,900	6.8
less: Refunds	21,833	22,010	177	0.8
Total individuals and withholding taxation	121,554	124,470	2,916	2.4
Fringe benefits tax	4,010	4,020	10	0.2
Superannuation funds	11,560	9,730	-1,830	-15.8
Company tax	70,229	71,720	1,491	2.1
Petroleum resource rent tax	2,230	2,630	400	17.9
Income taxation receipts	**209,584**	**212,570**	**2,986**	**1.4**
Sales taxes				
Goods and services tax	45,386	45,368	-18	0.0
Wine equalisation tax	690	670	-20	-2.9
Luxury car tax	400	580	180	45.0
Other sales taxes	0	0	0	na
Total sales taxes	46,476	46,618	142	0.3
Excise duty				
Petrol	6,990	6,840	-150	-2.1
Diesel	6,580	6,860	280	4.3
Other fuel products	1,130	1,210	80	7.1
Crude oil and condensate	170	1,050	880	517.6
Beer	1,940	1,910	-30	-1.5
Potable spirits	210	190	-20	-9.5
Other excisable beverages(a)	840	1,430	590	70.2
Tobacco	5,450	5,550	100	1.8
Total excise duty receipts	23,310	25,040	1,730	7.4
Customs duty				
Textiles, clothing and footwear	1,060	990	-70	-6.6
Passenger motor vehicles	1,050	1,050	0	0.0
Excise-like goods	2,480	2,540	60	2.4
Other imports	1,590	1,550	-40	-2.5
less: Refunds and drawbacks	380	380	0	0.0
Total customs duty receipts	5,800	5,750	-50	-0.9
Other indirect taxation				
Agricultural levies	599	595	-5	-0.8
Other taxes	1,794	2,071	277	15.4
Total other indirect taxation receipts	2,394	2,666	273	11.4
Indirect taxation receipts	**77,980**	**80,074**	**2,095**	**2.7**
Taxation receipts	**287,563**	**292,644**	**5,081**	**1.8**
Sales of goods and services	5,338	5,694	356	6.7
Dividends	4,017	4,637	620	15.4
Interest received	4,158	5,865	1,706	41.0
Other non-taxation receipts(b)	3,611	4,121	510	14.1
Non-taxation receipts	**17,124**	**20,316**	**3,193**	**18.6**
Total receipts	**304,687**	**312,961**	**8,274**	**2.7**

(a) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol.
(b) These numbers are lower than previously published, reflecting the move to GFS reporting. Other non-taxation receipts no longer include GST input credits received by general government, worth $3.6 billion in 2006-07.

Appendix C: Revenue and Receipts History and Forecasts

Table C1: Australian Government revenue (accrual basis)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
								(est)	(est)	(proj)	(proj)	(proj)
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Individuals and other withholding taxes												
Gross income tax withholding	75,614	79,822	84,640	90,095	98,250	103,811	107,809	114,610	117,410	124,180	131,740	136,750
Gross other individuals	13,426	17,237	18,314	21,010	24,003	25,859	26,952	30,130	31,300	31,500	32,990	33,740
less: Refunds	10,989	10,637	11,651	12,325	13,734	15,239	17,147	19,640	22,010	23,130	24,720	24,800
Total individuals and other withholding	78,051	86,422	91,303	98,779	108,519	114,431	117,614	125,100	126,700	132,550	140,010	145,690
Fringe benefits tax	3,741	4,032	3,154	3,642	3,476	4,084	3,754	3,900	4,110	4,190	4,260	4,140
Superannuation funds	5,286	4,171	4,896	5,785	6,410	6,705	7,879	11,710	9,750	10,450	11,140	12,400
Company tax	35,136	27,133	33,365	36,337	43,106	48,987	58,538	66,480	73,490	80,770	82,520	86,460
Petroleum resource rent tax	2,388	1,306	1,715	1,165	1,465	1,991	1,594	1,840	2,920	3,470	2,830	2,790
Income taxation revenue	**124,602**	**123,064**	**134,432**	**145,709**	**162,974**	**176,198**	**189,378**	**209,030**	**216,970**	**231,430**	**240,760**	**251,480**
Sales taxes												
Goods and services tax	23,854	27,389	31,257	34,121	35,975	39,118	41,208	44,370	46,900	49,960	52,680	55,560
Wine equalisation tax	528	648	673	705	693	657	651	670	680	690	710	730
Luxury car tax	172	220	261	336	302	331	365	440	580	610	630	650
Other sales taxes(a)	1,276	-77	-39	-38	-13	-19	60	-20	0	0	0	0
Total sales taxes	25,830	28,180	32,153	35,122	36,957	40,086	42,284	45,460	48,160	51,260	54,020	56,940
Excise duty												
Petroleum and other fuel products	11,921	12,400	12,920	13,220	13,682	13,711	14,128	14,460	15,040	15,370	15,740	16,170
Crude oil and condensate	526	393	417	309	668	362	525	470	1,060	1,070	1,100	1,110
Other excise	6,572	6,837	7,450	7,539	7,631	7,854	8,082	8,460	9,080	9,350	9,630	9,940
Total excise duty	19,019	19,630	20,787	21,068	21,981	21,927	22,734	23,390	25,180	25,790	26,470	27,220
Customs duty	4,606	5,214	5,573	5,622	5,548	4,988	5,644	5,990	6,300	6,010	5,610	5,890
Other indirect taxation												
Agricultural levies	451	550	586	603	584	610	608	577	595	398	342	353
Other taxes	1,426	1,625	1,683	1,835	1,899	1,908	1,862	1,935	2,031	2,070	2,141	2,202
Total other indirect taxation revenue	1,877	2,175	2,269	2,438	2,483	2,518	2,470	2,512	2,625	2,467	2,483	2,555
Indirect taxation revenue	**51,332**	**55,198**	**60,781**	**64,250**	**66,969**	**69,518**	**73,132**	**77,352**	**82,265**	**85,527**	**88,583**	**92,605**
Taxation revenue	**175,933**	**178,262**	**195,214**	**209,959**	**229,943**	**245,716**	**262,510**	**286,382**	**299,235**	**316,957**	**329,343**	**344,085**

Table C1: Australian Government revenue (accrual basis) (continued)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
								(est)	(est)	(proj)	(proj)	(proj)
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Interest received	1,105	1,188	1,185	1,304	1,621	2,437	3,921	5,195	6,041	6,511	7,684	8,899
Dividends and other	8,889	10,895	10,371	10,781	10,834	12,649	11,582	12,254	14,187	13,452	13,834	13,939
Non-taxation revenue	**9,994**	**12,083**	**11,556**	**12,085**	**12,455**	**15,086**	**15,504**	**17,449**	**20,229**	**19,963**	**21,518**	**22,837**
Total revenue	**185,927**	**190,345**	**206,769**	**222,044**	**242,398**	**260,802**	**278,014**	**303,831**	**319,464**	**336,920**	**350,862**	**366,922**

(a) 'Other sales taxes' includes wholesale sales tax which was abolished in 2000-01.

Table C2: Major categories of revenue as a proportion of gross domestic product (accrual basis)

	Income tax									Indirect taxation revenue							
	Gross ITW	Gross other ind.	Refunds	Total ind. & w'holding	FBT	Super funds	Companies	PRRT	Total income tax	Sales tax(a)	Excise duty	Customs duty	Other tax	Total indirect tax	Total tax revenue	Total non-tax revenue	Total revenue
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
1999-00	12.6	2.2	1.7	13.1	0.6	0.6	3.8	0.2	18.3	2.4	2.2	0.6	0.3	5.5	23.8	2.1	25.9
2000-01	11.0	1.9	1.6	11.3	0.5	0.8	5.1	0.3	18.1	3.7	2.8	0.7	0.3	7.4	25.5	1.4	27.0
2001-02	10.8	2.3	1.4	11.7	0.5	0.6	3.7	0.2	16.7	3.8	2.7	0.7	0.3	7.5	24.2	1.6	25.9
2002-03	10.8	2.3	1.5	11.7	0.4	0.6	4.3	0.2	17.2	4.1	2.7	0.7	0.3	7.8	25.0	1.5	26.5
2003-04	10.7	2.5	1.5	11.7	0.4	0.7	4.3	0.1	17.3	4.2	2.5	0.7	0.3	7.6	25.0	1.4	26.4
2004-05	10.9	2.7	1.5	12.1	0.4	0.7	4.8	0.2	18.2	4.1	2.4	0.6	0.3	7.5	25.6	1.4	27.0
2005-06	10.7	2.7	1.6	11.8	0.4	0.7	5.1	0.2	18.2	4.1	2.3	0.5	0.3	7.2	25.4	1.6	27.0
2006-07	10.3	2.6	1.6	11.2	0.4	0.8	5.6	0.2	18.1	4.0	2.2	0.5	0.2	7.0	25.1	1.5	26.6
2007-08 est	10.2	2.7	1.7	11.1	0.3	1.0	5.9	0.2	18.5	4.0	2.1	0.5	0.2	6.9	25.4	1.5	26.9
2008-09 est	9.5	2.5	1.8	10.3	0.3	0.8	6.0	0.2	17.6	3.9	2.0	0.5	0.2	6.7	24.3	1.6	25.9
2009-10 proj	9.7	2.5	1.8	10.3	0.3	0.8	6.3	0.3	18.0	4.0	2.0	0.5	0.2	6.7	24.7	1.6	26.2
2010-11 proj	9.8	2.5	1.8	10.5	0.3	0.8	6.2	0.2	18.0	4.0	2.0	0.4	0.2	6.6	24.6	1.6	26.2
2011-12 proj	9.7	2.4	1.8	10.3	0.3	0.9	6.1	0.2	17.9	4.0	1.9	0.4	0.2	6.6	24.4	1.6	26.1

(a) ‘Sales taxes’ includes wholesale sales tax which was abolished in 2000-01.

Table C3: Major categories of revenue as a proportion of total revenue (accrual basis)

	Income tax									Indirect taxation revenue						
	Gross ITW	Gross other ind.	Refunds	Total ind. & w'holding	FBT	Super funds	Companies	PRRT	Total income tax	Sales tax(a)	Excise duty	Customs duty	Other tax	Total indirect tax	Total tax revenue	Total non-tax revenue
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
1999-00	48.6	8.5	6.5	50.6	2.2	2.3	14.8	0.7	70.7	9.4	8.4	2.3	1.0	21.1	91.8	8.2
2000-01	40.7	7.2	5.9	42.0	2.0	2.8	18.9	1.3	67.0	13.9	10.2	2.5	1.0	27.6	94.6	5.4
2001-02	41.9	9.1	5.6	45.4	2.1	2.2	14.3	0.7	64.7	14.8	10.3	2.7	1.1	29.0	93.7	6.3
2002-03	40.9	8.9	5.6	44.2	1.5	2.4	16.1	0.8	65.0	15.6	10.1	2.7	1.1	29.4	94.4	5.6
2003-04	40.6	9.5	5.6	44.5	1.6	2.6	16.4	0.5	65.6	15.8	9.5	2.5	1.1	28.9	94.6	5.4
2004-05	40.5	9.9	5.7	44.8	1.4	2.6	17.8	0.6	67.2	15.2	9.1	2.3	1.0	27.6	94.9	5.1
2005-06	39.8	9.9	5.8	43.9	1.6	2.6	18.8	0.8	67.6	15.4	8.4	1.9	1.0	26.7	94.2	5.8
2006-07	38.8	9.7	6.2	42.3	1.4	2.8	21.1	0.6	68.1	15.2	8.2	2.0	0.9	26.3	94.4	5.6
2007-08 est	37.7	9.9	6.5	41.2	1.3	3.9	21.9	0.6	68.8	15.0	7.7	2.0	0.8	25.5	94.3	5.7
2008-09 est	36.8	9.8	6.9	39.7	1.3	3.1	23.0	0.9	67.9	15.1	7.9	2.0	0.8	25.8	93.7	6.3
2009-10 proj	36.9	9.3	6.9	39.3	1.2	3.1	24.0	1.0	68.7	15.2	7.7	1.8	0.7	25.4	94.1	5.9
2010-11 proj	37.5	9.4	7.0	39.9	1.2	3.2	23.5	0.8	68.6	15.4	7.5	1.6	0.7	25.2	93.9	6.1
2011-12 proj	37.3	9.2	6.8	39.7	1.1	3.4	23.6	0.8	68.5	15.5	7.4	1.6	0.7	25.2	93.8	6.2

(a) ‘Sales taxes’ includes wholesale sales tax which was abolished in 2000-01.

Table C4: Australian Government receipts (cash basis)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (est)	2008-09 (est)	2009-10 (proj)	2010-11 (proj)	2011-12 (proj)
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Individuals and other withholding taxes												
Gross income tax withholding	75,009	78,983	84,134	89,638	97,304	103,120	107,119	113,790	116,530	123,230	130,740	135,690
Gross other individuals	13,226	16,290	17,436	19,935	22,554	24,895	25,797	28,800	29,950	30,100	31,530	32,190
less: Refunds	10,989	10,637	11,651	12,325	13,734	15,244	17,145	19,640	22,010	23,130	24,720	24,800
Total individuals and other withholding	77,246	84,636	89,919	97,247	106,123	112,770	115,770	122,950	124,470	130,200	137,550	143,080
Fringe benefits tax	3,492	3,632	3,459	3,590	3,703	4,049	3,761	3,860	4,020	4,100	4,170	4,050
Superannuation funds	4,800	4,373	4,840	5,551	6,248	6,368	8,211	11,740	9,730	10,430	11,120	12,370
Company tax	31,582	27,230	32,752	36,101	40,404	48,960	57,100	62,800	71,720	78,670	80,060	83,550
Petroleum resource rent tax	2,379	1,361	1,712	1,168	1,459	1,917	1,510	1,710	2,630	3,380	2,950	2,760
Income taxation receipts	**119,498**	**121,233**	**132,681**	**143,658**	**157,937**	**174,063**	**186,353**	**203,060**	**212,570**	**226,780**	**235,850**	**245,810**
Sales taxes												
Goods and services tax	23,575	26,822	30,713	33,069	35,187	37,342	39,614	42,788	45,368	48,365	50,989	53,788
Wine equalisation tax	524	640	669	704	682	656	650	660	670	680	700	720
Luxury car tax	171	220	261	335	298	322	364	440	580	610	630	650
Other sales taxes(a)	1,234	-75	-72	-48	-10	-16	-6	0	0	0	0	0
Total sales taxes	25,503	27,607	31,571	34,060	36,157	38,304	40,621	43,888	46,618	49,655	52,319	55,158
Excise duty												
Petroleum and other fuel products	11,919	12,386	12,866	13,231	13,608	13,655	14,138	14,780	14,910	15,240	15,600	16,030
Crude oil and condensate	526	393	417	309	668	337	525	400	1,050	1,060	1,100	1,110
Other excise	6,572	6,837	7,450	7,539	7,612	7,822	8,086	8,460	9,080	9,350	9,630	9,940
Total excise duty	19,017	19,616	20,733	21,079	21,888	21,814	22,749	23,640	25,040	25,650	26,330	27,080
Customs duty	4,584	4,625	4,982	5,038	5,012	4,488	5,063	5,440	5,750	5,530	5,230	5,510
Other indirect taxation												
Agricultural levies	451	550	586	603	584	610	608	577	595	398	342	353
Other taxes	1,219	1,535	1,578	1,655	1,740	1,936	1,999	1,930	2,071	2,136	2,071	2,355
Total other indirect taxation receipts	1,670	2,085	2,164	2,258	2,324	2,546	2,607	2,508	2,666	2,534	2,413	2,708
Indirect taxation receipts	**50,775**	**53,932**	**59,450**	**62,435**	**65,380**	**67,152**	**71,039**	**75,476**	**80,074**	**83,368**	**86,292**	**90,457**
Taxation receipts	**170,273**	**175,165**	**192,132**	**206,092**	**223,317**	**241,215**	**257,392**	**278,536**	**292,644**	**310,148**	**322,142**	**336,267**

Table C4: Australian Government receipts (cash basis) (continued)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
								(est)	(est)	(proj)	(proj)	(proj)
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Interest received	1,140	918	982	1,056	1,400	2,325	3,731	5,102	5,865	6,381	7,568	8,770
Dividends and other(b)	11,391	11,412	11,439	10,574	11,226	12,363	11,461	11,984	14,452	13,565	13,995	13,981
Non-taxation receipts	**12,531**	**12,330**	**12,421**	**11,630**	**12,625**	**14,688**	**15,192**	**17,086**	**20,316**	**19,946**	**21,563**	**22,751**
Total receipts	**182,804**	**187,495**	**204,553**	**217,723**	**235,943**	**255,903**	**272,584**	**295,622**	**312,961**	**330,095**	**343,705**	**359,018**

(a) ‘Other sales taxes’ includes wholesale sales tax which was abolished in 2000-01.

(b) These numbers are lower than previously published, reflecting the move to GFS reporting. Other non-taxation receipts no longer include GST input credits received by general government, worth $3.6 billion in 2006-07.

Table C5: Major categories of receipts as a proportion of gross domestic product (cash basis)[(a)]

	Income tax									Indirect taxation receipts							
	Gross ITW	Gross other ind.(b)	Refunds	Total ind. & w'holding	FBT	Super funds	Companies	PRRT	Total income tax	Sales tax(c)	Excise duty	Customs duty	Other tax	Total indirect tax	Total tax receipts	Total non-tax receipts(d)	Total receipts
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
1977-78	10.4	2.4	0.9	11.9	0.0	0.0	3.0	0.0	14.9	1.7	2.7	1.1	0.4	5.9	20.8	2.5	23.3
1978-79	9.9	2.1	0.9	11.1	0.0	0.0	2.6	0.0	13.7	1.5	3.3	1.2	0.4	6.4	20.1	2.3	22.5
1979-80	10.2	2.2	0.9	11.5	0.0	0.0	2.6	0.0	14.1	1.4	3.8	1.2	0.4	6.7	20.8	2.2	23.0
1980-81	10.3	2.3	0.8	11.8	0.0	0.0	3.1	0.0	15.0	1.4	3.9	1.2	0.3	6.8	21.8	2.2	24.1
1981-82	11.0	2.2	0.8	12.4	0.0	0.0	2.9	0.0	15.4	1.7	3.5	1.2	0.3	6.6	22.0	2.1	24.1
1982-83	11.4	2.2	1.1	12.5	0.0	0.0	2.6	0.0	15.1	1.9	3.7	1.1	0.3	7.0	22.1	2.4	24.5
1983-84	10.9	2.1	1.1	11.9	0.0	0.0	2.2	0.0	14.1	2.0	3.8	1.1	0.4	7.3	21.4	2.4	23.9
1984-85	11.4	2.4	0.9	12.8	0.0	0.0	2.4	0.0	15.2	2.1	3.8	1.3	0.5	7.7	22.9	2.5	25.4
1985-86	11.7	2.6	1.3	13.0	0.0	0.0	2.4	0.0	15.4	2.2	3.7	1.3	0.4	7.6	23.1	2.9	25.9
1986-87	12.0	3.1	1.3	13.8	0.2	0.0	2.4	0.0	16.4	2.3	3.5	1.2	0.4	7.3	23.8	3.0	26.7
1987-88	11.6	3.1	1.3	13.3	0.3	0.0	2.8	0.0	16.4	2.4	3.2	1.1	0.4	7.2	23.5	2.6	26.2
1988-89	12.0	2.8	1.4	13.3	0.3	0.0	2.8	0.0	16.4	2.6	2.6	1.0	0.4	6.6	23.0	2.0	25.0
1989-90	11.7	2.6	1.5	12.8	0.3	0.1	3.3	0.0	16.5	2.5	2.5	1.0	0.3	6.4	22.8	2.0	24.8
1990-91	11.4	2.8	1.7	12.5	0.3	0.3	3.5	0.1	16.6	2.3	2.5	0.8	0.4	6.1	22.7	1.8	24.5
1991-92	11.1	2.2	1.9	11.4	0.3	0.3	3.2	0.2	15.4	2.2	2.3	0.8	0.3	5.5	20.9	2.0	23.0
1992-93	10.9	1.9	1.8	11.0	0.3	0.3	3.0	0.3	15.0	2.1	2.2	0.8	0.2	5.3	20.3	2.0	22.3
1993-94	10.8	1.9	1.5	11.2	0.3	0.3	2.8	0.2	14.7	2.3	2.4	0.7	0.2	5.5	20.3	2.3	22.6
1994-95	11.1	1.9	1.6	11.4	0.6	0.4	3.2	0.2	15.8	2.4	2.5	0.7	0.2	5.8	21.6	1.8	23.3
1995-96	11.6	1.9	1.6	11.9	0.6	0.3	3.5	0.2	16.5	2.5	2.5	0.6	0.3	5.8	22.3	1.7	24.0
1996-97	11.8	2.2	1.6	12.4	0.6	0.5	3.5	0.2	17.2	2.4	2.4	0.6	0.2	5.6	22.8	1.7	24.5
1997-98	12.0	2.1	1.6	12.5	0.5	0.5	3.4	0.2	17.1	2.4	2.4	0.6	0.2	5.6	22.7	1.7	24.4

Table C5: Major categories of receipts as a proportion of gross domestic product (cash basis)[(a)] (continued)

	Income tax									Indirect taxation receipts							
	Gross ITW	Gross other ind.(b)	Refunds	Total ind. & w'holding	FBT	Super funds	Companies	PRRT	Total income tax	Sales tax(c)	Excise duty	Customs duty	Other tax	Total indirect tax	Total tax receipts	Total non-tax receipts(d)	Total receipts
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
1998-99	12.4	2.2	1.7	12.8	0.5	0.6	3.4	0.1	17.5	2.5	2.2	0.6	0.0	5.3	22.8	2.2	25.1
1999-00	12.6	2.1	1.7	12.9	0.6	0.6	3.8	0.2	18.1	2.4	2.2	0.6	0.2	5.4	23.5	2.3	25.7
2000-01	10.9	1.9	1.6	11.2	0.5	0.7	4.6	0.3	17.3	3.7	2.8	0.7	0.2	7.4	24.7	1.8	26.5
2001-02	10.7	2.2	1.4	11.5	0.5	0.6	3.7	0.2	16.5	3.8	2.7	0.6	0.3	7.3	23.8	1.7	25.5
2002-03	10.8	2.2	1.5	11.5	0.4	0.6	4.2	0.2	17.0	4.0	2.7	0.6	0.3	7.6	24.6	1.6	26.2
2003-04	10.7	2.4	1.5	11.6	0.4	0.7	4.3	0.1	17.1	4.0	2.5	0.6	0.3	7.4	24.5	1.4	25.9
2004-05	10.8	2.5	1.5	11.8	0.4	0.7	4.5	0.2	17.6	4.0	2.4	0.6	0.3	7.3	24.9	1.4	26.3
2005-06	10.7	2.6	1.6	11.7	0.4	0.7	5.1	0.2	18.0	4.0	2.3	0.5	0.3	6.9	24.9	1.5	26.5
2006-07	10.2	2.5	1.6	11.1	0.4	0.8	5.5	0.1	17.8	3.9	2.2	0.5	0.2	6.8	24.6	1.5	26.0
2007-08 est	10.1	2.6	1.7	10.9	0.3	1.0	5.6	0.2	18.0	3.9	2.1	0.5	0.2	6.7	24.7	1.5	26.2
2008-09 est	9.5	2.4	1.8	10.1	0.3	0.8	5.8	0.2	17.3	3.8	2.0	0.5	0.2	6.5	23.8	1.7	25.4
2009-10 proj	9.6	2.3	1.8	10.1	0.3	0.8	6.1	0.3	17.7	3.9	2.0	0.4	0.2	6.5	24.2	1.6	25.7
2010-11 proj	9.8	2.4	1.8	10.3	0.3	0.8	6.0	0.2	17.6	3.9	2.0	0.4	0.2	6.4	24.1	1.6	25.7
2011-12 proj	9.6	2.3	1.8	10.2	0.3	0.9	5.9	0.2	17.5	3.9	1.9	0.4	0.2	6.4	23.9	1.6	25.5

(a) Figures prior to 1999-2000 were originally reported on the old Commonwealth Budget Sector accounting framework. These figures have now been recast to be consistent with the Australian Government general government GFS basis.
(b) Gross other individuals' includes amounts previously collected under the Prescribed Payments System and Reportable Payments System between 1983-84 and 1999-00.
(c) 'Sales taxes' includes wholesale sales tax which was abolished in 2000-01.
(d) These numbers are lower than previously published, reflecting the move to GFS reporting. Other non-taxation receipts no longer include GST input credits received by general government, worth $3.6 billion in 2006-07.

Table C6: Major categories of receipts as a proportion of total receipts (cash basis)[(a)]

	Income tax									Indirect taxation receipts						
	Gross ITW	Gross other ind.(b)	Refunds	Total ind. & w'holding	FBT	Super funds	Companies	PRRT	Total income tax	Sales tax(c)	Excise duty	Customs duty	Other tax	Total indirect tax	Total tax receipts	Total non-tax receipts(d)
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
1977-78	44.5	10.4	3.9	51.0	0.0	0.0	12.9	0.0	63.9	7.3	11.4	4.7	1.9	25.3	89.2	10.8
1978-79	44.2	9.2	4.0	49.4	0.0	0.0	11.6	0.0	61.1	6.8	14.7	5.2	1.8	28.5	89.6	10.4
1979-80	44.3	9.5	3.7	50.1	0.0	0.0	11.2	0.0	61.3	6.2	16.4	5.1	1.7	29.3	90.6	9.4
1980-81	42.9	9.5	3.3	49.2	0.0	0.0	13.0	0.0	62.2	5.8	16.2	5.0	1.4	28.5	90.7	9.3
1981-82	45.9	9.1	3.4	51.6	0.0	0.0	12.2	0.0	63.8	6.9	14.4	5.0	1.2	27.5	91.3	8.7
1982-83	46.3	9.0	4.3	51.0	0.0	0.1	10.6	0.0	61.7	7.7	15.1	4.5	1.3	28.5	90.2	9.8
1983-84	45.8	9.0	4.8	50.0	0.0	0.0	9.1	0.0	59.2	8.3	15.8	4.7	1.8	30.5	89.7	10.3
1984-85	44.8	9.3	3.6	50.5	0.0	0.0	9.5	0.0	60.0	8.4	14.8	5.0	1.8	30.1	90.1	9.9
1985-86	45.2	10.1	5.1	50.3	0.0	0.0	9.2	0.0	59.5	8.7	14.3	5.0	1.4	29.4	88.9	11.1
1986-87	45.0	11.6	4.9	51.8	0.7	0.0	9.0	0.0	61.5	8.5	13.2	4.3	1.5	27.4	88.9	11.1
1987-88	44.3	11.7	5.0	51.0	1.1	0.0	10.5	0.0	62.6	9.0	12.3	4.4	1.7	27.4	89.9	10.1
1988-89	47.9	11.0	5.7	53.2	1.1	0.0	11.3	0.0	65.6	10.4	10.2	4.1	1.6	26.3	92.0	8.0
1989-90	47.1	10.5	6.0	51.7	1.2	0.4	13.1	0.0	66.4	10.3	10.0	4.0	1.3	25.6	92.0	8.0
1990-91	46.5	11.3	6.8	51.0	1.3	1.1	14.1	0.3	67.8	9.3	10.3	3.3	1.8	24.7	92.5	7.5
1991-92	48.2	9.6	8.1	49.7	1.4	1.2	14.0	0.9	67.2	9.5	9.9	3.4	1.1	24.0	91.2	8.8
1992-93	48.9	8.5	8.0	49.4	1.4	1.6	13.4	1.4	67.2	9.5	9.9	3.4	0.9	23.7	90.9	9.1
1993-94	48.0	8.4	6.8	49.6	1.4	1.1	12.2	1.0	65.3	10.0	10.4	3.1	1.0	24.6	89.9	10.1
1994-95	47.6	8.4	7.0	49.0	2.4	1.7	13.7	0.8	67.6	10.2	10.6	3.1	1.0	24.9	92.5	7.5
1995-96	48.2	8.1	6.7	49.6	2.4	1.3	14.7	0.6	68.7	10.4	10.3	2.5	1.0	24.3	93.0	7.0
1996-97	48.3	8.8	6.6	50.6	2.4	1.9	14.4	1.0	70.2	10.0	9.9	2.5	0.7	23.0	93.2	6.8
1997-98	49.3	8.6	6.8	51.1	2.3	2.2	13.8	0.6	70.0	10.0	9.6	2.6	0.8	23.1	93.1	6.9

Table C6: Major categories of receipts as a proportion of total receipts (cash basis)[(a)] (continued)

	Income tax									Indirect taxation receipts						
	Gross ITW	Gross other ind.(b)	Refunds	Total ind. & w'holding	FBT	Super funds	Companies	PRRT	Total income tax	Sales tax(c)	Excise duty	Customs duty	Other tax	Total indirect tax	Total tax receipts	Total non-tax receipts(d)
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
1998-99	49.4	8.6	6.8	51.2	2.2	2.6	13.6	0.3	69.8	10.0	8.9	2.4	0.0	21.3	91.1	8.9
1999-00	48.8	8.0	6.6	50.3	2.2	2.3	14.7	0.7	70.2	9.4	8.5	2.3	0.8	20.9	91.1	8.9
2000-01	41.0	7.2	6.0	42.3	1.9	2.6	17.3	1.3	65.4	14.0	10.4	2.5	0.9	27.8	93.1	6.9
2001-02	42.1	8.7	5.7	45.1	1.9	2.3	14.5	0.7	64.7	14.7	10.5	2.5	1.1	28.8	93.4	6.6
2002-03	41.1	8.5	5.7	44.0	1.7	2.4	16.0	0.8	64.9	15.4	10.1	2.4	1.1	29.1	93.9	6.1
2003-04	41.2	9.2	5.7	44.7	1.6	2.5	16.6	0.5	66.0	15.6	9.7	2.3	1.0	28.7	94.7	5.3
2004-05	41.2	9.6	5.8	45.0	1.6	2.6	17.1	0.6	66.9	15.3	9.3	2.1	1.0	27.7	94.6	5.4
2005-06	40.3	9.7	6.0	44.1	1.6	2.5	19.1	0.7	68.0	15.0	8.5	1.8	1.0	26.2	94.3	5.7
2006-07	39.3	9.5	6.3	42.5	1.4	3.0	20.9	0.6	68.4	14.9	8.3	1.9	1.0	26.1	94.4	5.6
2007-08 est	38.5	9.7	6.6	41.6	1.3	4.0	21.2	0.6	68.7	14.8	8.0	1.8	0.8	25.5	94.2	5.8
2008-09 est	37.2	9.6	7.0	39.8	1.3	3.1	22.9	0.8	67.9	14.9	8.0	1.8	0.9	25.6	93.5	6.5
2009-10 proj	37.3	9.1	7.0	39.4	1.2	3.2	23.8	1.0	68.7	15.0	7.8	1.7	0.8	25.3	94.0	6.0
2010-11 proj	38.0	9.2	7.2	40.0	1.2	3.2	23.3	0.9	68.6	15.2	7.7	1.5	0.7	25.1	93.7	6.3
2011-12 proj	37.8	9.0	6.9	39.9	1.1	3.4	23.3	0.8	68.5	15.4	7.5	1.5	0.8	25.2	93.7	6.3

(a) Figures prior to 1999-2000 were originally reported on the old Commonwealth Budget Sector accounting framework. These figures have now been recast to be consistent with the Australian Government general government GFS basis.

(b) Gross other individuals' includes amounts previously collected under the Prescribed Payments System and Reportable Payments System between 1983-84 and 1999-00.

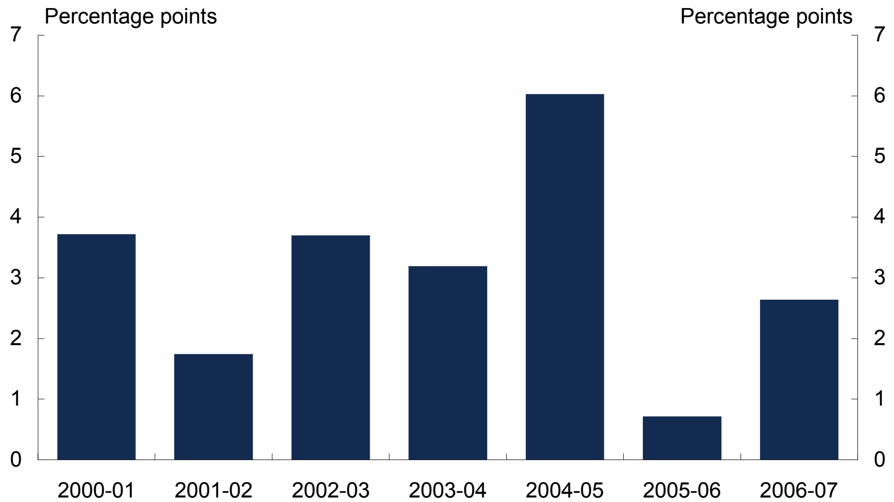
(c) 'Sales taxes' includes wholesale sales tax which was abolished in 2000-01.

(d) These numbers are lower than previously published, reflecting the move to GFS reporting. Other non-taxation receipts no longer include GST input credits received by general government, worth $3.6 billion in 2006-07.

APPENDIX D: FORECAST PERFORMANCE

The Government's revenue forecasts, like all forecasts, are subject to a margin of error. Since 2000-01, revenue forecasts have tended to under-predict the revenue outcomes — Chart D1. For example, the 2006-07 Budget forecast taxation revenue to grow in 2006-07 by 4.4 per cent, compared to the outcome of 7.0 per cent, a forecast error of 2.6 percentage points.

Chart D1: Budget forecast error on taxation revenue growth (excluding GST)



The revenue forecasting error may be split into three underlying sources: errors in the forecasts of the economy underpinning the forecasts; errors in translating the economy to revenue forecasts; and miscellaneous factors such as post-budget government policy decisions, court decisions regarding tax law interpretation, changes in ATO compliance activities and their success, and revisions to historical economic data. Note that there may also be secondary errors relating to the timing of the payments of tax: even if the forecasts were accurate, revenue may be recorded in the fiscal year before or after it was expected.

Chart D2 shows the relationship between forecast errors of the economy and for tax revenue over recent years. The dotted lines in Chart D2 represent a theoretical range for the relationship between the economic and revenue forecasting errors.

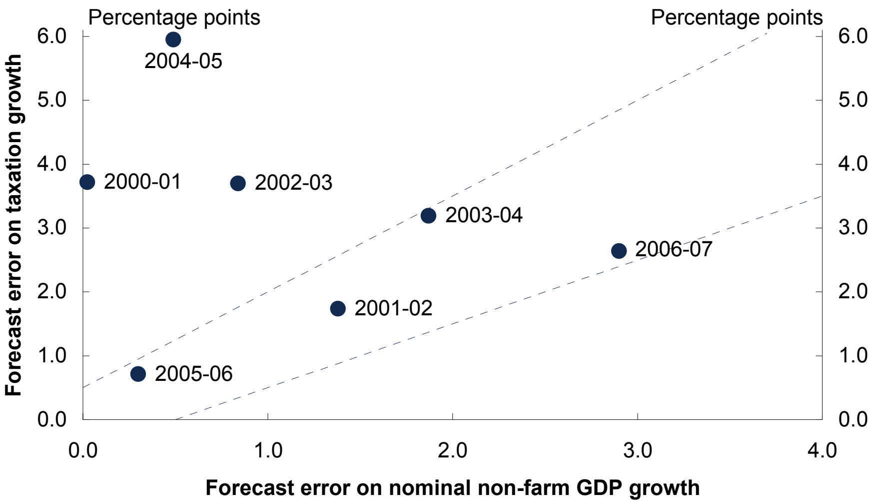
- Nominal non-farm GDP has been chosen as a broad indicator of the economic forecasts. Not all tax revenues are closely linked to GDP — capital gains tax for example — and some of the sources of error described above are independent of economic conditions. So the relationship in the chart will only be approximate. The lines assume a revenue forecasting error of plus or minus 0.5 per cent if there is zero error on the economic forecasts.

- On average, economic forecasting errors will be magnified in the forecasting errors for revenue growth due to the progressive nature of personal income tax. The lower and upper lines assume aggregate elasticities (of revenue with respect to nominal non-farm GDP) of 1.0 and 1.5 respectively, which are consistent with theoretical modes of the tax system after broadly allowing for uncertainties such as capital gains tax and the timing of payments.

Broadly, points below this range represent forecasts of tax revenue growth that were too high given the economic growth forecasts and points above the range represent too low forecasts of revenue growth given the economic growth forecasts.

- For example, in 2002-03 nominal GDP growth turned out to be around ¾ of a percentage point higher than forecast but growth in tax revenue was almost 4 percentage points higher than forecast — higher than the around 1 percentage point error that the rule of thumb suggests should theoretically be associated with an economic forecasting error of that magnitude.

Chart D2: Budget forecast errors on nominal non-farm GDP growth and taxation revenue growth (excluding GST)



The lower line combines a base error of -0.5 per cent with an elasticity of 1.0, and the upper line combines a base error of +0.5 per cent with an elasticity of 1.5.

Part of the forecast errors in 2001-02 and 2002-03 should be partially offsetting, due to uncertainties regarding the timing of company tax during the reduction in the company tax rate from 36 per cent to 30 per cent in two stages between 1999-2000 and 2001-02.

Over the last seven years, revenue has been most seriously under-estimated in 2000-01, 2002-03 and 2004-05, pointing to problems with revenue forecasting methodology in those years. In recent years, forecasting methodology has been improved: see Box 5.2 in the 2007-08 Budget, Box 5.2 in the 2006-07 Budget and Box 5.1 in the 2005-06 Budget. While the number of observations is small, the revenue forecast outcomes in 2005-06 and 2006-07 illustrate the benefits of the improved forecasting methodology.

Appendix E: Description of the Revenue Heads

Income taxation

Individuals and other withholding taxation

These revenue heads broadly cover all personal income tax. A schedule of the personal income tax rates for the period covered in this budget is provided in Table E1.

Gross income tax withholding

The bulk of gross income tax withholding (ITW) revenue arises from the pay-as-you-go (PAYG) withholding system, under which taxes are withheld from wage and salary income.

ITW also includes all other withholding taxes levied on natural resource payments, dividends, interest and royalties paid to non-residents, payments to Australian Indigenous groups for the use of land for mineral exploration and mining, and amounts withheld because no tax file number or Australian business number was quoted — these taxes are often withheld from companies, rather than individuals. It also includes applicable Medicare levy revenue.

Gross other individuals

Gross revenue from other individuals consists of income tax paid by individuals other than that collected through the PAYG withholding system, and includes applicable Medicare levy revenue. It comprises:

- PAYG instalments paid directly by individuals — that is, not withheld by employers; and
- debit assessments on income tax returns (which arise when tax credits are insufficient to meet the final tax liability, requiring taxpayers to make an additional payment for the difference).

Taxpayers in this category derive their income from many sources, including:

- profits from small unincorporated businesses, primary production and investment activities;
- wages and salaries (when PAYG withholding credits are insufficient to meet the tax liability on assessment); and
- capital gains.

Income tax refunds for individuals

A final assessment of the income tax liabilities of individual taxpayers is normally made on the basis of returns lodged after the end of each financial year. Refunds from the ATO are made where tax credits to an individual exceed their final liability on assessment.

Medicare levy

The amount of Medicare levy paid is based on an individual's taxable income and is normally calculated at 1.5 per cent of taxable income, but this rate may vary depending on circumstances. An individual may be exempt from the levy or may pay a reduced levy if the taxpayer has a low income. Individuals and families on higher incomes who do not have an appropriate level of private hospital cover may also have to pay the Medicare levy surcharge, which is calculated at an additional 1 per cent of taxable income.

Table E1: Personal income tax rates[(a)]

	From 1 July 2007		From 1 July 2008		From 1 July 2009		From 1 July 2010	
	Taxable income	Per cent	Taxable income	Per cent	Taxable income	Per cent	Taxable income	Per cent
Residents	$0–$6,000	Nil	$0–$6,000	Nil	$0–$6,000	Nil	$0–$6,000	Nil
	$6,001–$30,000	15	$6,001–$34,000	15	$6,001–$35,000	15	$6,001–$37,000	15
	$30,001–$75,000	30	$34,001–$80,000	30	$35,001–$80,000	30	$37,001–$80,000	30
	$75,001–$150,000	40	$80,001–$180,000	40	$80,001–$180,000	38	$80,001–$180,000	37
	> $150,000	45	> $180,000	45	> $180,000	45	> $180,000	45
Non-residents	$0–$30,000	29	$0–$34,000	29	$0–$35,000	29	$0–$37,000	29
	$30,001–$75,000	30	$34,001–$80,000	30	$35,001–$80,000	30	$37,001–$80,000	30
	$75,001–$150,000	40	$80,001–$180,000	40	$80,001–$180,000	38	$80,001–$180,000	37
	> $150,000	45	> $180,000	45	> $180,000	45	> $180,000	45
Medicare levy	$0–$17,309	Nil	$0–$17,309	Nil	$0–$17,309	Nil	$0–$17,309	Nil
for singles(b)	$17,310-$20,363	10% of > $17,309	$17,310-$20,363	10% of > $17,309	$17,310-$20,363	10% of > $17,309	$17,310-$20,363	10% of > $17,309
	> $20,363	1.5	> $20,363	1.5	> $20,363	1.5	> $20,363	1.5
		Amount		**Amount**		**Amount**		**Amount**
Low Income	$0-$30,000	$750	$0-$30,000	$1,200	$0-$30,000	$1,350	$0-$30,000	$1,500
Tax Offset	$30,001-$48,750	less 4% of > $30,000	$30,001-$60,000	less 4% of > $30,000	$30,001-$63,750	less 4% of > $30,000	$30,001-$67,500	less 4% of > $30,000
	> $48,750	Nil	> $60,000	Nil	> $63,750	Nil	> $67,500	Nil

(a) These standard income tax rates can be offset by a range of concessional arrangements, including the senior Australians tax offset, the spouse tax offset, the low income tax offset and the mature age worker tax offset.
(b) These standard Medicare levy rates apply to singles. Different concessional and penalty rates apply in certain circumstances.

Fringe benefits tax

Fringe benefits tax is payable by employers on the value of certain non-cash benefits that have generally been provided to their employees. From 1 April 2006, fringe benefits tax has been levied at 46.5 per cent of the grossed-up taxable value of benefits, as calculated under the fringe benefits tax rules.

Taxation on superannuation funds

These taxes cover all income taxes generally paid by superannuation funds on behalf of their members on their contributions and earnings. Complying funds are currently subject to a 15 per cent tax rate while non-complying funds pay a 47 per cent rate.

Superannuation funds taxation

Superannuation funds are taxed generally at a concessional rate of 15 per cent in relation to taxable contributions received, realised capital gains and investment income. Only two-thirds of a capital gain is included in assessable income if the asset is held for at least 12 months.

Life insurers and retirement savings account (RSA) providers also conduct superannuation functions. Tax on superannuation contributions, realised capital gains and investment income in life insurers and RSA providers is levied at the same rates as applies to superannuation funds but is paid through the company income tax system.

