BUDGET

BUDGET STRATEGY AND OUTLOOK

BUDGET PAPER NO. 1

2011-12

CIRCULATED BY

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FOR THE INFORMATION OF HONOURABLE MEMBERS
ON THE OCCASION OF THE BUDGET 2011-12

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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 and payments is calculated using the Consumer Price Index (CPI) as the deflator;
- the Budget year refers to 2011-12, while the forward years refer to 2012-13, 2013-14 and 2014-15; 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 Paper No. 1: *Budget Strategy and Outlook 2011-12* 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

Recent natural disasters have had a significant impact on the Australian economy and the Government's fiscal position, but medium-term prospects are for strong economic growth, low and falling unemployment and rising incomes.

While the high Australian dollar and legacy effects from the global financial crisis are weighing particularly heavily on some sectors, the overall economy is expected to grow at an above-trend rate over the next two years.

Sustained high prices for our resources underpin record investment intentions in the mining sector and strong forecast growth in commodity exports.

With the unemployment rate already low, the unprecedented mining investment boom will stretch the economy's capacity over the coming years.

It is important that the Government does not compound these pressures, which is why it will return the budget to surplus in 2012-13 and beyond.

The Government is delivering this return to surplus by making difficult decisions to pay for its new spending, including the cost of the recent natural disasters, by making $22 billion in savings, around two thirds of which are from reductions in spending. The Government has made important structural savings that contribute to the sustainability of public finances and support Australia's capacity to respond to unanticipated shocks.

The return to surplus will be achieved before any major advanced economy through the implementation of the fastest fiscal consolidation in at least forty years. This is despite the impact of natural disasters and softer than expected revenues due to legacy effects of the global financial crisis.

This Budget delivers on the Government's fiscal strategy while also continuing to invest in the economy's productive capacity. It responds to Australia's workforce needs through better and more targeted skills and training, and new measures to boost participation. It also improves private sector opportunities to invest in infrastructure.

This Budget also delivers on key reforms to mental health services and makes important investments in education and families. It delivers on these priorities while rebuilding communities affected by natural disasters, and providing the opportunity for all Australians and regions to prosper from the resources boom.

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Introduction

The recent natural disasters have had a devastating impact on affected individuals and communities. They have also had a substantial impact on the Australian economy and the Government's fiscal position, although the economic impacts will be temporary.

Australia's medium-term prospects remain strong, with the economy expected to grow at an above-trend rate over the next two years, unemployment forecast to fall and the budget still on track to return to surplus in 2012-13.

While the high Australian dollar and legacy effects from the global financial crisis are weighing particularly heavily on some sectors, the overall growth outlook is strong.

Sustained high prices for our mineral resources underpin record investment intentions in the mining sector and strong forecast growth in commodity exports.

This is expected to drive strong growth in the overall economy and employment. With the unemployment rate already low, capacity pressures are expected to re-emerge.

It is important that fiscal policy doesn't compound these pressures, which is why the Government has delivered savings to pay for its new spending, including the cost of the recent natural disasters, and to return the budget to surplus.

The expected underlying cash deficit for 2011-12 is $22.6 billion (1.5 per cent of GDP), with a surplus of $3.5 billion (0.2 per cent of GDP) in 2012-13 (Table 1). The return to surplus in two year's time has been achieved despite the impact of natural disasters and a weaker near-term outlook for tax receipts.

Table 1: Budget aggregates

	Actual	Estimates			Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Underlying cash balance($b)(a)	**-54.8**	**-49.4**	**-22.6**	**3.5**	**3.7**	**5.8**
Per cent of GDP	-4.3	-3.6	-1.5	0.2	0.2	0.3
Fiscal balance($b)	**-52.9**	**-45.7**	**-20.3**	**4.0**	**3.2**	**8.5**
Per cent of GDP	-4.1	-3.3	-1.4	0.3	0.2	0.5

(a) Excludes expected Future Fund earnings.

The Government has paid for its new spending, including the cost of the recent natural disasters, by making $22 billion in savings. This has provided scope for the Government to continue to expand the economy's productive capacity and to deliver reforms in a number of key areas.

The Budget responds to Australia's workforce needs through investments in skills and training that are more targeted to the needs of industry, and other measures to boost participation to ensure there are opportunities for all Australians to experience the benefits of work.

It delivers long-term reform to mental health to help those who have a mental illness get the care they need, and to support their families and carers. It also invests in services to support growth in our regions including health and hospital infrastructure.