Superannuation surcharge

The superannuation surcharge was abolished with effect from 1 July 2005 and does not apply after the 2004-05 financial year. However, assessments of surcharge and amended assessments continue to be issued in respect of the 2004-05 and earlier financial years. Interest will still accrue on any surcharge debt an individual has incurred.

Company and other related income taxation

These revenue heads broadly cover all income taxes paid by corporate type entities.

Company income taxation

Company income taxation is levied at a rate of 30 per cent on all income earned by companies, including incorporated and unincorporated associations, limited partnerships and some corporate unit trusts and public trading trusts.

Generally, every resident company that derives assessable income (including capital gains), whether sourced within or outside of Australia, and every non-resident company that derives assessable income from Australian sources is required to pay company tax. Other companies, such as credit unions and friendly society companies have various other tax rates.

Petroleum resource rent tax

Petroleum resource rent tax is levied at a rate of 40 per cent on taxable profit in respect of offshore petroleum projects other than some of the North-West Shelf production areas, which are subject to excise (included in excise on petroleum and other fuel products) and royalties. The amount paid is deductible from a company's taxable income when determining its company tax liability.

INDIRECT TAXATION

Sales taxes

Goods and services tax

The GST is a broad-based, indirect tax levied at a rate of 10 per cent on most goods and services consumed in Australia. The GST is estimated to be levied on around 60 per cent of total household consumption with key exclusions being basic food items, health care, child care, rent and education. Exports are not consumed in Australia and therefore are exempt from the GST.

In accordance with the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, the Australian Government administers the GST on behalf of the States and Territories which receive GST revenues.

Wine equalisation tax

All wines, meads, perries, ciders and sakes are subject to wine equalisation tax (WET). Unlike alcohol excises, the wine equalisation tax is an *ad valorem* tax. It is calculated at a rate of 29 per cent of the final wholesale price or, in certain other permitted circumstances, of a nominal wholesale value calculated as 50 per cent of the retail price, or alternatively at the average wholesale price for identical wine.

From 1 July 2006, a rebate has been payable on the first $500,000 in wine equalisation tax paid annually by any producer or producer group. This rebate was initially introduced on 1 October 2004, covering the first $290,000 in wine equalisation tax paid.

Luxury car tax

The luxury car tax currently applies at a rate of 25 per cent for every dollar over the luxury car threshold; however this rate will increase to 33 per cent with effect from 1 July 2008. The current luxury car threshold is $57,123. The threshold is indexed annually using the motor vehicle purchase component of the CPI, which is composed of observed price movements for new vehicles sold in Australia. If the change in the motor vehicle purchase component of the CPI is negative, the threshold is not reduced.

Excise and customs duty

Excise duty

The major categories of excisable products are petroleum and other fuel products, crude oil, oils and lubricants, tobacco and alcoholic beverages (other than wine). Equivalent duties on identical imported products are imposed through, and reported under, customs duty.

Petroleum and other fuel excise includes excise on petrol (gasoline), diesel, fuel ethanol, biodiesel, aviation gasoline, aviation kerosene, fuel oil, heating oil and kerosene. It is imposed at specific rates per litre of product.

- Petrol includes unleaded petrol and lead replacement petrol (which replaced leaded petrol but is taxed at the unleaded petrol rate).

- All revenue from excise duty on aviation gasoline and aviation kerosene contributes to the funding of aviation activities undertaken by the Civil Aviation Safety Authority. The rates of excise applying to aviation fuels are adjusted, as necessary, depending on the funding requirements of those activities.

Crude oil excise provides a return to the community for the exploitation of its natural resources. The crude oil excise regime applies to:

- crude oil production from offshore fields in the North-West Shelf production licence areas that are not subject to petroleum resource rent tax; and

- crude oil production from onshore fields and fields in coastal waters.

On and from 14 May 2008, condensate production from petroleum fields located in the North West Project area and onshore Australia will be subject to crude oil excise.

The rate of excise varies according to the quantity sold, the sale price, and the dates of discovery and development of the oil field.

Other excise is derived from beer, spirits, other alcoholic beverages (other than wine) and tobacco products.

- For beer, spirits and other alcoholic beverages, excise is imposed on the alcohol content. The excise rate on commercial beer in containers greater than 48 litres (draught beer) is lower than for other commercial beer.

  – Beer for personal consumption (non-commercial beer) brewed in commercial facilities attracts duty at a reduced rate, equivalent to 7 per cent of the applicable beer excise.

- Excise is imposed on a *per stick* basis for cigarettes that do not exceed 0.8 grams (actual tobacco content) and on a *per kilogram* basis for other tobacco products.

Wine is not subject to excise, but is subject to the wine equalisation tax.

Excise indexation

The rates of duty for alcohol and tobacco products are adjusted every August and February in line with half-yearly consumer price index (CPI) movements (Table E2). If the change in the CPI is negative, the excise rate is not reduced. Instead the decline is carried forward to be set off against the next positive CPI movement.

Table E2: Excise rates[(a)]

Commodity	Rates applying from 1 Feb 2007 $	Rates applying from 1 Aug 2007 $	Rates applying from 1 Feb 2008 $	Rates applying from 27 Apr 2008 $
Petroleum and other fuel products (per litre)				
Gasoline	0.38143	0.38143	0.38143	0.38143
Diesel	0.38143	0.38143	0.38143	0.38143
Ethanol and Biodiesel	0.38143	0.38143	0.38143	0.38143
Blends of the above	0.38143	0.38143	0.38143	0.38143
Aviation gasoline	0.02854	0.02854	0.02854	0.02854
Aviation kerosene	0.02854	0.02854	0.02854	0.02854
Other Petroleum Products	0.38143	0.38143	0.38143	0.38143
Greases (per kilogram)	0.05449	0.05449	0.05449	0.05449
Oils and lubricants, excluding greases (per litre)	0.05449	0.05449	0.05449	0.05449
Beer (per litre of alcohol over 1.15 per cent)				
Draught beer, low strength	6.54	6.63	6.74	6.74
Draught beer, mid strength	20.55	20.82	21.17	21.17
Draught beer, high strength	26.89	27.24	27.70	27.70
Other beer, low strength	32.78	33.21	33.77	33.77
Other beer, mid strength	38.20	38.70	39.36	39.36
Other beer, high strength	38.20	38.70	39.36	39.36
Non-commercial, low strength	2.30	2.33	2.37	2.37
Non-commercial, mid and high strength	2.66	2.69	2.74	2.74
Other beverages, not exceeding 10 per cent alcohol content (per litre of alcohol)	38.20	38.70	39.36	66.67
Potable spirits (per litre of alcohol)				
Brandy	60.42	61.21	62.25	62.25
Other spirits, exceeding 10 per cent alcohol content	64.72	65.56	66.67	66.67
Cigarettes, cigars and tobacco (tobacco content of 0.8 grams or less per stick)	0.24031	0.24343	0.24757	0.24757
Tobacco products (per kilogram)	300.39	304.30	309.47	309.47

(a) The rate of excise on crude oil and condensate is not provided in this table as it varies according to the quantity sold, the sale price, and the dates of discovery and development of the oil field.

Customs duty

Customs duty is imposed as a percentage of the value of the imported good and/or on a volumetric basis (where duty is applied per unit of quantity) for excise-equivalent products. In general, other dutiable goods attract a general tariff rate of 5 per cent.

Tariffs on passenger motor vehicles and textile, clothing and footwear account for around one-third of the total duty collected. Approximately 40 per cent of customs duty revenue is derived from duty imposed on imports of petroleum products, tobacco, beer and spirits, which is akin to excise duty on these items.

Table E3: Tariff rates

	Applying from 11 May 2005 Per cent	Applying from 1 January 2010 Per cent	Applying from 1 January 2015 Per cent
General tariff	5	5	5
Passenger motor vehicles(a)	10	5	5
Textiles, clothing and footwear			
Clothing and finished textiles	17.5	10	5
Cotton sheeting, fabric, carpet and footwear	10	5	5
Sleeping bags, table linen and footwear parts	7.5	5	5
Tariff concession order			
Consumer goods	0	0	0
Other (business inputs)	0	0	0

(a) This category includes new passenger vehicles, off-road, second hand cars and parts. Some motor vehicles under this category are currently subject to 5 per cent tariff rate, and used vehicles are subject to an additional impost of $12,000.

Other taxation

Agricultural levies

Agricultural levies and charges are used to fund industry activities, such as research and development, marketing and promotion, residue testing, and animal health programs.

The need for a levy is usually identified by the industry itself and the levy is generally collected at the first point of sale of the primary produce or point of further processing.

All levies and charges are paid into the Consolidated Revenue Fund without deduction and then disbursed to fund the relevant program.

Other taxes

The major contributors to this category are the passenger movement charge and import processing and depot charges administered by the Australian Customs Service.

Other contributors include broadcasting licence fees, which are payable by all commercial radio and television licensees and are calculated as a percentage of licensees' gross earning for the previous year. Other taxes also include the superannuation guarantee charge and the universal service obligation levy.

NON-TAXATION REVENUE

Sales of goods and services

This category consists of revenue from the direct provision of goods and services by the Australian Government general government sector, including reimbursement of GST administration costs received from the States and Territories.

Dividends

The main sources of dividends are the Australian Government's business enterprises, the RBA and the Future Fund. Dividend payments from the RBA can be volatile, as they are sensitive to movements in interest rates and the exchange rate.

Interest

Interest from other governments

This category mainly consists of revenue from the States for interest on general purpose and specific purpose borrowings.

The Australian Government receives interest payments from the States in respect of general purpose borrowings made on behalf of the States under the State Governments' Loan Council Programme (and from the Northern Territory in respect of advances made under similar general purpose capital assistance arrangements). Payments relating to these advances are made, in turn, by the Australian Government to bond holders.

Interest from the States on general purpose borrowings is declining as a result of the June 1990 Loan Council decision that the States and Territories make additional payments to the Australian Government each year to facilitate the redemption of all maturing Australian Government securities issued on their behalf. The reduction in interest revenue from the States is matched by a reduction in public debt interest expenses.

The Australian Government also receives interest on specific purpose borrowings to the States, including on advances made under the Commonwealth-State housing agreements, States (Works and Housing) Assistance Acts, Northern Territory housing advances, and by the Australian Capital Territory on debts assumed upon self-government.

Interest from other sources

This item includes interest income on Australian Government cash balances and on other financial assets including assets held by the Future Fund. It excludes swap transactions entered into as part of the Australian Government's debt management strategy, as they are reported separately in the statement of other economic flows under Government Finance Statistics standard. The Australian Office of Financial Management is responsible for the management and reporting of the Australian Government's net debt portfolio.

Other sources of non-taxation revenue

Other non-taxation revenue includes petroleum royalties paid by producers operating in the Timor Sea and the North-West Shelf oil and gas fields, child support trust revenue (collected by the Child Support Agency) and seigniorage from circulation coin production.

APPENDIX F: TAXATION REVENUE RECOGNITION

There are different methods of accounting for taxation revenue. Each method of revenue recognition results in estimates and outcomes that may be significantly different to those produced using other methods.

Accrual accounting was introduced by the Australian Government for the 1999-2000 Budget. Before then, all estimates and outcomes were reported only on a cash basis. Cash recognition still plays a role in budgeting and outcomes reporting, with both accrual and cash taxation estimates and outcomes reported in the budget papers. Furthermore, there are also different methods for recognising accrual revenue.

This appendix provides an explanation of the different revenue recognition methods that apply to the various taxation revenue heads.

Revenue recognition methods

Cash recognition

Under cash recognition, which is also referred to as receipts recognition, taxation receipts are accounted for at the time a taxation payment is received by the relevant authority. The receipt may be a different amount than the taxation liability and result in a subsequent amended (refund or debit) assessment. The payment may also be received in a period different from that to which the taxation liability relates.

Cash recognition is an integral part of an accrual accounting framework because of its use in the cash flow statement and to provide additional information about the structure of taxation. Cash data are also available over a much longer period — accrual data are only available since 1999-2000 — and are therefore often used for time series analysis.

Accrual revenue recognition

The AAS and GFS standards for accrual accounting (refer to Appendix A in Statement 3 for an explanation of these reporting standards) require that taxation revenue be recognised in the reporting period in which the underlying economic transaction occurs, such as when the taxpayer earns the income that is subsequently subject to taxation. This is known as the Economic Transactions Method (ETM). However, the standards permit reporting using an alternative approach when there is an inability to reliably measure taxation revenues using the ETM approach.

Currently, ETM revenue has been determined not to be a reliable measure for several significant revenue heads — individuals and other withholding taxation, company income taxation and superannuation taxation. These revenue heads, which collectively account for the majority of total revenue, are recognised using the Taxation Liability Method (TLM) rather than ETM.

Under TLM, taxation revenue is accounted for at the time a taxpayer makes a payment or self assessment or when an assessment of a taxation liability is raised by the relevant authority. This method retains some elements of cash revenue recognition — for example, revenue is recognised when cash payment occurs if it is prior to an assessment being raised.

The point of revenue recognition under ETM and TLM can sometimes be in different periods — for example, a taxation return for the 2007-08 income year lodged in October 2008, and which results in a new taxation liability or a refund, would be recognised in the 2007-08 financial year under ETM and in the 2008-09 financial year under TLM. In this case, ETM requires that outcomes for 2007-08 include an estimation of liabilities or revenue relating to activities in 2007-08 that are likely to be identified in subsequent periods. TLM outcomes do not incorporate this estimation, as only currently identified taxation liabilities are reported. Consequently, aggregate TLM revenue outcomes are usually known with relative certainty, although there can be estimation issues involved in allocating aggregate amounts between different heads of revenue.

In addition, AAS and GFS treat prior period adjustments for revised estimates to ETM revenue outcomes differently. GFS requires that a time series of outcomes is maintained, such that prior year outcomes are continually adjusted as new information comes to light. This is consistent with the AAS treatment of changes in accounting policy or correction of errors which are recast in prior periods. In contrast, AAS requires that prior period adjustments as a result of revised estimates are not back-cast, and instead are reflected in the current period results. This difference in treatment reflects the different purpose in each of the standards:

- GFS ETM data may be more accurate over the long term, and may therefore be better for economic analysis, but have the disadvantage of constantly being revised; whereas

- AAS ETM outcomes are finalised at the end of each financial year (although, as noted above, changes in accounting policy and corrections of errors are recast in prior periods), and this greater level of certainty may be better for budgeting and reporting.

History of accrual revenue recognition

From 1999-2000 to 2005-06, all accrual taxation revenue has been recognised in the Budget on a TLM basis. From the 2006-07 Budget, ETM revenue recognition has been adopted for all revenue heads where the ETM revenue can be reliably estimated. This generally occurs where the economic activity, the identification of the liability and the receipt of the payment all occur with little or no lag — and consequently, the ETM and TLM (and cash) recognition methods produce relatively consistent results.

TLM revenue recognition continues to be used where ETM estimates are considered unreliable. At present, this is limited to individuals and other withholding taxation, company income taxation and superannuation taxation, but this will be reviewed periodically. ETM estimates and outcomes are inherently more volatile for these revenue heads, mainly because they incorporate the estimation of significant levels of liabilities likely to be identified in future periods. This additional level of estimation would increase the likelihood of differences between the revenue estimates and outcomes, with consequent impacts on the budget balances. This greater level of uncertainty would make the implementation of fiscal policy more problematic than if these revenue heads continue to be recognised using TLM.

Differences between the accrual and cash taxation revenue estimates

Table F1: Estimates of taxation revenue on an accrual and cash basis

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$b	$b	$b	$b	$b
Taxation revenue (accrual)	286.4	299.2	317.0	329.3	344.1
Taxation receipts (cash)	278.5	292.6	310.1	322.1	336.3
Difference (accrual less cash)	**7.8**	**6.6**	**6.8**	**7.2**	**7.8**
Memorandum items:					
ACIS(a)	0.4	0.4	0.3	0.2	0.2
Net receivables	3.1	1.9	2.2	2.6	3.0
Other	4.4	4.3	4.3	4.4	4.6
Total	7.8	6.6	6.8	7.2	7.8

(a) Automotive Competitiveness and Investment Scheme.

Automotive Competitiveness and Investment Scheme

The Automotive Competitiveness and Investment Scheme (ACIS) operates by providing customs duty credits to exporters of Australian automotive products. The credits can be offset against future customs duty on specific imports.

Under accrual accounting, an expense is recognised when the ACIS credits are issued. Later, specified imports generate a customs duty liability and customs duty accrual revenue is recognised. Under cash accounting no cash payments are made upon the issue of ACIS credits and when ACIS credits are used to offset the customs duty liability on specified imports no customs duty cash is received. Therefore accrual accounting recognises the gross customs duty liability generated by all imports and cash accounting recognises the (smaller) net amount of customs duty cash received after the use of ACIS credits. As such, the accounting treatment of ACIS credits accounts for $400 million of the difference between the accrual and cash estimates in 2008-09.

Other

This category consists of other timing differences between the recognition of accrual revenue and cash receipts as well as instances where revenue has been recognised but payment is no longer expected to be received. For example:

- *receivables* arise where taxation liabilities are recognised in one period, but the taxpayer is not expected to pay the liability until a later period;

- *remissions* occur where taxation liabilities are recognised, but circumstances are taken into account and the Commissioner of Taxation reduces the amount of various penalties and interest required to be paid;

- a taxation liability may be *written-off* where the previously recognised revenue is no longer expected to be received; and

- a *credit amendment* may be issued where a taxation assessment is amended (for example, where a court decision leads to a change in the interpretation of the taxation laws).

Appendix G: Tax Expenditures

This appendix contains an overview of the cost of tax expenditures provided to taxpayers through the tax system.

Tax expenditures provide a benefit to a specified activity or class of taxpayer. They can be delivered as a tax exemption, tax deduction, tax offset, concessional tax rate or deferral of a tax liability. The Government can use tax expenditures to allocate resources to different activities or taxpayers in much the same way that it can use direct expenditure programmes.

The data reported in this appendix are consistent with tax expenditure data reported in the *2007 Tax Expenditures Statement* published in January 2008. The data does not include the impact on tax expenditures of decisions made in this Budget, and does not include tax expenditures related to GST (which will be included in the next tax expenditures statement consistent with the Government's move to report GST as an Australian Government tax in this Budget).

Care needs to be taken when analysing tax expenditure data: see Section 2.1 of the *2007 Tax Expenditures Statement* for a detailed discussion.

Table G1 contains estimates of total tax expenditures for the period 2004-05 to 2011-12.

Table G1: Aggregate tax expenditures

Year	Superannuation $m	Other tax expenditures $m	Total $m	Tax expenditure as a proportion of GDP (%)
2004-05 (est)	17,353	20,718	38,071	4.2
2005-06 (est)	23,065	23,376	46,441	4.8
2006-07 (est)	24,985	25,135	50,120	4.8
2007-08 (proj)	26,845	24,565	51,410	4.6
2008-09 (proj)	27,466	25,036	52,502	4.3
2009-10 (proj)	29,391	27,498	56,889	4.4
2010-11 (proj)	31,807	29,945	61,752	4.6
2011-12 (proj)	33,908	31,206	65,114	4.6

Table G1 shows that, in the *2007 Tax Expenditures Statement*, measured tax expenditures as a proportion of GDP were projected to fall from 4.8 per cent in 2006-07 to 4.6 per cent in 2007-08 and 4.4 per cent by 2009-10, mainly as a result of the impact of personal income tax rate cuts.

Table G2 is a list of the major tax expenditures in 2007-08.

Table G2: Major tax expenditures 2007-08

Tax expenditure	Estimate $m
Large positive tax expenditures	
Superannuation — concessional taxation of superannuation entity earnings	13,600
Superannuation — concessional taxation of employer contributions	10,150
Capital gains tax discount for individuals and trusts	6,870
Exemption of Family Tax Benefit, Parts A and B, including expense equivalent	2,480
Superannuation — capital gains tax discount for funds	1,550
Application of statutory formula to value car benefits	1,490
Concessional taxation of non-superannuation termination benefits	1,400
Tax offset for recipients of certain social security benefits, pensions or allowances	1,200
Exemption from interest withholding tax on widely held debentures	1,030
Senior Australians' Tax Offset	1,010
Exemption of certain income support benefits, pensions or allowances	1,000
Exemption of 30 per cent private health insurance refund, including expense equivalent	1,000
Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	905
Deduction for gifts to approved donees	870
Superannuation — deduction and concessional taxation of certain personal contributions	780
Income tax exemption for municipal authorities and other local governing bodies	770
Exemption from excise for 'alternative fuels'	750
Exemption from the Medicare levy for residents with a taxable income below a threshold	670
Large negative tax expenditures	
Customs duty	-3,682
Higher rate of excise levied on cigarettes with less than 0.8 grams of tobacco	-1,375
Accelerated depreciation allowance for plant and equipment	-800

Statement 6: Expenses and Net Capital Investment

Statement 6 presents estimates of general government expenses and net capital investment on an accrual accounting basis. The statement includes information on the allocation of Australian Government funds to the various functions of government. These functions are based on an international standard classification of functions of government that is incorporated into the Government Finance Framework (GFS) framework.

The first part of this statement provides information on trends in estimated expenses while the second part presents trends in net capital investment estimates. Estimates are on an Australian Government general government sector basis.

Statement 6 focuses on short to medium-term trends in estimated expenses and their underlying determinants.

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

The main trends shown in this statement include:

- general government expenses are forecast to decline by approximately 1.1 percentage point to 23.8 per cent of Gross Domestic Product (GDP) in 2008-09 and then remain roughly steady as a percentage of GDP through to 2011-12;

- in 2008-09, the social security and welfare, health, defence and education functions will together account for an estimated 63.3 per cent of total expenses, with social security and welfare comprising 35 per cent of total expenses;

- in real terms, the strongest growth across the Budget and forward estimates period is expected to occur in the other purposes, defence, education, health and social security and welfare functions; and

- net capital investment is expected to increase in 2008-09 and the out years. The increased net capital investment across the forward estimates is dominated by projected growth in defence capital investment.

CONTENTS

STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

OVERVIEW

Australian Government general government sector expenses are expected to grow slowly in real terms in 2008-09 but decline as a percentage of GDP (Table 1). Expenses are forecast to decrease to 23.8 per cent of GDP in 2008-09, and are expected to remain at or below 24.2 per cent of GDP until 2011-12.

Table 1: Estimates of general government sector expenses

	PEFO(a)	Revised	Estimate	Projections		
	2007-08		2008-09	2009-10	2010-11	2011-12
Total expenses ($b)	**278.3**	**280.6**	**292.5**	**310.5**	**323.1**	**339.2**
Real growth on previous year (%)(b)	4.1	5.0	0.7	3.5	1.5	2.4
Per cent of GDP	24.8	24.9	23.8	24.2	24.1	24.1

(a) GST inclusive expenses as published in Appendix A of the *Pre-Election Economic and Fiscal Outlook 2007*.
(b) Real growth is calculated using the Consumer Price Index.

GENERAL GOVERNMENT EXPENSES

Reconciliation of expenses since the 2007-08 Budget

Table 2 provides a reconciliation of expense estimates between the 2007-08 Budget, *Mid-Year Economic and Fiscal Outlook 2007-08* (MYEFO), *Pre-Election Economic and Fiscal Outlook 2007* (PEFO), and the 2008-09 Budget, showing the effect of policy decisions and economic parameter and other variations.

Table 2: Reconciliation of expense estimates

	Estimates		Projections	
	2007-08	2008-09	2009-10	2010-11
	$m	$m	$m	$m
2007-08 Budget expenses	**235,590**	**247,489**	**259,652**	**272,669**
Changes between 2007-08 Budget and MYEFO				
Effect of policy decisions(a)	3,503	4,023	3,673	2,908
Effect of parameter and other variations	-3,683	-2,874	-3,964	-6,144
Total variations	**-180**	**1,149**	**-291**	**-3,236**
2007-08 MYEFO expenses	**235,410**	**248,638**	**259,361**	**269,433**
Changes between MYEFO and PEFO				
Effect of policy decisions(a)	380	84	1	35
Effect of parameter and other variations	49	-7	-6	-6
Total variations	**429**	**77**	**-5**	**29**
2007 PEFO expenses (as published)	**235,840**	**248,715**	**259,356**	**269,462**
Adjustment to recognise GST	42,450	45,485	47,900	50,370
2007 PEFO expenses (includes GST)	**278,290**	**294,200**	**307,256**	**319,832**
Changes between PEFO and 2008-09 Budget				
Effect of policy decisions(a)	3,120	1,324	4,204	4,533
Effect of economic parameter variations				
Unemployment benefits	7	440	372	461
Prices and wages	-108	1,428	1,884	1,959
Interest and exchange rates	-228	-636	-736	-568
Total economic parameter variations	*-329*	*1,233*	*1,520*	*1,852*
Public debt interest	21	44	12	3
Program specific parameter variations	387	400	720	1,229
Slippage in 2007-08 Budget decisions	-41	7	10	4
Other variations	-896	-4,738	-3,209	-4,370
Total variations	**2,262**	**-1,730**	**3,256**	**3,251**
2008-09 Budget expenses	**280,551**	**292,470**	**310,513**	**323,083**

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

Discussion of the major changes between the PEFO 2007 and the 2008-09 Budget, shown in the above table can be found in Statement 3 (in the section titled 'Variations in expense estimates'). Further information on expense measures can be found in Budget Paper No. 2, *Budget Measures 2008-09*.

The most significant other variation between PEFO 2007 and the 2008-09 Budget in 2008-09 and the forward estimates period reflects the reduction in defence expenses (and corresponding increase in defence net capital investment) due to a change in accounting treatment whereby purchases of defence weapon systems are now classified capital expenditure rather than expenses. The new budget accounting framework is discussed in further detail in Appendix A of Statement 3 and in Statement 9.

Estimated expenses by function

Table 3 sets out the estimates of Australian Government general government sector expenses by function for the period 2007-08 to 2011-12.

Table 3: Estimates of expenses by function

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
General public services	16,631	17,261	17,826	18,876	19,653
Defence(a)	17,366	17,896	19,134	19,772	20,274
Public order and safety	3,788	3,807	3,830	3,895	3,881
Education	18,620	18,764	20,276	20,768	21,800
Health	44,455	46,032	48,071	50,220	52,190
Social security and welfare	97,230	102,439	105,561	109,657	114,077
Housing and community amenities	3,083	3,197	3,273	2,928	2,917
Recreation and culture	2,826	2,907	2,862	2,777	2,736
Fuel and energy	5,103	5,574	5,822	5,939	6,080
Agriculture, forestry and fishing	4,085	3,058	3,099	2,874	3,119
Mining, manufacturing and construction	1,846	1,834	1,762	1,576	1,515
Transport and communication	4,486	4,727	4,994	4,677	5,265
Other economic affairs	6,467	6,770	6,818	6,844	6,791
Other purposes	54,564	58,202	67,184	72,281	78,942
Total expenses	**280,551**	**292,470**	**310,513**	**323,083**	**339,241**

(a) Purchases of specialist military equipment are now treated as net capital investment rather than as expenses. See Appendix A of Statement 3 and in Statement 9 for further details.

Major movements within the estimates of expenses by function between 2007-08 and 2008-09, and across the forward estimates, include increases in the following functions:

- **Social security and welfare,** due to the continued effect of the indexation of payments, together with demographic and social factors such as the ageing of the population that affect demand driven programs;

- **Health**, due to continued growth in the use of medical services over the forward estimates period and increasing costs for the provision of medical services;

- **Defence,** the pattern of defence expenditure in 2008-09 and across the forward estimates is affected by a number of factors, including the Government's commitment to maintaining 3 per cent real growth per year on average in underlying funding for Defence departmental expenditure; the affirmation of previous funding decisions, such as for the provision of an additional two battalions for the Australian Army; and savings in the Defence portfolio; and

- **Education**, due to significant measures announced as part of the Government's *Education Revolution*, combined with increased real funding to government and non-government schools.

The estimates presented in Table 3 above are explained in greater detail for each individual function in the following pages.

A New Financial Framework for Specific Purpose Payments

The Council of Australian Governments (COAG) has agreed to a new framework for federal financial relations. The new financial framework is based on five key elements:

- A significant rationalisation of the more than 90 existing specific purpose payments (SPPs);
  - combining many of them into five or six new national SPPs: health; early childhood development and schools; vocational education and training; disabilities services; and affordable housing;
  - converting some SPPs into general revenue assistance, where there are no compelling national objectives associated with the payment; and
  - some existing SPPs becoming National Partnership project payments where they support national objectives and provide a financial contribution to the States to deliver specific projects.
- Greater flexibility for the States to direct their resources to areas where they will produce the best results;
  - rather than the Australian Government dictating how things should be done, there will be a rigorous focus on the achievement of outcomes – that is, what the States deliver to the people of Australia, not how they deliver it;
- Greater funding certainty for the States. The new national agreements will be ongoing, with periodic reviews to ensure the maintenance of funding adequacy and the relevance of objectives;
- Enhanced government accountability through simpler, standardised and more transparent performance reporting by all jurisdictions, with a new focus on the achievement of outcomes, value for money and timely public reporting; and
- The provision of new incentive payments to drive reforms. The Australian Government will provide National Partnership payments to States to facilitate or reward reforms of national importance.

Implementing this new framework will allow both levels of government to work together in a more cooperative manner to improve outcomes for the community. These reforms will provide the platform for a new era of economic and social reform to increase the productive capacity of the economy and deliver a higher quality of service to Australians.

General public services

Table 4: Summary of expenses

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Legislative and executive affairs	987	792	813	963	842
Financial and fiscal affairs	5,849	5,701	5,877	5,988	6,523
Foreign affairs and economic aid	3,791	4,736	4,945	5,532	5,898
General research	2,522	2,411	2,535	2,579	2,507
General services	706	724	731	734	735
Government superannuation benefits	2,777	2,896	2,925	3,079	3,149
Total general public services	**16,631**	**17,261**	**17,826**	**18,876**	**19,653**

Nature of expenses and major trends

The general public services function includes expenses relating to the organisation and operation of government. This includes: expenses related to the Parliament, the Governor-General and conduct of elections; expenses related to the collection of taxes and the management of public funds and public debt; assistance to developing countries to reduce poverty and achieve sustainable development, particularly in the Pacific region; and contributions to international organisations and the operations of the foreign service. It also includes expenses related to research in areas not otherwise connected with a specific function, and expenses related to overall economic and statistical services and government superannuation benefits (excluding nominal interest expenses on unfunded liabilities which are included under the nominal superannuation interest sub-function in the other purposes function).

Total expenses within the legislative and executive affairs sub-function tend to fluctuate over the Budget and forward estimates due to factors such as the timing of federal general elections. The Asia Pacific Economic Cooperation conference hosted by Australia in 2007 has also boosted estimated expenses in 2007-08.

The trend increase in expenses in the financial and fiscal affairs sub-function over the Budget and forward estimates reflects growth in three areas. First, it partly reflects the growth over time in the Australian Taxation Office's (ATO) penalty remission expenses associated with the growth of the tax base, which relates to the ATO's power to remit tax penalties in full or in part. Second, it reflects the commencement of other new ATO measures, specifically those focused on strengthening the ATO's compliance and enforcement activities, to improve compliance with taxation law. Third, the expenses in this sub-function rise across the forward years due to increased investment expenses as financial assets accumulate in the Future Fund, administered by the Future Fund Management Agency.

The increase in expenses in the foreign affairs and economic aid sub-function over the Budget and forward estimates is due primarily to the Government's commitment to raise the level of Australia's Official Development Assistance to 0.50 per cent of Gross National Income (GNI) by 2015-16. In the 2008-09 Budget, Official Development Assistance expenditure has been set at 0.32 per cent of forecast GNI for 2008-09, 0.35 per cent in 2009-10, 0.37 per cent in 2010-11 and 0.38 per cent in 2011-12. Fluctuations within the foreign affairs and economic aid sub-function over the Budget and forward years also reflect the timing of Australia's contributions to multilateral development banks, which can see large variations from year-to-year.

Box 1: Foreign Affairs

Table 4.1: Trends in major components of the foreign affairs sub-function

	2007-08	**2008-09**	2009-10	2010-11	2011-12
	$m	**$m**	$m	$m	$m
Official Development Assistance					
Aid to East Asia Region	723	**750**	735	785	792
Aid to PNG & Pacific Region	693	**814**	827	877	868
Multilateral Replenishments	151	**223**	0	114	75
Aid to South Asia Africa & Other Regions	312	**440**	564	682	461
Emergency Humanitarian & Refugee Aid	241	**319**	378	364	367
UN Commonwealth and Other International Organisations	155	**175**	261	237	255
NGO Volunteer and Community Programs	84	**95**	90	91	92
Other Official Development Assistance(a)	175	**308**	697	1,043	1,650
Sub-total of Official Development Assistance(b)(c)	2,534	**3,124**	3,552	4,193	4,560
Payments to International Organisations	214	**259**	249	250	250
Passport Services	175	**182**	183	189	196
Consular Services	54	**53**	62	62	63
Other	814	**1,119**	899	839	830
Total	**3,791**	**4,736**	**4,945**	**5,532**	**5,898**

(a) Other includes, amongst other items, the provision available for future aid spending in the Official Development Assistance (ODA) Contingency Reserve in the Budget and forward years. The ODA Contingency Reserve represents the difference between the amount of ODA already committed by Australia and the Government's target levels of ODA (0.32 per cent of Gross National Income in 2008-09).
(b) The difference between these figures and the Government's ODA target is due primarily to the way multilateral replenishments are recognised. In accrual terms, multilateral replenishments are recognised as an expense when the pledge is made. ODA is recorded on a cash basis, and contributions to the multilateral replenishments are recognised at the time of payment.
(c) Some minor ODA delivered by other government departments may be classified to other functions.

Expenses in the general research sub-function incorporate expenses incurred by the Commonwealth Scientific and Industrial Research Organisation and the Australian Nuclear Science and Technology Organisation. The reduction in estimated expenses in 2008-09 partly reflects the profile of funding for the Cooperative Research Centres and the National Collaborative Research Infrastructure Strategy.

Expenses are projected to increase from 2008-09 to 2010-11, which reflects 2007-08 Budget decisions providing increased funding to the Commonwealth Scientific and Industrial Research Organisation to expand the National Research Flagship initiative.

Expenses under the general research sub-function also increase over the forward estimates due to the impact of a new measure which increases funding to the Australian Research Council to establish the *Future Fellowships Program*. For further details on this measure refer to Budget Paper No. 2, *Budget Measures 2008-09*, Innovation, Industry, Science and Research portfolio.

Expenses in the general research function are expected to decrease in 2011-12 due to the scheduled cessation of a number of programs in 2011 including the *National Collaborative Research Infrastructure Strategy*.

Medical research functions carried out by agencies such as the National Health and Medical Research Council are classified against the health function in this statement. For further information on medical research refer to the health function.

The rise in expenses across the Budget and forward estimates period for the government superannuation benefits sub-function largely reflects the growth in military superannuation benefits due to growth in the schemes' salary base over time.

Box 2: General Research

Table 4.2: Trends in major components of the general research sub-function

	2007-08 $m	**2008-09 $m**	2009-10 $m	2010-11 $m	2011-12 $m
Core Research - Delivery of new technologies	612	**621**	652	686	681
National Research Flagships	328	**333**	349	367	404
Discovery - Funding individual researchers and projects	318	**336**	403	440	491
Linking researchers and industry	260	**267**	273	278	284
Research Infrastructure Block Grants - Higher Education	222	**226**	224	220	223
Science and Technology Solutions - Nuclear related scientific and technical advice and services	215	**215**	217	219	211
Cooperative Research Centres	212	**183**	199	154	157
National Collaborative Research Infrastructure Strategy(a)	121	**103**	105	108	0
Other	235	**127**	113	108	56
Total	**2,522**	**2,411**	**2,535**	**2,579**	**2,507**

(a) This program terminates in 2010-11.

Defence

Table 5: Summary of expenses

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Defence(a)	17,366	17,896	19,134	19,772	20,274
Total defence	**17,366**	**17,896**	**19,134**	**19,772**	**20,274**

(a) Purchases of specialist military equipment are now treated as net capital investment rather than as expenses. See Appendix A of Statement 3 and in Statement 9 for further details.

Nature of expenses and major trends

Agencies covered by the defence function include the Department of Defence (Defence) and the Defence Materiel Organisation (DMO). (The Department of Veterans' Affairs falls within the Defence portfolio, but it reports independently of the portfolio and is not part of the defence functional classification.) Defence supports operations overseas and the delivery of navy, army, air and intelligence capabilities and strategic policy advice in the defence of Australia and its national interests. The DMO ensures that Defence capabilities are supported through efficient and effective acquisition and through-life support of materiel.

The defence function records the majority of expenditure by the Defence portfolio, except for the Department of Veterans' Affairs, and except for superannuation payments to retired military personnel and housing assistance provided through Defence Housing Australia, which is reported in the housing and community amenities function.[1]

Total annual expenses for the defence function are estimated to rise by $2.4 billion over the period 2008-09 to 2011-12. In addition, real growth in total defence function expenses and net capital investment in the period 2007-08 to 2011-12 is projected to be 5.1 per cent (see Box 3).

Investment spending in the defence function, reported separately later in this statement, is proportionately larger than for other functions, primarily on account of acquisitions of military equipment and the construction of facilities and accommodation. Box 3 shows defence function expenses and net capital investment (the total of which is the impact of defence spending on the fiscal balance). Large defence capital projects may involve lumpy expenditures. This is particularly the case in 2008-09 when the acquisitions of the new Headquarters Joint Operations Command and single living accommodation project are recorded in fiscal balance terms (boosting net capital investment in that year by around $500 million).

1 This statement provides information on expenditure by function in accrual terms. More detailed information on defence expenditure and funding is provided in the Defence Portfolio Budget Statements 2008-09.

Measured in terms of the impact on fiscal balance, Box 3 shows the projected average real rate of growth in defence spending over the four years to 2011-12 is around 5 per cent per annum. The real growth in defence funding over this period is similar, but can diverge from accrual expenditure measures in some years. [2]

Box 3: Defence

Table 5.1: Trends in major components of defence spending

	2007-08	**2008-09**	2009-10	2010-11	2011-12	Average Annual Growth(a)
	$m	**$m**	$m	$m	$m	(%)
Expenses	17,366	**17,896**	19,134	19,772	20,274	3.9
Net Capital Investment	1,407	**2,855**	3,794	4,525	5,193	38.6
Total Defence spending	18,773	**20,751**	22,928	24,297	25,467	7.9
Nominal Growth (percentage)	5.5	**10.5**	10.5	6.0	4.8	7.9
Real Growth (percentage, using non-farm GDP)	1.5	**3.9**	9.2	4.7	2.6	5.1
Real Growth (percentage, using CPI)	2.2	**6.8**	7.7	3.4	2.3	5.0

(a) Over the period 2007-08 to 2011-12.

The Government has extended its 3 per cent real growth commitment from 2015-16 to 2017-18. This will provide a sound long-term funding base for the forthcoming Defence White Paper.

The growth of the total budget may experience significant annual fluctuations, including as a result of slippage in expenditure from one year to the next year (or to later years), and in response to supplementary funding decisions (in particular, to support overseas operations). Moreover, fluctuations in the non-farm Gross Domestic Product (GDP) deflator can themselves result in variations in the nominal growth rate of total defence function expenses.

In nominal terms, defence function expenses plus net capital investment is forecast to increase by $2.0 billion from 2007-08 to 2008-09 (see Box 3). This growth partly reflects the impact of exceptionally strong forecast growth in the non-farm GDP deflator. In 2008-09, this deflator is forecast to grow by 6 ¼ per cent, well above forecast Consumer Price Index (CPI) growth of 3 ½ per cent. This difference arises because of very rapid growth in forecast prices for Australia's non-farm commodity exports, principally coal and iron ore.

2 Total departmental funding appropriated to the Department of Defence is estimated to grow on average by 4.0 per cent per annum in real terms over the four years from 2007-08. The real increase in appropriated funding in 2008-09 is 0.8 per cent measured relative to the non-farm GDP deflator, and 3.6 per cent measured relative to the Consumer Price Index. The difference between the 2008-09 real growth rate of appropriated funding and the 2008-09 growth rate of 3.9 per cent in Box 3 principally reflects the fact that funding for the Defence Joint Operations Command and single living accommodation project will be appropriated over a period of 30 years , while the accrual expenditure is recognised in 2008-09.

As indicated, defence capital spending has been more volatile than recurrent expenditure. Variations in the annual rates of growth in defence function spending reflect, in part, the capacity of Defence and DMO to complete spending their overall capital budgets, particularly for military equipment. For example, in this budget an amount in excess of $1 billion has been rephased from 2008-09 into future years since the *Mid-Year Economic and Fiscal Outlook 2007-08* to reflect changes in the timing of expected payments for military equipment.

In 2008-09, funding in excess of $1 billion is being provided through the operations reserve for Defence overseas operations in Iraq, Afghanistan, East Timor and the Solomon Islands. This new reserve will be drawn from internal resources and funding arising from strong non-farm GDP indexation received by Defence in 2008-09. (For further information on the operations reserve see *Establishment of 2008-09 Defence operations reserve to fund overseas operations*, Budget Paper No. 2, *Budget Measures 2008-09*, Defence portfolio.) Operational funding will continue to be provided on a 'no win, no loss' basis.

The Budget also provides for a number of new measures, including the Defence Family Health Support Package, the implementation of the Australia-United States Defence Trade Cooperation Treaty and intelligence support measures. The cost of these measures, and some other minor proposals, will be funded from within Defence's existing resources. For further details on these measures, refer to Budget Paper No. 2, *Budget Measures 2008-09*, Defence portfolio.

The Department of Defence has commenced a major internal program to drive savings and efficiencies in its expenditure. These savings are intended to provide it with the capacity to meet longer-term cost pressures and to create the scope to fund new high priority initiatives that may arise from the forthcoming Defence White Paper. Of the total savings to be made in 2008-09:

- $191 million in general savings will be returned to the Budget, with this amount being allocated back to Defence in future years, together with $25 million in additional funding; and

- $210 million in further savings will be retained by Defence in the operations reserve created for 2008-09.

Public order and safety

Table 6: Summary of expenses

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Courts and legal services	919	937	926	926	937
Other public order and safety	2,869	2,870	2,903	2,969	2,944
Total public order and safety	**3,788**	**3,807**	**3,830**	**3,895**	**3,881**

Nature of expenses and major trends

Expenses for the public order and safety function support the administration of the federal legal system and the provision of legal services, including legal aid to the community. Public order and safety expenses also include law enforcement and intelligence activities, in addition to the protection of Australian Government property.

Projected expenses for the courts and legal services sub-function over the Budget and forward estimates period reflect offsetting influences, with growth in funding for the courts continuing but with some tailing off in the expenses for other programs. For example, expenses associated with the *Northern Territory Night Patrol Program* administered by the Attorney-General's Department are provided for 2007-08 and 2008-09 only, with future funding subject to consideration in the 2009-10 Budget (following an evaluation of the Northern Territory Emergency Response). There is also a projected reduction in expenses across the forward years associated with the gradual winding down of the Operation Wickenby investigations into large-scale money-laundering, tax fraud and associated crimes.

Expenses for the other public order and safety sub-function are projected to grow moderately in nominal terms over the Budget and forward estimates period. This is a result of reduced expenditure in some elements of the sub-function being offset by increased expenditure in others. In particular, the Attorney-General's Department's expenditure in relation to this sub-function will decrease following the conclusion of security-related activities for the 2007 Asia-Pacific Economic Cooperation forum, and the cessation of public awareness campaigns relating to anti-money laundering and the national security hotline. These reductions are offset by a significant increase in resourcing for the Australian Federal Police (AFP) and moderate increases for the security and intelligence agencies. The additional AFP funding will allow an increase in investigative coverage of high impact criminal matters, including transnational crime and organised criminal activity.

Education

Table 7: Summary of expenses

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Higher education	6,333	6,018	6,974	7,001	7,365
Vocational and other education	1,640	1,654	1,735	1,784	1,826
Non-government schools	6,392	6,406	6,812	7,265	7,723
Government schools	3,126	3,138	3,324	3,397	3,546
Schools	9,518	9,545	10,137	10,662	11,269
Student assistance	486	485	479	481	484
General administration	22	26	44	64	77
School education - specific funding	620	1,036	908	776	778
Total education	**18,620**	**18,764**	**20,276**	**20,768**	**21,800**

Nature of expenses and major trends

Education expenses support the delivery of education services through higher education institutions; vocational education and training providers (including technical and further education institutions); and government (State and Territory) and non-government primary and secondary schools.

Total expenses under the education function are estimated to increase by 7.8 per cent in real terms from 2008-09 to 2011-12, or 2.5 per cent annually on average. The major reasons for this growth are the measures announced as part of the Government's *Education Revolution* and indexation of funding provided to schools. Higher education expenses decrease between 2007-08 and 2008-09 due to the one-off impact of funding of $500 million being provided to Australian universities to contribute towards capital investment primarily in teaching and research facilities. For further information on measures announced in the 2008-09 Budget, refer to Budget Paper No. 2, *Budget Measures 2008-09* under the Education, Employment and Workplace Relations portfolio.

Expenses relating to higher education continue to grow over the forward years from 2008-09. The growth in expenses under the Commonwealth Grants Scheme (CGS) reflect both the indexation of grants with reference to the Higher Education Indexation Factor, and the increase in higher education student numbers funded through the CGS as a result of new measures, such as the phasing out of full fee paying places at universities. Other new measures which impact on higher education include the increase in Commonwealth higher education scholarship places from 44,000 to 88,000 places over four years, which will increase total funding for learning scholarships by 75.4 per cent in real terms by 2011-12, or 20.6 per cent annually on average, and the reduction of the maximum student contribution for commencing students studying maths and science. Expenses increase markedly between 2008-09 and 2009-10 due to the one-off impact of the reallocation of $304 million in funding for disbursements from the Higher Education Endowment Fund (to be incorporated into the new Education Investment Fund). Total higher education expenses are expected to rise by approximately 13.5 per cent in real terms from 2008-09 to 2011-12, or 4.3 per cent annually on average.

Box 4: Higher Education

Table 7.1: Trends in major components of the higher education sub-function

	2007-08 $m	**2008-09 $m**	2009-10 $m	2010-11 $m	2011-12 $m
Commonwealth Grants Scheme	3,777	**3,922**	4,226	4,481	4,745
Research Training	598	**698**	755	793	832
Institutional Grants Scheme	322	**311**	318	324	330
Higher Education Loan Programs	257	**254**	258	252	240
National Institutes - Higher Education	181	**174**	178	182	184
Learning Scholarships	122	**146**	177	223	276
Higher Education Endowment Fund(a)	5	**0**	608	304	307
Higher Education Special Projects	613	**30**	6	0	0
Other	459	**482**	448	443	452
Total	**6,333**	**6,018**	**6,974**	**7,001**	**7,365**

Vocational and other education expenses are estimated to increase by 2.4 per cent in real terms from 2008-09 to 2011-12, or 0.8 per cent annually on average. The increase in expenses for vocational and other education sub-function are mainly been driven by budget measure *Skilling Australia for the Future* which will deliver up to 630,000 additional funding places over five years. Also, contributing to the vocational and other education expenses is the impact of increased migration places in the skilled, family and humanitarian categories. In addition a new measure, *School Grants for On-The-Job Training,* will increase expenses in this sub-function.

Box 5: Vocational and Other Education

Table 7.2: Trends in major components of the vocational and other education sub-function

	2007-08 $m	**2008-09 $m**	2009-10 $m	2010-11 $m	2011-12 $m
Vocational Education and Training	1,288	**1,314**	1,335	1,357	1,384
Adult Migration English Program	182	**198**	211	221	228
Careers Transitions and Partnerships	118	**126**	142	144	146
Other	52	**17**	46	62	68
Total	**1,640**	**1,654**	**1,735**	**1,784**	**1,826**

Total expenses for the government and non-government schools sub-functions are expected to rise by 9.5 per cent in real terms from 2008-09 to 2011-12, or 3.1 per cent annually on average. The increase in the spending in the government and non-government schools sub-function secures the Government's commitment to deliver at least $42 billion to Australian schools over the Budget and forward estimates period.

Expenses related to the school education — specific funding sub-function show a large increase in 2008-09 as a result of the introduction of new *Education Revolution* measures in the 2008-09 Budget. These measures include *Trade Training Centres in Schools;* the *Digital Education Revolution*; and the *National Asian Languages and Studies in Schools* program. Funding of this sub-function declines in 2010-11 — primarily reflecting the funding profile for the *Digital Education Revolution* which provides higher levels of funding in the early years of the program, but declines after 2009-10. Overall, funding is estimated to increase by 12.5 per cent in real terms from 2007-08 to 2011-12.

The Government will establish an Education Investment Fund in 2008-09. This fund will provide for future investments in higher and vocational education infrastructure. A provision for financing such projects has been incorporated into the Contingency Reserve. These projects will be determined through the budget process according to rigorous evaluation criteria, and in line with prevailing macroeconomic conditions.

Health

Table 8: Summary of expenses

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Medical services and benefits(a)	18,948	19,785	20,705	21,731	22,749
Hospital services(b)	11,745	11,710	12,289	12,939	13,348
Pharmaceutical services and benefits	8,698	8,908	9,247	9,677	10,153
Aboriginal and Torres Strait Islander health	520	560	600	586	611
Health services	1,626	1,876	1,932	1,920	1,889
Other health services	1,961	2,120	2,225	2,290	2,365
Other health services	3,587	3,995	4,157	4,210	4,254
General administration	855	962	951	948	936
Health assistance to the aged	102	112	121	128	138
Total health	**44,455**	**46,032**	**48,071**	**50,220**	**52,190**

(a) The estimated financial impact of premium growth on the forward estimates for the Private Health Insurance Rebate has been allocated to the Contingency Reserve, due to commercial sensitivities.
(b) This sub-function now includes health care agreements, due to the new framework for federal financial relations. Further details are provided in page 6-6, titled 'A New Financial Framework for Specific Purpose Payments'.

Nature of expenses and major trends

The health function includes expenses relating to: medical services funded through Medicare and the Private Health Insurance Rebate (medical services and benefits sub-function); provision of in-hospital services to eligible veterans and their dependants and funding under Australian Health Care Agreements between the Australian Government and the States and Territories (hospital services sub-function); and the Pharmaceutical Benefits and Repatriation Pharmaceutical Benefits Schemes (pharmaceutical services and benefits sub-function).

The major purpose of health function expenditure is to ensure that all Australians have access to essential health services through a range of providers and without having to face excessive price barriers.

Expenses related to health are likely to be a major contributor to the growth in Australian Government spending in future decades.

Total expenses for this function are estimated to increase by 5.2 per cent in real terms over the forward years, or on average by around 1.7 per cent per annum in real terms.

Medical services and benefits funded through Medicare and the Private Health Insurance Rebate are the main contributors to health function expenses and are estimated to increase by 6.7 per cent in real terms over the forward years, or by around 2.2 per cent per annum on average in real terms. This category makes up around 43 per cent of total health expenses in 2008-09 and across the forward estimates period. Medicare expenditure is primarily driven by growth in both the number of services provided by general practitioners (GPs) and a shift by GPs to enhanced primary care services, such as managed care and team care services for patients with chronic diseases, which have a higher Medicare rebate. Major components of the Medical services and benefits sub-function are outlined in further detail below in Box 6.

Box 6: Medical Services and benefits

Table 8.1: Trends in major components of the Medical Services and benefits sub-function

	2007-08 $m	**2008-09 $m**	2009-10 $m	2010-11 $m	2011-12 $m
Medicare Benefits Schedule(a)	12,818	**13,689**	14,590	15,553	16,476
Private Health Insurance(b)	3,719	**3,614**	3,635	3,650	3,664
Veterans' Medical Benefits(c)	1,205	**1,233**	1,261	1,297	1,321
Primary Care Practice Incentives	324	**309**	293	301	309
Medical Indemnity	118	**128**	137	147	156
Other	763	**810**	787	784	823
TOTAL	**18,948**	**19,785**	**20,705**	**21,731**	**22,749**

(a) For a detailed discussion of the Medicare Benefits Schedule, refer to Outcome 3 of the Health and Ageing Portfolio Budget Statement 2008-09.

(b) The financial impact of projected premium growth on the forward estimates for the Private Health Insurance Rebate has been allocated to the Contingency Reserve, due to commercial sensitivities. The decrease in estimated expenses from 2007-08 to 2008-09 reflects the expected impact of the measure *Personal income tax – increasing the Medicare levy surcharge thresholds* (see Budget Paper No. 2, *Budget Measures 2008-09* for further details).

(c) Veterans' Medical Benefits are covered under Outcome 2 of the Department of Veterans' Affairs (Defence portfolio) Portfolio Budget Statement 2008-09.

The trend in the estimated expenses for the hospital services sub-function is driven by funding growth determined in the Australian Health Care Agreements, which were to expire on 1 July 2008, but have been extended by 12 months as agreed by the Council of Australian Governments in March 2008. Estimated expenses in 2007-08 and 2008-09 are similar because of a $500 million supplementary funding injection provided by the Government to the State and Territory governments in 2007-08. Further information about this payment is provided in Budget Paper No. 2 *Budget Measures 2008-09* (see the measure *COAG – Additional funding for public hospitals*). This function also includes expenses relating to services to veterans, which are projected to remain relatively stable, with an ageing and increasingly frail veteran community requiring more hospital services, but this being offset by declining client numbers in the veteran community.

Expenses in the health services sub-function are largely comprised of population health programs and the provision of blood and blood products, which is one of the main drivers of growth. The costs for blood and blood products are estimated to grow at an average of 5.5 per cent annually in real terms over the forward estimates period due to an increased demand for blood and specific blood products. Expenses in this sub-function are expected to increase significantly between 2007-08 and 2008-09 as a result of the implementation of a number of new measures, including $290 million over three years for the *Commonwealth Dental Health Program* and $209 million over four years for the *National Cancer Plan*.

The *Intergenerational Report 2007*, released on 2 April 2007, projected spending on pharmaceutical benefits to grow faster than other Australian Government health spending, such as on hospitals, medical benefits and other areas. Savings from the introduction of the *Pharmaceutical Benefits Scheme Reform* package, which was announced at the *Mid-Year Economic and Fiscal Outlook 2006-07,* were expected to slow growth of the pharmaceutical services and benefits sub-function. However, new high cost drug listings on the Pharmaceutical Benefits Scheme, combined with amendments to the reform package, have increased estimated growth to 1.9 per cent annually in real terms over the forward estimates. Major components of the pharmaceutical services and benefits sub-function are outlined in further detail below in Box 7.

Box 7: Pharmaceutical services and benefits

Table 8.2: Trends in major components of the pharmaceutical services and benefits sub-function

	2007-08 $m	**2008-09** **$m**	2009-10 $m	2010-11 $m	2011-12 $m
Pharmaceutical Benefits (concessional)(a)	4,812	**4,921**	5,180	5,510	5,811
Pharmaceutical Benefits (general)(a)	1,223	**1,271**	1,328	1,402	1,468
Pharmaceutical Benefits (highly specialised drugs)(a)	662	**717**	770	826	884
Repatriation Pharmaceutical Benefits Scheme(b)	471	**462**	443	426	410
Essential Vaccines(c)	541	**264**	215	165	165
Other(d)	989	**1,274**	1,311	1,347	1,415
TOTAL	**8,698**	**8,908**	**9,247**	**9,677**	**10,153**

(a) For a detailed discussion of the Pharmaceutical Benefits Scheme, refer to Outcome 2 of the Health and Ageing Portfolio Budget Statement 2008-09.
(b) Repatriation Pharmaceutical Benefits are covered under Outcome 2 of the Department of Veterans' Affairs (Defence portfolio) Portfolio Budget Statement 2008-09.
(c) The sharp drop in expenses from 2008-09 is due to the conclusion of the national human papillomavirus catch up program.
(d) The increase in estimated expenses is due primarily to the inclusion of the Life Saving Drugs Program in this sub-function (previously included in other health services).

Expenses in the Aboriginal and Torres Strait Islander health sub-function reflect the implementation of the Northern Territory Emergency Response and other indigenous health initiatives focusing on preventative health and drug and alcohol services.

Expenses in the general administration sub-function consist largely of health education and training services. The expected growth in expenses from 2007-08 to 2008-09 is due to increases in expenditure to develop the capacity of the health workforce, and new measures, including *GP Super Clinics,* which will provide funding of $275.2 million for 31 facilities that will offer a range of primary care and allied health services.

The Government will establish a Health and Hospitals Fund in 2008-09. This fund will provide for future investments in health infrastructure priorities. A provision for financing such projects has been incorporated into the Contingency Reserve from 2009-10 onwards. These projects will be determined through the budget process according to rigorous evaluation criteria, and in line with prevailing macroeconomic conditions.

Social security and welfare

Table 9: Summary of expenses

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Assistance to the aged	35,667	37,704	39,930	42,309	44,794
Assistance to veterans and dependants	6,422	6,460	6,434	6,409	6,285
Assistance to people with disabilities	14,354	14,709	15,485	16,236	16,949
Assistance to families with children	28,245	30,171	30,678	31,167	32,203
Assistance to the unemployed	4,273	5,033	5,259	5,740	6,081
Assistance to the sick	85	88	90	92	94
Assistance to the unemployed and sick	4,358	5,121	5,349	5,832	6,176
Common youth allowance	2,101	2,136	2,144	2,180	2,194
Other welfare programmes	2,024	1,919	1,947	1,928	1,954
Aboriginal advancement nec	1,775	1,844	1,599	1,582	1,494
General administration	2,285	2,376	1,995	2,014	2,028
Total social security and welfare	**97,230**	**102,439**	**105,561**	**109,657**	**114,077**

Nature of expenses and major trends

The social security and welfare function includes: pensions and services to the aged; assistance to the unemployed; assistance to people with disabilities; a range of assistance to families with children; income support and compensation for veterans and their dependants; and advancement programs for Aboriginal and Torres Strait Islander people.

Social security and welfare function expenses are estimated to total around $102 billion in 2008-09 and grow at an average annual rate of 1.1 per cent over the forward estimates period. The sub-functions contributing most to the growth over the forward estimates are: assistance to the aged, which is expected to grow at an average annual rate of 3.3 per cent in real terms over the forward estimate period and assistance to people with disabilities (average annual real growth of 2.3 per cent over the forward estimates period). The major components of the assistance to the aged sub-function are outlined below in Box 8.

The main driver of growth in the majority of the sub-functions is the indexation of personal benefits and income support payments, including maintaining the single rate of age and disability pensions at a minimum of 25 per cent of Male Total Average Weekly Earnings. The growth also reflects demographic and social factors such as the ageing of the population.

Box 8: Assistance to the Aged

Table 9.1: Trends in major components of the assistance to the aged sub-function

	2007-08	**2008-09**	2009-10	2010-11	2011-12
	$m	**$m**	$m	$m	$m
Age Pension	25,519	**26,688**	28,256	30,475	32,681
Residential Care	6,176	**6,826**	7,292	7,303	7,443
Community Care	1,722	**1,920**	2,086	2,260	2,366
Widow Allowance(a)	490	**458**	466	452	457
Partner Allowance - Pension(a)	346	**274**	233	173	131
Flexible Aged Care	332	**410**	480	562	646
Compensation for extension of fringe benefits to pensioners	206	**220**	227	235	240
Wife Pension (Age)(a)	163	**138**	130	116	108
Veterans' Home Care	98	**101**	104	107	107
Other	614	**669**	656	628	615
Total	**35,667**	**37,704**	**39,930**	**42,309**	**44,794**

(a) These payments are closed to new recipients.

The increase in projected expenses in the assistance to people with disabilities sub-function is primarily due to the indexation of the Disability Support Pension, the Carer Allowance and Carer Payment programs, with Disability Support Pension expenses being the most significant component to this sub-function.

Expenses relating to the assistance to families with children sub-function are expected to remain constant in real terms over the forward estimates. This is attributed to a reduction in real growth for Parenting Payment and Family Tax Benefit (FTB) programs. The reduction in expenses for Parenting Payment is due to increased participation in the workforce by recipients. FTB expenditure is expected to decrease over the forward estimates in real terms due to the recent measure *Better Targeting and Delivery of Family Tax Benefit — $150,000 income test on primary earner for FTB B* which tightens means testing of FTB B and a decrease in recipients primarily driven by higher incomes. Further information on this measure is presented in Budget Paper No. 2, *Budget Measures 2008-09* under the Families, Housing, Community Services and Indigenous Affairs portfolio. The Child Care Tax Rebate will be more than doubled across the forward estimates as a result of the Government's commitment to making child care more available and affordable through the recent measure *Early Childhood — Child Care Tax Rebate — increase from 30 per cent to 50 per cent*. Further information on this measure is presented under the Education, Employment and Workplace Relations portfolio in Budget Paper No. 2, *Budget Measures 2008-09.*

The major components of the assistance to families with children sub-function are outlined below in Box 9.

Box 9: Assistance to Families with Children

Table 9.2: Trends in major components of the assistance to families with children sub-function

	2007-08	**2008-09**	2009-10	2010-11	2011-12
	$m	**$m**	$m	$m	$m
Family Tax Benefit - A	12,442	**13,389**	13,894	14,114	14,575
Family Tax Benefit - B	3,874	**4,402**	4,457	4,494	4,590
Parenting Payment - Single	4,374	**4,129**	3,926	3,897	3,927
Parenting Payment - Partnered	1,039	**949**	903	881	837
Child Care Benefit	1,875	**1,908**	1,960	2,011	2,059
Baby Bonus(a)	1,225	**1,404**	1,448	1,507	1,554
Child Support (Registration and Collection) Act 1988	1,173	**1,202**	1,249	1,298	1,326
Supported Accommodation Assistance Program	186	**189**	193	197	201
Grants to Family Support Organisations	144	**186**	193	196	199
Support for Child Care	262	**316**	307	298	301
Child Care Tax Rebate	461	**861**	956	1,048	1,137
Other	1,190	**1,238**	1,193	1,226	1,499
Total	**28,245**	**30,171**	**30,678**	**31,167**	**32,203**

(a) The increase in estimated expenses from 2007-08 to 2008-09 is primarily due to the increase in the baby bonus from $4,258 to $5,000 in 2008-09.

The decline in estimated expenses between 2008-09 and 2009-10 in the Aboriginal Advancement sub-function is due to funding for the Northern Territory Emergency Response provided for 2008-09 only, with future funding to be determined prior to the 2009-10 Budget, based on an evaluation of the Emergency Response. Provision has been made in the Contingency Reserve for ongoing costs associated with the Emergency Response. This provision is included in the other purposes function.

The main driver of the assistance to the unemployed sub-function is the Newstart Allowance program. Expected increases in expenses over the Budget and forward estimates period are primarily the result of projected increases in Newstart Allowance recipients in line with forecast economic parameters.

Housing and community amenities

Table 10: Summary of expenses

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Housing	1,695	1,856	1,974	2,000	2,092
Urban and regional development	205	213	147	177	86
Environment protection	1,184	1,128	1,153	751	740
Total housing and community amenities	**3,083**	**3,197**	**3,273**	**2,928**	**2,917**

Nature of expenses and major trends

The housing and community amenities function includes the Australian Government's contribution to the Commonwealth Housing Agreement, other Australian Government housing programs, expenses of Defence Housing Australia (DHA) and various regional development and environment protection programs.

Housing sub-function expenses will grow over the forward estimates with growth from 2007-08 due primarily to new measures to address housing affordability including, the *National Rental Affordability Scheme*, *Homes for the Homeless* and the *Housing Affordability Fund*. Further information on these measures is presented in Budget Paper No. 2, *Budget Measures 2008-09* under the Families, Housing, Community Services and Indigenous Affairs portfolio.

Housing sub-function expenses will also grow over the forward estimates period due to the Department of Defence's increasing demand for housing provided by DHA. This is primarily in support of the personnel to be assigned to the Headquarters Joint Operation Command to be located in Bungendore, New South Wales, increased Australian Defence Force (ADF) numbers (primarily in the Army) and in response to changes to the geographical location of ADF personnel. DHA expenditure is also forecast to grow moderately due to the replacement of expiring leases and the on-going upgrade and maintenance of DHA housing.

The urban and regional development sub-function comprises of expenditure relating to regional development programs and the natural disaster mitigation program. The decline in estimated expenses from 2008-09 reflects: the winding-up of the Regional Partnerships and Sustainable Regions programs from 2007-08; the profile of expenditure under the *Better Regions* program (which assists local communities deliver local infrastructure and other regional and community projects); and a more cost effective approach to the administration of the regional programs.

Expenses under the environment protection sub-function are projected to decrease after 2009-10 reflecting the completion of two significant water management programs, Water Smart Australia and Raising National Water Standards.

Other significant expenses relating to water conservation programs are allocated to the natural resources development sub-function of the agriculture, forestry and fishing function.

Recreation and culture

Table 11: Summary of expenses

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Broadcasting	1,332	1,361	1,430	1,398	1,386
Arts and cultural heritage	938	1,034	1,007	973	967
Sport and recreation	388	339	277	246	221
National estate and parks	167	173	149	160	162
Total recreation and culture	**2,826**	**2,907**	**2,862**	**2,777**	**2,736**

Nature of expenses and major trends

Recreation and culture function expenses support public broadcasting; the regulatory framework for Australia's broadcasting sector; cultural institutions; funding for the arts and the film industry; assistance to sport and recreation activities; and the management and protection of national parks and other world heritage areas. This function also includes expenses relating to the protection and preservation of historic sites and buildings, including war graves.

The profile of expenses relating to the sports and recreation sub-function primarily reflects the impact on expenses of higher expenditure in 2007-08. Expenses in 2007-08 have been boosted by funding to support World Youth Day and to support a number of sport infrastructure projects, which do not flow through to the forward years. Commonwealth support for these infrastructure projects is mainly delivered in the form of grants, which are recorded as expenses.

The most significant development in broadcasting over the period 2008-09 to 2011-12 is likely to be Australia's digital television switchover. The Government has established a Digital Television Switchover Taskforce, which is responsible for coordinating and overseeing Australia's transition from analogue to digital television by 31 December 2013. Additionally, an Industry Advisory Group has been established, bringing together broadcasters, retailers, manufacturers, antenna technicians, public and commercial housing agencies, as well as government departments.

Box 10: Broadcasting

Table 11.1: Trends in major components of the broadcasting sub-function

	2007-08	**2008-09**	2009-10	2010-11	2011-12
	$m	**$m**	$m	$m	$m
ABC Television	545	**556**	566	576	575
ABC Radio	293	**299**	305	310	310
SBS Television	143	**148**	168	174	170
ABC Analogue Transmission and Distribution	87	**91**	93	95	97
ABC Digital Transmission and Distribution	75	**84**	85	87	89
SBS Digital Transmission and Distribution	55	**57**	58	60	60
Other	134	**126**	155	96	85
Total	**1,332**	**1,361**	**1,430**	**1,398**	**1,386**

The arts and cultural heritage sub-function includes all Government arts expenditure. The most significant development in this area is the creation of two new agencies on 1 July 2008. Screen Australia will be established following the merger of the three film bodies, Film Australia Limited, the Australian Film Commission and Film Finance Corporation Australia. The National Film and Sound Archive will also be established as a separate agency, independent from Screen Australia.

Fuel and energy

Table 12: Summary of expenses

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Fuel and energy	5,103	5,574	5,822	5,939	6,080
Total fuel and energy	**5,103**	**5,574**	**5,822**	**5,939**	**6,080**

Nature of expenses and major trends

This function comprises a wide range of fuel and energy expenses administered across a number of portfolios. It includes expenses for Fuel Tax Credits and the Energy Grants (Cleaner Fuels) Scheme, which are administered by the Australian Taxation Office (ATO). It also includes some expenses of the Department of Environment, Water, Heritage and the Arts, including the fuel and energy aspects of measures related to the Climate Change Strategy and to the whole-of-government *Securing Australia's Energy Future* initiative.

Fuel and energy function expenses are expected to increase in 2008-09 reflecting increased expenditure in relation to several greenhouse related programs, including the Low Emissions Technology Demonstration Fund (LETDF), the Renewable Remote Power Generation program, and the *Solar Cities* program. This is due to the Government's election commitment to increase funding to the *Solar Cities* program and the rephasing across the Budget and forward years of funding in the LETDF. The rephasing of the LETDF was undertaken to better reflect the expected grant payment profile for the six announced projects under the program. Future projects otherwise funded under the LETDF will be funded through the National Clean Coal Fund and the Renewable Energy Fund.

Expenses related to the fuel and energy function reflect significant growth due to the phased implementation of the Fuel Tax Credits measure over a six year period from 2006-07. From 1 July 2008 eligibility for entitlements expands to include a 50 per cent credit for 'off-road' business use of excisable fuels in newly eligible activities and a full credit for all fuels used in currently eligible activities. Fuel Tax Credits expenses are expected to be $4,754 million in 2008-09 rising to $5,380 million in 2011-12, the last year of the phased implementation.

Additionally, the fuel and energy function includes expenses for programs relating to the production or use of alternative fuels including ethanol and biodiesel, which are administered by the Department of Resources Energy and Tourism (DRET) and the Australian Taxation Office. Expenses are projected to increase for alternative fuels programs from 2008-09 onward due to higher funding in support of climate change and innovation initiatives, including: the Energy Innovation Fund, the Renewable Energy Fund and National Clean Coal Initiative, all of which are administered by DRET.

This function also includes expenses relating to the Liquefied Petroleum Gas vehicle purchase and conversion rebate scheme, and a continuation of company tax compensation payments to New South Wales and Victoria following the decision not to sell the Snowy Hydro Limited.

Agriculture, forestry and fishing

Table 13: Summary of expenses

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Wool industry	53	54	55	55	55
Grains industry	113	110	144	115	122
Dairy industry	59	53	42	44	45
Cattle, sheep and pig industry	165	174	163	163	163
Fishing, horticulture and other agriculture	347	260	207	202	206
General assistance not allocated to specific industries	483	116	114	129	134
Rural assistance	1,511	996	72	71	62
Natural resources development	823	783	1,797	1,604	1,837
General administration	532	512	504	492	495
Total agriculture, forestry and fishing	**4,085**	**3,058**	**3,099**	**2,874**	**3,119**

Nature of expenses and major trends

Agriculture, forestry and fishing function expenses support assistance to primary producers, forestry, fishing, land and water resources management, quarantine services and contributions to research and development.

Expenses within this function are expected to decrease by around 5.4 per cent in real terms between 2008-09 and 2011-12, primarily because of the decrease in expenditure on drought-related measures within the rural assistance sub-function. This reflects an assumed return to normal seasonal conditions in Australia and a consequent cessation of drought assistance outlays. The decrease in the expenses related to the general assistance (not allocated to specific industries) sub-function from 2007-08 is due to the cessation of assistance for the equine influenza outbreak. There is also a decrease in projected expenses in the fishing, horticulture and other agriculture sub-function after 2007-08 and 2008-09, which is attributable to the conclusion of the Tasmanian Community Forest Agreement and the Securing our Fishing Future package.

The overall decrease in agriculture, fishing and forestry expenses is partially offset by the expected significant increase in expenditure in the natural resources development sub-function. This sub-function includes government expenditure on water resource management, including expenditure in rural areas under the new national plan for water, *Water for the Future*. The increase in expenses from 2009-10 reflects the anticipated increase in activity under the national plan, particularly in relation to the Sustainable Rural Water Use and Infrastructure and the Restoring the Balance in the Murray-Darling Basin programs, to improve water infrastructure and address water over-allocation in the Murray Darling Basin.

Other significant expenses on conservation and the sustainable use and repair of Australia's natural environment are included in the environment protection sub-function (housing and community amenities function) and the national estate and parks sub-function (recreation and culture function).

Mining, manufacturing and construction

Table 14: Summary of expenses

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Mining, manufacturing and construction	1,846	1,834	1,762	1,576	1,515
Total mining, manufacturing and construction	**1,846**	**1,834**	**1,762**	**1,576**	**1,515**

Nature of expenses and major trends

Expenses under this function relate to the manufacturing and export sectors, and are designed to assist the efficiency and competitiveness of Australian industries. Major expenses include programs specific to the automotive and textiles, clothing and footwear industries. These expenses also include Australian Government assistance to exporters through direct financial assistance for the development of export markets, information and promotional assistance, finance and insurance services, trade policy, programs providing research and development assistance grants, and strategic investment incentives.

Total expenses are projected to decrease due to a downward trend in projected expenses for the Automotive Competitiveness and Investment Scheme, the termination of the Pharmaceuticals Partnerships Program and the termination of the Commercial Ready program (refer to Budget Paper No. 2, *Budget Measures 2008-09*). This decrease is partially offset by an estimated increase in expenses relating to the Research and Development Tax Concession Scheme.

Box 11: Mining and mineral resources (other than fuels) manufacturing and construction

Table 14.1: Trends in major components of the mining and mineral resources (other than fuels) manufacturing and construction sub-function

	2007-08	**2008-09**	2009-10	2010-11	2011-12
	$m	**$m**	$m	$m	$m
Research and Development Tax Concession Scheme	343	**395**	454	523	595
Automotive Competitiveness and Investment Scheme	550	**511**	449	349	305
Commercial Ready Program	210	**154**	39	9	1
Trade Facilitation	190	**199**	200	197	215
Export Market Development Grants Scheme	157	**150**	200	150	150
Textile Clothing and Footwear Strategic Investment Program	114	**100**	100	104	24
Other	282	**325**	320	244	225
Total	**1,846**	**1,834**	**1,762**	**1,576**	**1,515**

Transport and communication

Table 15: Summary of expenses

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Communication	567	522	458	410	385
Rail transport(a)	180	187	51	9	6
Air transport	161	172	167	166	161
Road transport(a)	3,079	3,421	3,895	3,665	4,294
Sea transport	318	256	260	267	271
Other transport and communication	181	170	162	159	147
Total transport and communication	**4,486**	**4,727**	**4,994**	**4,677**	**5,265**

(a) Most road and rail funding from 2009-10 onwards is currently classified under the road transport sub-function and will be reclassified between the road and rail transport sub-functions as programs of work are determined.

Nature of expenses and major trends

Transport and communication function expenses support the infrastructure and regulatory framework for Australia's transport and communication sectors. Expenses within this function are expected to increase by around 3.3 per cent in real terms from 2008-09 to 2011-12. The primary driver of the increase is expenses relating to the road transport sub-function, which are expected to increase by 16.5 per cent in real terms over this period.

The decline in estimated expenses in the communication sub-function between 2007-08 and 2011-12 primarily reflects the conclusion of the Connect Australia Package which consists of four components: Broadband Connect, Clever Networks, Mobile Connect and Backing Indigenous Ability.

The decline in the communication sub-function expenses does not take account of the proposed investment in the National Broadband Network (NBN). The Government has indicated it will provide up to $4.7 billion to establish the NBN. A request for proposal to build and operate the NBN was issued on 11 April 2008 with the outcome of this process expected in late 2008. Provision for the NBN has been included in the Contingency Reserve. Further information can be found in the measure, *National Broadband Network — establishment and implementation*, detailed under the Broadband, Communications and Digital Economy portfolio in Budget Paper No. 2, *Budget Measures 2008-09*.

The decrease in estimated expenses in the rail transport sub-function from 2009-10 is due to the allocation of land transport infrastructure funding between road and rail projects not yet being finalised (until funding is allocated it is classified under the road transport sub-function which makes up the overarching majority of land transport infrastructure expenditure). Funding currently allocated to 2009-10 in the rail transport sub-function comprises expenditure associated with works on the mainline rail track at Wodonga, Victoria and a scoping study into a future inland rail corridor.

The increased level of estimated expenses in the air transport sub-function in 2008-09 is mainly due to aviation security funding including equipment trials for the screening of liquids, aerosols and gels carried on board aircraft flying international routes.

The increase in estimated expenses in the road transport sub-function from 2007-08 to 2011-12 is due primarily to an increase in investment in the National Land Transport Network. A five year program of land transport infrastructure investment will provide total funding of $22.7 billion over 2009-10 to 2013-14, including $16.8 billion for projects on the National Network and $2.3 billion for the Strategic Regional Program, Roads to Recovery Program and Black Spot Program. It also includes funding for identified local road grants reported in the local government assistance sub-function. Major components of the road transport sub-function are outlined in further detail in Box 12 below.

The decrease in estimated expenses in the sea transport sub-function from 2007-08 to 2008-09 is a result of the merger of the Australian Maritime College (AMC) and the University of Tasmania. The Government gifted the AMC's assets (valued at $61.4 million) to the University to facilitate integration of the AMC into the University from 1 January 2008 providing a one-off increase in expenses in 2007-08. This sub-function is dominated by expenses related to the Tasmanian Freight Equalisation Scheme and the Bass Strait Passenger Vehicle Equalisation Scheme.

Box 12: Road transport

Table 15.1: Trends in major components of the road transport sub-function

	2007-08	**2008-09**	2009-10	2010-11	2011-12
	$m	**$m**	$m	$m	$m
National Network Program	2,431	**2,553**	3,167	3,081	3,633
Strategic Regional Program	101	**190**	145	25	75
Roads to Recovery Program	436	**490**	350	350	350
Black Spot Program	41	**51**	60	60	60
Heavy Vehicle Safety and Productivity Plan	0	**10**	20	20	20
Other non-Auslink road	6	**30**	59	45	70
Other(a)	64	**99**	94	85	87
Total(b)	**3,079**	**3,421**	**3,895**	**3,665**	**4,294**

(a) Includes keys2drive, Interstate Road Transport Fees, Seatbelts on regional school buses and OECD Road Transport - Contribution.
(b) See Outcome 1 of the Infrastructure, Transport, Regional Services and Local Government Portfolio Budget Statements 2008-09.

The Government will establish a Building Australia Fund in 2008-09. This fund will provide for future investments in critical economic infrastructure in the areas of roads, rail, ports and broadband. A provision for financing such projects has been incorporated into the Contingency Reserve from 2009-10 onwards. These projects will be determined through the budget process according to rigorous evaluation criteria, and in line with prevailing macroeconomic conditions.

Other economic affairs

Table 16: Summary of expenses

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Tourism and area promotion	193	184	182	182	180
Vocational and industry training	1,146	1,161	1,350	1,585	1,592
Labour market assistance to job seekers and industry	2,093	2,196	2,100	1,966	1,899
Industrial relations	594	582	526	504	502
Immigration	1,126	1,198	1,189	1,200	1,230
Total labour and employment affairs	4,958	5,137	5,166	5,256	5,223
Other economic affairs nec	1,315	1,449	1,470	1,407	1,387
Total other economic affairs	**6,467**	**6,770**	**6,818**	**6,844**	**6,791**

Nature of expenses and major trends

The other economic affairs function includes expenses on tourism and area promotion, labour market assistance, immigration, industrial relations and other economic affairs not elsewhere classified.

Total expenses for the other economic affairs function are estimated to remain relatively stable over the period 2007-08 to 2011-12. This reflects lower growth in expenditure in the labour market assistance to job seekers and industry and industrial relations sub-functions, offset by expected growth in the vocational and industry training function as a result of measures in this Budget.

Expenses in the tourism and area promotion sub-function are expected to decrease slightly from 2007-08 mainly due to administrative savings in the Australian Tourism Development Program and departmental savings by Tourism Australia. For further details on both measures, refer to Budget Paper No. 2, *Budget Measures 2008-09*, Resources, Energy and Tourism Portfolio.

The growth in estimated expenses in the vocational and industry training sub-function is mainly due to the introduction of the Government's election commitment measure, *Skilling Australia for the Future*. The measure will provide an additional 85,000 apprenticeship places over five years. Further information on this measure is presented in Budget Paper No. 2, *Budget Measures 2008-09* under the Education, Employment and Workplace Relations portfolio.

Estimated expenses for labour market assistance to job seekers and industry are projected to decline over the period 2008-09 to 2011-12 as a result of lower costs arising from the *Employment Services for 2009-10 to 2011-12* measure, which streamlines and refocuses employment services arrangements. Further information regarding this measure is presented in Budget Paper No. 2, *Budget Measures 2008-09* under the Education, Employment and Workplace Relations portfolio.

The implementation of the Government's workplace relations reforms will reduce expenses under the industrial relations sub-function. This results from lower administrative costs associated with the rationalisation of the award system, and the transition from Australian Workplace Agreements to the new system.

The growth in expenses in the immigration sub-function between 2007-08 and 2008-09 is mainly due to new measures announced in the 2008-09 Budget to increase migration places in the skilled, family and humanitarian categories, and increase support to newly arrived migrants in the areas of language and work skills training. The impact from these new measures on expenses will gradually tail off in future years while expenses relating to short-term visas for international students and tourists are expected to continue to increase during the same period.

Other purposes

Table 17: Summary of expenses

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Interest on Commonwealth Government's behalf	3,538	3,451	3,400	3,249	3,142
Interest on behalf of States and Territories	0	0	0	0	0
Interest received on Commonwealth Government stock	0	0	0	0	0
Public debt interest	3,538	3,451	3,400	3,249	3,142
Nominal superannuation interest	6,210	6,508	6,598	6,817	7,039
General revenue assistance - States and Territories	42,753	45,066	48,354	50,975	53,765
General capital assistance - States and Territories	0	0	0	0	0
Debt assistance	0	0	0	0	0
Local government assistance	1,795	1,876	1,952	2,033	2,101
Revenue assistance to the States and Territories	174	0	0	0	0
Assistance to other governments	771	757	751	736	686
General purpose inter-government transactions	45,493	47,700	51,057	53,744	56,552
Natural disaster relief	99	93	92	92	92
Contingency reserve(a)	-776	451	6,036	8,379	12,117
Total other purposes	**54,564**	**58,202**	**67,184**	**72,281**	**78,942**

(a) Asset sale related expenses are treated as a component of the Contingency Reserve.

Nature of expenses and major trends

The other purposes function includes expenses incurred in the servicing of public debt interest, and assistance to the state, territory and local governments. The function also includes items classified to natural disaster relief, costs of asset sales, the Contingency Reserve (which is an allowance included in aggregate expenses to reflect anticipated events that cannot be assigned to individual programs), and expenses related to nominal interest on unfunded liabilities for government superannuation benefits.

The most significant expenses in the other purposes function relate to general revenue assistance paid to State and Territory governments. Virtually all of these expenses comprise payments of Goods and Services Tax (GST) revenue grants to the states and territories, which are provided on an 'untied' basis. The forecast growth in these expenses reflects expected growth in GST revenue over time. More detailed information on these expenses is provided in Budget Paper No.3 *Australia's Federal Relations 2008-09*.

Payments to State and Territory governments that are tied to specific purposes (for example, health and education) are reported under their relevant functions earlier in this statement. More detailed information is also provided in Budget Paper No. 3 *Australia's Federal Relations 2008-09* and in the Portfolio Budget Statements of the corresponding portfolios with responsibilities in these areas.

The assistance to other governments' expense encompasses transfers and payments to the States and Territories, of which around 96 per cent is to Western Australia for offshore petroleum royalties, and the balance being for compensation for National Capital Influences in the Australian Capital Territory and assistance to other governments through the Attorney-General's Department. These expenses are expected to fluctuate across the forward years due mainly to a combination of a decrease in estimated oil production volume and estimated increase in price, on which the royalty payments are based.

Estimated expenses relating to the local government assistance sub-function steadily increase across the Budget and forward estimates period due to forecast population increases and changes in the Consumer Price Index (local government funding provided by the Commonwealth is linked to population and inflation). A significant component of local government assistance is categorised under other expense functions (refer to Budget Paper No. 3, *Australia's Federal Relations 2008-09* for more information on Australian Government assistance to local governments).

Of the other major items, nominal superannuation interest expenses are projected to grow over time reflecting the growth in the Government's superannuation liability.

The increase in expenses in the Contingency Reserve sub-function from 2008-09 over the forward years is largely due to the conservative bias allowance — an allowance that compensates for the trend in expenses on existing Australian Government programs to be underestimated by agencies in the forward years. The nature of the Contingency Reserve is discussed in more detail at Appendix B.

GENERAL GOVERNMENT NET CAPITAL INVESTMENT

Net capital investment comprises acquisitions of non-financial assets (including inventories) less non-financial asset disposals and depreciation.

Australian Government general government net capital investment is expected to increase in 2008-09, primarily reflecting growth in defence net capital investment. Estimates of net capital investment, net of non-financial asset sales and depreciation, remain significantly positive over the forward estimates period to 2011-12 (Table 18).

Table 18: Estimates of total net capital investment

	2007-08		2008-09	2009-10	2010-11	2011-12
	PEFO(a)	Revised	Estimate	Projections		
Total net capital investment ($m)	**1,597**	**2,837**	**3,872**	**4,050**	**4,462**	**5,094**
Real growth on previous year (%)(b)	-29.9	24.4	31.9	2.1	7.5	11.4
Per cent of GDP	0.1	0.3	0.3	0.3	0.3	0.4

(a) As published in the *Pre-Election Economic and Fiscal Outlook 2007*, in accordance with the ABS GFS standard.
(b) Real growth is calculated using the Consumer Price Index.

The estimates of net capital investment presented in Table 18 have been significantly affected by the adoption of the new government accounting standard, AASB 1049, for the first time in the 2008-09 Budget. In particular, the acquisition of specialist military equipment is now recorded as a capital investment. Previously, expenditures relating to specialist military equipment were classified as expenses, even though the equipment, including aircraft and ships, may have an effective life spanning several decades (this previous treatment was, nevertheless, consistent with the ABS and international Government Finance Statistics standard). The change in the accounting classification of specialist military equipment has increased net capital investment significantly in all years. Further information on this change in accounting treatment is provided in Appendix A of Statement 3 and in Statement 9.

Reconciliation of net capital investment since the 2007-08 Budget

A reconciliation of the 2007-08 Budget, 2007-08 MYEFO, PEFO 2007 and 2008-09 Budget net capital investment estimates, showing the effect of policy decisions and economic parameter and other variations since the estimates were published in the 2007-08 Budget, is provided in Table 19.