It further strengthens the school system by recognising and rewarding great teachers and supporting all students, no matter where they live and what challenges they face, to achieve their best.

It builds on past initiatives to provide extra support for those families most in need, when they need it. It also contains measures to assist small businesses and manufacturers by providing more opportunities for them to prosper.

The Budget delivers on these priorities while supporting communities affected by the recent natural disasters, delivering on our election commitments and returning the budget to surplus in 2012-13.

ECONOMIC OUTLOOK

The severe weather events that hit Australia over the recent summer exacted a terrible toll on many communities, causing loss of life and damage to livelihoods. The macroeconomic impacts were also substantial, causing considerable destruction to private and public assets and directly resulting in around $9 billion of real production losses, predominantly in the resources and agriculture sectors. Indirect impacts continue to add to these losses.

The floods and cyclones in Australia were followed by the devastating New Zealand and Japanese earthquakes. Japan is Australia's second largest trading partner, taking around a quarter of our bulk commodity exports. Lower production and the destruction of productive capacity in Japan will see a decline in our exports to Japan in the near term.

Combined, the disasters in Australia and overseas are expected to detract around ¾ of a percentage point from Australia's real GDP growth in 2010-11. While it will take many years for the affected communities to recover fully from the devastation caused by these disasters, the negative impacts on Australia's economic growth are expected to be temporary, with the resumption of activity and commencement of reconstruction expected to add to real GDP growth from 2011-12.

The Australian economy has confronted these natural disasters from a position of strength. Over 300,000 jobs have been created over the past year, the unemployment rate has fallen to around 5 per cent and underlying inflation has moderated to around 10-year lows.

Australia's medium-term prospects are strong, with the economy forecast to grow at an above-trend rate over the next two years, driven by an investment surge in the resources sector. Following 2¼ per cent growth in 2010-11, real GDP growth is forecast to increase to 4 per cent in 2011-12 and 3¾ per cent in 2012-13 (Table 2).

Table 2: Major economic parameters[(a)]

	Forecasts			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
Real GDP	2 1/4	4	3 3/4	3	3
Employment	2 3/4	1 3/4	1 3/4	1 1/2	1 1/2
Unemployment rate	5	4 3/4	4 1/2	5	5
Consumer price index	3 1/4	2 3/4	3	2 1/2	2 1/2
Nominal GDP	8	6 1/4	5 3/4	5 1/4	5 1/4

(a) Real and nominal GDP are year-average growth. Employment and CPI are through-the-year growth to the June quarter. The unemployment rate is the rate in the June quarter.
Source: Treasury.

Sustained high prices for Australia's key commodity exports underpin record investment intentions in the mining sector and strong forecast growth in commodity exports. The mining industry is planning to invest $76 billion in 2011-12 — around eight times the annual level preceding the boom — led by the LNG sector. The volume of non-rural commodity exports is expected to rise by over 20 per cent over the next two years.

High prices for Australia's commodity exports have pushed the terms of trade towards historical highs. While the medium-term outlook is for Australia's terms of trade to decline as the global supply of iron ore and coal increases, the prospect that strong resource-intensive investment in China and India in particular will continue for many years underpins expectations that this fall will be gradual.

Australia's high terms of trade and strong growth in the resources sector are supporting incomes and activity in the broader economy. But while the resources sector is driving strong aggregate real GDP growth, conditions in other sectors are made more difficult by the related strength of the Australian dollar, tightened macroeconomic policy settings and increasing competition for labour and other inputs.

For some industries, these challenges are compounded by more cautious household spending behaviour and the increased difficulty that some businesses still confront in accessing credit following the global financial crisis. Accordingly, while the Australian economy in aggregate is expected to grow at an above-trend rate, conditions are likely to remain uneven across the economy.