Table 19: Reconciliation of net capital investment

	Estimates		Projections	
	2007-08	2008-09	2009-10	2010-11
	$m	$m	$m	$m
2007-08 Budget net capital investment	**1,171**	**1,377**	**861**	**939**
Changes between 2007-08 Budget and MYEFO				
Effect of policy decisions(a)	181	84	112	324
Effect of parameter and other variations	240	302	-10	-312
Total variations	**421**	**386**	**102**	**12**
2007-08 MYEFO net capital investment	**1,592**	**1,763**	**963**	**951**
Changes between MYEFO and PEFO				
Effect of policy decisions(a)	5	3	-1	-2
Effect of parameter and other variations	0	0	0	0
Total variations	**5**	**3**	**-1**	**-2**
2007 PEFO net capital investment	**1,597**	**1,766**	**961**	**950**
Changes between PEFO and 2008-09 Budget				
Effect of policy decisions(a)	-98	136	77	7
Effect of parameter and other variations	1,338	1,970	3,012	3,506
Total variations	**1,240**	**2,106**	**3,089**	**3,513**
2008-09 Budget net capital investment	**2,837**	**3,872**	**4,050**	**4,462**

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

In 2008-09, forecast net capital investment has increased by $2,106 million since the PEFO 2007. This increase is due to the combined effect of new policy decisions, resulting in an increase in expenditure of $136 million and parameter and other variations of $1,970 million. The parameter and other variations are almost entirely due to the change in accounting classification of specialist military equipment since the PEFO 2007.

Discussion of changes between the PEFO 2007 and the 2008-09 Budget, shown in the table above, can be found in Statement 3 (in the section titled 'Variations in net capital investment estimates'). Further information on capital measures since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2008-09*.

Net capital investment estimates by function

Estimates for Australian Government general government net capital investment by function for the period 2007-08 to 2011-12 are provided in Table 20.

Table 20: Estimates of net capital investment by function

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
General public services	194	214	126	64	21
Defence(a)	1,407	2,855	3,794	4,525	5,193
Public order and safety	152	191	-71	42	10
Education	3	20	27	-6	-14
Health	143	180	88	-10	-19
Social security and welfare	297	123	47	-19	1
Housing and community amenities	170	10	-33	-49	-16
Recreation and culture	177	148	55	-10	-36
Fuel and energy	9	2	1	0	0
Agriculture, forestry and fishing	40	4	1	-4	-13
Mining, manufacturing and construction	31	6	3	-5	3
Transport and communications	14	30	-13	-7	-9
Other economic affairs	200	124	15	-69	-57
Other purposes	0	-35	10	9	29
Total net capital investment	**2,837**	**3,872**	**4,050**	**4,462**	**5,094**

(a) Purchases of specialist military equipment are now treated as net capital investment rather than as expenses. See Appendix A of Statement 3 and in Statement 9 for further details.

Net capital investment in 2007-08 is estimated to be $2.9 billion, principally driven by defence capital expenditure. Other areas of major net capital investment in 2007-08 include — the construction of the National Portrait Gallery, the Christmas Island Immigration Reception and Processing Centre and various other construction projects managed by the Department of Finance and Deregulation; the continuing refurbishment and relocation of various overseas missions by the Department of Foreign Affairs and Trade; investment in information technology by several agencies including the Australian Taxation Office, Centrelink and the Department of Immigration and Citizenship.

Net capital investment is expected to increase in 2008-09 and the out years. The increase in net capital investment across the forward estimates is dominated by projected growth in defence capital investment. As discussed earlier in this statement, defence capital expenditure is subject to fluctuations across years associated with the delivery of large military capability projects. There has also been a pattern of major defence capital expenditures slipping relative to earlier delivery schedules. Since the *Mid Year Economic and Fiscal Outlook 2007-08*, Defence has reprogrammed $812 million of capital expenditure from 2007-08 to beyond the forward estimates. In addition, $923 million of capital expenditure previously scheduled for 2008-09 has been reprogrammed principally to beyond the forward estimates period.

As noted earlier in this statement, defence net capital investment in 2008-09 is boosted by the scheduled completion of the new Joint Operations Command Headquarters and single living accommodation project. Under the accrual accounting standards used in preparing the budget estimates, this is recorded as an increase of some $500 million in capital investment in 2008-09, with cash payments to be made over a period of up to 30 years under finance lease arrangements.

The impact of the projected growth in defence capital expenditure is partially offset by the progressive conclusion of various construction projects, including the Christmas Island Immigration Reception and Processing Centre (completed in 2007-08), the finalisation of a significant overseas land purchase in Jakarta and other procurements associated with the upgrade to the security of a number of overseas posts managed by the Department of Foreign Affairs and Trade, and the completion of major information technology projects by various agencies including the Department of Immigration and Citizenship.

Significant factors contributing to net capital investment by function include:

- **General public services** — investment in major projects including the National Portrait Gallery, the Christmas Island Immigration Reception and Processing Centre and future new accommodation for the Australian Security Intelligence Organisation and the Office of National Assessments, refurbishment and relocation of various overseas missions by the Department of Foreign Affairs and Trade; and investment in information technology by several agencies including the Australian Taxation Office, Centrelink and the Department of Immigration and Citizenship;

- **Defence** — the investment by the Department of Defence on various capital projects including the construction of the new Headquarters Joint Operations Command facility near Bungendore, New South Wales, and base infrastructure upgrades at Lavarack Barracks, Queensland, Enoggera, Queensland, and the Royal Australian Air Forces bases in Amberley, Queensland, Darwin and Tindal, Northern Territory, and Pearce in Western Australia;

- **Public order and safety** — investment by the Australian Federal Police in specialist equipment and operational and training facilities to accommodate international deployment group, increased investment by the Australian Security Intelligence Organisation in information technology and expansion of infrastructure to support growth in staff and operations and fit-out of its central office accommodation in Canberra, and increased capital funding in the Australian Secret Intelligence Service to enhance counter-terrorism capabilities;

- **Health** — continuing investment in the National Medical Stockpile to protect against possible disease outbreaks such as a pandemic influenza or biosecurity incidents;

- **Social security and welfare** — investment in general technology infrastructure and improvements in office accommodation including Customer Services Centres and the National Support Office for Centrelink;
- **Housing and community amenities** — mainly reflects net capital investment by Defence Housing Australia;
- **Recreation and culture** — refurbishment and enhancement of the National Gallery of Australia, establishment of the Gallery of Australian Democracy and refurbishment of the south east wing of Old Parliament House, investments by the Director of National Parks in upgraded facilities and rehabilitation of sites within Australia's national parks, and management and rehabilitation of buildings and land around Sydney Harbour by the Sydney Harbour Federation Trust; and
- **Other economic affairs** — the transition of a number of major information technology projects in the Department of Immigration and Citizenship from a capital intensive development phase to an operational phase.

Net capital investment is broadly defined as acquisitions of non-financial assets less depreciation expenses. It provides a measure of the overall growth in capital assets (including buildings and infrastructure, specialist military equipment, and computer software) after taking into account depreciation and amortisation as previously acquired assets age. Table 21 below reports the acquisition of non-financial assets by function before taking into account depreciation or amortisation.

Table 21: Australian Government general government purchases of non-financial assets by function

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
General public services	424	777	637	590	836
Defence(a)	4,595	6,466	7,215	8,006	8,138
Public order and safety	325	425	186	362	321
Education	19	36	46	14	10
Health	120	133	156	59	55
Social security and welfare	526	400	305	220	206
Housing and community amenities	173	85	154	76	70
Recreation and culture	392	376	281	237	209
Fuel and energy	11	3	2	0	0
Agriculture, forestry and fishing	68	32	28	11	2
Mining, manufacturing and construction	59	32	31	23	39
Transport and communications	74	59	40	42	36
Other economic affairs	428	384	282	191	210
Other purposes	0	6	12	5	1
General government purchases of non-financial assets	**7,214**	**9,212**	**9,374**	**9,836**	**10,134**

(a) Purchases of specialist military equipment are now treated as net capital investment rather than as expenses. See Appendix A of Statement 3 and in Statement 9 for further details.

Trends in Australian Government Staffing

This section provides estimates of the annual average staffing level (ASL)[3] of agencies in the Australian Government General Government Sector. It is a comprehensive data source of people employed by the Australian Government, including all Defence Force personnel and those employed by Statutory Authorities.

ASL data was first collected and published in the Budget papers for 2001-02. Since that time there has been a sizable increase in the average staffing levels. For example, figures reported in the 2002-03 Budget papers show an average annual staffing level of 212,784 for the 2001-02 financial year whereas in the 2008-09 Budget papers the estimate for 2007-08 is 248,233 — an increase in excess of 35,000 over that period (see Table 22 below).

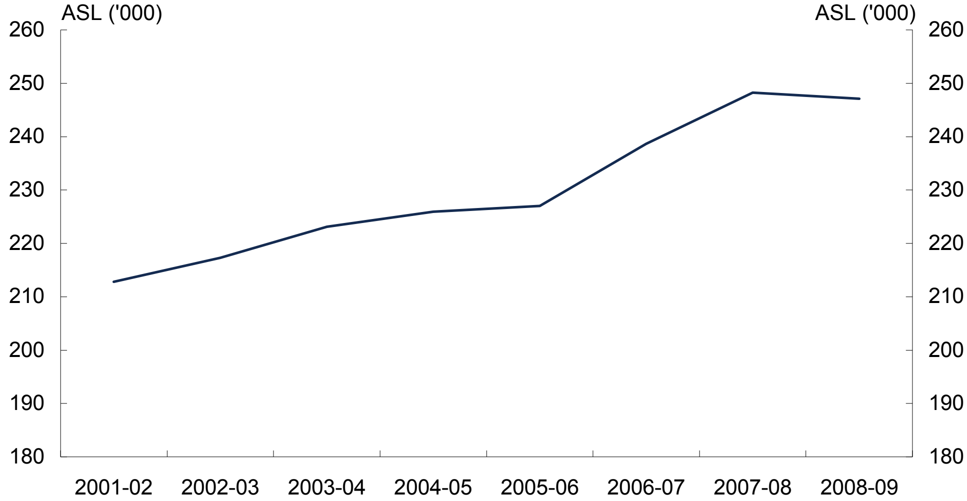
Table 22 shows steady and relatively small increases in the financial years 2001-2002 to 2005-2006 and a sharp increase in 2006-2007 and 2007-2008. Savings measures for the 2008-09 Budget will result in a modest net decrease across the General Government Sector of close to 1,200 ASL. The Government has established the Career Transition and Support Centre in the Australian Public Service Commission to assist affected staff and agencies with the downsizing process.

Table 22: Estimates of Average Staff Levels (ASL)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
212,784	217,284	223,134	225,914	227,013	238,623	248,233	247,081

3 ASL figures reflect the average number of employees receiving salary or wages over the financial year, with adjustments for casual and part-time staff, to show the average full time equivalent (FTE). ASL figures also include non-uniformed staff and overseas personnel.

Chart 1: Estimates of Average Staff Levels (ASL) 2001-2008



Appendix C5 provides detail of ASL at Portfolio and Agency level. Comparisons across years should take account of the significant changes resulting from the machinery of government changes in December 2007.

APPENDIX A: EXPENSE BY FUNCTION AND SUB-FUNCTION

Table A1: Estimates of expenses by function and sub-function

	Actuals	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m	$m
General public services						
Legislative and executive affairs	870	987	792	813	963	842
Financial and fiscal affairs	4,832	5,849	5,701	5,877	5,988	6,523
Foreign affairs and economic aid	3,282	3,791	4,736	4,945	5,532	5,898
General research	2,476	2,522	2,411	2,535	2,579	2,507
General services	667	706	724	731	734	735
Government superannuation benefits	2,679	2,777	2,896	2,925	3,079	3,149
Total general public services	**14,806**	**16,631**	**17,261**	**17,826**	**18,876**	**19,653**
Defence(a)	**17,140**	**17,366**	**17,896**	**19,134**	**19,772**	**20,274**
Public order and safety						
Courts and legal services	841	919	937	926	926	937
Other public order and safety	2,477	2,869	2,870	2,903	2,969	2,944
Total public order and safety	**3,318**	**3,788**	**3,807**	**3,830**	**3,895**	**3,881**
Education						
Higher education	5,540	6,333	6,018	6,974	7,001	7,365
Vocational and other education	1,562	1,640	1,654	1,735	1,784	1,826
Non-government schools	5,677	6,392	6,406	6,812	7,265	7,723
Government schools	3,071	3,126	3,138	3,324	3,397	3,546
Schools	*8,748*	*9,518*	*9,545*	*10,137*	*10,662*	*11,269*
Student assistance	456	486	485	479	481	484
General administration	0	22	26	44	64	77
School education - specific funding	125	620	1,036	908	776	778
Total education	**16,431**	**18,620**	**18,764**	**20,276**	**20,768**	**21,800**
Health						
Medical services and benefits(b)	17,213	18,948	19,785	20,705	21,731	22,749
Hospital services(c)	10,416	11,745	11,710	12,289	12,939	13,348
Pharmaceutical services and benefits	7,634	8,698	8,908	9,247	9,677	10,153
Aboriginal and Torres Strait Islander health	397	520	560	600	586	611
Health services	1,320	1,626	1,876	1,932	1,920	1,889
Other health services	2,302	1,961	2,120	2,225	2,290	2,365
Other health services	*3,622*	*3,587*	*3,995*	*4,157*	*4,210*	*4,254*
General administration	576	855	962	951	948	936
Health assistance to the aged	89	102	112	121	128	138
Total health	**39,948**	**44,455**	**46,032**	**48,071**	**50,220**	**52,190**
Social security and welfare						
Assistance to the aged	32,437	35,667	37,704	39,930	42,309	44,794
Assistance to veterans and dependants	6,244	6,422	6,460	6,434	6,409	6,285
Assistance to people with disabilities	12,826	14,354	14,709	15,485	16,236	16,949
Assistance to families with children	27,810	28,245	30,171	30,678	31,167	32,203

Table A1: Estimates of expenses by function and sub-function (continued)

	Actuals	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m	$m
Social security and welfare (continued)						
Assistance to the unemployed	4,713	4,273	5,033	5,259	5,740	6,081
Assistance to the sick	85	85	88	90	92	94
Assistance to the unemployed and the sick	*4,799*	*4,358*	*5,121*	*5,349*	*5,832*	*6,176*
Common youth allowance	2,074	2,101	2,136	2,144	2,180	2,194
Other welfare programs	2,201	2,024	1,919	1,947	1,928	1,954
Aboriginal advancement nec	1,304	1,775	1,844	1,599	1,582	1,494
General administration	2,380	2,285	2,376	1,995	2,014	2,028
Total social security and welfare	**92,075**	**97,230**	**102,439**	**105,561**	**109,657**	**114,077**
Housing and community amenities						
Housing	1,679	1,695	1,856	1,974	2,000	2,092
Urban and regional development	151	205	213	147	177	86
Environment protection	1,079	1,184	1,128	1,153	751	740
Total housing and community amenities	**2,909**	**3,083**	**3,197**	**3,273**	**2,928**	**2,917**
Recreation and culture						
Broadcasting	1,226	1,332	1,361	1,430	1,398	1,386
Arts and cultural heritage	829	938	1,034	1,007	973	967
Sport and recreation	273	388	339	277	246	221
National estate and parks	232	167	173	149	160	162
Total recreation and culture	**2,561**	**2,826**	**2,907**	**2,862**	**2,777**	**2,736**
Fuel and energy	**4,635**	**5,103**	**5,574**	**5,822**	**5,939**	**6,080**
Agriculture, forestry and fishing						
Wool industry	58	53	54	55	55	55
Grains industry	110	113	110	144	115	122
Dairy industry	81	59	53	42	44	45
Cattle, sheep and pig industry	168	165	174	163	163	163
Fishing, horticulture and other agriculture	483	347	260	207	202	206
General assistance not allocated to specific industries	137	483	116	114	129	134
Rural assistance	856	1,511	996	72	71	62
Natural resources development	405	823	783	1,797	1,604	1,837
General administration	532	532	512	504	492	495
Total agriculture, forestry and fishing	**2,831**	**4,085**	**3,058**	**3,099**	**2,874**	**3,119**
Mining, manufacturing & construction	**1,920**	**1,846**	**1,834**	**1,762**	**1,576**	**1,515**
Transport and communication						
Communication	546	567	522	458	410	385
Rail transport(d)	51	180	187	51	9	6
Air transport	143	161	172	167	166	161
Road transport(d)	2,173	3,079	3,421	3,895	3,665	4,294
Sea transport	226	318	256	260	267	271
Other transport and communication	157	181	170	162	159	147
Total Transport and communication	**3,296**	**4,486**	**4,727**	**4,994**	**4,677**	**5,265**

Table A1: Estimates of expenses by function and sub-function (continued)

	Actuals	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m	$m
Other economic affairs						
Tourism and area promotion	196	193	184	182	182	180
Vocational and industry training	704	1,146	1,161	1,350	1,585	1,592
Labour market assistance to job seekers and industry	1,924	2,093	2,196	2,100	1,966	1,899
Industrial relations	303	594	582	526	504	502
Immigration	1,105	1,126	1,198	1,189	1,200	1,230
Total labour and employment affairs	*4,035*	*4,958*	*5,137*	*5,166*	*5,256*	*5,223*
Other economic affairs nec	934	1,315	1,449	1,470	1,407	1,387
Total other economic affairs	**5,165**	**6,467**	**6,770**	**6,818**	**6,844**	**6,791**
Other purposes						
Interest on Commonwealth Government's behalf	3,592	3,538	3,451	3,400	3,249	3,142
Interest on behalf of States and Territories	0	0	0	0	0	0
Interest received on Commonwealth Government stock	0	0	0	0	0	0
Public debt interest	*3,592*	*3,538*	*3,451*	*3,400*	*3,249*	*3,142*
Nominal superannuation interest	5,470	6,210	6,508	6,598	6,817	7,039
General revenue assistance - States and Territories	39,560	42,753	45,066	48,354	50,975	53,765
General capital assistance - States and Territories	0	0	0	0	0	0
Debt assistance	0	0	0	0	0	0
Local government assistance	1,704	1,795	1,876	1,952	2,033	2,101
Revenue assistance to the States and Territories	170	174	0	0	0	0
Assistance to other governments	699	771	757	751	736	686
General purpose inter-government transactions	*42,133*	*45,493*	*47,700*	*51,057*	*53,744*	*56,552*
Natural disaster relief	115	99	93	92	92	92
Contingency reserve(e)	589	-776	451	6,036	8,379	12,117
Total other purposes	**51,898**	**54,564**	**58,202**	**67,184**	**72,281**	**78,942**
Total expenses	**258,932**	**280,551**	**292,470**	**310,513**	**323,083**	**339,241**

(a) Purchases of specialist military equipment are now treated as net capital investment rather than as expenses. See Appendix A, of Statement 3 and in Statement 9 for further details.
(b) The estimated financial impact of premium growth on the forward estimates for the Private Health Insurance Rebate has been allocated to the Contingency Reserve, due to commercial sensitivities.
(c) This sub-function now includes health care agreements, due to the new framework for federal financial relations. Further details are provided in page 6-6, titled 'A New Financial Framework for Specific Purpose Payments'.
(d) Most road and rail funding from 2009-10 onwards is currently classified under the road transport sub-function and will be reclassified between the road and rail transport sub-functions as programs of work are determined.
(e) Asset sale related expenses are treated as a component of the Contingency Reserve.

APPENDIX B: THE CONTINGENCY RESERVE

The Contingency Reserve (other purposes function) is an allowance, included in aggregate expenses, to reflect anticipated events that cannot be assigned to individual programs in the preparation of the Australian Government budget estimates. The reserve ensures that the budget estimates are based on the best information available at the time of the Budget. 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. These allowances are removed from the reserve and allocated to specific agencies for appropriation and for outcome reporting closer to the time when the associated events eventuate.

The Contingency Reserve makes allowance in 2008-09 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. This allowance is known as the conservative bias allowance. It is set at 2½ per cent of total general government sector expenses (excluding Goods and Services Tax payments to the states) in the third year of the forward estimates period (2011-12); 1 ½ per cent in the second year (2010-11); and 1 per cent in the first forward year (2009-10). This allowance is periodically reviewed and will be next reviewed following the publication of the Final Budget Outcome 2007-08;

- a provision for underspends in the current year reflecting the tendency for the expenses of some specific agencies or functions to be overstated in the year because expenditure targets are not all met;

- commercial-in-confidence and national security-in-confidence items that cannot be disclosed separately and programs that are yet to be renegotiated with State and Territory governments;

- decisions made too late for inclusion against individual agency estimates;

- the effect on the Budget and forward estimates of economic parameter revisions received late in the budget process and hence not able to be allocated to individual agencies or functions; and

- provision for events and pressures that are reasonably expected to affect the budget estimates. For example, the Contingency Reserve makes provision for the continuation of the Government's support for the Northern Territory Emergency Response (NTER) beyond 2008-09. However, the allocation of funding to individual programs will be subject to an evaluation of the NTER later in 2008. In the meantime, the Contingency Reserve includes provision for expenses of $240 million in 2009-10; $300 million in 2010-11; and $300 million in 2011-12. The provision is lower in 2009-10 because around $95 million in funding for that year has already been allocated to specific programs.

The Contingency Reserve may also include any expenses associated with the Government's major asset sales and associated administration costs and major capital projects for which detailed planning approval has been given.

The Contingency Reserve also makes provision for future increases in Australia's official development assistance not yet allocated to specific aid programs. However, in this budget statement those expenses are allocated to the foreign affairs function (see Page 6-9 for further information).

The Contingency Reserve also includes a provision for anticipated expenditure from the new funds established in the 2008-09 Budget: the Building Australia Fund, the Health and Hospitals Fund and the Education Investment Fund. The funding to be provided from these funds will be dependent on future budget consideration in line with prevailing macroeconomic conditions. Projects will be selected according to rigorous evaluation criteria and may depend on negotiations with State and Territory governments.

APPENDIX C: ADDITIONAL AGENCY STATISTICS

Table C1: General government expenses by agency

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Agriculture, Fisheries and Forestry					
Dairy Adjustment Authority	17	6	0	0	0
Department of Agriculture, Fisheries and Forestry	3,670	2,588	1,395	1,341	1,340
Grains Research and Development Corporation	107	121	143	122	126
Total	**3,795**	**2,716**	**1,538**	**1,463**	**1,466**
Attorney-General's					
Attorney-General's Department	1,159	1,204	1,167	1,151	1,169
Australian Commission for Law Enforcement Integrity (ACLEI)	3	3	4	4	4
Australian Customs Service	1,298	1,306	1,294	1,309	1,322
Australian Federal Police	1,222	1,238	1,344	1,275	1,308
Family Court of Australia	140	137	137	138	139
High Court of Australia	14	15	16	16	16
National Capital Authority	31	26	28	29	31
Total	**3,867**	**3,930**	**3,989**	**3,922**	**3,989**
BCDE - Broadband, Communications and the Digital Economy					
Australian Broadcasting Corporation	1,023	1,053	1,072	1,092	1,094
Australian Communications and Media Authority	274	257	253	253	253
Department of Broadband, Communications and the Digital Economy	229	315	282	204	155
Special Broadcasting Service Corporation	258	267	293	287	293
Total	**1,784**	**1,892**	**1,899**	**1,835**	**1,795**
Communications, Information Technology and the Arts					
Department of Communications, Information Technology and the Arts	255	0	0	0	0
Total	**255**	**0**	**0**	**0**	**0**
Defence					
Australian War Memorial	48	47	48	49	49
Defence Housing Australia	744	806	876	887	869
Defence Materiel Organisation	8,458	9,647	10,598	11,063	11,529
Department of Defence	24,017	23,278	24,686	25,255	25,942
Department of Veterans' Affairs	11,367	11,585	11,695	11,726	11,670
Total	**44,633**	**45,363**	**47,904**	**48,981**	**50,059**
Education, Science and Training					
Department of Education, Science and Training	10,323	0	0	0	0
Total	**10,323**	**0**	**0**	**0**	**0**
Employment and Workplace Relations					
Department of Employment and Workplace Relations	10,255	0	0	0	0
Total	**10,255**	**0**	**0**	**0**	**0**
Education, Employment and Workplace Relations					
Department of Education, Employment and Workplace Relations	21,460	40,131	41,522	42,681	44,326
Comcare	329	371	368	373	386
Total	**21,789**	**40,501**	**41,890**	**43,054**	**44,712**

Table C1: General government expenses by agency (continued)

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Environment, Water, Heritage and the Arts					
Bureau of Meteorology	261	289	301	306	301
Department of the Environment, Water, Heritage and the Arts	1,821	2,268	3,389	2,886	3,078
National Gallery of Australia	50	50	51	53	54
National Library of Australia	69	71	71	71	71
National Museum of Australia	47	46	46	46	46
National Water Commission	338	178	115	9	9
Total	**2,587**	**2,901**	**3,973**	**3,371**	**3,559**
Families, Housing, Community Services and Indigenous Affairs					
Department of Families, Housing, Community Services and Indigenous Affairs	57,360	64,135	66,492	69,826	73,345
Indigenous Business Australia	117	108	91	87	90
Total	**57,476**	**64,242**	**66,582**	**69,913**	**73,435**
Finance and Deregulation					
Australian Electoral Commission	256	113	119	255	119
Department of Finance and Deregulation	6,271	6,350	6,455	6,628	6,809
Future Fund Management Agency	67	164	179	228	247
National Archives of Australia	70	70	84	80	80
Total	**6,664**	**6,697**	**6,837**	**7,192**	**7,255**
Foreign Affairs and Trade					
AusAID	2,920	3,269	3,071	3,634	3,036
Australian Trade Commission	360	359	410	361	363
Department of Foreign Affairs and Trade	1,109	1,163	1,170	1,154	1,139
Export Finance and Insurance Corporation (National Interest component)	79	71	64	57	0
Total	**4,467**	**4,863**	**4,715**	**5,206**	**4,538**
Health and Ageing					
Australian Sports Commission	240	242	230	207	180
Department of Health and Ageing	46,492	48,816	51,145	53,512	55,669
National Blood Authority	736	818	870	947	1,031
National Health and Medical Research Council	586	671	757	764	778
Total	**48,054**	**50,547**	**53,002**	**55,430**	**57,658**
Human Services					
Centrelink	2,701	2,773	2,394	2,383	2,406
Department of Human Services	1,978	1,970	1,960	2,023	2,060
Health Insurance Commission	0	0	0	0	0
Medicare Australia	697	697	688	706	741
Total	**5,375**	**5,439**	**5,042**	**5,112**	**5,206**
Immigration and Citizenship					
Department of Immigration and Citizenship	1,707	1,760	1,752	1,732	1,777
Total	**1,707**	**1,760**	**1,752**	**1,732**	**1,777**

Table C1: General government expenses by agency (continued)

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Industry, Tourism and Resources					
Department of Industry, Tourism and Resources	933	0	0	0	0
Total	**933**	**0**	**0**	**0**	**0**
Infrastructure, Transport, Regional Development and Local Government					
Civil Aviation Safety Authority	132	149	152	149	152
Department of Infrastructure, Transport, Regional Development and Local Government	5,738	5,973	6,362	6,209	6,797
Total	**5,869**	**6,122**	**6,514**	**6,358**	**6,949**
Innovation, Industry, Science and Research					
Australian Nuclear Science and Technology Organisation	215	225	218	219	211
Australian Research Council	599	619	692	734	792
Commonwealth Scientific and Industrial Research Organisation	1,030	1,046	1,096	1,153	1,186
Department of Innovation, Industry, Science and Research	1,636	2,952	2,835	2,648	2,524
Total	**3,481**	**4,842**	**4,841**	**4,754**	**4,712**
Parliament					
Department of Parliamentary Services	138	142	144	146	147
Joint House Department	0	0	0	0	0
Total	**138**	**142**	**144**	**146**	**147**
Prime Minister and Cabinet					
Department of Climate Change	47	88	90	94	79
Department of Prime Minister and Cabinet	158	104	101	100	100
Total	**206**	**192**	**191**	**194**	**179**
Resources, Energy and Tourism					
Department of Resources, Energy and Tourism	682	1,139	1,283	1,161	1,047
Tourism Australia	164	166	168	169	171
Total	**846**	**1,306**	**1,451**	**1,330**	**1,218**
Treasury					
Australian Bureau of Statistics	331	301	316	370	485
Australian Office of Financial Management	5,351	5,029	4,687	4,249	3,927
Australian Securities and Investment Commission	340	360	366	339	341
Australian Taxation Office	16,496	15,369	15,827	16,334	16,961
Department of the Treasury	43,119	45,260	48,545	51,150	53,938
Total	**65,638**	**66,319**	**69,742**	**72,442**	**75,652**
Small agencies	**4,094**	**4,291**	**4,218**	**4,226**	**4,185**
Whole of government and inter-agency amounts(a)	**-16,843**	**-16,868**	**-11,409**	**-9,125**	**-5,309**
AEIFRS expenses considered other economic flows(b)	**-6,843**	**-4,725**	**-4,301**	**-4,451**	**-3,939**
Total expenses	**280,551**	**292,470**	**310,513**	**323,083**	**339,241**

(a) Estimates of inter-agency transactions are included in the whole of government and inter-agency amounts. The entry for each portfolio does not include eliminations for inter-agency transactions within that portfolio

(b) Agencies estimates are reported on an AEIFRS basis. AEIFRS expenses considered other economic flows include net write-down and impairment of assets and fair value losses and swap interest expense as detailed in statement 9 note 13.

Table C2: Departmental expenses by agency

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Agriculture, Fisheries and Forestry					
Dairy Adjustment Authority	0	0	0	0	0
Department of Agriculture, Fisheries and Forestry	656	609	587	590	593
Grains Research and Development Corporation	107	121	143	122	126
Total	**763**	**730**	**730**	**712**	**718**
Attorney-General's					
Attorney-General's Department	256	254	258	265	272
Australian Commission for Law Enforcement Integrity (ACLEI)	3	3	4	4	4
Australian Customs Service	1,296	1,303	1,291	1,306	1,315
Australian Federal Police	1,222	1,228	1,327	1,263	1,295
Family Court of Australia	140	137	137	138	139
High Court of Australia	14	15	16	16	16
National Capital Authority	20	15	16	16	16
Total	**2,950**	**2,957**	**3,048**	**3,008**	**3,057**
BCDE - Broadband, Communications and the Digital Economy					
Australian Broadcasting Corporation	1,023	1,053	1,072	1,092	1,094
Australian Communications and Media Authority	99	94	90	90	90
Department of Broadband, Communications and the Digital Economy	61	105	101	93	91
Special Broadcasting Service Corporation	258	267	293	287	293
Total	**1,441**	**1,519**	**1,555**	**1,561**	**1,568**
Communications, Information Technology and the Arts					
Department of Communications, Information Technology and the Arts	68	0	0	0	0
Total	**68**	**0**	**0**	**0**	**0**
Defence					
Australian War Memorial	48	47	48	49	49
Defence Housing Australia	744	806	876	887	869
Defence Materiel Organisation	8,458	9,647	10,598	11,063	11,529
Department of Defence	21,183	20,312	21,628	22,079	22,646
Department of Veterans' Affairs	377	330	327	318	317
Total	**30,809**	**31,141**	**33,477**	**34,396**	**35,410**
Education, Science and Training					
Department of Education, Science and Training	214	0	0	0	0
Total	**214**	**0**	**0**	**0**	**0**
Employment and Workplace Relations					
Department of Employment and Workplace Relations	639	0	0	0	0
Total	**639**	**0**	**0**	**0**	**0**
Education, Employment and Workplace Relations					
Comcare	1,050	1,957	1,752	1,756	1,781
Department of Education, Employment and Workplace Relations	329	371	368	373	386
Total	**1,379**	**2,328**	**2,121**	**2,129**	**2,167**

Table C2: Departmental expenses by agency (continued)

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Environment, Water, Heritage and the Arts					
Bureau of Meteorology	251	269	281	286	291
Department of the Environment, Water, Heritage and the Arts	572	586	551	543	548
National Gallery of Australia	50	50	51	53	54
National Library of Australia	69	71	71	71	71
National Museum of Australia	47	46	46	46	46
National Water Commission	10	8	9	9	9
Total	**999**	**1,029**	**1,008**	**1,007**	**1,019**
Families, Housing, Community Services and Indigenous Affairs					
Department of Families, Housing, Community Services and Indigenous Affairs	1,495	1,536	1,294	1,273	1,290
Indigenous Business Australia	117	108	91	87	90
Total	**1,612**	**1,643**	**1,385**	**1,360**	**1,380**
Finance and Deregulation					
Australian Electoral Commission	207	113	119	197	119
Department of Finance and Deregulation	452	412	376	384	387
Future Fund Management Agency	14	20	22	23	24
National Archives of Australia	70	70	84	80	80
Total	**743**	**615**	**601**	**684**	**609**
Foreign Affairs and Trade					
AusAID	109	130	129	129	122
Australian Trade Commission	203	209	210	211	212
Department of Foreign Affairs and Trade	845	834	852	847	853
Export Finance and Insurance Corporation (National Interest component)	0	0	0	0	0
Total	**1,157**	**1,172**	**1,190**	**1,187**	**1,188**
Health and Ageing					
Australian Sports Commission	240	242	230	207	180
Department of Health and Ageing	703	679	676	674	677
National Blood Authority	10	9	9	9	9
National Health and Medical Research Council	44	39	35	30	31
Total	**997**	**969**	**949**	**920**	**896**
Human Services					
Centrelink	2,701	2,773	2,394	2,383	2,406
Department of Human Services	722	683	622	631	638
Health Insurance Commission	0	0	0	0	0
Medicare Australia	695	691	684	706	741
Total	**4,118**	**4,146**	**3,700**	**3,721**	**3,784**
Immigration and Citizenship					
Department of Immigration and Citizenship	1,411	1,238	1,221	1,194	1,226
Total	**1,411**	**1,238**	**1,221**	**1,194**	**1,226**

Table C2: Departmental expenses by agency (continued)

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Industry, Tourism and Resources					
Department of Industry, Tourism and Resources	148	0	0	0	0
Total	**148**	**0**	**0**	**0**	**0**
Infrastructure, Transport, Regional Development and Local Government					
Civil Aviation Safety Authority	132	149	152	149	152
Department of Infrastructure, Transport, Regional Development and Local Government	246	239	227	218	212
Total	**377**	**388**	**378**	**367**	**364**
Innovation, Industry, Science and Research					
Australian Nuclear Science and Technology Organisation	215	225	218	219	211
Australian Research Council	21	16	16	16	16
Commonwealth Scientific and Industrial Research Organisation	1,030	1,046	1,096	1,153	1,186
Department of Innovation, Industry, Science and Research	214	336	328	340	352
Total	**1,481**	**1,623**	**1,657**	**1,728**	**1,766**
Parliament					
Department of Parliamentary Services	120	123	125	127	128
Joint House Department	0	0	0	0	0
Total	**120**	**123**	**125**	**127**	**128**
Prime Minister and Cabinet					
Department of Climate Change	28	56	57	57	57
Department of Prime Minister and Cabinet	147	95	92	91	90
Total	**175**	**150**	**149**	**147**	**147**
Resources, Energy and Tourism					
Department of Resources, Energy and Tourism	42	76	73	62	62
Tourism Australia	164	166	168	169	171
Total	**206**	**242**	**241**	**231**	**233**
Treasury					
Australian Bureau of Statistics	331	301	316	370	485
Australian Office of Financial Management	9	9	9	10	10
Australian Securities and Investment Commission	287	311	315	288	287
Australian Taxation Office	2,932	2,924	2,963	2,957	2,962
Department of the Treasury	155	157	161	148	146
Total	**3,713**	**3,702**	**3,766**	**3,773**	**3,890**
Small agencies	**4,094**	**4,291**	**4,218**	**4,226**	**4,185**
Whole of government and inter-agency amounts(a)	**-8,676**	**-9,927**	**-10,674**	**-11,140**	**-11,606**
AEIFRS expenses considered other economic flows(b)	**-1,768**	**-185**	**-181**	**-177**	**-177**
Total departmental expenses	**49,172**	**49,897**	**50,665**	**51,161**	**51,952**

(a) Estimates of inter-agency transactions are included in the whole of government and inter-agency amounts. The entry for each portfolio does not include eliminations for inter-agency transactions within that portfolio.

(b) Agencies estimates are reported on an AEIFRS basis. AEIFRS expenses considered other economic flows include net write-down and impairment of assets and fair value losses.

Table C3: Net capital investment by agency

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Agriculture, Fisheries and Forestry					
Dairy Adjustment Authority	0	0	0	0	0
Department of Agriculture, Fisheries and Forestry	31	-2	-2	-2	-2
Grains Research and Development Corporation	0	0	0	0	0
Total	**31**	**-2**	**-2**	**-2**	**-2**
Attorney-General's					
Attorney-General's Department	372	82	-13	-26	-20
Australian Commission for Law Enforcement Integrity (ACLEI)	0	1	0	0	0
Australian Customs Service	35	-8	-4	-2	-1
Australian Federal Police	78	95	-6	-41	-58
Family Court of Australia	0	0	0	0	0
High Court of Australia	-1	3	-1	-1	-1
National Capital Authority	10	26	2	-3	-5
Total	**495**	**198**	**-22**	**-73**	**-84**
BCDE - Broadband, Communications and the Digital Economy					
Australian Broadcasting Corporation	13	20	0	0	0
Australian Communications and Media Authority	-2	7	5	1	1
Department of Broadband, Communications and the Digital Economy	20	-1	-1	0	0
Special Broadcasting Service Corporation	9	19	-6	-5	-1
Total	**40**	**45**	**-2**	**-5**	**-1**
Communications, Information Technology and the Arts					
Department of Communications, Information Technology and the Arts	-208	0	0	0	0
Total	**-208**	**0**	**0**	**0**	**0**
Defence					
Australian War Memorial	9	6	1	-6	-6
Defence Housing Australia	243	80	40	33	66
Defence Materiel Organisation	1	0	0	0	0
Department of Defence	398	2,811	3,641	4,371	4,985
Department of Veterans' Affairs	-21	0	3	4	5
Total	**630**	**2,897**	**3,685**	**4,403**	**5,050**
Education, Science and Training					
Department of Education, Science and Training	-109	0	0	0	0
Total	**-109**	**0**	**0**	**0**	**0**
Employment and Workplace Relations					
Department of Employment and Workplace Relations	-265	0	0	0	0
Total	**-265**	**0**	**0**	**0**	**0**
Education, Employment and Workplace Relations					
Comcare	299	27	43	1	2
Department of Education, Employment and Workplace Relations	1	0	0	0	0
Total	**300**	**27**	**43**	**1**	**2**

Table C3: Net capital investment by agency (continued)

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Environment, Water, Heritage and the Arts					
Bureau of Meteorology	19	20	24	18	2
Department of the Environment, Water, Heritage and the Arts	118	49	-25	-31	-35
National Gallery of Australia	18	37	16	2	0
National Library of Australia	15	0	-1	-2	-1
National Museum of Australia	10	13	8	11	10
National Water Commission	0	0	-1	0	0
Total	**179**	**121**	**21**	**-3**	**-25**
Families, Housing, Community Services and Indigenous Affairs					
Department of Families, Housing, Community Services and Indigenous Affairs	-58	-2	-8	-22	-22
Indigenous Business Australia	-2	4	0	1	1
Total	**-60**	**2**	**-9**	**-21**	**-20**
Finance and Deregulation					
Australian Electoral Commission	-2	0	10	-6	-3
Department of Finance and Deregulation	-288	12	151	121	40
Future Fund Management Agency	0	0	0	-1	0
National Archives of Australia	2	-2	17	5	5
Total	**-287**	**10**	**177**	**119**	**42**
Foreign Affairs and Trade					
AusAID	-2	-2	-1	-3	-2
Australian Trade Commission	9	-1	-1	-1	-1
Department of Foreign Affairs and Trade	17	114	61	87	86
Export Finance and Insurance Corporation (National Interest component)	0	0	0	0	0
Total	**23**	**110**	**60**	**83**	**83**
Health and Ageing					
Australian Sports Commission	7	-9	-9	-9	-14
Department of Health and Ageing	105	41	68	-39	-77
National Blood Authority	-9	0	0	0	0
National Health and Medical Research Council	0	7	0	0	0
Total	**104**	**39**	**60**	**-48**	**-92**
Human Services					
Centrelink	67	30	13	0	11
Department of Human Services	29	7	7	-11	7
Health Insurance Commission	0	0	0	0	0
Medicare Australia	11	16	-8	-6	-7
Total	**107**	**54**	**11**	**-17**	**10**
Immigration and Citizenship					
Department of Immigration and Citizenship	457	28	-33	-61	113
Total	**457**	**28**	**-33**	**-61**	**113**

Table C3: Net capital investment by agency (continued)

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Industry, Tourism and Resources					
Department of Industry, Tourism and Resources	-96	0	0	0	0
Total	**-96**	**0**	**0**	**0**	**0**
Infrastructure, Transport, Regional Development and Local Government					
Civil Aviation Safety Authority	7	-7	-7	0	-7
Department of Infrastructure, Transport, Regional Development and Local Government	-1,207	-937	-377	-7	-6
Total	**-1,200**	**-945**	**-384**	**-8**	**-13**
Innovation, Industry, Science and Research					
Australian Nuclear Science and Technology Organisation	7	-24	-27	-31	-33
Australian Research Council	5	-1	-1	-1	-1
Commonwealth Scientific and Industrial Research Organisation	-1	7	10	11	2
Department of Innovation, Industry, Science and Research	149	12	0	-10	-4
Total	**160**	**-5**	**-17**	**-31**	**-35**
Parliament					
Department of Parliamentary Services	-14	6	6	5	1
Joint House Department	0	0	0	0	0
Total	**-14**	**6**	**6**	**5**	**1**
Prime Minister and Cabinet					
Department of Climate Change	13	0	-1	-1	-1
Department of Prime Minister and Cabinet	-5	-2	-4	-4	-6
Total	**9**	**-2**	**-5**	**-5**	**-7**
Resources, Energy and Tourism					
Department of Resources, Energy and Tourism	9	-1	-1	-1	-1
Tourism Australia	2	0	1	-1	0
Total	**11**	**-1**	**-1**	**-2**	**-1**
Treasury					
Australian Bureau of Statistics	3	2	6	15	3
Australian Office of Financial Management	0	0	0	0	2
Australian Securities and Investment Commission	20	53	-2	-8	-3
Australian Taxation Office	71	83	-23	-29	-30
Department of the Treasury	-1	14	6	0	-5
Total	**93**	**153**	**-13**	**-23**	**-33**
Small agencies	**267**	**206**	**50**	**12**	**-4**
Whole of government and inter-agency amounts(a)	**-441**	**18**	**133**	**133**	**208**
AEIFRS movements in non-financial assets considered other economic flows(b)	**2,609**	**913**	**292**	**4**	**-98**
Total net capital investment	**2,837**	**3,872**	**4,050**	**4,462**	**5,094**

(a) Estimates of inter-agency transactions are included in the whole of government and inter-agency amounts. The entry for each portfolio does not include eliminations for inter-agency transactions within that portfolio.

(b) Agencies estimates are reported on an AEIFRS basis. AEIFRS movements in non-financial assets considered other economic flows include net write-down and impairment of non-financial assets, assets recognised for the first time and prepayments.

Table C4: Capital appropriations by portfolio

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Agriculture, Fisheries and Forestry					
Dairy Adjustment Authority	0	0	0	0	0
Department of Agriculture, Fisheries and Forestry	1	4	0	0	0
Grains Research and Development Corporation	0	0	0	0	0
Total	**1**	**4**	**0**	**0**	**0**
Attorney-General's					
Attorney-General's Department	48	39	17	5	5
Australian Commission for Law Enforcement Integrity (ACLEI)	0	1	0	0	0
Australian Customs Service	38	23	4	0	0
Australian Federal Police	91	132	43	14	7
Family Court of Australia	0	0	0	0	0
High Court of Australia	3	0	0	0	0
National Capital Authority	1	25	3	0	0
Total	**182**	**220**	**67**	**19**	**12**
BCDE - Broadband, Communications and the Digital Economy					
Australian Broadcasting Corporation	13	11	0	0	0
Australian Communications and Media Authority	8	4	0	0	0
Department of Broadband, Communications and the Digital Economy	0	0	0	0	0
Special Broadcasting Service Corporation	4	3	3	3	4
Total	**24**	**18**	**3**	**3**	**4**
Communications, Information Technology and the Arts					
Department of Communications, Information Technology and the Arts	1	0	0	0	0
Total	**1**	**0**	**0**	**0**	**0**
Defence					
Australian War Memorial	2	9	2	0	0
Defence Housing Australia	35	0	0	0	0
Defence Materiel Organisation	0	0	0	0	0
Department of Defence	588	2,366	3,551	4,248	4,741
Department of Veterans' Affairs	1	3	1	1	1
Total	**627**	**2,378**	**3,553**	**4,249**	**4,742**
Education, Science and Training					
Department of Education, Science and Training	7	0	0	0	0
Total	**10**	**0**	**0**	**0**	**0**
Employment and Workplace Relations					
Department of Employment and Workplace Relations	13	0	0	0	0
Total	**13**	**0**	**0**	**0**	**0**
Education, Employment and Workplace Relations					
Comcare	7	8	25	2	0
Department of Education, Employment and Workplace Relations	0	0	0	0	0
Total	**7**	**8**	**25**	**2**	**0**

Table C4: Capital appropriations by portfolio (continued)

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Environment, Water, Heritage and the Arts					
Bureau of Meteorology	28	16	16	60	3
Department of the Environment, Water, Heritage and the Arts	39	3	0	0	1
National Gallery of Australia	16	37	6	4	4
National Library of Australia	7	1	1	1	1
National Museum of Australia	5	1	1	1	1
National Water Commission	0	0	0	0	0
Total	**95**	**58**	**25**	**67**	**10**
Families, Housing, Community Services and Indigenous Affairs					
Department of Families, Housing, Community Services and Indigenous Affairs	41	7	0	0	0
Indigenous Business Australia	45	42	33	0	0
Total	**86**	**48**	**33**	**0**	**0**
Finance and Deregulation					
Australian Electoral Commission	1	2	2	1	0
Department of Finance and Deregulation	1,489	1,694	1,672	1,690	1,754
Future Fund Management Agency	0	0	0	0	0
National Archives of Australia	0	0	0	0	0
Total	**1,490**	**1,696**	**1,674**	**1,691**	**1,754**
Foreign Affairs and Trade					
AusAID	483	262	7	319	4
Australian Trade Commission	9	0	0	0	0
Department of Foreign Affairs and Trade	23	36	27	29	28
Export Finance and Insurance Corporation (National Interest component)	0	0	0	0	0
Total	**514**	**298**	**35**	**348**	**32**
Health and Ageing					
Australian Sports Commission	0	0	0	0	0
Department of Health and Ageing	13	131	44	1	1
National Blood Authority	0	0	0	0	0
National Health and Medical Research Council	1	0	0	0	0
Total	**14**	**131**	**44**	**1**	**1**
Human Services					
Centrelink	44	4	3	0	0
Department of Human Services	15	2	0	0	0
Health Insurance Commission	0	0	0	0	0
Medicare Australia	20	15	0	0	0
Total	**79**	**20**	**3**	**0**	**0**
Immigration and Citizenship					
Department of Immigration and Citizenship	174	36	20	0	0
Total	**174**	**36**	**20**	**0**	**0**

Table C4: Capital appropriations by portfolio (continued)

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Industry, Tourism and Resources					
Department of Industry, Tourism and Resources	15	0	0	0	0
Total	**15**	**0**	**0**	**0**	**0**
Infrastructure, Transport, Regional Development and Local Government					
Civil Aviation Safety Authority	1	0	0	0	0
Department of Infrastructure, Transport, Regional Development and Local Government	7	0	0	0	0
Total	**8**	**0**	**0**	**0**	**0**
Innovation, Industry, Science and Research					
Australian Nuclear Science and Technology Organisation	32	2	0	0	0
Australian Research Council	6	0	0	0	0
Commonwealth Scientific and Industrial Research Organisation	0	8	10	10	0
Department of Innovation, Industry, Science and Research	69	62	45	34	29
Total	**107**	**71**	**55**	**44**	**29**
Parliament					
Department of Parliamentary Services	11	12	12	12	12
Joint House Department	0	0	0	0	0
Total	**11**	**12**	**12**	**12**	**12**
Prime Minister and Cabinet					
Department of Climate Change	-5	1	0	0	0
Department of Prime Minister and Cabinet	0	4	0	0	0
Total	**-4**	**5**	**0**	**0**	**0**
Resources, Energy and Tourism					
Department of Resources, Energy and Tourism	0	3	0	0	0
Tourism Australia	0	0	0	0	0
Total	**0**	**3**	**0**	**0**	**0**
Treasury					
Australian Bureau of Statistics	8	5	4	1	0
Australian Office of Financial Management	295,096	297,264	297,875	304,416	297,169
Australian Securities and Investment Commission	39	17	7	0	0
Australian Taxation Office	56	83	5	0	0
Department of the Treasury	56	89	32	17	16
Total	**295,255**	**297,458**	**297,923**	**304,434**	**297,185**
Small agencies	**0**	**0**	**0**	**0**	**0**
Whole of government and inter-agency amounts(a)	0	0	0	0	0
Total capital appropriations	**298,705**	**302,464**	**303,471**	**310,871**	**303,782**

(a) Estimates of inter-agency transactions are included in the whole of government and inter-agency amounts. The entry for each portfolio does not include eliminations for inter-agency transactions within that portfolio.

Table C5: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector[(a)]

	Average staffing levels		
	2007-08	2008-09	Change
Agriculture, Fisheries and Forestry			
Department of Agriculture, Fisheries and Forestry	4,345	4,415	70
Australian Fisheries Management Authority	237	246	9
Australian Pesticides and Veterinary Medicines Authority	147	150	3
Australian Wine and Brandy Corporation	54	55	1
Biosecurity Australia	131	132	1
Cotton Research and Development Corporation	10	10	-
Dairy Structural Adjustment Authority(b)	2	-	- 2
Export Wheat Commission	19	20	1
Fisheries Research and Development Corporation	10	11	1
Grains Research and Development Corporation	46	51	5
Grape and Wine Research and Development Corporation	10	11	1
Land and Water Australia	49	35	- 14
Rural Industries Research and Development Corporation	29	29	-
Sugar Research and Development Corporation	9	9	-
Total	**5,098**	**5,174**	**76**
Attorney-General's			
Attorney-General's Department	1,391	1,441	50
Administrative Appeals Tribunal	168	166	- 2
Australian Commission for Law Enforcement Integrity	9	12	3
Australian Crime Commission	628	578	- 50
Australian Customs Service	5,525	5,671	146
Australian Federal Police	6,372	6,292	- 80
Australian Institute of Criminology(c)	56	58	2
Australian Law Reform Commission	18	17	- 1
Australian Security Intelligence Organisation	1,349	1,535	186
Australian Transaction Reports and Analysis Centre (AUSTRAC)	285	325	40
Criminology Research Council(c)	-	-	-
CrimTrac Agency	111	156	45
Family Court of Australia	680	654	- 26
Federal Court of Australia	358	358	-
Federal Magistrates Court of Australia	224	229	5
High Court of Australia	85	85	-
Human Rights and Equal Opportunity Commission	114	99	- 15
Insolvency and Trustee Service Australia	290	280	- 10
National Capital Authority	56	51	- 5
National Native Title Tribunal	221	222	1
Office of Parliamentary Counsel	47	48	1
Commonwealth Director of Public Prosecutions	558	617	59
Total	**18,544**	**18,893**	**349**
Broadband, Communications and the Digital Economy			
Department of Broadband, Communications and the Digital Economy	666	665	- 1
Australian Broadcasting Corporation	4,400	4,400	-
Australian Communications and Media Authority	555	530	- 25
Special Broadcasting Service	770	770	-
Total	**6,391**	**6,365**	**- 26**

Table C5: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector[(a)] (continued)

	Average staffing levels		
	2007-08	2008-09	Change
Defence			
Department of Defence - Military	53,156	54,747	1,591
Department of Defence - Reserves	19,530	19,915	385
Department of Defence - Civilian	15,228	14,754	- 474
Defence Housing Australia	662	662	0
Defence Materiel Organisation	5,567	5,357	- 210
Department of Veterans' Affairs	2,295	2,100	- 195
Australian War Memorial	298	290	- 8
Total	**96,736**	**97,825**	**1,089**
Education, Employment and Workplace Relations			
Department of Education, Employment and Workplace Relations	5,490	5,277	- 213
Australian Industrial Register (AIR/AIRC)	209	212	3
Teaching Australia - Australian Institute for Teaching and School Leadership Limited	24	21	- 3
Australian Fair Pay Commission Secretariat	38	34	- 4
The Carrick Institute for Learning and Teaching in Higher Education	27	35	8
Comcare	464	509	45
The Office of the Australian Building and Construction Commissioner	155	155	-
Workplace Authority	729	695	- 34
Office of the Workplace Ombudsman	371	407	36
Total	**7,507**	**7,346**	**- 162**
Environment, Water, Heritage and the Arts			
Department of the Environment, Water, Heritage and the Arts	2,372	2,462	91
Australia Business Arts Foundation	29	28	- 1
Australia Council	151	122	- 29
Australian Film Commission	278	-	- 278
Australian Film, Television and Radio School	177	175	- 2
Australian National Maritime Museum	103	112	9
Bundanon Trust	18	18	-
Film Australia	49	-	- 49
National Film & Sound Archive	-	185	185
National Gallery of Australia	242	242	-
National Library of Australia	439	430	- 9
National Museum of Australia	250	250	-
Screen Australia	-	177	177
Bureau of Meteorology	1,258	1,295	37
Director of National Parks	273	258	- 15
Great Barrier Reef Marine Park Authority	207	219	12
National Water Commission	45	44	- 1
Sydney Harbour Federation Trust	51	52	1
Total	**5,940**	**6,069**	**129**

Table C5: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector[(a)] (continued)

	Average staffing levels		
	2007-08	2008-09	Change
Families, Housing, Community Services and Indigenous Affairs			
Department of Families, Housing, Community Services and Indigenous Affairs	2,893	2,624	- 269
Aboriginal Hostels Limited	415	422	7
Indigenous Land Council	200	200	-
Torres Strait Regional Authority	64	64	-
Anindilyakwa Land Council	14	17	3
Central Land Council	130	135	5
Northern Land Council	122	151	29
Tiwi Land Council	9	9	-
Wreck Bay Aboriginal Community Council	10	10	-
Indigenous Business Australia	210	240	30
Office for Equal Opportunities for Women Agency	20	20	-
Total	**4,087**	**3,892**	**- 195**
Finance and Deregulation			
Department of Finance and Deregulation	1,342	1,310	- 32
Australian Electoral Commission	756	752	- 4
National Archives of Australia	452	446	- 6
Australian Rewards Investment Alliance	37	42	5
Comsuper	560	518	- 42
Future Fund Management Agency	27	49	22
Total	**3,174**	**3,117**	**- 57**
Foreign Affairs and Trade			
Department of Foreign Affairs and Trade	3,458	3,475	17
AusAID	583	600	17
Australian Trade Commission	1,035	1,018	- 17
ASIS	-	-	-
Australian Centre for International Agricultural Research	64	65	1
Total	**5,140**	**5,158**	**18**
Health and Ageing			
Department of Health and Ageing	4,514	4,335	- 179
Aged Care Standards and Accreditation Agency	205	218	13
Australian Institute of Health and Welfare	203	188	- 15
Australian Radiation Protection and Nuclear Safety Agency	135	137	2
Australian Sports Commission	749	754	5
Australian Sports Anti-Doping Agency	73	66	- 7
Cancer Australia	25	18	- 7
Food Standards Australia New Zealand	137	128	- 9
General Practice Education and Training Limited	33	35	2
National Blood Authority	46	51	5
National Health and Medical Research Council	230	230	-
Private Health Insurance Administration Council	25	26	1
Private Health Insurance Ombudsman	9	10	1
Professional Services Review	18	23	5
Total	**6,403**	**6,219**	**- 183**

Table C5: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector[(a)] (continued)

	Average staffing levels		
	2007-08	2008-09	Change
Human Services			
Department of Human Services	5,858	5,413	- 445
Centrelink	24,900	24,700	- 200
Medicare Australia	5,457	5,286	- 171
Total	**36,215**	**35,399**	**- 816**
Immigration and Citizenship			
Department of Immigration and Citizenship	7,401	7,180	- 221
Migration Review Tribunal - Refugee Review Tribunal	340	340	-
Total	**7,741**	**7,520**	**- 221**
Infrastructure, Transport, Regional Development and Local Government			
Department of Transport, Regional Development and Local Government	1,251	1,201	- 50
Australian Maritime Safety Authority	246	250	4
Civil Aviation Safety Authority	683	700	17
Total	**2,180**	**2,151**	**- 29**
Innovation, Industry, Science and Research			
Department of Industry, Science and Research	1,913	1,771	- 142
Anglo-Australian Observatory	64	64	-
Australian Institute of Aboriginal and Torres Strait Islander Studies	103	98	- 5
Australian Institute of Marine Science	169	205	36
Australian Nuclear Science and Technology Organisation	988	1,012	24
Australian Research Council	75	74	- 1
Commonwealth Scientific and Industrial Research Organisation	5,700	5,615	- 85
IP Australia	910	966	56
Total	**9,922**	**9,805**	**- 117**
Prime Minister and Cabinet			
Department of the Prime Minister and Cabinet	528	506	- 22
Department of Climate Change	110	250	140
Australian Institute of Family Studies	56	61	5
Australian National Audit Office	306	306	-
Australian Public Service Commission	211	216	5
Office of National Assessments	133	145	12
Office of the Commonwealth Ombudsman	153	137	- 16
Office of the Inspector-General of Intelligence and Security	9	11	2
Office of the Official Secretary to the Governor-General	91	87	- 4
Office of the Privacy Commissioner	62	58	- 4
Office of the Renewable Energy Regulator	13	17	5
Total	**1,672**	**1,794**	**123**

Table C5: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector[(a)] (continued)

	Average staffing levels		
	2007-08	2008-09	Change
Resources, Energy and Tourism			
Department of Resources, Energy and Tourism	310	348	38
Geoscience Australia	723	740	17
National Offshore Petroleum Safety Authority	49	50	1
Tourism Australia	235	215	- 20
Total	**1,317**	**1,353**	**36**
Treasury			
Department of the Treasury	920	920	-
Australian Bureau of Statistics	2,857	2,691	- 166
Australian Competition and Consumer Commission	638	727	89
Australian Office of Financial Management	33	33	-
Australian Prudential Regulation Authority	580	570	- 10
Australian Securities and Investments Commission	1,676	1,685	9
Australian Taxation Office	21,876	20,739	- 1,137
Commonwealth Grants Commission	50	50	-
Corporations and Markets Advisory Committee	4	4	-
Inspector General of Taxation	7	7	-
National Competition Council	13	13	-
Productivity Commission	202	178	- 24
Royal Australian Mint	198	201	3
Department of Parliamentary Services	785	780	- 5
Department of the House of Representatives	155	158	3
Department of the Senate	157	157	-
Total	**30,151**	**28,913**	**- 1,238**
TOTAL (for all general government sector agencies)	**248,217**	**246,993**	**- 1,224**

(a) This table includes estimates of ASL provided by general government sector agencies. ASL figures reflect the average number of employees receiving salary or wages over the financial year, with adjustments for casual and part-time staff, to show the full-time equivalent. This also includes non-uniformed staff and overseas personnel.

(b) The Dairy Structural Adjustment Fund will cease operation as at 31 December 2008 and there is a corresponding zero average for 2008-09 ASL.

(c) All administrative functions for the Criminology Research Council are undertaken by the Australian Institute of Criminology.

STATEMENT 7: ASSET AND LIABILITY MANAGEMENT

The Australian Government will improve its financial position by accumulating assets and limiting the growth in liabilities. This leaves the Government with the capacity and flexibility to absorb and respond to changes in economic circumstances as well as address longer-term fiscal pressures. A detailed balance sheet for the Australian Government general government sector is provided in Statement 9.

The Government's net financial worth position is estimated to become positive in 2009-10 and is projected to improve over the forward estimates period. The main drivers for this improvement are strong budget surpluses forecast over the forward estimates. The Government is taking a strategic approach to the allocation of these surpluses by investing most of the 2007-08 and 2008-09 Budget surpluses in three new nation building funds for education, health and infrastructure. These funds will address the nation's capital and infrastructure shortages, build the platforms for economic growth into the future, and help to build a modern nation.

STATEMENT 7: ASSET AND LIABILITY MANAGEMENT

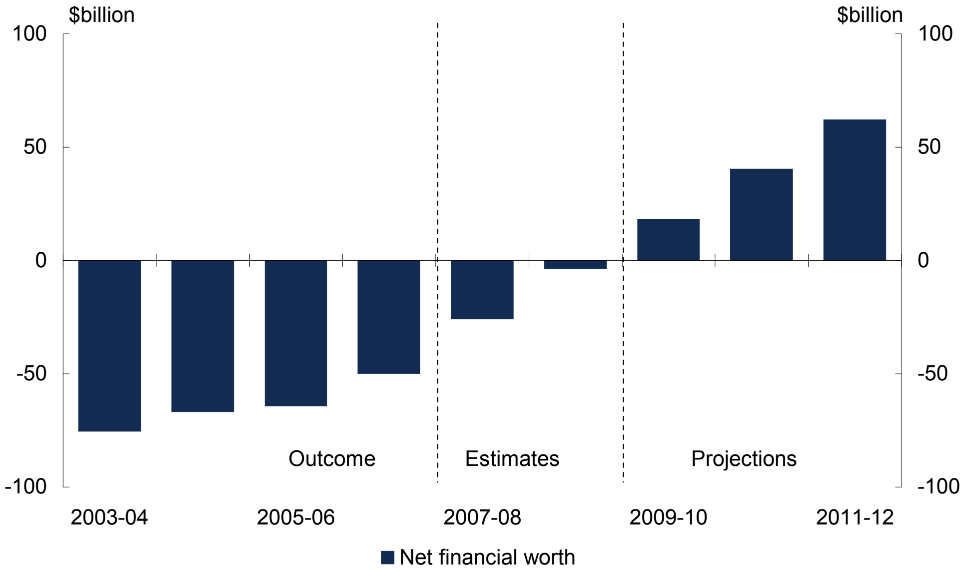
The Government is forecasting strong surpluses over the forward estimates and will invest these in Australia's future by creating three new nation building funds. The establishment of these funds will substantially improve the Government's financial position, make provision for building the nation's assets, and leave the Government well placed to deal with emerging fiscal pressures from an ageing population.

THE AUSTRALIAN GOVERNMENT'S MAJOR ASSETS AND LIABILITIES

The Government reports on a range of financial measures including net debt, net worth and net financial worth. While previous budget statements addressing the Government's assets and liabilities have focused on net debt and net worth, these measures have limitations as indicators of the Government's financial position (see Box 1). By contrast, net financial worth is a more effective and intuitive indicator of the sustainability of the Government's finances.

A summary of the Government's net financial worth position is provided in Chart 1.

Chart 1: Australian Government general government sector net financial worth: 2003-04 to 2011-12



The projected improvement in net financial worth is primarily driven by forecast budget surpluses, reflecting the strength of the economy, budget discipline, and the returns from existing and newly created investment funds. The increase in total financial assets over the forward estimates period significantly outweighs the growth in the Government's liabilities.

Box 1: Measurement of the Government's financial position

Net debt is the sum of selected financial liabilities *minus* the sum of selected financial assets. Net debt does not include accrued employee superannuation liabilities, which is the largest liability on the Australian Government's balance sheet. It does not provide information on whether the Government's net debt position is being used to finance the accumulation of assets or recurrent expenditure. This additional information is important in gauging the strength of the Government's financial position.

Net debt is currently estimated at -$43 billion for 2007-08 and is expected to remain below zero over the forward estimates.

Net worth is calculated as total assets (both financial and non-financial) *minus* total liabilities. Net worth incorporates non-financial assets such as land, as well as financial assets and liabilities not captured by the net debt measure, most notably accrued employee superannuation liabilities and equities.

Although the net worth measure provides a more comprehensive picture of the Government's overall financial position than net debt, it is not without limitations. For example, the valuation of physical assets can be problematic as they are typically valued without consideration of their potential use. Also, the Government may not be in a position to sell certain non-financial assets, and therefore these assets would not be available to meet the Government's financing requirements.

Net worth is currently estimated at $61 billion for 2007-08 and is expected to remain positive over the forward estimates.

Net financial worth measures the Government's net holding of financial assets. It is calculated as total financial assets *minus* total liabilities. Net financial worth is a broader measure than net debt as it includes government borrowing, superannuation and all financial assets, but is narrower than net worth since it excludes non-financial assets. There are advantages from excluding non-financial assets since they are often illiquid and cannot easily be drawn upon to meet the Government's financing needs.

Net financial worth is currently estimated at -$26 billion for 2007-08 and -$4 billion in 2008-09, and projected to become positive in 2009-10 and remain positive over the forward estimates.

The outlook for the Government's balance sheet, including the aggregates of net debt, net worth and net financial worth, are based on a range of assumptions. If the basis for these assumptions change they are likely to impact the projected value of assets and liabilities, and hence change the projected path of net financial worth.

Statement 3: Fiscal Strategy and Outlook examines the impact of altering key economic assumptions on expenses and/or revenue. Since the budget outcome is one of the main drivers of the movement in the Government's asset and liability position, changes in the economic assumptions will also impact on net financial worth.

The Government reports on a range of other fiscal risks in Statement 8: Statement of Risks. These risks comprise general developments or specific events that may affect the fiscal outlook. Fiscal risks may affect expenses and/or revenue and, as a result, may contribute to variability in the Government's projected net financial worth position.

ASSET MANAGEMENT

Based on current assumptions, the Government's financial assets are expected to increase by around $100 billion over the budget year and forward estimates to $284 billion. This is largely due to strong budget surpluses over the forward estimates, as well as growth in Future Fund assets. Subject to final budget outcomes, the Government intends to make initial contributions to three new nation building funds from the 2007-08 and 2008-09 Budget surpluses.

Investment funds

The Government is meeting its commitment to Australia's future by drawing on current and future surpluses to invest in three nation building funds. The Building Australia Fund, the Education Investment Fund and the Health and Hospitals Fund will be established to finance infrastructure investment in the transport, communications, education and health sectors. The Government will initially allocate around $40 billion to these funds in 2007-08 and 2008-09, subject to final budget outcomes, and make further contributions from future surpluses as appropriate. Where funds are used to finance state and territory projects, they will be channelled through a new Council of Australian Governments (COAG) Reform Fund. The COAG Reform Fund will also channel funding provided in future budgets to the States for recurrent expenditure in areas of COAG national reforms through National Partnership payments.

The new funds will all be established by January 2009 and will be managed by the Future Fund Board of Guardians. The capital and earnings of these funds will be available over time to finance appropriate projects. All projects will need to satisfy rigorous evaluation criteria. These arrangements will ensure substantial funding will be available for capital investment in each of the three national priority areas over the years ahead.

Building Australia Fund

The Government will create the Building Australia Fund (BAF) to help finance the current shortfall in critical economic infrastructure in transport and communications such as road, rail, ports and broadband, particularly where infrastructure requirements in these areas are not provided by the State and Territory governments or by the private sector. Subject to final budget outcomes, the Government will commit funds to the BAF from the 2007-08 and 2008-09 Budget surpluses. With the inclusion of communications priorities within the scope of the BAF, the Government will close the Communications Fund and transfer its assets (currently valued at around $2.4 billion) to the BAF. The BAF will also receive $2.7 billion from the Telstra 3 sale process.

The BAF will meet the Government's commitment to invest in a National Broadband Network, with disbursements dependent on the final outcome of the recently commenced Request for Proposals process and the Government's consideration of the Glasson Review. On current projections, the initial Government contributions to the BAF from the above sources will be in the order of $20 billion.

Education Investment Fund

To ensure that Australia's education and training systems deliver the skills the economy and individuals need to continue to prosper, the Government will establish the Education Investment Fund (EIF). The EIF, which will subsume the Higher Education Endowment Fund (HEEF), will provide financing for capital investment in higher education and vocational training. Subject to final budget outcomes, the Government will make an initial contribution to the fund of around $11 billion, comprising around $6.2 billion that is currently invested in the HEEF, and a further contribution of around $5 billion from the 2007-08 and 2008-09 Budget surpluses.

In the future, the EIF could be extended to include schools infrastructure as further finances are added to the Fund.

Health and Hospitals Fund

The Government will establish the Health and Hospitals Fund (HHF) for capital investment in health facilities, including renewal and refurbishment of hospitals, medical technology equipment and major medical research facilities and projects. Subject to final budget outcomes, the Government will make an initial contribution of around $10 billion from the 2007-08 and 2008-09 Budget surpluses.

Future Fund

In addition to creating new funds, the Government will ensure that the Future Fund has sufficient resources to meets its objectives. The Future Fund was established to finance the Government's unfunded public sector superannuation liability. With a further contribution of $3.9 billion from the $6.6 billion that is to be received from the Telstra 3 sale process (due in May 2008), the Future Fund will now be on track to fully fund superannuation liabilities for Australian Government employees by the target date of 2020.

Overall, earnings generated from fund assets contribute to the growth in net financial worth. The Future Fund in particular is expected to make a substantial contribution to net financial worth over the forward estimates due to its projected strong investment earnings and the retention of those earnings. The contribution of other investment funds to net financial worth will depend on their earnings rate and the rate at which funds are drawn down.

Term deposits

Term deposits are held at the Reserve Bank of Australia and are estimated to amount to around $24 billion for 2007-08. Term deposits are projected to rise to around $50 billion by 2011-12 reflecting the strength of expected budget surpluses over the forward estimates (assuming these surpluses are not otherwise invested). This increase in term deposits will improve net financial worth.

Higher Education Loan Programme

The Higher Education Loan Programme (HELP) comprises concessional loans to students that enable them to meet their education costs prior to earning an income.

The value of HELP is estimated to be around $13 billion as at 30 June 2008 and is estimated to grow to around $16 billion by 2011-12. The steady rise in outstanding loans represents a higher uptake by eligible students and an increase in the number of university placements over the forward estimates.

LIABILITY MANAGEMENT

The major liabilities on the Australian Government's balance sheet relate to unfunded public sector superannuation and government debt securities. Together these liabilities comprise more than three quarters of total Australian Government liabilities.

Total liabilities are expected to increase by $12 billion over the budget year and forward estimates to around $221 billion, mainly due to the continued growth in unfunded public sector superannuation.

Public sector employee superannuation liabilities

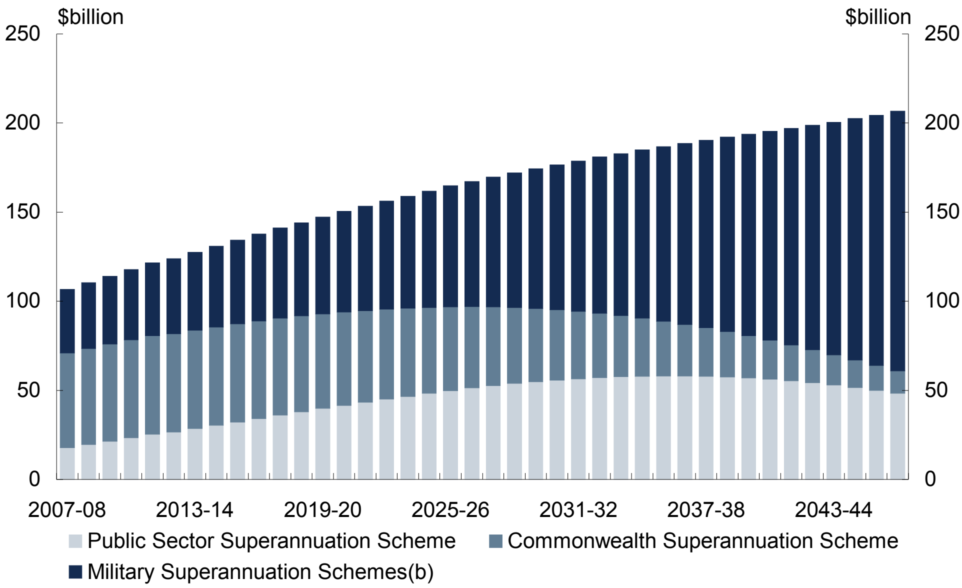
Public sector employee superannuation entitlements relating to past and present employees constitute the largest financial liability on the Government's balance sheet. The Government's superannuation liability is estimated to be around $108 billion as at 30 June 2008.

The Australian Government has never fully funded its superannuation liabilities. However, the Commonwealth Sector Superannuation Scheme and the Public Sector Superannuation Scheme were closed to new members in 1990 and 2005 respectively. From 1 July 2005, the Public Sector Superannuation Accumulation Plan was introduced and provides fully-funded accumulation benefits for new civilian employees.

Despite these reforms, the value of the Government's existing superannuation liability is projected to continue growing (in nominal terms) into the future, reaching $124 billion by the end of the forward estimates and around $147 billion by 2020. This is largely due to growth in the membership of the Military Superannuation and Benefits Scheme and continued growth of entitlements accruing to existing members of the closed civilian schemes and previous military schemes.

Chart 2 illustrates the estimated growth profile of the Government's public sector superannuation liability over the next 40 years.

Chart 2: Public sector superannuation liability[(a)]



(a) The Public Sector Superannuation Scheme and the Commonwealth Superannuation Scheme (the main civilian schemes) and Military Superannuation Schemes form the dominant part of the Government's total unfunded superannuation liability.
(b) Includes the Military Superannuation and Benefits Scheme and the Defence Force Retirement and Death Benefits Scheme.
Source: Department of Finance and Deregulation and Australian Government Actuary.

Government securities

The Government will continue to issue Treasury Bonds because of the important role they play in the operation of the Australian financial system.

Over recent years, persistent fiscal surpluses have removed the need to borrow for budget funding purposes. However, Treasury Bonds have continued to be issued in order to maintain an active Treasury Bond market and to support the market in Treasury Bond futures contracts. These two markets are used in the pricing and hedging of a wide range of financial instruments and in the management of interest rate risks by market participants. They thereby contribute to a lower cost of capital in Australia. Without them, the financial system would be less diverse and less resilient to the shocks that can emerge from time to time either from domestic sources or from overseas. As demonstrated over recent months, the markets for Treasury Bonds and Treasury Bond futures contracts provided important anchors for Australia's financial system as it responded to the impact of credit and liquidity concerns sparked off by the sub-prime housing crisis in the United States of America.

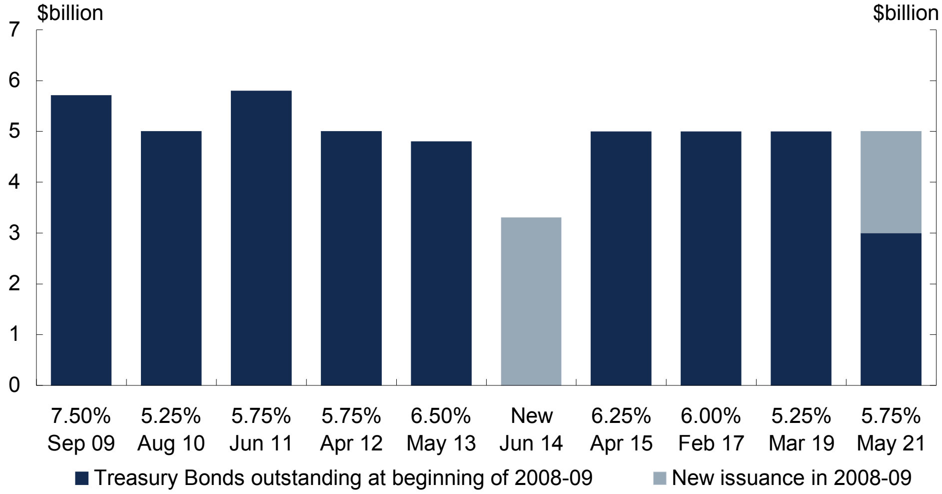
The Government will continue to monitor closely the operation of the Treasury Bond and Treasury Bond futures markets to ensure they continue to function effectively.

In 2008-09, the volume and timing of fixed coupon Treasury Bond issuance takes account of the need to have an appropriate range of Treasury Bonds available for inclusion in Treasury Bond futures baskets. The program maintains a pattern where new 5-year and 13-year Treasury Bonds are launched in alternate years, with total issuance over a 2-year period of around $5 billion in each line to offset maturing bond lines.

In 2008-09, there will be $2.0 billion of issuance into the May 2021 Treasury Bond line. This will bring the total volume on issue for this bond line to $5.0 billion. In addition, a new June 2014 Treasury Bond line will be issued to support the operation of the 3-year Treasury Bond futures contract, of which $3.3 billion will be issued during 2008-09. The remaining issuance necessary to bring this bond line up to $5.0 billion will be undertaken in 2009-10.

Total Treasury Bond issuance during 2008-09 will be $5.3 billion, while scheduled maturities during this period, net of Australian Government holdings, will be $5.1 billion. As a result, the total stock of fixed coupon Treasury Bonds on issue, net of Australian Government holdings, will be around $49.6 billion as at 30 June 2009 (Chart 3).

Chart 3: Fixed coupon Treasury Bond outstandings expected at 30 June 2009



(a) Treasury Bonds on issue are net of Australian Government holdings.
Source: Australian Office of Financial Management.

The Government also has on issue three lines of inflation linked Treasury Indexed Bonds. The total original face value of Treasury Indexed Bonds on issue as at 30 June 2008 is expected to be around $6 billion. These bond lines are expected to mature without replacement, with the first of these lines (with a face value of around $1.5 billion) maturing in August 2010.

STATEMENT 8: STATEMENT OF RISKS

A range of factors may influence the actual budget outcome in future years. The *Charter of Budget Honesty Act 1998* requires these factors to be disclosed in a Statement of Risks in each budget and Mid-Year and Economic and Fiscal Outlook. This statement outlines general fiscal risks and specific contingent liabilities which may affect the budget balances.

Statement 8: Statement of Risks

The forward estimates of revenue and expenses in the 2008-09 Budget incorporate assumptions and judgments based on the best information available at the time of publication. A range of factors may influence the actual budget outcome in future years. The disclosure of these factors in this statement increases the transparency of the fiscal projections.

Events that could affect fiscal outcomes include:

- changes in economic and other parameters;
- matters not included in the fiscal forecasts because of uncertainty about their timing, magnitude and/or likelihood; and
- the realisation of contingent liabilities and/or assets.

Risks to the Budget — overview

The revenue and expense estimates and projections are based on a range of economic and other parameters. If the economic outlook were to differ from that presented in the Budget, the revenue and expense estimates and projections would also change. This sensitivity of budget estimates to changes in economic assumptions is discussed in Appendix B to Statement 3.

Other fiscal risks comprise general developments or specific events that may affect the fiscal outlook. Some developments or events simply raise the possibility of some fiscal impact. In other cases, fiscal impacts may be reasonably certain, but will not be included in the forward estimates because their timing or magnitude is not known. Fiscal risks can have an impact on the budget balance. Contingent liabilities and assets are a specific category of fiscal risks. Contingent liabilities and contingent assets are defined by the accounting standard AASB 137, which came into effect on 1 July 2005. Broadly, they represent possible costs or gains to the Australian Government arising from past events which will be confirmed or otherwise by the outcome of future events that are not within the Government's ability to control.

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 Australian Government general government sector.

The Australian Government's major exposure to contingent liabilities arises from legislation guaranteeing certain liabilities of Australian Government controlled financial institutions (the Reserve Bank of Australia and the Export Finance and

Insurance Corporation). To help manage these exposures, strategies are in place which aim to ensure the underlying strength and viability of the entities, so that the guarantees are not triggered.

Another class of contingent liability is uncalled capital, which reflects a financial commitment to an institution where no promissory note is issued by the Australian Government. Uncalled capital is primarily associated with international financial institutions such as the International Bank for Reconstruction and Development, the Asian Development Bank, the European Bank for Reconstruction and Development and the Multilateral Investment Guarantee Agency. When promissory notes are issued, such as in the case of the International Monetary Fund, the amounts are recorded in the general government balance sheet, so contingent liabilities (or assets) are not shown for those amounts.

Contingent assets include claims that the Australian Government is pursuing through legal processes, where the outcome is uncertain.

Contingent liabilities, contingent assets and other fiscal risks with a possible impact on the forward estimates greater than $20 million in any one year, or $40 million over the forward estimates period, are listed in this statement.

Information on fiscal risks takes account of Parliament's decisions and other developments until the close of parliamentary business on 30 April 2008. In general, information on contingent liabilities and assets is based on information provided by Australian Government departments and agencies and is current to 31 March 2008. However, in some cases other dates are used and are noted in the relevant section.

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

Table 1: Summary of material changes to Statement of Risks since the 2007-08 Budget and *Mid-Year Economic and Fiscal Outlook 2007-08*[(a)]

CONTINGENT LIABILITIES — QUANTIFIABLE	
Defence and Defence Materiel Organisation	
Indemnities	Modified
Environment, Heritage and the Arts	
Potential claims relating to the Great Barrier Reef Marine Park Structural Adjustment Package	New
Finance and Deregulation	
Australian Industry Development Corporation	Modified
Potential claims relating to superannuation benefits	Deleted
Sale of Sydney Airports Corporation Ltd	Modified
Foreign Affairs and Trade	
Export Finance and Insurance Corporation	Modified
Immigration and Citizenship	
Immigration detention services	Modified

Table 1: Summary of material changes to Statement of Risks since the 2007-08 Budget and *Mid-Year Economic and Fiscal Outlook 2007-08*[(a)] (continued)

CONTINGENT LIABILITIES — QUANTIFIABLE (continued)	
Infrastructure, Transport, Regional Development and Local Government	
Code Management Company — indemnity for the Code of Practice for the Defined Interstate Rail Network[(b)]	Modified
Treasury	
Guarantees under the Commonwealth Bank Sale Act	Modified
International financial institutions — uncalled capital subscriptions	Modified
Reserve Bank of Australia — guarantee	Modified
CONTINGENT LIABILITIES — UNQUANTIFIABLE	
Agriculture, Fisheries and Forestry	
Compensation claims arising from Equine Influenza Outbreak	Modified
Broadband, Communications and the Digital Economy	
National Broadband Network Panel of Experts — indemnities	New
Climate Change and Water	
Risk Assignment under the National Water Initiative	New
Defence	
HMAS *Melbourne* and HMAS *Voyager* damages claims	Modified
Litigation cases	Modified
Environment, Heritage and the Arts	
Art Indemnity Australia[(b)]	Modified
Finance and Deregulation	
Tuggeranong Office Park (TOP) Sinking Fund approved expenses	Deleted
Industrial Waste Commission (IWC) Cleanaway	Modified
Telstra Sale Company Ltd — indemnities	Modified
Telstra Corporation Ltd — company, directors and senior executives' indemnities	Deleted
Telstra Corporation Ltd — indemnity for unauthorised disclosure of confidential information	Deleted
Future Fund Board of Guardians — indemnity	Modified
Health and Ageing	
CSL Ltd	Modified
Indemnity relating to H5N1 vaccine	New
Innovation, Industry, Science and Research	
Australian Nuclear Science and Technology Organisation — indemnity[(b)]	Modified
Liability for damages caused by space activities[(b)]	Modified
Liability for damages caused by Kistler space activities[(b)]	Modified
Resources, Energy and Tourism	
Snowy Hydro Ltd — directors' indemnities[(b)]	Modified
Snowy Hydro Ltd — water releases[(b)]	Modified
Liability for costs incurred in a National Liquid Fuel Emergency[(b)]	Modified
Treasury	
Terrorism insurance — commercial cover	Modified

Table 1: Summary of material changes to Statement of Risks since the 2007-08 Budget and *Mid-Year Economic and Fiscal Outlook 2007-08*[(a)] (continued)

CONTINGENT ASSETS — UNQUANTIFIABLE	
Innovation, Industry, Science and Research	
Wireless Local Area Network — contingency asset	New

(a) Risks appearing in this Statement but not listed in the table above are substantially unchanged since disclosed in Budget Paper No. 1, *Budget Strategy and Outlook 2007-08*, Statement 11 or in *Mid-Year Economic and Fiscal Outlook 2007-08*, Appendix D, with the exception of the list of specific fiscal risks, which have been replaced with a more general statement.
(b) Risks appearing in this Statement that have changed portfolios due to Administrative Arrangements Orders.

ECONOMIC AND OTHER PARAMETERS

Changes in economic parameters represent a risk to the expenditure and revenue estimates included in the Budget. Appendix B of Statement 3 examines the impact on revenue and expenses of altering some of the key economic assumptions underlying the budget estimates.

FISCAL RISKS

The estimates and projections of revenue are subject to a number of general risks that can affect taxation collections. These general pressures include tax avoidance, court decisions and Australian Taxation Office rulings. These pressures may result in a shift in the composition of taxation collected from the various tax bases and/or a change in the size of the tax base.

There are specific risks to revenue estimates and projections. For example, the Government has announced its intention to introduce an Emissions Trading Scheme (ETS) in 2010. When implemented, the revenue that is received from permits under this scheme will impact on budget estimates.

There are specific risks to expense estimates and projections. For example, major technological advances in medicines and medical practices may lead to changes to the Medical Benefits Schedule and the Pharmaceutical Benefits Scheme which could result in unexpected increases in expenses.

Other fiscal risks that may affect expenditure include natural disasters, emergency foreign aid and contingent liabilities and assets. Contingent liabilities and assets include indemnities, warranties and guarantees and will impact net financial worth under certain conditions.

CONTINGENT LIABILITIES — QUANTIFIABLE

Defence and Defence Materiel Organisation

Indemnities

The Department of Defence (Defence) and the Defence Materiel Organisation (DMO) carry an extensive range of indemnities and undertakings, normally of a short-term nature, relating to business, training activities and other activities involving contracts, agreements and other Defence and DMO arrangements. Indemnities issued cover potential losses or damages for which the Australian Government would be liable.

Defence carries 410 instances of contingencies that are unquantifiable and remote and 44 instances of quantifiable contingencies to the value of $1.8 billion. DMO carries 505 instances of contingencies (including Foreign Military Sales) that are unquantifiable and 67 contingencies that are quantifiable to the value of $2.8 billion. While these contingencies are considered remote, they have been reported in aggregate for completeness.