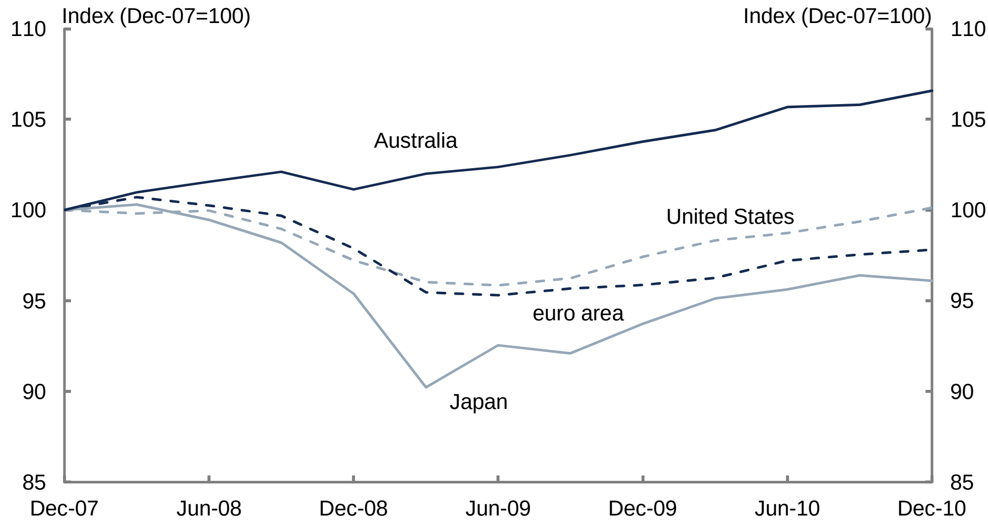
The unemployment rate is forecast to fall from around 5 per cent currently to 4¾ per cent in late 2011-12 and 4½ per cent in late 2012-13. Underlying inflationary pressures are expected to remain contained, but increase gradually as the labour market tightens and the economy approaches capacity. Headline inflation will be higher in the short term because of the increase in world oil prices and the temporary impact of the floods and Cyclone Yasi on fruit and vegetable prices.

The favourable outlook for the Australian economy is supported by a strengthening global economy, although the recovery from the global financial crisis remains uneven and subject to significant risks. The strong growth in emerging market economies that drove the initial phase of the global recovery is expected to moderate to more sustainable rates, while the recovery in major advanced economies is expected to become more self-sustaining. Following 5 per cent growth in 2010, the global economy is forecast to grow 4¼ per cent in 2011 and 4½ per cent in 2012.

Still, substantial risks remain, with rising world oil prices and greater economic uncertainty in Japan following the recent earthquake compounding existing fragilities. Sovereign debt concerns remain a key source of weakness in a number of advanced economies, particularly in the euro area periphery. Failure to develop a credible medium-term response to the unsustainable US fiscal position would also pose a threat to the sustainability of the global recovery. Inflationary pressures continue to build in emerging market economies, driven by reduced spare capacity and compounded by rising food and oil prices. Further sustained increases in world oil prices would pose significant risks to global growth.

Whereas a number of advanced economies are yet to return to the levels of output reached prior to the global financial crisis (Chart 1) and continue to experience high unemployment rates, the Australian economy is approaching full capacity.

Chart 1: Level of real GDP in selected advanced economies



Source: ABS cat. no. 5206.0, national statistical agencies, Thomas Reuters and Treasury.

FISCAL STRATEGY AND OUTLOOK

The Government will deliver a surplus in 2012-13, despite the recent natural disasters and the weaker near-term outlook for tax receipts making the return to surplus more difficult.

Returning the budget to surplus will ensure the Government does not draw on resources needed to support the unprecedented mining investment boom. It will also contribute to the sustainability of public finances and support Australia's capacity to respond to unanticipated shocks, including those related to the uncertain global economic outlook.

The Government is achieving the return to surplus by:

- paying for new spending, including the cost of the recent natural disasters, by making $22 billion in savings;
- restraining real growth in spending to an average of around 1 per cent per year over the forward estimates, the lowest five year period of growth since the 1980s; and
- allowing the natural increase in tax receipts associated with a strengthening economy in future years to flow through to the budget.

This tough stance on spending goes beyond the requirements of the fiscal strategy and reflects the Government's commitment to returning the budget to surplus as prudently and as quickly as possible.

Fiscal strategy

The Government's fiscal strategy is designed to ensure fiscal sustainability, while providing the necessary flexibility for the budget position to vary in line with economic conditions.

The medium-term fiscal strategy, which has remained unchanged since the Government's first budget in 2008-09, is to:

- achieve budget surpluses, on average, over the medium term;
- keep taxation as a share of GDP, on average, below the level for 2007-08 (23.5 per cent); and
- improve the Government's net financial worth over the medium term.