Environment, Heritage and the Arts

Possible claims relating to the Great Barrier Reef Marine Park Structural Adjustment Package

The Great Barrier Reef Marine Park Structural Adjustment Package was designed to assist businesses to manage the impacts caused by the July 2004 rezoning of the Great Barrier Reef Marine Park. Applicants were able to apply for assistance under various elements of the package, but could accept funding under only one component (excluding Business Advice Assistance).

Claims have been submitted by a number of applicants that had previously accepted funding under one component of the package and are now seeking access to another component that could have resulted in a higher level of assistance.

In the event that all current claimants are found to be eligible for the higher level of assistance, the Australian Government's liability is estimated at up to $24 million. Any further claimants could increase this liability.

Finance and Deregulation

Australian Industry Development Corporation

Under the *Australian Industry Development Corporation Act 1970* certain obligations of the Australian Industry Development Corporation (AIDC) are guaranteed by the Australian Government. As at 31 December 2007, AIDC's contingent liabilities, subject to Australian Government guarantee, were approximately $100 million in respect of guarantees and credit risk facilities.

Litigation

The Department of Finance and Deregulation is involved in litigation where a counter-claim for damages has been lodged against the Australian Government. The litigation relates to the Davis Samuel Case where the Department is engaged in legal action seeking recovery of funds misappropriated during 1997-98. The counter-claim is from the parties to whom Finance believes the misappropriated funds were channelled.

The grounds for the counter-claim have never been articulated and it is counsel's advice that the counter-claim is without merit. The counter-claim, which will be vigorously defended by the Australian Government, seeks damages of $4.3 billion although the basis for this amount is yet to be fully provided. Hearing of the Australian Government's claim, and the counter-claim, is set down to commence in the Supreme Court of the Australian Capital Territory on 10 June 2008.

Sale of Sydney Airports Corporation Ltd

An indemnity has been provided to Southern Cross Airports Corporation as purchaser of the Sydney Airports Corporation Ltd in the event of a liability arising under Chapter 3 of the *Duties Act 1997* (New South Wales) by reason of the sale of shares in Sydney Airports Corporation Ltd constituting a relevant acquisition in a land-rich private corporation.

The New South Wales Office of State Revenue issued a notice of assessment on 17 November 2006, which the Australian Government disputes to be a valid assessment. In the event the liability is sustained it is estimated at $451.3 million as at 31 March 2008.

Foreign Affairs and Trade

Export Finance and Insurance Corporation

The Australian Government guarantees the due payment by the Export Finance and Insurance Corporation (EFIC) of money that is, or may at any time become, payable by EFIC to any body other than the Australian Government. The Australian Government also has in place a $200 million callable capital facility available to EFIC on request to cover liabilities, losses and claims. As at 31 March 2008, the Australian Government's total contingent liability was $2.7 billion, comprising EFIC's liabilities to third parties ($2.0 billion) and EFIC's overseas investments, insurance, contracts of insurance and guarantees ($0.7 billion).

Immigration and Citizenship

Immigration detention services

A contract with GSL (Australia) Pty Ltd commenced on 1 September 2003 at which time the Australian Government agreed to limit GSL's exposure under the liability regime of the contract. While the general contract requires GSL to indemnify the

Australian Government for certain claims of losses, the Australian Government has agreed to share the risk. Subject to certain conditions, GSL has been indemnified by the Australian Government against claims of losses above a fixed amount to a capped amount. Where claims exceed the cap in any financial year, responsibility for the excess reverts to GSL.

A further limitation of liability has been provided in the contract in relation to loss or damage to Australian Government property or equipment as a result of the actions of detainees. Under the contract, GSL's liability for detainee damage is subject to an annual limit, unless claims of losses exceed an agreed cap.

Infrastructure, Transport, Regional Development and Local Government

Code Management Company — indemnity for the Code of Practice for the Defined Interstate Rail Network

The Code Management Company (CMC) is a company owned by the Australasian Railway Association whose members include all of Australia's major rail operators and track owners and representatives from smaller companies. The Australian Government has provided an indemnity to CMC against any loss or expense that occurred prior to the transfer of ownership from the Commonwealth in relation to the correct use or application of the Code of Practice for the Defined Interstate Rail Network. The Code sets out a national approach to operational and engineering practices, including uniform standards for safe working, train operations and freight loading specifications. The indemnity is limited to an aggregate of $50 million for a period of six years from the date of transfer of ownership and expires on 15 July 2009.

Treasury

Guarantees under the Commonwealth Bank Sale Act

Under the terms of the *Commonwealth Bank Sale Act 1995*, the Australian Government has guaranteed various superannuation and other liabilities amounting to around $5.5 billion. Of this amount, $1.6 billion was attributable to liabilities of the Commonwealth Bank of Australia at 31 December 2007 and $3.9 billion was attributable to liabilities of the Commonwealth Bank Officers' Superannuation Corporation at 31 December 2007.

International financial institutions — uncalled capital subscriptions

This contingent liability relates to the value of the uncalled portion of the Australian Government's shares in the International Bank for Reconstruction and Development (US$2.8 billion — estimated value A$3.1 billion), the Asian Development Bank (US$2.4 billion — estimated value A$2.7 billion), the European Bank for Reconstruction and Development (US$81.7 million plus €77.5 million — estimated value A$216.9 million), and the Multilateral Investment Guarantee Agency (US$26.5 million — estimated value A$29.6 million).

Reserve Bank of Australia — guarantee

This contingent liability relates to the Australian Government's guarantee of the liabilities of the Reserve Bank of Australia. It is measured as the Bank's total liabilities excluding capital, reserves and Australian Government deposits. The major component of the Bank's liabilities are notes (that is, currency) on issue. Notes on issue amount to $42.7 billion as at 18 March 2008 and the total guarantee is $64.9 billion.

CONTINGENT LIABILITIES — UNQUANTIFIABLE

Agriculture, Fisheries and Forestry

Compensation claims arising from Equine Influenza outbreak

The Australian Government may become liable for compensation actions should the Department of Agriculture, Fisheries and Forestry be found negligent in relation to the recent outbreak of Equine Influenza (EI). At this stage any potential liability resulting from the EI outbreak cannot be quantified.

Attorney-General's

Indemnities relating to the Air Security Officer program

The Australian Government has entered into indemnity agreements with Australian airlines that agree to allow their aircraft to fly with Air Security Officers on board. The indemnity agreements limit the Australian Government's exposure to a maximum of $2 billion per incident. The indemnity applies to the extent that any loss is not covered by existing relevant insurance policies held by the airline and only applies where the airline(s) can prove that an action on the part of an Air Security Officer under or in connection with the Air Security Officer program caused a loss.

Native title agreements — access to geospatial data

The Australian Government has entered into agreements with state and territory government bodies and/or their agents to access their geospatial data. The data is essential to support the National Native Title Tribunal in achieving its outcome. Under these agreements, the Australian Government provides indemnities against third party claims arising from errors in the data.

Native title costs

The Australian Government has offered to assist the States and Territories in meeting native title compensation costs arising under the *Native Title Act 1993.* The amounts that might be paid by the Australian Government will be subject to the terms of financial assistance agreements being negotiated with the States and Territories. No agreements have been entered into to date. The Australian Government's liability cannot be quantified due to uncertainty about the number and effect of compensable acts, both in the past and in the future, and the value of native title affected by those acts. Similarly, it is not possible to quantify the liability for compensable acts for which the Australian Government may be directly liable.

The Australian Government has also offered to assist the States and Territories with the costs of bodies performing native title functions under state legislation. The extent of this assistance will depend on the existence of such bodies, the timing of their recognition and the extent of their use.

Ocean surveillance

The Australian Government has entered into contractual arrangements with P&O Maritime Services for the provision of maritime charter services until June 2010 to facilitate the Australian Customs Service and the Department of Agriculture, Fisheries and Forestry armed patrols of Australia's exclusive economic zone.

The Australian Government has indemnified P&O Maritime Services against certain claims arising from the discharge of firearms or munitions, or where a steaming party is deployed to crew a seized vessel back to an Australian port.

Broadband, Communications and the Digital Economy

National Broadband Network Panel of Experts — indemnities

The Australian Government has provided indemnities to the non-Commonwealth members of the National Broadband Network (NBN) Panel of Experts to protect them against civil claims that may arise in the course of performing their duties.

Climate Change and Water

Risk Assignment under the National Water Initiative

At the 26 March 2008 Council of Australian Governments (COAG) meeting, the Australian Government agreed to take on the States' liabilities under the National Water Initiative risk assignment arrangements for reductions in allocations of water in the Murray-Darling Basin arising from the application of new knowledge to water planning. The agreement increases the liability the Australian Government previously faced in relation to these reductions in the Murray-Darling Basin.

The Australian Government also has other liabilities under the *Water Act 2007*, which are unchanged as a result of the 26 March 2008 COAG decision.

The Australian Government's liabilities will be mitigated by investment in water efficiency measures and the purchase of water entitlements under the national water plan.

Defence

ADI Ltd — officers' and directors' indemnities

Under the sale agreements for ADI Ltd, the Australian Government agreed to indemnify the directors, officers and employees for claims and legal costs associated with assistance related to the sale of the Australian Government's shares in the company. The Australian Government has provided an indemnity to ADI Ltd for uninsured losses relating to specific heads of claims.

ASC Pty Ltd — Australian Government indemnities provided to Electric Boat Corporation under the services agreement

In early October 2002, the Department of Defence entered into a services agreement with Electric Boat Corporation (EBC) and its subsidiary Electric Boat Australia (EBA) to provide technical and commercial support to ASC Pty Ltd as it transitioned from being a producer of submarines to an agency for through-life submarine support. EBC/EBA staff commenced at ASC Pty Ltd on 14 October 2002. The initial services agreement ran for three years and the Australian Government has taken up the option to extend the agreement by a further three years. The extension has been incorporated into the Strategic Agreement for Through-Life Support of the Collins Class submarines with ASC Pty Ltd.

Under this agreement, EBC and EBA are provided with a warranty by the Australian Government and ASC Pty Ltd that the Australian Government and ASC Pty Ltd have the right to provide EBC/EBA with confidential and other information and the Australian Government provides an indemnity to EBC and EBA against claims arising from a breach of that warranty.

The Australian Government also indemnifies EBC and EBA against claims exceeding the greater of US$1 million or profit earned by EBC under the agreement that arises from property loss or personal injury resulting from a defect in the operation or performance of a Collins Class submarine, other than caused by unlawful conduct, gross negligence or wilful misconduct of EBC or EBA.

Decontamination of Defence sites

The Department of Defence is currently undertaking a detailed large multi-year project to systematically identify and quantify known decontamination obligations across the Defence estate, in accordance with the Australian Accounting Standards. For the sites assessed to date only a minimal number require a provision to be recognised as in most cases, the conditions for legal or constructive obligations are not met.

HMAS *Melbourne* and HMAS *Voyager* damages claims

Former crew members of HMAS *Melbourne* have instituted legal proceedings against the Australian Government claiming damages for injuries allegedly caused by the HMAS *Voyager*/HMAS *Melbourne* collision on 10 February 1964. Thirty-three claims remain current. Four of the current claims are statute barred under applicable state laws. In those cases, the plaintiffs will require an extension of time prior to progressing their claims for damages. It is not known whether further claims will be made in connection with the collision.

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, are part-heard or are subject to an appeal, 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 arising from complaints to the Human Rights and Equal Opportunity Commission. The litigation includes asbestos claims and claims from injury resulting from the F-111 Deseal/Reseal programs. Claims have been received for damage caused by the use of Defence Practice Areas. At any given point, there are about 400 claims. Presently, they have an estimated value in excess of $145 million.

Military Superannuation and Benefits Scheme — indemnity

The Military Superannuation and Benefits Scheme (MSBS) provides occupational superannuation benefits for members of the Australian Defence Force. Much of the day-to-day administration associated with the MSBS is conducted by ComSuper. Under the *Military Superannuation and Benefits Act 1991* the actions of ComSuper and its Commissioner are deemed to be those of the Military Superannuation and Benefits Board (MSB Board). Defence has indemnified the MSB Board for certain specified claims that are made in relation to acts of ComSuper and/or its Commissioner that are not recoverable elsewhere.

Environment, Heritage and the Arts

Art Indemnity Australia

Art Indemnity Australia is a program through which the Australian Government indemnifies cultural objects loaned to exhibitions displayed in Australian museums and galleries. The exact amounts involved will 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 any loss or damage. Most of the Australian Government risk in indemnifying exhibitions is insured through Comcover. Uninsurable risk continues to be borne solely by the Australian Government.

Finance and Deregulation

Australian Reward Investment Alliance — immunity and indemnity

The *Superannuation Act 1976*, *Superannuation Act 1990* and *Superannuation Act 2005* provide for specific immunities for activities undertaken in good faith by the trustees of the Australian Reward Investment Alliance (ARIA), the Commissioner for

Superannuation and staff, delegates of the trustee Board and members of a Reconsideration Advisory Committee, provided these activities relate to the performance of their functions.

These immunities do not prevent the trustee Board from being subject to any action, liability, claim or demand. Under the Superannuation Acts, other than in cases where the *Superannuation Industry (Supervision) Act 1993* does not so permit, any money that becomes payable by the trustee Board, in respect of such actions is to be paid out of the relevant fund. Where such payments are made, an equivalent amount is paid to the fund from the Consolidated Revenue Fund.

ASC Pty Ltd (ASC) — directors' indemnities

The Australian Government has indemnified the ASC directors for any claim made against them as a result of complying with ASC's obligations under the Process Agreement between the Electric Boat Corporation (EBC), the Australian Government and ASC.

The Australian Government has indemnified Board members of the ASC for any claim against them as a result of complying with ASC's obligations under the Service Agreement between ASC, the Department of Defence, EBC and Electric Boat Australia.

The Australian Government has indemnified Board members of ASC for any claim and legal costs arising from the result of the directors acting in accordance with the Board's Tasks and Responsibilities, as defined under the indemnity.

Telstra 3 BPAY Biller Agreement — indemnities

The Australian Government has entered into a mutual indemnity arrangement under a BPAY Biller Agreement with the Commonwealth Bank of Australia (CBA) to facilitate the use of BPAY for the Telstra 3 retail application settlement. The Australian Government has issued an indemnity in the CBA's favour against any harm or losses that the CBA may suffer as a result of any negligence, misrepresentation, fraud or misuse of BPAY marks committed by the Australian Government in respect of its obligations under the Agreement, including as a result of any claims. Likewise, the CBA has provided the Australian Government with a reciprocal indemnity.

Indemnities for the Reserve Bank of Australia and private sector banks

Under agencies' contracts for transactional banking services, the Australian Government has indemnified the Reserve Bank of Australia and contracted private sector banks. These banks are indemnified against loss and damage arising from error or fraud by the agency, or transactions made by banks with the authority of the agency.

Indemnities relating to other former asset sales, privatisations and IT outsourcing projects

Ongoing indemnities have been given in respect of a range of asset sales, privatisations and IT outsourcing projects that have been conducted by the Department of Finance and Deregulation (Finance), and the former Office of Asset Sales and Commercial Support and its predecessors. The probability of an action being made under one of these indemnities diminishes over time. Details of indemnities in respect of the other asset sales and privatisations have been provided in previous Budget and Mid-Year Economic and Fiscal Outlook papers, and previous annual reports for Finance and the Office of Asset Sales and Commercial Support.

Indemnities (including the year they were raised) are still current for: ADI Ltd (1998), Australian Airlines (1991), Australian Industry Development Corporation (1996), Australian Multimedia Enterprise (1997), Australian National Rail Commission and National Rail Corporation Ltd (1997 and 2000), Australian River Co Ltd (1999), Australian Submarine Corporation Ltd (2000), Australian Technology Group (1986), ComLand Ltd (2004), Bankstown Airport Ltd (2002), Camden Airport Ltd (2002), Commonwealth Accommodation and Catering Services (1988), Commonwealth Bank of Australia (1993 to 1996), Commonwealth Funds Management and Total Risk Management (1996 to 1997), Employment National Ltd (2003), Essendon Airport Ltd (2001), Federal Airports Corporation's Airports (1995 to 1997), Home Loans Insurance Commission Ltd (1996), Health Insurance Commission (2000), Hoxton Park Airport Ltd (2002), National Transmission Network (1999), Sydney Airports Corporation Ltd (2001), Telstra (1996 and 1999) and Wool International (1999). Finance does not currently expect any action to be taken in respect of these indemnities.

Industrial Waste Commission Cleanaway

The Australian Government is pursuing an appeal against the decision to strike out its claim for a declaration that a binding licence exists between the Commonwealth and Brambles Ltd (or Transpacific Cleanaway Ltd) in relation to the Industrial Waste Commission (IWC) site at Lucas Heights in New South Wales (NSW). If the NSW Court of Appeal finds that the licence is still in place, the parties will be better placed to determine responsibility for the contamination and remediation of the site. Negotiations with Brambles are ongoing.

Telstra Sale Company Ltd — indemnities

The Australian Government has indemnified Telstra Sale Company Ltd and its officers for all liabilities arising from the Telstra 3 offer document, the sale process or the issue of instalment receipts and the performance of its responsibilities under the Telstra 3 instalment receipt trust deed. These indemnities are subject to limitations in the case of bad faith, malice, fraud or recklessness on the part of the indemnified parties.

The Australian Government has also indemnified Telstra 3 instalment receipt holders for all losses or damages which they may suffer as a result of a breach by Telstra Sale Company Ltd as instalment receipt trustee of its obligations under the Telstra 3 instalment receipt trust deed, except to the extent that the breach by the trustee is a result of the negligence, bad faith or wilful default of the instalment receipt holder.

Future Fund Board of Guardians — indemnity

The Australian Government has provided the members of the Future Fund Board of Guardians (the Future Fund Board) with an indemnity, to cover liabilities in excess of the Board's insurance policies.

Members of the Future Fund Board are indemnified, to the maximum extent permitted by law, in relation to all official actions. However, similar to members of boards that operate under the *Commonwealth Authorities and Companies Act 1997* (the CAC Act), a member of the Future Fund Board is not indemnified:

- for conduct he or she engages in other than in good faith;
- in respect of any liability owed to the Board; or
- in respect of any act or omission that contravenes one of the civil penalty provisions of the *Future Fund Act 2006* (Future Fund Act).

Also similar to members of CAC Boards, a member of the Future Fund Board is not indemnified for legal costs incurred by the member in unsuccessfully defending or resisting criminal proceedings, or proceedings against a declaration that the member had breached a civil penalty provision of the Future Fund Act.

The indemnity is financially limited, in broad terms, to the value of the Future Fund.

Foreign Affairs and Trade

Export Finance and Insurance Corporation — board members' and senior management indemnities

The Australian Government has provided certain indemnities to the Export Finance and Insurance Corporation (EFIC) board members and senior management to protect against civil claims and legal expenses for unsuccessful criminal claims relating to the implementation of EFIC's alliance/divestment of its short-term export credit insurance business.

Health and Ageing

Australian Red Cross Society — indemnities

The Deed of Agreement between the Australian Red Cross Society (ARCS) and the National Blood Authority (NBA) in relation to the operation of the Australian Red Cross Blood Society (ARCBS) includes certain indemnities and a limit of liability in favour of ARCS. These cover a defined set of potential business, product and employee risks and liabilities arising from the operations of ARCBS. The indemnities and limitation of liability only operate in the event of the expiry and non-renewal, or the earlier termination, of the Deed of Agreement, and only within a certain scope. They are also subject to appropriate limitations and conditions including in relation to mitigation, contributory fault, and the process of handling relevant claims.

Blood and blood products liability cover

A National Managed Fund (NMF) has been established which pools the liability risks associated with the supply of blood and blood products by the Australian Red Cross Blood Service (ARCBS) between the Australian Government, the ARCBS and the States and Territories. The NMF is covered by a Memorandum of Understanding (MoU) between the Australian Government, States and Territories, and the ARCBS, and provides for liabilities incurred by ARCBS where other available mitigation or cover is not available. The MoU provides for the parties to contribute to the NMF taking into account potential claims payments; the level of funds in the NMF and investment earnings; and a prudential allowance for liabilities incurred but not yet the subject of claims. If there are insufficient funds to cover claim costs, the Jurisdictional Blood Committee (JBC) considers a report provided by the National Funds Manager to determine the level of funds required. Each party must contribute funds, as determined by JBC, in accordance with allocation provisions prevailing at the time. Under the MoU, the blood and blood products liability cover for the ARCBS remains in force until all parties agree to terminate the arrangements from an agreed date.

CSL Ltd

CSL Ltd is indemnified against claims made by persons who contract specified infections from specified products and against employees contracting asbestos-related injuries. CSL Ltd has unlimited cover for most events that occurred before the sale of CSL Ltd on 1 January 1994, but has more limited cover for a specified range of events that occurred during the operation of the Plasma Fractionation Agreement from 1 January 1994 to 31 December 2004. Where alternative cover was not arranged by CSL Ltd, the Australian Government may have a contingent liability. Given the open-ended nature of some of the indemnities, damages and risk cannot be quantified. No similar indemnities have been given to CSL Ltd in the new Plasma Products Agreement operating from 1 January 2005.

The Australian Government has granted certain indemnities to CSL Ltd against claims made by persons vaccinated under CSL's clinical trials for the development of a prototype pandemic influenza vaccine. It is not possible to quantify the potential fiscal risk arising from the use of this prototype vaccine in CSL's trials.

Guarantee Scheme for aged care accommodation bonds

A Guarantee Scheme has been established through the *Aged Care (Bond Security) Act 2006* and *Aged Care (Bond Security) Levy Act 2006*. Under the Guarantee Scheme, if a provider becomes insolvent or bankrupt and is unable to repay outstanding bond balances to aged care residents, the Australian Government will step in and repay the bond balances owing to each resident. In return, residents will assign their right to the

Australian Government to pursue the defaulting provider to recover the accommodation bond money paid out. In the event the Australian Government cannot recover the full amount from the defaulting provider, it may levy all providers holding accommodation bonds to recoup the shortfall. It is not possible to quantify the Australian Government's contingent liability in the event that the Guarantee Scheme is activated.

Indemnity relating to smallpox vaccine

On 12 December 2002, the Australian Government took possession of an initial shipment of 50,000 doses of smallpox vaccine. This vaccine, to be used only in emergency situations, was the only type available for large-scale purchase and was manufactured using older style technology. The Government granted an indemnity to the manufacturer covering possible adverse events that could result from the use of the vaccine.

Medical Indemnity Exceptional Claims Scheme

In May 2003, the Australian Government announced the Medical Indemnity Exceptional Claims Scheme was to assume liability for 100 per cent of any damages payable against a doctor that exceeds a specified level of cover provided by that doctor's medical indemnity insurer, currently $20 million. These arrangements will apply to payouts related to either a single large claim or to multiple claims that in aggregate exceed the cover provided by the doctor's medical indemnity insurer, and will apply to claims notified under contracts-based cover since 1 January 2003.

Indemnity relating to H5N1 vaccine

In December 2006, the Australian Government agreed to grant certain indemnities to manufacturers of H5N1 influenza vaccines to be included in the National Medical Stockpile. These vaccines, to be used in limited situations and only under threat of a pandemic, are considered prototype products which to date, have not been used more widely than in clinical trials. The Australian Government granted certain indemnities to manufacturers covering possible adverse events that could result from the use of the vaccine. It is not possible to quantify the potential fiscal risk arising from the use of H5N1 vaccine.

Immigration and Citizenship

Systems development — liability limit

The Department of Immigration and Citizenship (DIAC) has entered into a contract with IBM Australia (IBM) for the provision of systems development services for the department. The arrangement facilitates the delivery of the new departmental program Systems for People. DIAC has agreed to limit IBM's liability to an overall maximum of $150 million for certain causes of action.

Infrastructure, Transport, Regional Development and Local Government

Assumed residual liabilities of the Australian National Railways Commission

The Australian Government under Schedule 3 of the *Australian National Railways Commission Sale Act 1997* assumed the residual liabilities of the Australian National Railways Commission. A writ of summons was filed in the High Court of Australia on 20 August 2004 and a statement of claim on behalf of 24 other plaintiffs was filed in the District Court of South Australia on 22 September 2005. The writ sought unspecified damages for personal injuries as a result of exposure to lead and other particles from trains carrying lead and zinc ore.

Maritime Industry Finance Company Ltd — board members' indemnity

Indemnities for Maritime Industry Finance Company Ltd board members have been provided to protect them against civil claims relating to their employment and conduct as directors.

Tripartite deeds relating to the sale of federal leased airports

Tripartite deeds apply to 12 federal leased airports (Adelaide, Alice Springs, Bankstown, Brisbane, Canberra, Coolangatta, Darwin, Launceston, Melbourne, Perth, Sydney and Townsville). The tripartite deeds between the Australian Government, the airport lessee company and financiers provide for limited step-in rights for the financiers in circumstances when the airport lease is terminated to enable the financiers to correct the circumstances that triggered such a termination event. These contingent liabilities are considered to be unquantifiable and remote.

Innovation, Industry, Science and Research

Australian Nuclear Science and Technology Organisation — indemnity

The Australian Government has indemnified the Australian Nuclear Science and Technology Organisation and its officers from liability that might be incurred from the conduct of activities authorised under the *Australian Nuclear Science and Technology Organisation Act 1987*. This indemnity is additional to commercial insurance covers obtained from the Comcover Insurance Pool and other insurers.

Liability for damages caused by space activities

Under the United Nations Convention on International Liability for Damage Caused by Space Objects, the Australian Government is liable to pay compensation for damage caused to nationals of other countries by space objects launched from, or by, Australia. The Australian Government requires the responsible party for a space activity approved under the *Space Activities Act 1998* to insure against liability for damage to third parties for an amount not less than the maximum probable loss, up to a maximum of $750 million. Under the Space Activities Act, the Australian Government also accepts liability for damage suffered by Australian nationals, to a maximum value of $3 billion above the insured level.

Liability for damages caused by Kistler space activities

In accordance with the United Nations Convention on International Liability for Damage Caused by Space Objects, an agreement was signed in 1998, amended in 1999, between the Department of Industry, Tourism and Resources, Kistler Woomera Pty Ltd and Spaceport Woomera Pty Ltd to support the launching of the K-1 Aerospace Vehicle and satellites into space from Australia. Under the agreement, the Australian Government provides indemnity support to a maximum of US$1.5 billion (estimated value A$1.9 billion), indexed for inflation above the level of insurance cover obtained under the requirements of the agreement.

Resources, Energy and Tourism

Snowy Hydro Ltd — directors' indemnities

The Australian Government has, together with the co-shareholder governments of New South Wales and Victoria, indemnified the members of the board of Snowy Hydro Ltd for liabilities arising from entering into agreements to implement corporatisation of the Snowy Mountains Hydro-Electric Scheme, and from liabilities to Snowy Hydro Ltd at corporatisation. The indemnity will apply to liabilities arising within 5 years of corporatisation, and for which a claim is notified to the Governments within 11 years of the corporatisation date of 28 June 2002.

Snowy Hydro Ltd — water releases

The Australian, New South Wales and Victorian governments have indemnified Snowy Hydro Ltd 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 20 years from 28 June 2002.

The Australian, 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.

Liability for costs incurred in a national liquid fuel emergency

The Australian Government has responsibility for the *Liquid Fuel Emergency Act 1984* (the Act) which is administered by the Minister for Resources, Energy and Tourism. In addition, State and Territory governments have entered into an inter-governmental agreement (IGA) which coordinates the use of the powers under the Act in a national liquid fuel emergency. The IGA contains three areas where the Australian Government may incur expenses in the unlikely event of a national liquid fuel emergency. These relate to the direct costs of managing a liquid fuel emergency and include the possibility for the Australian Government to reimburse the State and Territory governments for costs arising from their response, and potential compensation to industry from Australian Government directions under the Act.

Treasury

Housing Loans Insurance Corporation — guarantee

The Australian Government sold the Housing Loans Insurance Corporation (HLIC) on 12 December 1997 and has assumed all residual contingencies. The guarantee relates essentially to the HLIC's contracts of mortgage insurance and any borrowings approved by the Treasurer up to the time of sale. The principal amount covered by the guarantee and the balances outstanding are unable to be reliably measured.

Terrorism insurance — commercial cover

The *Terrorism Insurance Act 2003* established a scheme for replacement terrorism insurance covering damage to commercial property including associated business interruption and public liability. The Australian Reinsurance Pool Corporation (ARPC) uses reinsurance premiums paid by insurers to meet its administrative expenses and to build a fund and purchase reinsurance to help meet future claims. The Commonwealth guarantees to pay any liabilities of the ARPC, but the Treasurer must declare a reduced payout rate to insureds if the Commonwealth's liability would otherwise exceed $10 billion.

CONTINGENT ASSETS — UNQUANTIFIABLE

Wireless Local Area Network — contingency asset

The Commonwealth Scientific and Industrial Research Organisation (CSIRO) is currently involved in legal proceedings in the United States of America related to a Wireless Local Area Network (WLAN) patent which it owns and wishes to license broadly. If successful, CSIRO would earn significant revenue from royalty payments which would exceed the associated legal costs over time. At this stage, the revenue and costs are considered unquantifiable.

STATEMENT 9: BUDGET FINANCIAL STATEMENTS

The budget financial statements consist of a separate operating statement, including other economic flows, a balance sheet, and a cash flow statement for the Australian Government general government sector (GGS), the public non-financial corporations (PNFC) sector, and the total non-financial public sector (NFPS). This statement also contains notes showing disaggregated information for the GGS.

The *Charter of Budget Honesty Act 1998* (the Charter) requires that the budget be based on external reporting standards and for departures from these standards to be disclosed. Budgets in previous years contained three sets of financial statements, prepared according to both the Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) and Australian Accounting Standards (AAS). The Australian Accounting Standards Board released *Whole of Government and General Government Sector Financial Reporting* (AASB 1049) aiming to harmonise ABS GFS and AAS in a single set of financial statements.

For the first time, the Government has produced a single set of financial statements based on both ABS GFS and AAS, meeting the requirements of the Charter, with departures disclosed at Note 2.

The Australian, State and Territory governments have an agreed framework — the Accrual Uniform Presentation Framework (UPF) — for the presentation of government financial information on a basis broadly consistent with AASB 1049. The budget financial statements are consistent with the requirements of the UPF.

In accordance with the UPF requirements, this statement also contains an update of the Australian Government's Loan Council Allocation.

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STATEMENT 9: BUDGET FINANCIAL STATEMENTS

Table 1: Australian Government general government sector operating statement

		Estimates		Projections		
		2007-08	2008-09	2009-10	2010-11	2011-12
	Note	$m	$m	$m	$m	$m
Revenue						
Taxation revenue	3	286,382	299,235	316,957	329,343	344,085
Sales of goods and services	4	5,369	5,699	5,898	6,177	6,401
Interest income	5	5,195	6,041	6,511	7,684	8,899
Dividend income	5	2,904	4,637	3,863	3,882	3,950
Other	6	3,982	3,852	3,691	3,776	3,587
Total revenue		**303,831**	**319,464**	**336,920**	**350,862**	**366,922**
Expenses						
Gross operating expenses						
Wages and salaries(a)	7	14,958	15,307	15,403	15,723	16,157
Superannuation	7	2,765	2,900	2,939	3,064	3,151
Depreciation and amortisation	8	5,320	5,533	5,625	5,541	5,276
Payment for supply of goods and services	9	52,586	54,888	58,084	60,495	61,917
Other operating expenses(a)	7	3,895	4,178	4,318	4,545	4,521
Total gross operating expenses		*79,524*	*82,807*	*86,370*	*89,368*	*91,023*
Superannuation interest expense	7	6,210	6,508	6,598	6,817	7,039
Interest expenses	10	4,118	3,897	3,835	3,671	3,503
Current transfers						
Current grants	11	90,040	94,111	102,242	106,377	111,078
Subsidy expenses		7,222	7,637	8,291	8,509	8,971
Personal benefits	12	86,170	89,899	95,280	100,630	109,180
Total current transfers		*183,432*	*191,647*	*205,813*	*215,517*	*229,228*
Capital transfers	11					
Mutually agreed write-downs		1,793	1,904	1,784	1,829	1,929
Other capital grants		5,475	5,707	6,112	5,881	6,519
Total capital transfers		*7,267*	*7,611*	*7,897*	*7,711*	*8,448*
Total expenses		**280,551**	**292,470**	**310,513**	**323,083**	**339,241**
Net operating balance		**23,280**	**26,994**	**26,407**	**27,778**	**27,681**
Other economic flows						
Revaluation of equity(b)		-1,850	1,456	2,307	2,561	2,844
Net write-downs of assets (including bad and doubtful debts)		-3,117	-2,531	-2,624	-2,804	-2,863
Assets recognised for the first time		235	9	24	16	16
Actuarial revaluations		-1,423	0	0	0	0
Net foreign exchange gains		202	0	0	0	0
Net swap interest received		-178	-295	-254	-212	-173
Market valuation of debt		-662	199	175	154	148
Other economic revaluations(c)		-740	-641	-622	-672	-789
Total other economic flows		**-7,533**	**-1,803**	**-995**	**-956**	**-818**
Comprehensive result - Total change in net worth	13	**15,747**	**25,191**	**25,412**	**26,822**	**26,863**
Net operating balance		**23,280**	**26,994**	**26,407**	**27,778**	**27,681**
Net acquisition of non-financial assets						
Purchases of non-financial assets		7,214	9,212	9,374	9,836	10,134
less Sales of non-financial assets		253	470	278	337	198
less Depreciation		5,320	5,533	5,625	5,541	5,276
plus Change in inventories		807	569	470	351	526
plus Other movements in non-financial assets		388	94	110	153	-92
Total net acquisition of non-financial assets		**2,837**	**3,872**	**4,050**	**4,462**	**5,094**
Fiscal balance (Net lending/borrowing)(d)		**20,443**	**23,122**	**22,357**	**23,316**	**22,587**

(a) Consistent with ABS GFS classification, employee expenses cover wages and salaries. Other employee related expenses are reported under other operating expenses.
(b) Revaluations of equity reflects changes in the market valuation of investments. This line also reflects any equity revaluations at the point of disposal or sale.
(c) Largely reflects other revaluation of assets and liabilities.
(d) The term fiscal balance is not used by the ABS.

Table 2: Australian Government general government sector balance sheet

		Estimates		Projections		
		2007-08	2008-09	2009-10	2010-11	2011-12
	Note	$m	$m	$m	$m	$m
Assets						
Financial assets						
Cash and deposits	20(a)	1,928	1,568	1,913	1,956	2,307
Advances paid	14	24,811	25,921	26,754	27,696	28,254
Investments, loans and placements	15	82,251	84,264	102,647	114,746	133,810
Other receivables	14	29,838	32,160	34,501	37,242	40,449
Equity investments						
Investments in other public sector entities		19,323	18,873	18,865	18,833	18,799
Equity accounted investments		185	195	715	1,235	1,755
Investments - shares		25,601	49,133	51,936	54,943	58,184
Total financial assets		*183,937*	*212,115*	*237,331*	*256,651*	*283,557*
Non-financial assets	16					
Land		6,946	6,915	6,906	6,760	6,796
Buildings		17,014	18,194	18,969	19,616	20,681
Plant, equipment and infrastructure		42,098	44,199	47,010	50,569	54,613
Inventories		6,355	6,826	7,285	7,607	8,066
Intangibles		2,290	2,474	2,436	2,345	2,199
Investment property		148	148	148	148	148
Biological assets		5	8	9	10	11
Heritage and cultural assets		8,249	8,256	8,281	8,295	8,307
Assets held for sale		156	165	166	167	133
Other non-financial assets		3,405	2,441	2,177	2,328	2,084
Total non-financial assets		*86,666*	*89,626*	*93,387*	*97,846*	*103,039*
Total assets		**270,603**	**301,741**	**330,717**	**354,497**	**386,595**
Liabilities						
Interest bearing liabilities						
Deposits held		263	263	263	263	263
Government securities		59,195	59,336	58,758	50,751	50,808
Loans	17	6,538	6,361	6,111	6,163	5,977
Other borrowing		356	807	755	705	668
Total interest bearing liabilities		*66,352*	*66,767*	*65,886*	*57,881*	*57,715*
Provisions and payables						
Superannuation liability	18	108,114	112,119	115,906	119,715	123,579
Other employee liabilities	18	8,545	8,894	9,285	9,727	10,125
Suppliers payable	19	3,259	3,388	3,435	3,516	3,543
Personal benefits payable	19	10,841	12,017	12,392	12,971	13,787
Subsidies payable	19	988	896	802	819	1,105
Grants payable	19	4,819	4,770	4,562	4,453	4,300
Other provisions and payables	19	6,857	6,871	7,019	7,161	7,326
Total provisions and payables		*143,424*	*148,956*	*153,400*	*158,362*	*163,764*
Total liabilities		**209,776**	**215,722**	**219,286**	**216,243**	**221,479**
Net worth(a)		**60,827**	**86,019**	**111,431**	**138,254**	**165,117**
Net financial worth(b)		*-25,838*	*-3,608*	*18,045*	*40,408*	*62,078*
Net financial liabilities(c)		*45,161*	*22,480*	*821*	*-21,575*	*-43,279*
Net debt(d)(e)		*-42,639*	*-44,987*	*-65,428*	*-86,517*	*-106,655*

(a) Net worth is calculated as total assets minus total liabilities.
(b) Net financial worth equals total financial assets minus total liabilities. That is, it excludes non-financial assets.
(c) Net financial liabilities equals total liabilities less financial assets other than investments in other public sector entities.
(d) Net debt equals the sum of deposits held, advances received, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.
(e) The net debt estimates include the expected impact of the Future Fund rebalancing its portfolio allocation by increasing its holding of equities, which are not included in the calculation of net debt.

Table 3: Australian Government general government sector cash flow statement[(a)]

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Cash receipts from operating activities					
Taxes received	278,536	292,644	310,148	322,142	336,267
Receipts from sales of goods and services	5,340	5,694	5,913	6,155	6,373
Interest receipts	5,102	5,865	6,381	7,568	8,770
Dividends and income tax equivalents	2,904	4,637	3,863	3,932	4,000
Other receipts	3,486	3,651	3,511	3,572	3,409
Total operating receipts	**295,368**	**312,491**	**329,816**	**343,368**	**358,819**
Cash payments for operating activities					
Payments for employees	-20,140	-20,821	-21,125	-21,818	-22,472
Payments for goods and services	-52,691	-55,162	-58,215	-60,440	-62,130
Grants and subsidies paid	-101,480	-106,139	-116,179	-120,597	-126,256
Interest paid	-3,788	-3,699	-3,586	-4,499	-3,400
Personal benefit payments	-85,768	-88,800	-94,711	-99,974	-108,293
Other payments	-3,651	-3,847	-3,972	-4,115	-4,137
Total operating payments	**-267,519**	**-278,467**	**-297,789**	**-311,442**	**-326,688**
Net cash flows from operating activities	**27,849**	**34,024**	**32,028**	**31,926**	**32,132**
Cash flows from investments in non-financial assets					
Sales of non-financial assets	254	470	278	337	198
Purchases of non-financial assets	-7,539	-8,795	-9,463	-9,972	-10,040
Net cash flows from investments in non-financial assets	**-7,285**	**-8,325**	**-9,184**	**-9,635**	**-9,842**
Net cash flows from investments in financial assets for policy purposes	**4,848**	**-1,548**	**-1,978**	**-1,789**	**-1,773**
Cash flows from investments in financial assets for liquidity purposes					
Increase in investments	-26,332	-23,874	-19,315	-12,951	-19,976
Net cash flows from investments in financial assets for liquidity purposes	**-26,332**	**-23,874**	**-19,315**	**-12,951**	**-19,976**
Cash receipts from financing activities					
Borrowing	1,807	34	0	0	126
Other financing	1,897	1,362	1,071	825	629
Total cash receipts from financing activities	**3,704**	**1,396**	**1,071**	**825**	**754**
Cash payments for financing activities					
Borrowing	0	0	-661	-7,203	0
Other financing	-2,012	-2,032	-1,615	-1,130	-944
Total cash payments for financing activities	**-2,012**	**-2,032**	**-2,276**	**-8,333**	**-944**
Net cash flows from financing activities	**1,693**	**-636**	**-1,206**	**-7,508**	**-190**
Net increase/(decrease) in cash held	**772**	**-360**	**345**	**43**	**351**

Table 3: Australian Government general government sector cash flow statement (continued)[(a)]

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Net cash flows from operating activities and investments in non-financial assets (Surplus(+)/deficit(-))	**20,564**	**25,699**	**22,843**	**22,291**	**22,289**
Finance leases and similar arrangements(b)	-32	-502	-2	-3	-1
GFS cash surplus(+)/deficit(-)	**20,532**	**25,196**	**22,841**	**22,289**	**22,288**
less Future Fund earnings	3,717	3,493	3,173	3,293	3,418
Equals underlying cash balance(c)	**16,815**	**21,703**	**19,669**	**18,996**	**18,870**
plus Net cash flows from investments in financial assets for policy purposes	4,848	-1,548	-1,978	-1,789	-1,773
plus Future Fund earnings	3,717	3,493	3,173	3,293	3,418
Equals headline cash balance	**25,380**	**23,648**	**20,863**	**20,500**	**20,516**

(a) A positive number denotes a cash inflow; a negative sign denotes a cash outflow.
(b) The acquisition of assets under finance leases decreases the underlying cash balance. The disposal of assets previously held under finance leases increases the underlying cash balance.
(c) The term underlying cash balance is not used by the ABS.

Table 4: Australian Government public non-financial corporations sector operating statement

	Estimates	
	2007-08	2008-09
	$m	$m
Revenue		
Current grants and subsidies	79	19
Sales of goods and services	6,697	7,068
Interest income	94	58
Other	1	1
Total revenue	**6,870**	**7,146**
Expenses		
Gross operating expenses		
Depreciation	288	341
Wages and salaries(a)	2,882	3,039
Superannuation	65	69
Other operating expenses(a)	2,731	2,900
Total gross operating expenses	*5,965*	*6,349*
Interest expenses	47	67
Other property expenses	425	406
Current transfers		
Tax expenses	233	297
Total current transfers	*233*	*297*
Total expenses	**6,670**	**7,119**
Net operating balance	**200**	**27**
Other economic flows	**-319**	**-244**
Comprehensive result - Total change in net worth	**-119**	**-217**
Net acquisition of non-financial assets		
Purchases of non-financial assets	1,145	1,405
less Sales of non-financial assets	35	44
less Depreciation	288	341
plus Change in inventories	-2	-4
plus Other movements in non-financial assets	-143	1
Total net acquisition of non-financial assets	**677**	**1,017**
Fiscal balance (Net lending/borrowing)(b)	**-477**	**-990**

(a) Consistent with ABS GFS classification, employee expenses cover wages and salaries. Other employee related expenses are reported under other operating expenses.
(b) The term fiscal balance is not used by the ABS.