To ensure a timely return to surplus, the Government further committed, in the *Updated Economic and Fiscal Outlook* released in February 2009, to:

- allow the level of tax receipts to recover naturally as the economy improves, while maintaining the Government's commitment to keep taxation as a share of GDP below the 2007-08 level on average; and
- hold real growth in spending to 2 per cent a year once the economy is growing above trend until the budget returns to surplus.

The Government will build growing surpluses by retaining the 2 per cent limit on annual real spending growth, on average, until the budget surplus is at least 1 per cent of GDP, and while the economy is growing at or above trend.

Fiscal outlook

The recent natural disasters in Australia are expected to result in around $6.6 billion in payments over six years to assist affected communities with the costs of rebuilding, over one-half of which will occur in 2010-11.

In addition, tax receipts have been revised down since the *Mid-Year Economic and Fiscal Outlook 2010-11* by a total of $16.3 billion in 2010-11 and 2011-12. The downward revisions to tax receipts reflect the influence of a number of important factors including:

- more subdued short term economic conditions with growth in 2010-11 impacted by natural disasters, more cautious behaviour on the part of consumers, and a strong dollar; and
- larger than anticipated losses accumulated during the global financial crisis.

The impacts of natural disaster spending and the weaker near-term outlook for tax receipts have contributed to an underlying cash deficit of $49.4 billion or 3.6 per cent of GDP in the current year and $22.6 billion or 1.5 per cent of GDP in 2011-12.

Return to surplus

Disciplined spending and responsible savings have ensured that the budget remains on track to return to surplus in 2012-13, notwithstanding the near-term challenges from the natural disasters and reduced tax receipts.

An underlying cash surplus of $3.5 billion (0.2 per cent of GDP) is expected for 2012-13, with this surplus expected to grow to $5.8 billion (0.3 per cent of GDP) in 2014-15.

A surplus will be achieved through the implementation of a very rapid fiscal consolidation — 3.8 per cent of GDP (or $52.9 billion) over the two years from 2010-11.

The budget is projected to return to surplus only three years after the deficit peaked during the global financial crisis, despite the challenges faced this year and next. This would be the fastest return to surplus in the 44 years for which comparable data is available, and before any major advanced economy (Chart 2).

The Government is delivering the return to surplus by making difficult but responsible decisions, paying for new spending, including the cost of the recent natural disasters, by making $22 billion in savings. Many of the savings deliver continuing benefits to the bottom-line beyond the forward estimates, improving the long-term sustainability of public finances.

As part of the savings task, the Government has identified significant reductions in expenditure to help fund new priorities and strengthen the budget position, with savings broadly drawn from the following areas:

- limiting growth in payments to families higher up the income scale, by maintaining the upper income thresholds for certain family payments at their current levels, improving the long-term sustainability of the family payment system;
- reforming income support payments, including Parenting Payment Single, Newstart and Youth Allowance (along with phasing out the Dependent Spouse Tax Offset), to encourage participation and enhance social and economic outcomes for individuals and the economy more broadly;
- further improving the sustainability of the health budget by capping pathology services expenditure under the Medicare Benefits Schedule;
- making the higher education loan program fairer, by reducing the upfront discount;
- requiring greater efficiency from the public sector, by temporarily increasing the efficiency dividend;
- delivering new efficiencies in defence, through ongoing reforms; and
- reducing industry assistance and spending across the budget, and better targeting the timing of programs, including infrastructure deferrals to prioritise re-building in flood and natural disaster affected areas.

The savings build on previously announced changes to the private health insurance arrangements, better targeting of family payments, and changes to pension eligibility, all designed to improve the long term structural position of the budget.

This disciplined approach to spending has contributed to average real growth in spending of around 1 per cent over the forward estimates period. By the end of the forward estimates, government spending as a share of GDP is projected to fall to

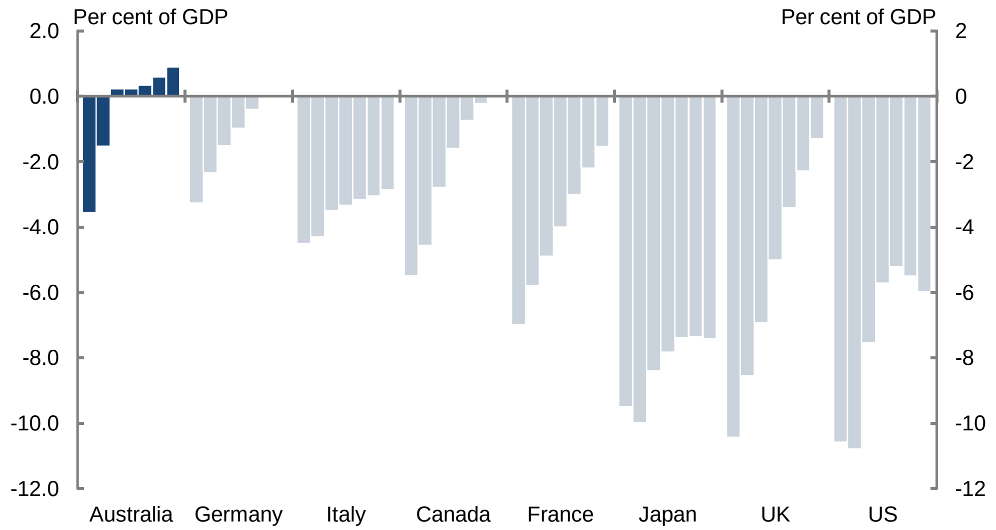
23.5 per cent. This is less than the average of the ten years preceding the financial crisis (24.0 per cent).

The Budget also contains a number of tax measures that improve the fairness and integrity of the tax system and cut tax expenditures, and so provide structural improvements in revenue.

A strong balance sheet

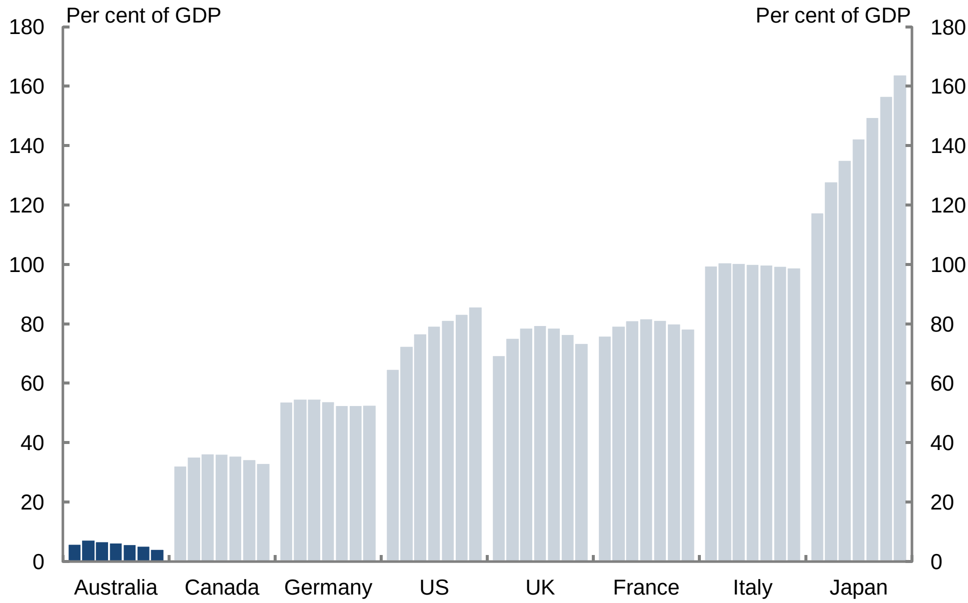
Net debt is expected to peak at 7.2 per cent of GDP in 2011-12 and decline over the remainder of the forward estimates. The peak is higher than previously expected, reflecting the immediate pressures on the budget from the natural disasters and reduced tax receipts. Still, the Australian Government's net debt position remains extremely low by international standards (Chart 3).

Chart 2: Budget balance for Australia and the G7 economies, 2010-2016



Note: Australian data are for the Australian Government general government sector underlying cash balance and refer to financial years beginning 2010-11. Data for all other economies are total government budget balance and refer to calendar years beginning 2010.
Source: IMF *Fiscal Monitor* April 2011 and Treasury.

Chart 3: Net debt for Australia and the G7 economies, 2010-2016



Note: Australian data are for the Australian Government general government sector and refer to financial years beginning 2010-11. Data for all other economies are total government and refer to calendar years beginning 2010.
Source: IMF *Fiscal Monitor* April 2011 and Treasury.

BUDGET PRIORITIES

The 2011-12 Budget invests in Australia's workforce through better and more targeted skills and training, and new measures to boost participation and expand the economy's productive capacity. The Budget also makes important investments in mental health and regional health and hospitals, infrastructure, education, and support to families.