Table 5: Australian Government public non-financial corporations sector balance sheet

	Estimates	
	2007-08	2008-09
	$m	$m
Assets		
Financial assets		
Cash and deposits	1,127	805
Investments, loans and placements	1,951	1,876
Other receivables	1,030	1,005
Equity investments	338	345
Total financial assets	*4,446*	*4,031*
Non-financial assets		
Land and fixed assets	4,176	4,819
Other non-financial assets(a)	164	190
Total non-financial assets	*4,340*	*5,008*
Total assets	**8,786**	**9,040**
Liabilities		
Interest bearing liabilities		
Borrowing	684	1,199
Total interest bearing liabilities	*684*	*1,199*
Provisions and payables		
Other employee entitlements	977	983
Other provisions	471	508
Account payables	808	722
Total provisions and payables	*2,257*	*2,213*
Total liabilities	**2,941**	**3,412**
Shares and other contributed capital	**5,845**	**5,627**
Net worth(b)	**5,845**	**5,627**
Net financial worth(c)	*1,504*	*619*
Net debt(d)	*-2,393*	*-1,482*

(a) Excludes the impact of commercial taxation adjustments.
(b) Under AASB1049, net worth is calculated as total assets minus total liabilities. Under ABS GFS, net worth is calculated as total assets minus total liabilities minus shares and other contributed capital.
(c) Under AASB1049, net financial worth equals total financial assets minus total liabilities. That is, it excludes non-financial assets. Under ABS GFS, net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital.
(d) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table 6: Australian Government public non-financial corporations sector cash flow statement[(a)]

	Estimates	
	2007-08	2008-09
	$m	$m
Cash receipts from operating activities		
Receipts from sales of goods and services	7,300	7,703
GST input credit receipts	292	312
Other receipts	167	91
Total operating receipts	**7,760**	**8,106**
Cash payments for operating activities		
Payment for goods and services	-3,271	-3,438
Interest paid	-47	-67
Payments to employees	-2,672	-2,937
GST payments to taxation authority	-498	-510
Other payments for operating activities	-245	-252
Total operating payments	**-6,733**	**-7,204**
Net cash flows from operating activities	**1,026**	**903**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	35	44
Purchases of non-financial assets	-1,136	-1,397
Net cash flows from investments in non-financial assets	**-1,101**	**-1,352**
Net cash flows from investments in financial assets for policy purposes	**0**	**0**
Cash flows from investments in financial assets for liquidity purposes		
Increase in investments	351	-22
Net cash flows from investments in financial assets for liquidity purposes	**351**	**-22**
Cash receipts from financing activities		
Borrowing	-1	515
Other financing	29	42
Total cash receipts from financing activities	**28**	**557**
Cash payments for financing activities		
Other financing	-429	-406
Total cash payments for financing activities	**-429**	**-406**
Net cash flows from financing activities	**-401**	**151**
Net increase/(decrease) in cash held	**-124**	**-321**
Cash at the beginning of the year	**1,251**	**1,127**
Cash at the end of the year	**1,127**	**805**
Net cash from operating activities and investments in non-financial assets	**-75**	**-450**
Distributions paid	-429	-406
Equals surplus(+)/deficit(-)	**-504**	**-856**
Finance leases and similar arrangements(b)	0	0
GFS cash surplus(+)/deficit(-)	**-504**	**-856**

(a) A positive number denotes a cash inflow; a negative sign denotes a cash outflow.
(b) The acquisition of assets under finance leases decreases the surplus or increases the deficit. The disposal of assets previously held under finance leases increases the surplus or decreases the deficit.

Table 7: Australian Government total non-financial public sector operating statement

	Estimates	
	2007-08	2008-09
	$m	$m
Revenue		
Taxation revenue	286,149	298,938
Sales of goods and services	11,415	12,093
Interest income	5,289	6,100
Dividend income	2,479	4,231
Other	3,982	3,853
Total revenue	**309,314**	**325,215**
Expenses		
Gross operating expenses		
Depreciation	5,608	5,874
Superannuation	2,830	2,969
Wages and salaries(a)	17,840	18,347
Payment for supply of goods and services	54,666	57,114
Other operating expenses(a)	3,895	4,178
Total gross operating expenses	*84,839*	*88,483*
Superannuation interest expense	6,210	6,508
Other interest expenses	4,165	3,963
Current transfers		
Grant expenses	90,040	94,111
Subsidy expenses	7,143	7,619
Personal benefit payments	86,170	89,899
Total current transfers	*183,353*	*191,629*
Capital transfers	7,267	7,611
Total expenses	**285,834**	**298,194**
Net operating balance	**23,480**	**27,021**
Other economic flows	**-7,852**	**-2,047**
Comprehensive result - Total change in net worth	**15,628**	**24,974**
Net acquisition of non-financial assets		
Purchases of non-financial assets	8,359	10,617
less Sales of non-financial assets	283	469
less Depreciation	5,608	5,874
plus Change in inventories	805	565
plus Other movements in non-financial assets	241	50
Total net acquisition of non-financial assets	**3,513**	**4,889**
Fiscal balance (Net lending/borrowing)(b)	**19,967**	**22,132**

(a) Consistent with ABS GFS classification, employee expenses cover wages and salaries. Other employee related expenses are reported under other operating expenses.
(b) The term fiscal balance is not used by the ABS.

Table 8: Australian Government total non-financial public sector balance sheet

	Estimates	
	2007-08	2008-09
	$m	$m
Assets		
Financial assets		
Cash and deposits	3,055	2,373
Advances paid	24,811	25,921
Investments, loans and placements	84,202	86,140
Other receivables	30,737	33,037
Equity investments	39,602	62,919
Total financial assets	*182,407*	*210,390*
Non-financial assets		
Land and fixed assets	84,838	89,209
Other non-financial assets	6,168	5,426
Total non-financial assets	*91,006*	*94,635*
Total assets	**273,413**	**305,025**
Liabilities		
Interest bearing liabilities		
Deposits held	263	263
Government securities	59,195	59,336
Loans	6,538	6,361
Other borrowing	1,040	2,006
Total interest bearing liabilities	*67,036*	*67,966*
Provisions and payables		
Unfunded superannuation liability	108,114	112,119
Other employee entitlements	9,522	9,877
Other provisions	7,329	7,379
Other	20,584	21,666
Total provisions and payables	*145,549*	*151,040*
Total liabilities	**212,586**	**219,006**
Shares and other contributed capital	**5,845**	**5,627**
Net worth(a)	**60,827**	**86,019**
Net financial worth(b)	*-30,179*	*-8,616*
Net debt(c)	*-45,032*	*-46,469*

(a) Under AASB1049, net worth is calculated as total assets minus total liabilities. Under ABS GFS, net worth is calculated as total assets minus total liabilities minus shares and other contributed capital.

(b) Under AASB1049, net financial worth equals total financial assets minus total liabilities. That is, it excludes non-financial assets. Under ABS GFS, 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 and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table 9: Australian Government total non-financial public sector cash flow statement[(a)]

	Estimates	
	2007-08	2008-09
	$m	$m
Cash receipts from operating activities		
Taxes received	278,303	292,347
Receipts from sales of goods and services	11,586	12,320
Interest receipts	5,195	5,925
Dividends	2,494	4,257
Other receipts	3,541	3,655
Total operating receipts	**301,119**	**318,505**
Cash payments for operating activities		
Payments for goods and services	-55,114	-57,720
Grants and subsidies paid	-101,480	-106,139
Interest paid	-3,835	-3,766
Personal benefit payments	-85,768	-88,800
Payments to employees	-22,812	-23,758
Other payments for operating activities	-3,663	-3,802
Total operating payments	**-272,673**	**-283,984**
Net cash flows from operating activities	**28,446**	**34,521**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	289	514
Purchases of non-financial assets	-8,675	-10,191
Net cash flows from investments in non-financial assets	**-8,386**	**-9,678**
Net cash flows from investments in financial assets for policy purposes	**4,848**	**-1,548**
Cash flows from investments in financial assets for liquidity purposes		
Increase in investments	-25,981	-23,897
Net cash flows from investments in financial assets for liquidity purposes	**-25,981**	**-23,897**
Cash receipts from financing activities		
Borrowing	1,807	549
Total cash receipts from financing activities	**1,807**	**549**
Cash payments for financing activities		
Borrowing	0	0
Other financing	-86	-628
Total cash payments for financing activities	**-86**	**-628**
Net cash flows from financing activities	**1,721**	**-79**
Net increase/(decrease) in cash held	**648**	**-681**
Cash at the beginning of the year	**2,406**	**3,055**
Cash at the end of the year	**3,055**	**2,373**
Net cash from operating activities and investments in non-financial assets	**20,060**	**24,843**
Distributions paid	0	0
Equals surplus(+)/deficit(-)	**20,060**	**24,843**
Finance leases and similar arrangements(b)	-32	-502
GFS cash surplus(+)/deficit(-)	**20,028**	**24,341**

(a) A positive number denotes a cash inflow; a negative sign denotes a cash outflow.
(b) The acquisition of assets under finance leases decreases the surplus or increases the deficit. The disposal of assets previously held under finance leases increases the surplus or decreases the deficit.

NOTES TO THE FINANCIAL STATEMENTS

Note 1: External reporting standards and accounting policies

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

The major external standards used for budget reporting purposes are:

- the Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) publication, *Australian System of Government Finance Statistics: Concepts, Sources and Methods, cat no. 5514.0*, which in turn is based on the International Monetary Fund (IMF) accrual GFS framework; and

- Australian Accounting Standards (AAS), being *Whole of Government and General Government Sector Financial Reporting* (AASB 1049) and other applicable Australian Equivalents to International Financial Reporting Standards (AEIFRS).

As required by the Charter, the budget financial statements have been prepared on an accrual basis that complies with both ABS GFS and AAS, except for departures disclosed at Note 2.

A more detailed description of the AAS and GFS frameworks, in addition to definitions of key terms used in these frameworks can be found in Appendix A. Table 2 in Appendix A explains the key differences between the two frameworks. Detailed accounting policies as required by AAS are disclosed in the annual consolidated financial statements.

Budget reporting focuses on the general government sector (GGS). The GGS provides public services that are mainly non-market in nature and for the collective consumption of the community, or involve the transfer or redistribution of income. These services are largely financed through taxes and other compulsory levies, user charging and external funding. This sector comprises all government departments, offices and some other bodies. In preparing financial statements for the GGS all material transactions and balances between entities within the GGS have been eliminated. A list of entities within the GGS, as well as entities within and a description of the public non-financial and public financial sectors, are disclosed in Table A1 in Appendix A.

The Government's key fiscal aggregates are based on ABS GFS concepts and definitions, including the ABS GFS cash surplus/deficit and the derivation of the underlying cash balance and net financial worth. AASB 1049 requires the disclosure of other ABS GFS fiscal aggregates, including net operating balance, net lending/borrowing (fiscal balance) and net worth. In addition to these ABS GFS aggregates the Uniform Presentation Framework requires net debt, net financial worth and net financial liabilities.

For budget reporting purposes the superannuation liability has been discounted using a discount rate of 6 per cent (in accordance with the Long Term Cost Report). For outcomes AASB 119 *Employee Benefits* requires the government bond rate at balance date to be referenced when valuing the superannuation liability, with the relevant bond yield to match the term of the liability.

Explanations of variations in fiscal balance, revenue, expenses, net capital investment, cash flows, net debt and net worth since the *Pre-Election Economic and Fiscal Outlook 2007* are disclosed in Statement 3.

Details of the Australian Government's GGS contingent liabilities are disclosed in Statement 8.

Note 2: Departures from external reporting standards and changes in accounting policy

The Charter requires that departures from applicable external reporting standards be identified. The budget financial statements depart from the external reporting standards as follows.

General government sector

Departures from ABS GFS

ABS GFS requires that provisions for bad and doubtful debts be excluded from the balance sheet. This treatment has not been adopted in the budget financial statements or in any reconciliation notes because excluding such provisions would overstate the value of Australian Government assets in the balance sheet. The budget financial statements currently adopt the AAS treatment for provisions for bad and doubtful debts.

ABS GFS treats coins on issue as a liability and no revenue is recognised. The ABS GFS treatment of circulating coins as a liability has not been adopted in the budget financial statements or in any reconciliation notes. Instead, the budget financial statements adopt the AAS treatment for circulating coins. Under this treatment seigniorage revenue is recognised upon the issue of coins and no liability is recorded.

Under ABS GFS prepayments are classified as financial assets. In accordance with AAS, prepayments have been classified as non-financial assets in the budget financial statements. This is a classification difference that impacts on net financial worth.

ABS GFS currently requires Special Drawing Rights (SDRs) liabilities to be recorded as a contingent liability. However, the ABS has reviewed this treatment and will be adopting the treatment of recording SDRs as a liability from 2009. The treatment of

SDRs as a contingent liability has not been adopted in the budget financial statements or any reconciliation notes. The budget financial statements currently record SDRs as a liability. This is consistent with AAS, and also represents an early adoption of the ABS's proposed revisions to GFS from 2009 in line with revised international standards (refer ABS cat. no. 5310.0.55.001 *Information Paper: Introduction of revised international standards in ABS economic statistics in 2009*).

Departures from AASB 1049

In accordance with ABS GFS requirements, the budget financial statements do not recognise concessionality and the associated discounting of concessional loans. AAS requires concessional loans to be discounted by a market interest rate. The Government is currently reviewing the treatment of concessional loans to determine the conceptually best treatment, having regard to the impact on the Australian Government's Consolidated Financial Statements.

AASB 1049 requires the disclosure of the operating result and its derivation on the face of the operating statement. However, as this aggregate is not used by the Australian Government (and is not required by the UPF) it has been disclosed in Note 11 rather than on the face of the operating statement.

AASB 1049 requires disaggregated information, by ABS GFS function, for expenses and total assets to be disclosed where they are reliably attributable. The Government is currently reviewing the practicalities and usefulness of attributing total assets to function. The ABS GFS does not require such information. In accordance with ABS GFS disaggregated information for expenses and net acquisition of non-financial assets is disclosed in Statement 6. In accordance with the UPF, purchases of non-financial assets by function is also disclosed in Statement 6.

AASB 1049 requires AAS measurement of items to be disclosed on the face of the financial statements with reconciliation to ABS GFS measurement of items, where different, in notes to the financial statements. Reconciliation notes have not been included as they effectively create two measures of the same aggregate.

Changes in accounting policy

The budget financial statements recognise the goods and services tax as an Australian Government tax and the corresponding payment to the States as a grant. This change in accounting policy improves fiscal balance. Refer to Box 5 in Statement 5 for further details.

Defence weapons platforms have been treated as capital investment rather than expenses. This is consistent with AAS, and also represents an early adoption of the ABS's proposed revisions to GFS from 2009 in line with revised international standards (refer ABS cat. no. 5310.0.55.001 *Information Paper: Introduction of revised international standards in ABS economic statistics in 2009*). This change in accounting policy has improved net worth by $35.6 billion with no impact on fiscal balance and the underlying cash balance. This change has been back-cast to 1999-2000, and is consistent with net worth in earlier years.

Public non-financial corporations (PNFC), public financial corporations (PFC) and total non-financial public sectors (NFPS)

AASB 1049 defines net worth for the PNFC, PFC and NFPS sectors as total assets less total liabilities, however ABS GFS defines net worth as total assets less total liabilities less shares and contributed capital (which is equal to zero for the PNFC and PFC sectors). The net financial worth of these sectors will also be different under AASB 1049 to ABS GFS where it equals financial assets less total liabilities less shares and contributed capital. The AASB 1049 treatment has been adopted in the PNFC and NFPS sector financial statements.

The financial statements for the PNFC and NFPS sectors comply with the Uniform Presentation Framework but do not include all the line item disclosures required by AASB 1049. Disaggregated outcome notes for the PNFC sectors will be disclosed in the consolidated financial statements.

Note 3: Taxation revenue by type

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Income taxation					
Individuals and other withholding taxes					
Gross income tax withholding	114,610	117,410	124,180	131,740	136,750
Gross other individuals	30,130	31,300	31,500	32,990	33,740
less Refunds	19,640	22,010	23,130	24,720	24,800
Total individuals and other withholding taxation	125,100	126,700	132,550	140,010	145,690
Fringe benefits tax	3,900	4,110	4,190	4,260	4,140
Superannuation funds	11,710	9,750	10,450	11,140	12,400
Company tax	66,480	73,490	80,770	82,520	86,460
Petroleum resource rent tax	1,840	2,920	3,470	2,830	2,790
Total income taxation revenue	**209,030**	**216,970**	**231,430**	**240,760**	**251,480**
Indirect taxation					
Sales taxes					
Goods and services tax	44,370	46,900	49,960	52,680	55,560
Wine equalisation tax	670	680	690	710	730
Luxury car tax	440	580	610	630	650
Other	-20	0	0	0	0
Total sales taxes	45,460	48,160	51,260	54,020	56,940
Excise duty					
Petrol	6,700	6,970	6,890	6,820	6,860
Diesel	6,700	6,860	7,100	7,350	7,610
Other fuel products	1,060	1,210	1,380	1,570	1,700
Crude oil	470	1,060	1,070	1,100	1,110
Beer	1,880	1,910	1,960	2,020	2,080
Potable spirits	200	190	190	190	190
Other excisable beverages	850	1,430	1,610	1,790	2,010
Tobacco	5,530	5,550	5,590	5,630	5,660
Total excise duty revenue	23,390	25,180	25,790	26,470	27,220
Customs duty					
Textiles, clothing and footwear	950	990	760	520	560
Passenger motor vehicles	1,360	1,450	1,160	790	820
Excise-like goods	2,410	2,540	2,710	2,860	3,010
Other imports	1,500	1,560	1,620	1,680	1,740
less Refunds and drawbacks	230	240	240	240	240
Total customs duty revenue	5,990	6,300	6,010	5,610	5,890
Other indirect taxation					
Agricultural levies	577	595	398	342	353
Other taxes	1,935	2,031	2,070	2,141	2,202
Total other indirect taxation revenue	2,512	2,625	2,467	2,483	2,555
Mirror taxes	377	399	420	444	470
less Transfers to States in relation to mirror tax revenue	377	399	420	444	470
Mirror tax revenue	0	0	0	0	0
Total indirect taxation revenue	**77,352**	**82,265**	**85,527**	**88,583**	**92,605**
Total taxation revenue	**286,382**	**299,235**	**316,957**	**329,343**	**344,085**

Note 3(a): Taxation revenue by source

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Taxes on income, profits and capital gains					
Income and capital gains levied on individuals	129,040	130,810	136,740	144,270	149,830
Income and capital gains levied on enterprises	79,990	86,160	94,690	96,490	101,650
Total taxes on income, profits and capital gains	**209,030**	**216,970**	**231,430**	**240,760**	**251,480**
Taxes on employers' payroll and labour force	372	331	316	328	341
Taxes on property	15	15	15	15	15
Taxes on the provision of goods and services					
Sales/goods and services tax	45,460	48,160	51,260	54,020	56,940
Excises and levies	24,142	25,937	26,350	26,974	27,736
Taxes on international trade	5,990	6,300	6,010	5,610	5,890
Total taxes on the provision of goods and services	**75,592**	**80,397**	**83,620**	**86,604**	**90,566**
Taxes on use of goods and performance of activities	1,373	1,522	1,576	1,636	1,683
Total taxation revenue	**286,382**	**299,235**	**316,957**	**329,343**	**344,085**

Note 4: Sales of goods and services revenue

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Sales of goods	1,316	1,323	1,382	1,402	1,421
Rendering of services	2,453	2,574	2,619	2,768	2,884
Operating lease rental	13	7	6	15	15
Other fees from regulatory services	1,587	1,794	1,891	1,992	2,081
Total sales of goods and services revenue	**5,369**	**5,699**	**5,898**	**6,177**	**6,401**

Note 5: Interest and dividend income

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Interest from other governments					
State and Territory debt	188	183	179	174	169
Housing agreements	16	15	14	13	11
Total interest from other governments	**204**	**198**	**193**	**187**	**181**
Interest from other sources					
Advances	28	30	31	32	32
Deposits	95	103	103	105	104
Bills receivable	6	187	192	197	202
Bank deposits	286	318	337	355	376
Indexation of HELP receivable and other student loans	374	478	512	541	585
Other	4,203	4,726	5,142	6,268	7,419
Total interest from other sources	**4,991**	**5,843**	**6,318**	**7,497**	**8,718**
Total interest	**5,195**	**6,041**	**6,511**	**7,684**	**8,899**
Dividends					
Dividends from other public sector entities	1,404	2,978	2,132	2,171	2,260
Other dividends	1,499	1,659	1,731	1,710	1,691
Total dividends	**2,904**	**4,637**	**3,863**	**3,882**	**3,950**
Total interest and dividend income	**8,099**	**10,678**	**10,374**	**11,566**	**12,849**

Note 6: Other sources of non-taxation revenue

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Industry contributions	108	106	107	107	55
Royalties	1,312	1,224	1,214	1,201	1,131
Seigniorage	106	103	103	103	2
Other	2,455	2,418	2,267	2,364	2,400
Total other sources of non-taxation revenue	**3,982**	**3,852**	**3,691**	**3,776**	**3,587**

Note 7: Employee and superannuation expense

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Wages and salaries expenses	**14,958**	**15,307**	**15,403**	**15,723**	**16,157**
Other operating expenses					
Leave and other entitlements	1,617	1,643	1,657	1,763	1,838
Separations and redundancies	64	43	43	41	42
Workers compensation premiums and claims	353	513	525	543	315
Other	1,862	1,979	2,093	2,198	2,327
Total other operating expenses	**3,895**	**4,178**	**4,318**	**4,545**	**4,521**
Superannuation expenses					
Superannuation	2,765	2,900	2,939	3,064	3,151
Superannuation interest cost	6,210	6,508	6,598	6,817	7,039
Total superannuation expenses	**8,975**	**9,408**	**9,537**	**9,882**	**10,190**
Total employee and superannuation expense	**27,829**	**28,894**	**29,259**	**30,149**	**30,868**

Note 8: Depreciation and amortisation expense

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Depreciation					
Specialist military equipment	3,203	2,748	2,609	2,487	2,533
Buildings	646	951	1,059	1,093	892
Other infrastructure, plant and equipment	939	1,263	1,332	1,326	1,217
Heritage and cultural assets	43	43	44	44	44
Total depreciation	**4,832**	**5,005**	**5,044**	**4,950**	**4,688**
Total amortisation	**488**	**528**	**581**	**590**	**588**
Total depreciation and amortisation expense	**5,320**	**5,533**	**5,625**	**5,541**	**5,276**

Note 9: Payment for supply of goods and services

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Supply of goods and services	17,906	17,800	18,587	18,820	19,274
Operating lease rental expenses	1,961	2,001	2,049	2,048	2,039
Personal benefits - indirect	26,622	28,703	30,701	32,478	32,759
Health care payments	4,694	4,866	5,006	5,074	5,145
Other	1,402	1,517	1,741	2,075	2,700
Total payment for supply of goods and services	**52,586**	**54,888**	**58,084**	**60,495**	**61,917**

Note 10: Interest expense

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Interest on debt					
Government securities	3,537	3,451	3,400	3,249	3,142
Loans	34	15	9	8	7
Other	106	90	83	77	23
Total interest on debt	**3,676**	**3,556**	**3,493**	**3,334**	**3,172**
Other financing costs	**441**	**340**	**342**	**337**	**331**
Total interest expense	**4,118**	**3,897**	**3,835**	**3,671**	**3,503**

Note 11: Current and capital grants expense

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Current grants expense					
State and Territory governments	69,798	73,215	77,404	81,525	85,356
Local governments	43	44	44	45	46
Private sector	2,333	1,905	1,721	1,460	1,183
Overseas	2,592	3,117	3,119	3,428	3,191
Non-profit organisations	1,913	1,836	2,716	2,614	3,544
Multi-jurisdictional sector	7,538	6,440	7,382	7,389	7,787
Other	5,823	7,553	9,856	9,917	9,971
Total current grants expense	**90,040**	**94,111**	**102,242**	**106,377**	**111,078**
Capital grants expense					
Mutually agreed write-downs	1,793	1,904	1,784	1,829	1,929
Other capital grants					
State and Territory governments	4,651	4,697	5,508	5,394	6,025
Local governments	505	630	120	0	0
Multi-jurisdictional sector	76	65	75	75	79
Other	243	315	411	413	415
Total capital grants expense	**7,267**	**7,611**	**7,897**	**7,711**	**8,448**
Total grants expense	**97,308**	**101,722**	**110,139**	**114,088**	**119,526**

Note 12: Personal benefit payments

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Social welfare - assistance to the aged	26,608	27,644	29,165	31,294	33,456
Assistance to veterans and dependants	6,155	6,090	6,054	6,016	6,130
Assistance to people with disabilities	12,883	13,085	13,784	14,447	15,045
Assistance to families with children	26,385	28,177	28,718	29,180	29,984
Assistance to the unemployed	4,272	5,032	5,258	5,740	6,081
Student assistance	474	475	470	472	474
Common youth allowance	2,097	2,133	2,141	2,177	2,192
Other welfare programmes	1,586	1,541	1,578	1,601	1,622
Financial and fiscal affairs	286	266	254	328	499
Higher education	124	124	126	129	132
Vocational and industry training	111	143	155	166	167
Other	5,189	5,190	7,577	9,080	13,397
Total personal benefit payments	**86,170**	**89,899**	**95,280**	**100,630**	**109,180**

Note 13: Operating result and comprehensive result (total change in net worth)

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Opening net worth	**-6,068**	**60,828**	**86,019**	**111,431**	**138,254**
Opening net worth adjustments(a)	51,149	0	0	0	0
Adjusted opening net worth	**45,080**	**60,828**	**86,019**	**111,431**	**138,254**
Net operating balance	23,280	26,994	26,407	27,778	27,681
Other economic flows – Included in operating result					
Net foreign exchange gains	202	0	0	0	0
Net gains from sale of assets	25	-40	35	44	52
Other gains	-2,733	1,822	3,231	3,170	2,356
Swap interest	1,627	1,273	1,023	779	602
Net write-down and impairment of assets and fair value losses	-4,440	-2,661	-2,754	-2,934	-2,993
Net losses from sale of assets	-10	-19	7	1	-5
Swap interest expense	-1,805	-1,568	-1,277	-991	-775
Total other economic flows	**-7,135**	**-1,193**	**265**	**71**	**-763**
Operating result(b)	**16,146**	**25,801**	**26,673**	**27,849**	**26,918**
Other economic flows - other movements in equity(c)	-398	-610	-1,260	-1,027	-55
Comprehensive result	**15,747**	**25,191**	**25,412**	**26,822**	**26,863**

(a) Change in net worth mainly arising from the recognition of GST as an Australian Government tax and a change in accounting policy for defence weapons and education grants.
(b) Operating result under AEIFRS accounting standards.
(c) Other economic flows not included in the AEIFRS accounting standards operating result.

Note 14: Advances paid and receivables

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Advances paid					
Loans to State and Territory governments	3,790	3,694	3,594	3,493	3,395
Higher Education Loan Program	12,880	13,817	14,754	15,592	16,282
Student Financial Supplement Scheme	800	702	589	468	372
Other	7,640	7,862	7,996	8,330	8,404
less Provision for doubtful debts	299	154	179	188	199
Total advances paid	**24,811**	**25,921**	**26,754**	**27,696**	**28,254**
Other receivables					
Goods and services receivable	777	754	728	721	728
Recoveries of benefit payments	2,591	2,650	2,595	2,553	2,522
Taxes receivable	16,625	18,247	20,125	22,574	25,349
Other	12,163	12,976	13,631	14,055	14,634
less Provision for doubtful debts	2,318	2,467	2,579	2,659	2,784
Total other receivables	**29,838**	**32,160**	**34,501**	**37,242**	**40,449**

Note 15: Investments, loans and placements

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Investments - deposits	76,337	78,240	96,534	108,515	127,498
IMF quota	5,547	5,547	5,547	5,547	5,547
Other	367	477	565	684	764
Total investments, loans and placements	**82,251**	**84,264**	**102,647**	**114,746**	**133,810**

Note 16: Total non-financial assets

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Land and buildings					
Land	6,946	6,915	6,906	6,760	6,796
Buildings	17,014	18,194	18,969	19,616	20,681
Total land and buildings	**23,960**	**25,108**	**25,875**	**26,376**	**27,477**
Plant, equipment and infrastructure					
Specialist military equipment	32,025	33,935	36,926	40,681	44,919
Other	10,073	10,265	10,085	9,889	9,694
Total plant, equipment and infrastructure	**42,098**	**44,199**	**47,010**	**50,569**	**54,613**
Intangibles					
Computer software	2,182	2,368	2,327	2,248	2,118
Other	108	106	110	97	81
Total intangibles	**2,290**	**2,474**	**2,436**	**2,345**	**2,199**
Total heritage and cultural assets	**8,249**	**8,256**	**8,281**	**8,295**	**8,307**
Total investment properties	**148**	**148**	**148**	**148**	**148**
Total biological assets	**5**	**8**	**9**	**10**	**11**
Inventories					
Inventories held for sale	770	855	832	862	928
Inventories not held for sale	5,585	5,971	6,453	6,745	7,138
Total inventories	**6,355**	**6,826**	**7,285**	**7,607**	**8,066**
Total assets held for sale	**156**	**165**	**166**	**167**	**133**
Other non-financial assets					
Prepayments	3,050	2,096	1,722	1,720	1,724
Other	355	345	455	608	359
Total other non-financial assets	**3,405**	**2,441**	**2,177**	**2,328**	**2,084**
Total non-financial assets	**86,666**	**89,626**	**93,387**	**97,846**	**103,039**

Note 17: Loans

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Promissory notes	3,492	3,492	3,492	3,492	3,492
Special Drawing Rights	807	807	807	807	807
Other	2,240	2,063	1,812	1,865	1,678
Total loans	**6,538**	**6,361**	**6,111**	**6,163**	**5,977**

Note 18: Employee and superannuation liabilities

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Total superannuation liability	**108,114**	**112,119**	**115,906**	**119,715**	**123,579**
Other employee liabilities					
Leave and other entitlements	4,689	4,884	5,088	5,389	5,721
Accrued salaries and wages	267	294	348	368	393
Workers compensation claims	1,538	1,587	1,630	1,672	1,713
Separations and redundancies	38	34	34	34	34
Workers compensation premiums	0	0	0	0	0
Other	2,012	2,095	2,185	2,264	2,264
Total other employee liabilities	**8,545**	**8,894**	**9,285**	**9,727**	**10,125**
Total employee and superannuation liabilities	**116,659**	**121,013**	**125,191**	**129,442**	**133,704**

Note 19: Provisions and payables

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Suppliers payable					
Trade creditors	2,880	2,966	2,993	3,063	3,089
Operating lease rental payable	68	91	92	92	91
Other creditors	310	331	350	361	362
Total suppliers payable	**3,259**	**3,388**	**3,435**	**3,516**	**3,543**
Total personal benefits payable	**10,841**	**12,017**	**12,392**	**12,971**	**13,787**
Total subsidies payable	**988**	**896**	**802**	**819**	**1,105**
Grants payable					
State and Territory governments	105	90	90	91	91
Non-profit organisations	50	50	50	50	50
Private sector	227	212	212	212	212
Overseas	508	624	494	462	398
Local governments	4	4	4	4	4
Other	3,925	3,791	3,712	3,635	3,545
Total grants payable	**4,819**	**4,770**	**4,562**	**4,453**	**4,300**
Other provisions and payables					
Provisions for tax refunds	1,446	1,446	1,446	1,446	1,446
Other	5,411	5,425	5,572	5,715	5,880
Total other provisions and payables	**6,857**	**6,871**	**7,019**	**7,161**	**7,326**

Note 20: Reconciliation of cash

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Operating balance (revenues less expenses)	**23,280**	**26,994**	**26,407**	**27,778**	**27,681**
less **Revenues not providing cash**					
Other	1,101	1,066	734	1,002	715
Total revenues not providing cash	**1,101**	**1,066**	**734**	**1,002**	**715**
plus **Expenses not requiring cash**					
Increase/(decrease) in employee entitlements	4,105	4,239	4,178	4,251	4,262
Depreciation/amortisation expense	5,320	5,533	5,625	5,541	5,276
Other	538	612	425	228	129
Total expenses not requiring cash	**9,963**	**10,385**	**10,227**	**10,020**	**9,666**
plus **Cash provided by working capital items**					
Decrease in other non-financial assets	1,094	956	375	4	1
Increase in benefits, subsidies and grants payable	1,142	1,390	374	769	1,102
Increase in suppliers' liabilities	94	129	47	81	27
Increase in other provisions and payables	204	24	318	0	284
Total cash provided by working capital items	**2,535**	**2,500**	**1,115**	**853**	**1,413**
less **Cash used by working capital items**					
Increase in inventories	284	471	459	322	459
Increase in receivables	5,547	3,479	3,716	4,452	4,736
Increase in other financial assets	597	746	550	362	558
Increase in other non-financial assets	15	0	0	0	4
Decrease in benefits, subsidies and grants payable	385	92	263	0	157
Decrease in suppliers' liabilities	0	0	0	0	0
Decrease in other provisions and payables	0	0	0	588	0
Total cash used by working capital items	**6,827**	**4,789**	**4,988**	**5,724**	**5,914**
equals Net cash from/(to) operating activities	27,849	34,024	32,028	31,926	32,132
plus Net cash from/(to) investing activities	-28,769	-33,748	-30,477	-24,375	-31,591
Net cash from operating activities and investment	**-920**	**276**	**1,550**	**7,551**	**540**
plus Net cash from/(to) financing activities	1,693	-636	-1,206	-7,508	-190
equals Net increase/(decrease) in cash	**772**	**-360**	**345**	**43**	**351**
Cash at the beginning of the year	**1,156**	**1,928**	**1,568**	**1,913**	**1,956**
Net increase/(decrease) in cash	772	-360	345	43	351
Cash at the end of the year	**1,928**	**1,568**	**1,913**	**1,956**	**2,307**

Note 20(a): Consolidated Revenue Fund

The estimated and projected cash balances reflected in the balance sheet for the Australian Government GGS (Table 2) include the reported cash balances controlled and administered by Australian Government agencies subject to the *Financial Management and Accountability Act 1997*, and the reported cash balances controlled and administered by entities subject to the *Commonwealth Authorities and Companies Act 1997* (CAC Act), that implement public policy through the provision of primarily non-market services.

Revenues or monies raised by the Executive Government automatically form part of the Consolidated Revenue Fund by force of section 81 of the Australian Constitution. For practical purposes, total Australian Government GGS cash, less cash controlled and administered by CAC Act entities, plus special public monies, represents the Consolidated Revenue Fund referred to in section 81 of the Australian Constitution. On this basis, the balance of the Consolidated Revenue Fund is shown below.

	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
	$m	$m	$m	$m	$m
Total general government sector cash	1,928	1,568	1,913	1,956	2,307
less CAC Agency cash balances	1,030	1,001	1,094	1,193	1,258
plus Special public monies	132	136	140	145	150
Balance of Consolidated Revenue Fund at 30 June	**1,030**	**703**	**959**	**908**	**1,199**

Further information on the Consolidated Revenue Fund is included in Budget Paper No. 4, *Agency Resourcing 2008-09*.

APPENDIX A: FINANCIAL REPORTING STANDARDS AND BUDGET CONCEPTS

The *Charter of Budget Honesty Act 1998* (the Charter) requires the budget to be based on external reporting standards. Budgets in previous years contained three sets of financial statements prepared according to both the Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) and Australian Accounting Standards (AAS). The Australian Accounting Standards Board released *Whole of Government and General Government Sector Financial Reporting* (AASB 1049) aiming to harmonise ABS GFS and AAS in a single set of financial statements. The 2008-09 Budget is therefore the first budget prepared according to both AAS and ABS GFS, subject to disclosed departures, in a single set of statements.

AASB 1049 and the UPF also provides a basis for reporting of public non-financial corporations, public financial corporations and total non-financial public sectors.

General Government Sector Financial Reporting (AASB 1049)

The budget papers primarily focus on the financial performance and position of the general government sector (GGS). The ABS defines the GGS as providing public services which are mainly non-market in nature, mainly for the collective consumption of the community, involving the transfer or redistribution of income and financed mainly through taxes and other compulsory levies. Pursuant to AAS, the GGS has recently been recognised as a reporting entity.

AASB 1049 history and conceptual framework

The Australian Accounting Standards Board (AASB) released AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049) for application in the 2008-09 Budget. AASB 1049 seeks to 'harmonise' ABS GFS and AAS.

The reporting framework for AASB 1049 requires the preparation of accrual based general purpose financial reports, showing assets, liabilities, income, expenses and cash flows. GGS reporting under AASB 1049 aims to provide users with information about the stewardship of each government and accountability for the resources entrusted to it; information about the financial position, performance and cash flows and information that facilitates assessments of the macro-economic impact of the government. While AASB 1049 provides a basis for whole-of-government and GGS outcome reporting (including the public non-financial corporations and public financial corporations sectors), budget reporting focuses on the GGS.

The Government's budget reporting framework

There are three main general purpose statements that must be prepared in accordance with ABS GFS and AASB 1049. These are:

- an operating statement, including other economic flows, which shows net operating balance and net lending/borrowing (fiscal balance);
  - to allow the presentation of a single set of financial statements, in accordance with AASB 1049 the ABS GFS statement of other economic flows has been incorporated into the operating statement;
- a balance sheet, which shows net worth, net financial worth, net debt and net financial liabilities; and
- a cash flow statement, which shows the derivation of the underlying cash balance.

In addition to these general purpose statements, notes to the financial statements are prepared. These notes include a summary of accounting policies, disaggregated information and other disclosures required by AAS. A full set of notes and other outcome disclosures required by AAS are included in the annual consolidated financial statements.

All financial data presented in the budget financial statements is recorded as either stocks (assets and liabilities) or flows (classified as either transactions or other economic flows). Transactions result from a mutually agreed interaction between economic entities. Despite their compulsory nature, taxes are transactions deemed to occur by mutual agreement between the government and the taxpayer. Transactions that increase or decrease net worth (assets minus liabilities) are reported as revenues and expenses respectively in the operating statement.[1]

A change to the value or volume of an asset or liability that does not result from a transaction is an other economic flow. This can include changes in values from market prices, most actuarial valuations, exchange rates and changes in volumes from discoveries, depletion and destruction. All other economic flows are reported as operating transactions.

Consistent with the ABS GFS framework and, in general AAS, the budget financial statements records flows in the period in which they occur. As a result, prior period outcomes may be revised for classification changes relating to information that could reasonably have been expected to be known in the past, is material in at least one of the affected periods, and can be reliably assigned to the relevant period(s).

1 Not all transactions impact net worth. For example, transactions in financial assets and liabilities do not impact net worth as they represent the swapping of assets and liabilities on the balance sheet.

Operating statement

The operating statement presents details of transactions in revenues, expenses, the net acquisition of non-financial assets (net capital investment) and other economic flows for an accounting period.

Revenues arise from transactions that increase net worth and expenses arise from transactions that decrease net worth. Revenues less expenses gives the net operating balance. The net operating balance is similar to the National Accounts concept of government saving plus capital transfers.

The net acquisition of non-financial assets (net capital investment) measures the change in the Australian Government's stock of non-financial assets 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.

Other economic flows are presented in the operating statement and outline changes in net worth that are driven by economic flows other than revenues and expenses. Revenues, expenses and other economic flows sum to the total change in net worth during a period. The majority of other economic flows for the Australian Government GGS arise from price movements in assets and liabilities.

Fiscal balance

The fiscal balance (or net lending/borrowing) is the net operating balance less net capital investment. Thus, the fiscal balance includes the impact of net expenditure (effectively purchases less sales) on non-financial assets rather than consumption (depreciation) of non-financial assets.[2]

The fiscal balance measures the Australian Government's investment saving balance. 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 Australian Government GGS to the balance on the current account in the balance of payments.

2 The net operating balance includes consumption of non-financial assets because depreciation is an expense. Depreciation also forms part of net capital investment, which (in the calculation of fiscal balance) offsets the inclusion of depreciation in the net operating balance.

Balance sheet

The balance sheet shows stocks of assets, liabilities and net worth. In accordance with the UPF, net debt, net financial worth and net financial liabilities is also reported in the balance sheet.

Net worth

The net worth of the GGS, PNFC and PFC sectors is defined as assets less liabilities. This differs from the ABS GFS definition for the PNFC and PFC sectors where net worth is defined as assets less liabilities less shares and other contributed capital. Net worth is an economic measure of wealth, reflecting the Australian Government's contribution to the wealth of Australia.

Net financial worth

Net financial worth measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets less liabilities. This differs from the ABS GFS definition of net financial worth for the PNFC and PFC sectors defined as financial assets less liabilities less shares and other contributed capital. Net financial worth is a broader measure than net debt, in that it incorporates provisions made (such as superannuation) as well as holdings of equity. Net financial worth includes all classes of financial assets and all liabilities, only some of which are included in net debt. As non-financial assets are excluded from net financial worth, this is a narrower measure than net worth. However, it avoids the concerns inherent with the net worth measure relating to the valuation of non-financial assets and their availability to offset liabilities.

Net financial liabilities

Net financial liabilities comprises total liabilities less financial assets but excludes equity investments in the other sectors of the jurisdiction. Net financial liabilities is a more accurate indicator than net debt of a jurisdiction's fiscal position as it includes substantial non-debt liabilities such as accrued superannuation and long service leave entitlements. Excluding the net worth of other sectors of government results in a purer measure of financial worth than net financial worth as, in general, the net worth of other sectors of government, in particular the PNFC sector, is backed up by physical assets.

Net debt

Net debt is the sum of selected financial liabilities (deposits held, advances received, government securities, loans, and other borrowing) less the sum of selected financial assets[3] (cash and deposits, advances paid, and investments, loans and placements). Net

3 Financial assets are defined as cash, an equity instrument of another entity, a contractual right to receive cash or a financial asset, or a contract that will or may be settled in the entity's own equity instruments.

debt does not include 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.

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 information is 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 plus Future Fund earnings (ABS GFS cash surplus/deficit) is the cash counterpart of the fiscal balance, reflecting the Australian Government's cash investment-saving balance. This measure is conceptually equivalent under the current accrual framework and the previous cash framework. For the GGS, the underlying cash balance is calculated as shown below.

Net cash flows from operating activities

plus

Net cash flows from investments in non-financial assets

less

Net acquisitions of assets acquired under finance leases and similar arrangements[4]

equals

ABS GFS cash surplus/deficit

less

Future Fund earnings

equals

Underlying cash balance

The Government is reporting the underlying cash balance net of Future Fund earnings from 2005-06 onwards because the earnings will be reinvested to meet future

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4 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 by 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.

superannuation payments and are therefore not available for current spending. However, Future Fund earnings are included in the fiscal balance because superannuation expenses relating to future cash payments are recorded in the fiscal balance estimates.

Expected Future Fund earnings are separately identified in the Australian Government GGS cash flow statement in Table 3 of this statement and the historic tables in Statement 10.

Headline cash balance

The headline cash balance is calculated by adding cash flows from investments in financial assets for policy purposes and Future Fund earnings to the underlying cash balance.

Cash flows from investments in financial assets for policy purposes include equity transactions and net advances.[5] 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 Loan Program (HELP), and contributions to international organisations that increase the Australian Government's financial assets.

Sectoral classifications

To assist in analysing the public sector, data are presented by institutional sector as shown in Figure 1. ABS GFS defines the GGS and the PNFC and PFC sectors. In accordance with ABS GFS, AASB 1049 has also adopted this sectoral reporting.

5 Cash flows from investments in financial assets for policy purposes were called net advances under the cash budgeting framework.