The key priorities in the 2011-12 Budget are to:

- respond to Australia's future workforce needs through a comprehensive approach which includes better and more targeted skills and training and new measures to boost participation, particularly for disadvantaged groups;
- build on the Government's $36.2 billion Nation Building Program by improving private sector opportunities to invest in infrastructure and the way we identify and plan future infrastructure priorities;
- continue the Government's strong commitment to improving health services, through investments in mental health reform and critical regional health infrastructure under the regional priority round of the Health and Hospitals Fund;

- ensure all children have the best possible start, by improving the quality of our teachers and providing additional support that is needed for children with disability;
- provide extra support and more timely and flexible assistance for families and low- to middle-income Australians to help them meet the costs that they face, when they arise;
- provide new additional support to small business through an expanded instant asset write-off to include motor vehicles and a package of measures to help the manufacturing industry build on existing skills and identify new supply opportunities in the resources sector;
- support sustainable and liveable communities through investments in our inner cities and outer suburbs, and investments to improve the quality of life in regional Australia;
- improve the fairness and integrity of the tax system by building on the Government's *Stronger, Fairer, Simpler* package; and
- support the defence force presence in Afghanistan and continue the Government's strong approach to preventing, deterring and disrupting people smuggling.

The Budget delivers on these priorities while delivering on our election commitments, supporting communities affected by the recent natural disasters and returning the budget to surplus in 2012-13.

BUILDING AUSTRALIA'S FUTURE WORKFORCE

The strong medium-term outlook for the economy will create further demand for skilled labour and test the economy's capacity. At the same time, some regions and industries will face challenges and some groups in the community are experiencing low rates of participation and higher unemployment.

To respond to these challenges, the Government will deliver a new *Building Australia's Future Workforce* package, to help industries get the skilled workers they need, and to ensure participation in work and the benefits that this brings.

The *Building Australia's Future Workforce* package will:

- invest $3 billion in new skills initiatives over six years — targeting our skills investments to better meet the skills needs of industry; and
- boost participation — improving incentives to participate in the workforce and the services available to support disadvantaged Australians find jobs.

Investing in skills

The Government is helping to meet demand for skilled labour, by better targeting our skills effort to deliver quality training focussed on addressing the differing skills needs of industry across Australia. The Government is also continuing its efforts to reform the skills system to help deliver the workforce that Australia will need in the future.

The $3 billion package of skills measures builds on the 2010-11 Budget's *Skills for Sustainable Growth* strategy, and the 2009-10 higher education reforms.

The investment in skills:

- places industry at the heart of our training effort;
- modernises and streamlines arrangements for Australian Apprenticeships;
- pursues reform of the vocational education and training (VET) system to meet longer term needs; and
- builds better skills for workforce participation.

Placing industry at the heart of training effort

The Government will establish a new $558 million National Workforce Development Fund to respond to the most critical emerging skills needs facing Australian industry, including at a national, regional and enterprise level. The National Workforce Development Fund will incorporate the $200 million Critical Skills Investment Fund.

The National Workforce Development Fund is expected to deliver an estimated 130,000 high quality training places directly tailored to industry skills needs.

The training places will require co-investment from industry, recognising the shared responsibility for training between the Government and industry.

The fund will be supported by the establishment of a new National Workforce and Productivity Agency from 1 July 2012 through an expansion of the current functions of Skills Australia at a cost of $25 million over four years. The National Workforce and Productivity Agency will work closely with industry to identify critical skill needs and build a more skilled and capable workforce.

Modernising and streamlining arrangements for Australian Apprenticeships

The Government provides incentives and assistance for over 400,000 Australian Apprenticeships each year, but variable training quality, a lack of support and arrangements where completions are based on time contribute to low completion rates and lost training effort.

The Government's *Building Australia's Future Workforce* package contains a number of important measures to reform and strengthen the Australian Apprenticeship system, with a focus on providing better support to apprentices and enabling accelerated completions provided quality is met. Measures include:

- investing $100 million in competency based progression and better recognition of apprentice skills through trial apprenticeship models which allow for faster progression without compromising skill quality, and the development of competency rather than duration based model award clauses, so apprentices can be recognised for their skills and get higher wages sooner; and
- investing $101 million to improve apprenticeship completions by funding more than 300 apprenticeship mentors per year to support up to 40,000 eligible apprentices overall, and 144 advisors per year to assist school leavers considering an apprenticeship.