Figure 1: Institutional structure of the public sector

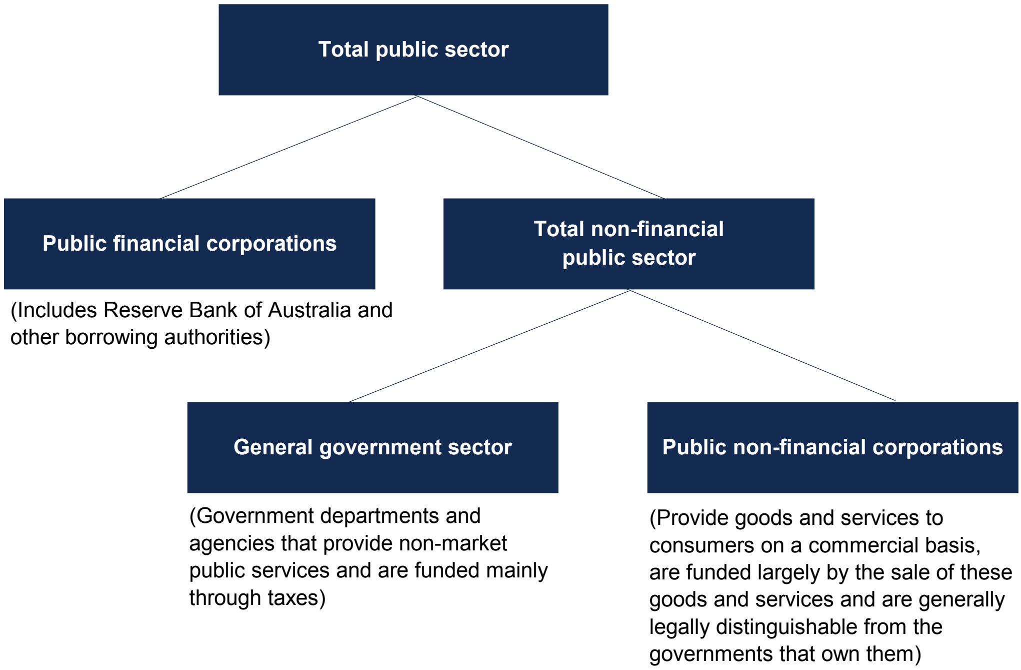

Table A1: Entities within the sectoral classifications

General government sector entities
Agriculture, Fisheries and Forestry Portfolio Australian Fisheries Management Authority, Australian Pesticides and Veterinary Medicines Authority, Australian Wine and Brandy Corporation, Biosecurity Australia, Cotton Research and Development Corporation, Dairy Adjustment Authority, Department of Agriculture, Fisheries and Forestry, Export Wheat Commission, Forest and Wood Products Australia Ltd, Fisheries Research and Development Corporation, Grains Research and Development Corporation, Grape and Wine Research and Development Corporation, Land and Water Resources Research and Development Corporation, Rural Industries Research and Development Corporation, Sugar Research and Development Corporation
Attorney-General's Portfolio Administrative Appeals Tribunal, Attorney-General's Department, Australian Commission for Law Enforcement Integrity, Australian Crime Commission, Australian Customs Service, Australian Federal Police, Australian Institute of Criminology, Australian Law Reform Commission, Australian Security Intelligence Organisation, Australian Transaction Reports and Analysis Centre (AUSTRAC), Criminology Research Council, Crimtrac, Family Court of Australia, Federal Court of Australia, Federal Magistrates Court, High Court of Australia, Human Rights and Equal Opportunity Commission, Insolvency and Trustee Service Australia, National Capital Authority, National Native Title Tribunal, Office of Parliamentary Counsel, Office of the Director of Public Prosecutions
Broadband, Communications and the Digital Economy Portfolio Australian Broadcasting Corporation, Australian Communications and Media Authority, Department of Broadband, Communications and Digital Economy, Special Broadcasting Service Corporation
Defence Portfolio Army and Air Force Canteen Service, Australian Military Forces Relief Trust Fund, Australian Strategic Policy Institute Ltd, Australian War Memorial, Defence Housing Australia, Defence Materiel Organisation, Department of Defence, Department of Veterans Affairs, Royal Australian Air Force Veterans' Residences Trust Fund, Royal Australian Air Force Welfare Trust Fund, Royal Australian Navy Central Canteens Board, Royal Australian Navy Relief Trust Fund
Education, Employment and Workplace Relations Portfolio Australian Fair Pay Commission Secretariat, Australian Industrial Registry, Comcare, Department of Education, Employment and Workplace Relations, Office of the Australian Building and Construction Commissioner, Office of the Workplace Ombudsman, Seafarers Safety, Rehabilitation and Compensation Authority (Seacare Authority), Teaching Australia — Australian Institute for Teaching and School Leadership Ltd, The Carrick Institute for Learning and Teaching In Higher Education Ltd, Workplace Authority

Table A1: Entities within the sectoral classifications (continued)

General government sector entities (continued)

Environment, Water, Heritage and the Arts Portfolio

Australia Business Arts Foundation Ltd, Australia Council, Australian Film Commission, Australian Film, Television and Radio School, Australian National Maritime Museum, Bundanon Trust, Bureau of Meteorology, Department of Environment, Water, Heritage and the Arts, Film Australia Ltd, Great Barrier Reef Marine Park Authority, National Gallery of Australia, National Library of Australia, National Museum of Australia, National Water Commission, NEPC Service Corporation, Sydney Harbour Federation Trust, The Director of National Parks

Family, Housing, Community Services and Indigenous Affairs Portfolio

Aboriginal Hostels Ltd, Anindilyakwa Land Council, Central Land Council, Department of Family, Housing, Community Services and Indigenous Affairs, Equal Opportunity for Women in the Workplace Agency, Indigenous Business Australia, Indigenous Land Corporations, Northern Land Council, Tiwi Land Council, Torres Strait Regional Authority, Wreck Bay Aboriginal Community Council

Finance and Deregulation Portfolio

Australian Electoral Commission, Australian Reward Investment Alliance, Comsuper, Department of Finance and Deregulation, Future Fund Management Agency, Telstra Sale Company Ltd

Foreign Affairs and Trade Portfolio

AusAid, Australian Centre for International Agricultural Research, Australian Secret Intelligence Service, Australian Trade Commission, Department of Foreign Affairs and Trade, Export Finance and Insurance Corporation National Interest Account

Health and Ageing Portfolio

Aged Care Standards and Accreditation Agency Ltd, Australian Institute of Health and Welfare, Australian Radiation Protection and Nuclear Safety Agency, Australian Sports Anti-Doping Authority, Australian Sports Commission, Cancer Australia, Department of Health and Ageing, Food Standards Australia New Zealand, General Practice Education and Training Ltd, National Blood Authority, National Health and Medical Research Council, Private Health Insurance Administration Council, Private Health Insurance Ombudsman, Professional Services Review Scheme

Human Services Portfolio

Centrelink (Commonwealth Service Delivery Agency), Department of Human Services, Medicare Australia

Table A1: Entities within the sectoral classifications (continued)

General government sector entities (continued)
Immigration and Citizenship Portfolio
Department of Immigration and Citizenship Affairs, Migration Review Tribunal and Refugee Review Tribunal
Infrastructure, Transport, Regional Development and Local Government Portfolio
Australian Maritime Safety Authority, Civil Aviation Safety Authority, Department of Infrastructure, Transport, Regional Development and Local Government, Maritime Industry Finance Company
Innovation, Industry, Science and Research Portfolio
Australia Institute of Aboriginal and Torres Strait Islander Studies, Australian Institute of Marine Science, Australia Nuclear Science and Technology Organisation, Australia Research Council, Commonwealth Scientific and Industrial Research Organisation, Department of Innovation, Industry, Science and Research, IP Australia, IIF Bioventures Pty Ltd, IIF (CM) Investments Pty Ltd, IIF Foundation Pty Ltd, IIF Investments Pty Ltd, IIF Neo Pty Ltd
Prime Minister and Cabinet Portfolio
Australian Institute of Family Studies, Australian National Audit Office, Australian Public Service Commission, Department of the Prime Minister and Cabinet, National Archives of Australia, National Australia Day Council (Company Ltd By Guarantee), Office of the Commonwealth Ombudsman, Office of National Assessments, Office of the Inspector-General of Intelligence and Security, Office of the Official Secretary to the Governor General, Office of the Privacy Commissioner, Department of Climate Change, Office of Renewable Energy Regulator
Resources, Energy and Tourism Portfolio
Department of Resources, Energy and Tourism, Geoscience Australia, National Offshore Petroleum Safety Authority, Tourism Australia
Treasury Portfolio
Auditing and Assurance Standards Board, Australian Accounting Standards Board, Australian Bureau of Statistics, Australian Competition and Consumer Commission, Australian Office of Financial Management, Australian Prudential Regulation Authority, Australian Securities and Investments Commission, Australian Taxation Office, Commonwealth Grants Commission, Corporations and Markets Advisory Committee, Department of the Treasury, Inspector General of Taxation, National Competition Council, Productivity Commission, Royal Australian Mint
Parliamentary Departments
Department of Parliamentary Services, Department of the House of Representatives, Department of the Senate

Table A1: Entities within the sectoral classifications (continued)

Public financial corporations
Environment, Water, Heritage and the Arts Portfolio
Film Finance Corporation Australia Ltd
Education, Employment and Workplace Relations Portfolio
Coal Mining Industry (Long Service Leave Funding) Corporation
Finance and Deregulation Portfolio
Australian Industry Development Corporation, Medibank Private Ltd
Foreign Affairs and Trade Portfolio
Export Finance and Insurance Corporation
Treasury Portfolio
Australia Re-insurance Pool Corporation, Reserve Bank of Australia
Public non-financial corporations
Attorney-General's Portfolio
Australian Government Solicitor
Broadband, Communications and the Digital Economy Portfolio
Australian Postal Corporation
Finance and Deregulation Portfolio
Australian River Co. Ltd, Australian Submarine Corporation Pty Ltd, Australian Technology Group Ltd
Human Services Portfolio
Australian Hearing Services, Health Services Australia Ltd
Infrastructure, Transport, Regional Development and Local Government Portfolio
Airservices Australia, Australian Rail Track Corporation Ltd

Differences between ABS GFS and AAS framework (AASB 1049)

AASB 1049 has adopted the AAS conceptual framework and principles for the recognition of assets, liabilities, revenues, expenses and their presentation, measurement and disclosure. In addition, AASB 1049 has broadly adopted the ABS GFS conceptual framework for presenting government financial statements. In particular, AASB 1049 requires the GGS to prepare a separate set of financial statements, over-riding AASB 127 *Consolidated and Separate Financial Statements*. AASB 1049 also follows ABS GFS by requiring changes in net worth to be split into either transaction or 'other economic flows' and for this to be presented in a single operating statement. AASB 1049 is therefore broadly consistent with international statistical standards (SNA93) and the International Monetary Fund's (IMF) *Government Finance Statistics Manual 2001*).[6]

Some of the major differences between AASB 1049 and the ABS GFS treatments of transactions are outlined in Table A2. Further information on the differences between the two systems is provided in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (cat. no. 5514.0).

Table A2: Major differences between AAS and ABS GFS

Issue	AAS treatment	ABS GFS treatment	Treatment adopted
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 at the time of acquisition. Defence weapons platforms do not appear as an asset on the balance sheet and no depreciation is recorded in the operating statement. ABS is updating its treatment from 2009 and will align with AAS.	AAS
Circulating coins — seigniorage	The profit between the cost and sale of circulating coin (seigniorage) is treated as revenue.	Circulating coin is treated as a liability, and the cost of producing the coins is treated as an expense.	AAS
Special Drawing Rights (SDRs)	SDRs currency issued by the International Monetary Fund (IMF) is treated as a liability.	SDR currency issued by the International Monetary Fund is treated as a contingent liability. ABS is updating its treatment and will align with AAS.	ABS GFS, early adoption
Provisions for bad and doubtful debts	Treated as part of operating expenses and included in the balance sheet as an offset to assets.	Creating provisions is not considered an economic event and therefore not considered an expense or in the balance sheet.	AAS
Concessional loans	Discounts concessional loans by a market rate of a similar instrument.	Does not discount concessional loans as no secondary market is considered to exist.	ABS GFS, being reviewed.

6 Additional information on the Australian accrual GFS framework is available in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (cat. no. 5514.0).

Table A2: Major differences between AAS and ABS GFS (continued)

Issue	AAS treatment	ABS GFS treatment	Treatment adopted
Fiscal aggregates differences			
Finance leases	Does not deduct finance leases in the derivation of the cash surplus/deficit.	Deducts finance leases in the derivation of the cash surplus/deficit.	Both are disclosed
Net worth of PNFC and PFC sectors	Calculated as assets less liabilities.	Calculated as assets less liabilities less shares and other contributed capital.	AAS
Classification difference			
Prepayments	Treated as a non-financial asset.	Treated as a financial asset.	AAS

APPENDIX B: AUSTRALIAN LOAN COUNCIL ALLOCATION

Under Loan Council arrangements, every year the Commonwealth and each State and Territory government nominate a Loan Council Allocation. A jurisdiction's Loan Council Allocation incorporates:

- the estimated non-financial public sector ABS GFS cash surplus/deficit (made up from the general government and public non-financial corporations sector balances and acquisitions under finance leases and similar arrangements);
- net cash flows from investments in financial assets for policy purposes; and
- memorandum items, which involve transactions that are not formally borrowings but nevertheless have many of the characteristics of borrowings.

Loan Council Allocation nominations are considered by the Loan Council, having regard to each jurisdiction's fiscal position and the macroeconomic implications of the aggregate figure.

As set out in Table A1, the Commonwealth's 2008-09 Loan Council Allocation budget update is a $23,641 million surplus. This compares with its Loan Council Allocation nomination of a $18,974 million surplus endorsed by Loan Council on 14 March 2008.

Table B1: Commonwealth's Loan Council Allocation budget update for 2008-09

		2008-09 Nomination $m	2008-09 Budget Estimate $m
	GG sector cash surplus(-)/deficit(+)	-17,888	-25,699
	PNFC sector cash surplus(-)/deficit(+)	46	856
	NFPS cash surplus(-)/deficit(+)	-17,842	-24,843
	Acquisitions under finance leases and similar arrangements	502	502
equals	ABS GFS cash surplus(-)/deficit(+)	-17,340	-24,341
minus	Net cash flows from investments in financial assets for policy purposes(a)	891	-1,548
plus	Memorandum items(b)	-743	-849
	Loan Council Allocation	**-18,974**	**-23,641**

(a) Net cash flows from investments in financial assets for policy purposes are displayed with the same sign as which they are reported in cash flow statements. Such transactions involve the transfer or exchange of a financial asset and are not included within the ABS GFS cash surplus/deficit. However, the cash flow from investments in financial assets for policy purposes has implications for a government's call on financial markets.

(b) For the Commonwealth's Loan Council Allocation, memorandum items include the change in net present value (NPV) of operating leases (with NPV greater than $5 million), the over-funding of superannuation and the net financing requirement of the Australian National University.

STATEMENT 10: HISTORICAL AUSTRALIAN GOVERNMENT DATA

This statement reports historical data for the Australian Government fiscal aggregates across the general government, public non-financial corporations and non-financial public sectors.

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DATA SOURCES

Data is sourced from Australian Government *Final Budget Outcomes*, the Australian Bureau of Statistics (ABS), and Australian Government *Consolidated Financial Statements*.

- Accrual data from 1996-97 onwards and cash data, net debt data and net worth data from 1999-2000 onwards are sourced from Australian Government *Final Budget Outcomes*. Back-casting adjustments for accounting classification changes and other revisions have been made from 1999-2000 onwards where applicable.

- Cash data prior to 1999-2000 is sourced from ABS data, which has been calculated using a methodology consistent with that used for data for later years in ABS cat. no. 5512.0 *Government Finance Statistics*.

- Net debt data prior to 1999-2000 is from ABS cat. no. 5512.0 *Government Finance Statistics 2003-04* in 1998-99, ABS cat. no. 5501.0 *Government Financial Estimates 1999-2000* and ABS cat. no. 5513.0 *Public Sector Financial Assets and Liabilities 1998* in 1987-88 to 1997-98, and Treasury estimates (see Treasury's *Economic Roundup,* Spring 1996, pages 97-103) prior to 1987-88.

COMPARABILITY OF DATA ACROSS YEARS

The data set contains a number of structural breaks due to accounting classification differences and changes to the structure of the budget which cannot be eliminated through back-casting due to data limitations. This can affect the comparability of data across years, especially when the analysis is taken over a large number of years. Specific factors causing structural breaks include:

- from 2005-06 onwards, underlying Government Finance Statistics (GFS) data is provided by agencies in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to 2005-06, underlying GFS data is based on data provided by agencies in accordance with AAS;

- recent accounting classification changes that require revisions to the historic series have been back-cast (where applicable) to 1999-2000, ensuring that data is consistent across the accrual period from 1999-2000 onwards. However, due to data limitations these changes have not been back-cast to earlier years;

- prior to 1999-2000, Australian Government general government sector debt instruments are valued at historic cost, whereas from 1999-2000 onwards they are valued at market prices (consistent with accrual GFS standards). This affects net debt and net interest payments;

- cash data up to and including 1997-98 is calculated under a cash accounting framework, while cash data from 1998-99 onwards is derived from an accrual accounting framework.[1] Although the major methodological differences associated with the move to the accrual framework have been eliminated through back-casting, comparisons across the break may still be affected by changes to some data sources and collection methodologies;

- 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 public financial corporations sector in 1998-99, and subsequent back-casting to account for this change;

- 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 receipts and payments, as compared with earlier periods, but not changing cash balances. Changes in the opposite direction (tax expenditures replacing payments) reduce both cash payments and receipts; and

- 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).

REVISIONS TO PREVIOUSLY PUBLISHED DATA

Under the accrual GFS framework and generally under AAS, flows are recorded in the period in which they occurred. As a result, prior period outcomes may be revised for classification changes relating to information that could reasonably have been expected to be known in the past, is material in at least one of the affected periods, and can be reliably assigned to the relevant period(s).

The 2008-09 Budget includes a number of changes to the presentation and measurement of historic series data, including:

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1 Prior to the 2008-09 Budget, cash data calculated under the cash accounting framework was used up to and including 1998-99. In the 2008-09 Budget, cash data for 1998-99 has been replaced by ABS data derived from the accrual framework.

- the inclusion of revisions to historic series data by the ABS. This affects cash data up to 1998-99;
- back-casting associated with changes to the accounting reporting framework resulting from changes to accounting policies in the 2008-09 Budget;
- deflating real spending growth by the consumer price index; and
- improvements to the presentation of financial data by reporting historical net financial worth and including the goods and services tax as a Commonwealth tax.

These changes improve the accuracy and comparability of the data through time, increasing its relevance to users.

Revised Australian Bureau of Statistics data

The historic series data has been updated in the 2008-09 Budget to include revisions by the ABS to cash data prior to the introduction of the accrual accounting framework.

Previously, cash data up to 1997-98 was based on older ABS data measured under a cash accounting framework, which did not reflect revisions to the series made by the ABS in subsequent years. Cash data for 1998-99 was based on data from a cash framework in the *Final Budget Outcome 1998-99*. This data was not strictly comparable to the data for 1999-2000 onwards, which was derived from the accrual framework.

The revised data eliminates the major differences between the calculation methodologies under the cash and accrual accounting frameworks through back-casting, allowing more consistent comparisons to be made across years. The revisions affect all cash aggregates for the general government and non-financial public sectors in the years up to and including 1998-99. Accrual aggregates are not affected. The main changes compared to previously published data are:

- the underlying cash balance has decreased slightly and payments and net interest payments have increased in most years up to 1998-99 due to the inclusion of the interest component of superannuation related payments by the Australian Government general government sector in respect of accumulated public non-financial corporations' superannuation liabilities, consistent with the treatment from 1999-2000 onwards (for more information on this change refer to ABS cat. no. 5501.0.55.001 *Government Financial Estimates, Australia, Electronic Delivery, 2002-03*);
- non-taxation receipts and payments have increased by equal amounts in all years up to 1998-99 due to the 'grossing up' of receipts from sales of goods and services and sales of non-financial assets, consistent with the treatment from 1999-2000 onwards;

- taxation receipts in 1998-99 have decreased by $2.7 billion (and non-taxation receipts have increased by the same amount) due to a reclassification of certain fees and fines from taxation to non-taxation receipts, consistent with the treatment from 1999-2000 onwards; and

- net debt in 1998-99 has worsened by $1.5 billion as a result of differences between the cash and accrual data collection methodologies.

Revisions due to changes to accounting policies in the 2008-09 Budget

Under the *Charter of Budget Honesty Act 1998* (the Charter), the Government is required to prepare budget outcome financial statements based on two external reporting standards, being the ABS GFS and the AAS. The Australian Accounting Standards Board (AASB) has attempted to 'harmonise' their own standards with those issued by the ABS by releasing a new standard *Whole of Government and General Government Sector Financial Reporting* (AASB 1049) that the Charter requires the Government to apply.

Estimates for accrual aggregates have been revised due to the new accounting policy framework adopted in the 2008-09 Budget. The major change is adopting defence weapons platforms as capital investment rather than expenses. This is consistent with AAS, and also represents an early adoption of the ABS's proposed revisions to GFS from 2009 in line with revised international standards (refer ABS cat. no. 5310.0.55.001 *Information Paper: Introduction of revised international standards in ABS economic statistics in 2009*). This has no impact on fiscal balance but improves net worth. The change has been back-cast to 1999-2000.

Further information on the revised accounting framework can be found at Appendix A of Budget Statement 3.

Deflating real spending growth by the consumer price index

The 2008-09 Budget historic series shows real spending growth deflated by the consumer price index (CPI). Previously, the non-farm GDP deflator was used.

The change from using the non-farm GDP deflator to the CPI provides a more accurate depiction of real government spending growth, especially in the current economic climate. The increase in demand for commodities is leading to higher commodity prices and a higher terms of trade, causing the non-farm GDP deflator to increase much more rapidly than the CPI. Therefore, deflating government spending by the non-farm GDP deflator distorts trends in real spending growth.

For purposes of comparison, in the 2008-09 Budget, real spending growth is calculated using both CPI and the non-farm GDP deflator.

Improvements to the presentation of historic financial information

The 2008-09 Budget includes further improvements to the presentation of historic financial information. These include:

- the addition of net financial worth in the historic financial information. Net financial worth measures a government's net holding of financial assets, and is calculated as financial assets minus total liabilities. Net financial worth is a narrower measure than net worth as it excludes non-financial assets, for example land and property. However, non-financial assets are often less liquid and thus their exclusion provides a better indication of a government's financial position. It also avoids concerns inherent with the net worth measure about the valuation of some non-financial assets and their availability to offset liabilities; and

- the treatment of the goods and services tax as a Commonwealth tax as required by both ABS GFS and AAS.

Table 1: Australian Government general government sector receipts, payments and underlying cash balance(a)

	Receipts(b)		Payments(c)				Future Fund earnings	Underlying cash balance(d)	
	$m	Per cent of GDP	$m	Per cent real growth (CPI)	Per cent real growth (NFGDP deflator)	Per cent of GDP	$m	$m	Per cent of GDP
1970-71	8,290	21.0	7,389	na	na	18.7	-	901	2.3
1971-72	9,135	20.9	8,249	4.1	4.4	18.9	-	886	2.0
1972-73	9,735	19.9	9,388	7.7	7.0	19.2	-	348	0.7
1973-74	12,228	20.7	11,078	4.2	3.2	18.7	-	1,150	1.9
1974-75	15,643	22.4	15,463	19.9	14.5	22.2	-	181	0.3
1975-76	18,727	22.9	20,225	15.7	13.5	24.8	-	-1,499	-1.8
1976-77	21,890	23.2	23,157	0.6	2.0	24.6	-	-1,266	-1.3
1977-78	24,019	23.4	26,057	2.7	3.4	25.3	-	-2,037	-2.0
1978-79	26,129	22.5	28,272	0.3	2.6	24.3	-	-2,142	-1.8
1979-80	30,321	23.0	31,642	1.5	2.2	24.0	-	-1,322	-1.0
1980-81	35,993	24.1	36,176	4.6	3.4	24.2	-	-184	-0.1
1981-82	41,499	24.1	41,151	2.9	0.7	23.9	-	348	0.2
1982-83	45,463	24.5	48,810	6.3	6.5	26.3	-	-3,348	-1.8
1983-84	49,981	23.9	56,990	9.4	9.4	27.2	-	-7,008	-3.3
1984-85	58,817	25.4	64,853	9.1	8.1	28.0	-	-6,037	-2.6
1985-86	66,206	25.9	71,328	1.5	3.5	27.9	-	-5,122	-2.0
1986-87	74,724	26.7	77,158	-1.1	1.1	27.6	-	-2,434	-0.9
1987-88	83,491	26.2	82,039	-0.9	-1.3	25.7	-	1,452	0.5
1988-89	90,748	25.0	85,326	-3.1	-4.6	23.6	-	5,421	1.5
1989-90	98,625	24.8	92,684	0.6	2.3	23.3	-	5,942	1.5
1990-91	100,227	24.5	100,665	3.1	3.4	24.6	-	-438	-0.1
1991-92	95,840	23.0	108,472	5.7	5.6	26.0	-	-12,631	-3.0
1992-93	97,633	22.3	115,751	5.6	5.4	26.4	-	-18,118	-4.1
1993-94	103,824	22.6	122,009	3.5	4.5	26.5	-	-18,185	-4.0
1994-95	113,458	23.3	127,619	1.4	3.7	26.2	-	-14,160	-2.9
1995-96	124,429	24.0	135,538	1.9	3.6	26.2	-	-11,109	-2.1
1996-97	133,592	24.5	139,689	1.7	1.4	25.6	-	-6,099	-1.1
1997-98	140,736	24.4	140,587	0.6	-0.7	24.3	-	149	0.0
1998-99	151,974	25.0	148,041	4.0	5.0	24.4	-	3,934	0.6
1999-00	166,089	25.7	153,030	1.0	1.3	23.7	-	13,059	2.0
2000-01	182,804	26.5	176,833	9.0	10.6	25.7	-	5,970	0.9
2001-02	187,495	25.5	188,478	3.6	4.1	25.6	-	-983	-0.1
2002-03	204,552	26.2	197,066	1.4	1.5	25.2	-	7,486	1.0
2003-04	217,722	25.9	209,686	4.0	2.3	24.9	-	8,036	1.0
2004-05	235,943	26.3	222,327	3.5	2.0	24.8	-	13,616	1.5
2005-06	255,903	26.5	240,060	4.6	3.0	24.8	51	15,792	1.6
2006-07	272,584	26.0	253,242	2.5	0.7	24.2	2,135	17,208	1.6
2007-08(e)	295,622	26.2	275,090	5.2	4.5	24.4	3,717	16,815	1.5
2008-09(e)	**312,961**	**25.4**	**287,764**	**1.1**	**-1.7**	**23.4**	**3,493**	**21,703**	**1.8**
2009-10(p)	330,095	25.7	307,253	4.0	5.5	23.9	3,173	19,669	1.5
2010-11(p)	343,705	25.7	321,417	2.1	3.4	24.0	3,293	18,996	1.4
2011-12(p)	359,018	25.5	336,729	2.2	2.5	23.9	3,418	18,870	1.3

(a) Data has been revised in the 2008-09 Budget to improve accuracy and comparability through time. See pages 10-5 to 10-7 for further information.
(b) Receipts are equal to receipts from operating activities and sales of non-financial assets.
(c) Payments are equal to payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(d) Underlying cash balance is equal to receipts less payments less expected Future Fund earnings. For the purposes of consistent comparison with years prior to 2005-06, Future Fund earnings should be added back to the underlying cash balance.
(e) Estimates.
(p) Projections.

Table 2: Australian Government general government sector taxation receipts, non-taxation receipts and total receipts(a)

	Taxation receipts		Non-taxation receipts		Total receipts(b)	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1970-71	7,193	18.2	1,097	2.8	8,290	21.0
1971-72	7,895	18.1	1,240	2.8	9,135	20.9
1972-73	8,411	17.2	1,324	2.7	9,735	19.9
1973-74	10,832	18.3	1,396	2.4	12,228	20.7
1974-75	14,141	20.3	1,502	2.2	15,643	22.4
1975-76	16,920	20.7	1,807	2.2	18,727	22.9
1976-77	19,714	20.9	2,176	2.3	21,890	23.2
1977-78	21,428	20.8	2,591	2.5	24,019	23.4
1978-79	23,409	20.1	2,720	2.3	26,129	22.5
1979-80	27,473	20.8	2,848	2.2	30,321	23.0
1980-81	32,641	21.8	3,352	2.2	35,993	24.1
1981-82	37,880	22.0	3,619	2.1	41,499	24.1
1982-83	41,025	22.1	4,438	2.4	45,463	24.5
1983-84	44,849	21.4	5,132	2.4	49,981	23.9
1984-85	52,970	22.9	5,847	2.5	58,817	25.4
1985-86	58,841	23.1	7,365	2.9	66,206	25.9
1986-87	66,467	23.8	8,257	3.0	74,724	26.7
1987-88	75,076	23.5	8,415	2.6	83,491	26.2
1988-89	83,452	23.0	7,296	2.0	90,748	25.0
1989-90	90,773	22.8	7,852	2.0	98,625	24.8
1990-91	92,739	22.7	7,488	1.8	100,227	24.5
1991-92	87,364	20.9	8,476	2.0	95,840	23.0
1992-93	88,760	20.3	8,873	2.0	97,633	22.3
1993-94	93,362	20.3	10,462	2.3	103,824	22.6
1994-95	104,921	21.6	8,537	1.8	113,458	23.3
1995-96	115,700	22.3	8,729	1.7	124,429	24.0
1996-97	124,559	22.8	9,033	1.7	133,592	24.5
1997-98	130,984	22.7	9,752	1.7	140,736	24.4
1998-99	138,420	22.8	13,554	2.2	151,974	25.0
1999-00	151,313	23.5	14,777	2.3	166,089	25.7
2000-01	170,272	24.7	12,531	1.8	182,804	26.5
2001-02	175,166	23.8	12,330	1.7	187,495	25.5
2002-03	192,131	24.6	12,421	1.6	204,552	26.2
2003-04	206,091	24.5	11,630	1.4	217,722	25.9
2004-05	223,317	24.9	12,625	1.4	235,943	26.3
2005-06	241,215	24.9	14,688	1.5	255,903	26.5
2006-07	257,392	24.6	15,192	1.5	272,584	26.0
2007-08(e)	278,536	24.7	17,086	1.5	295,622	26.2
2008-09(e)	**292,644**	**23.8**	**20,316**	**1.7**	**312,961**	**25.4**
2009-10(p)	310,148	24.2	19,946	1.6	330,095	25.7
2010-11(p)	322,142	24.1	21,563	1.6	343,705	25.7
2011-12(p)	336,267	23.9	22,751	1.6	359,018	25.5

(a) Data has been revised in the 2008-09 Budget to improve accuracy and comparability through time. See pages 10-5 to 10-7 for further information.
(b) Receipts are equal to receipts from operating activities and sales of non-financial assets.
(e) Estimates.
(p) Projections.

Table 3: Australian Government general government sector net debt and net interest payments[(a)]

	Net debt(b)		Net interest payments(c)	
	$m	Per cent of GDP	$m	Per cent of GDP
1970-71	344	0.9	-189	-0.5
1971-72	-496	-1.1	-245	-0.6
1972-73	-790	-1.6	-252	-0.5
1973-74	-1,851	-3.1	-286	-0.5
1974-75	-1,901	-2.7	-242	-0.3
1975-76	-341	-0.4	-330	-0.4
1976-77	898	1.0	-62	-0.1
1977-78	2,896	2.8	4	0.0
1978-79	4,983	4.3	254	0.2
1979-80	6,244	4.7	440	0.3
1980-81	6,356	4.2	620	0.4
1981-82	5,919	3.4	680	0.4
1982-83	9,151	4.9	896	0.5
1983-84	16,015	7.6	1,621	0.8
1984-85	21,896	9.5	2,813	1.2
1985-86	26,889	10.5	3,952	1.5
1986-87	29,136	10.4	4,762	1.7
1987-88	27,344	8.6	4,503	1.4
1988-89	21,981	6.1	4,475	1.2
1989-90	16,123	4.1	4,549	1.1
1990-91	16,915	4.1	3,636	0.9
1991-92	31,041	7.4	3,810	0.9
1992-93	55,218	12.6	3,986	0.9
1993-94	70,223	15.3	5,628	1.2
1994-95	83,492	17.2	7,292	1.5
1995-96	95,831	18.5	8,861	1.7
1996-97	96,281	17.6	9,489	1.7
1997-98	82,935	14.4	8,279	1.4
1998-99	71,928	11.8	8,579	1.4
1999-00	54,538	8.5	7,438	1.2
2000-01	43,465	6.3	6,094	0.9
2001-02	38,642	5.3	5,268	0.7
2002-03	30,375	3.9	3,641	0.5
2003-04	23,948	2.8	2,994	0.4
2004-05	12,453	1.4	2,463	0.3
2005-06	-5,337	-0.6	2,265	0.2
2006-07	-30,768	-2.9	198	0.0
2007-08(e)	-42,639	-3.8	-1,314	-0.1
2008-09(e)	**-44,987**	**-3.7**	**-2,166**	**-0.2**
2009-10(p)	-65,428	-5.1	-2,795	-0.2
2010-11(p)	-86,517	-6.5	-3,069	-0.2
2011-12(p)	-106,655	-7.6	-5,370	-0.4

(a) Data has been revised in the 2008-09 Budget to improve accuracy and comparability through time. See pages 10-5 to 10-7 for further information.
(b) Net debt is equal to the sum of deposits held, advances received, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.
(c) Net interest payments are equal to the difference between interest paid and interest receipts.
(e) Estimates.
(p) Projections.

Table 4: Australian Government general government sector revenue, expenses, net capital investment and fiscal balance[(a)]

	Revenue		Expenses		Net capital investment		Fiscal balance(b)	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1996-97	141,688	26.0	145,809	26.7	90	0.0	-4,211	-0.8
1997-98	146,820	25.4	148,646	25.7	147	0.0	-1,973	-0.3
1998-99	151,897	25.0	146,620	24.1	1,433	0.2	3,844	0.6
1999-00	167,158	25.9	155,271	24.1	-69	0.0	11,957	1.9
2000-01	185,928	27.0	179,823	26.1	8	0.0	6,097	0.9
2001-02	190,345	25.9	192,792	26.2	382	0.1	-2,830	-0.4
2002-03	206,770	26.5	201,164	25.7	287	0.0	5,319	0.7
2003-04	222,044	26.4	215,277	25.6	660	0.1	6,107	0.7
2004-05	242,398	27.0	229,153	25.5	1,034	0.1	12,211	1.4
2005-06	260,802	27.0	241,624	25.0	2,498	0.3	16,680	1.7
2006-07	278,015	26.6	258,521	24.7	2,333	0.2	17,161	1.6
2007-08(e)	303,831	26.9	280,551	24.9	2,837	0.3	20,443	1.8
2008-09(e)	**319,464**	**25.9**	**292,470**	**23.8**	**3,872**	**0.3**	**23,122**	**1.9**
2009-10(p)	336,920	26.2	310,513	24.2	4,050	0.3	22,357	1.7
2010-11(p)	350,862	26.2	323,083	24.1	4,462	0.3	23,316	1.7
2011-12(p)	366,922	26.1	339,241	24.1	5,094	0.4	22,587	1.6

(a) Data has been revised in the 2008-09 Budget to improve accuracy and comparability through time. See pages 10-5 to 10-7 for further information.
(b) Fiscal balance is equal to revenue less expenses less net capital investment.
(e) Estimates.
(p) Projections.

Table 5: Australian Government general government sector net worth and net financial worth[(a)]

	Net worth(b)		Net financial worth(c)	
	$m	Per cent of GDP	$m	Per cent of GDP
1999-00	-7,004	-1.1	-67,649	-10.5
2000-01	-6,445	-0.9	-72,987	-10.6
2001-02	-11,348	-1.5	-79,210	-10.8
2002-03	-15,011	-1.9	-85,244	-10.9
2003-04	-839	-0.1	-75,483	-9.0
2004-05	14,873	1.7	-66,824	-7.4
2005-06	24,992	2.6	-64,297	-6.6
2006-07	45,080	4.3	-49,928	-4.8
2007-08(e)	60,827	5.4	-25,838	-2.3
2008-09(e)	**86,019**	**7.0**	**-3,608**	**-0.3**
2009-10(p)	111,431	8.7	18,045	1.4
2010-11(p)	138,254	10.3	40,408	3.0
2011-12(p)	165,117	11.7	62,078	4.4

(a) Data has been revised in the 2008-09 Budget to improve accuracy and comparability through time. See pages 10-5 to 10-7 for further information.
(b) Net worth is equal to assets less liabilities.
(c) Net financial worth is equal to financial assets less liabilities.
(e) Estimates.
(p) Projections.

Table 6: Australian Government general government sector accrual taxation revenue, non-taxation revenue and total revenue[(a)]

	Taxation revenue		Non-taxation revenue		Total revenue	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1999-00	153,473	23.8	13,685	2.1	167,158	25.9
2000-01	175,933	25.5	9,994	1.4	185,928	27.0
2001-02	178,262	24.2	12,083	1.6	190,345	25.9
2002-03	195,214	25.0	11,556	1.5	206,770	26.5
2003-04	209,959	25.0	12,085	1.4	222,044	26.4
2004-05	229,943	25.6	12,455	1.4	242,398	27.0
2005-06	245,716	25.4	15,086	1.6	260,802	27.0
2006-07	262,511	25.1	15,504	1.5	278,015	26.6
2007-08(e)	286,382	25.4	17,449	1.5	303,831	26.9
2008-09(e)	**299,235**	**24.3**	**20,229**	**1.6**	**319,464**	**25.9**
2009-10(p)	316,957	24.7	19,963	1.6	336,920	26.2
2010-11(p)	329,343	24.6	21,518	1.6	350,862	26.2
2011-12(p)	344,085	24.4	22,837	1.6	366,922	26.1

(a) Data has been revised in the 2008-09 Budget to improve accuracy and comparability through time. See pages 10-5 to 10-7 for further information.
(e) Estimates.
(p) Projections.

Table 7: Australian Government cash receipts, payments and surplus by institutional sector ($m)[(a)]

	General government			Public non-financial corporations			Non-financial public sector		
	Receipts(b)	Payments(c)	Underlying cash balance(d)	Receipts	Payments	Cash surplus(d)	Receipts(b)	Payments(c)	Underlying cash balance(d)
1988-89	90,748	85,326	5,421	4,177	6,035	257	93,923	90,312	5,678
1989-90	98,625	92,684	5,942	3,926	11,322	-5,261	101,495	102,883	681
1990-91	100,227	100,665	-438	4,804	9,351	-2,139	103,837	108,808	-2,577
1991-92	95,840	108,472	-12,631	3,899	7,713	101	97,937	114,369	-12,530
1992-93	97,633	115,751	-18,118	4,385	7,819	-196	100,512	122,042	-18,314
1993-94	103,824	122,009	-18,185	5,178	6,476	1,482	106,747	126,214	-16,703
1994-95	113,458	127,619	-14,160	5,262	7,318	1,956	116,751	132,965	-12,204
1995-96	124,429	135,538	-11,109	4,927	8,190	-527	126,593	140,963	-11,636
1996-97	133,592	139,689	-6,099	4,782	7,373	473	135,259	143,948	-5,626
1997-98	140,736	140,587	149	6,238	7,923	1,119	144,517	145,985	1,268
1998-99	151,974	148,041	3,934	na	na	-353	na	na	3,581
1999-00	166,089	153,030	13,059	na	na	-2,594	na	na	10,465
2000-01	182,804	176,833	5,970	na	na	391	na	na	6,362
2001-02	187,495	188,478	-983	na	na	1,210	na	na	227
2002-03	204,552	197,066	7,486	27,386	26,105	1,280	na	na	8,766
2003-04	217,722	209,686	8,036	27,718	26,142	1,575	238,183	227,000	9,611
2004-05	235,943	222,327	13,616	29,621	28,071	1,550	257,905	241,497	15,167
2005-06	255,903	240,060	15,792	30,875	31,874	-999	278,214	263,369	14,794
2006-07	272,584	253,242	17,208	16,882	18,641	-1,759	285,283	267,699	15,449
2007-08(e)	295,622	275,090	16,815	7,795	8,298	-504	301,408	281,380	16,311
2008-09(e)	**312,961**	**287,764**	**21,703**	**8,151**	**9,006**	**-856**	**319,019**	**294,678**	**20,847**
2009-10(p)	330,095	307,253	19,669	na	na	na	na	na	na
2010-11(p)	343,705	321,417	18,996	na	na	na	na	na	na
2011-12(p)	359,018	336,729	18,870	na	na	na	na	na	na

(a) Data has been revised in the 2008-09 Budget to improve accuracy and comparability through time. See pages 10-5 to 10-7 for further information.
(b) Receipts are equal to receipts from operating activities and sales of non-financial assets.
(c) Payments are equal to payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(d) These items exclude expected Future Fund earnings from 2005-06 onwards. Expected Future Fund earnings are shown in Table 1.
(e) Estimates.
(p) Projections.

Table 8: Australian Government accrual revenue, expenses and fiscal balance by institutional sector ($m)[a]

	General government			Public non-financial corporations			Non-financial public sector		
	Revenue	Expenses	Fiscal balance(b)	Revenue	Expenses	Fiscal balance(b)	Revenue	Expenses	Fiscal balance(b)
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	167,158	155,271	11,957	25,485	23,542	1,062	188,695	173,708	13,018
2000-01	185,928	179,823	6,097	25,869	24,762	-826	207,190	199,979	5,272
2001-02	190,345	192,792	-2,830	26,638	25,341	793	212,375	213,526	-2,037
2002-03	206,770	201,164	5,319	24,339	22,916	1,975	225,982	218,995	7,295
2003-04	222,044	215,277	6,107	25,449	23,444	2,143	241,749	232,977	8,251
2004-05	242,398	229,153	12,211	26,965	25,191	1,473	263,478	248,459	13,684
2005-06	260,802	241,624	16,680	28,143	29,531	-2,442	282,161	264,370	14,238
2006-07	278,015	258,521	17,161	15,443	16,360	-1,763	289,670	271,094	15,398
2007-08(e)	303,831	280,551	20,443	6,870	6,670	-477	309,314	285,834	19,967
2008-09(e)	**319,464**	**292,470**	**23,122**	**7,146**	**7,119**	**-990**	**325,215**	**298,194**	**22,132**
2009-10(p)	336,920	310,513	22,357	na	na	na	na	na	na
2010-11(p)	350,862	323,083	23,316	na	na	na	na	na	na
2011-12(p)	366,922	339,241	22,587	na	na	na	na	na	na

(a) Data has been revised in the 2008-09 Budget to improve accuracy and comparability through time. See pages 10-5 to 10-7 for further information.
(b) Fiscal balance is equal to revenue less expenses less net capital investment. Net capital investment is not shown in this table.
(e) Estimates.
(p) Projections.
na Data not available.