These measures build on the increased tax-free bonuses available for eligible apprentices which provide up to a total of $5,500 as they reach key milestones in their training, and the new National Trade Cadetships to build modern pathways from school to an apprenticeship.

Reforming Vocational Education and Training to meet longer term needs

The Government is reforming Commonwealth-State funding arrangements for VET, as agreed by the Council of Australian Governments in February 2011, to deliver the strong and productive training system required to meet the changing labour needs of the economy. In particular, the Government will set new reform standards for its $7 billion investment in the National Skills and Workforce Development Agreement over the next five years.

The Commonwealth will also provide up to $1.75 billion over five years from 2012-13 to states and territories under a new National Partnership depending on the levels of ambition in reform. Funding will be available to those states and territories that are prepared to partner with the Commonwealth on more ambitious reforms for VET. This includes the delivery of a more productive and responsive system that is supported by improved outcomes such as higher level qualifications, increased completions and transparency, better recognition of skills, and catering to disadvantaged learners and regions. The National Partnership will be negotiated over the coming months.

Building better skills for workforce participation

For many Australians, stronger language, literacy, and numeracy skills will improve their opportunities in the workforce, and improve their broader capacity to participate in society. This is why the Government is:

- investing $143.1 million over four years to offer an additional 30,000 places in the Language, Literacy and Numeracy Program for job seekers with poor skills;

- committing $20 million to offer an additional 13,190 places in the Workplace English Language and Literacy program, which will provide additional support to businesses looking to improve their workers' skills; and
- providing additional funding of $19.7 million to maintain the number of places in the Australian Apprenticeship Access Program which supports prospective apprentices to obtain the basic skills they will need in their chosen trade.

Boosting regional support for skills and training

In addition to the skills measures in the *Building Australia's Future Workforce* package, the Government is also boosting education infrastructure by investing $500 million over five years through the Regional Priorities round of the Education Investment Fund. This investment will support capital projects at regional higher education and VET institutions.

In addition, the Government has allocated $109.9 million over four years to increase and better target funding to regional universities through a change in the formula for allocating Regional Loading for universities with regional campuses.

This regional investment builds on the Government's commitment to skills formation pursued through its Education Revolution agenda and the significant reforms to funding of, and access to, university in the 2009-10 Budget.

Boosting participation

The *Building Australia's Future Workforce* package strengthens incentives and invests in additional services to support participation and encourage work.

Broad-based participation reforms include bringing forward the Low Income Tax Offset (LITO) to provide more immediate returns to work and phasing out the Dependent Spouse Tax Offset (DSTO) for taxpayers born on or after 1 July 1971.

The improvements to LITO will provide more immediate returns to work. By giving people more money in their regular pay packets, this measure will reward participation for low- and middle-income earners as well as help households manage the day-to-day costs they face.

The Government will phase out the DSTO for taxpayers with a dependent spouse who was born on or after 1 July 1971. Dependent spouses who are carers, invalid or permanently disabled and selected other groups will not be affected. These changes reflect changing community attitudes to work and will strengthen the incentives for dependent spouses in couples without children to seek paid employment.

These reforms build on the Government's previous participation measures, which included a doubling of the LITO and an increase in the child care rebate to 50 per cent.

The participation measures in this Budget also support participation for disadvantaged groups including:

- young people;
- single parents;
- people with disability;
- the very long-term unemployed; and
- people in disadvantaged locations.

In recognition that certain areas experience concentrated disadvantage, a number of the measures focus on new opportunities and case coordination through service delivery reforms.

These measures balance greater responsibility through increased participation requirements with additional services and support such as training, childcare and employment services, and greater rewards for workers and employers.

The participation requirements for the different groups take account of the different circumstances of individuals and what can reasonably be expected of them.

These measures will build on the changes to employment services delivered though Job Services Australia, also announced in this Budget.

Young people

Approximately 10 per cent of Australians aged 15 to 24 (around 320,000) are unemployed or not in the labour force and not studying. To encourage all young people into jobs, education or training, the Government will extend 'Earn or Learn' requirements to those aged 21.

This is part of broader changes to Youth Allowance (other). The age of eligibility is being increased so that the Newstart Allowance will not be available until age 22 (up from 21). This will mean that the age of independence is aligned for Youth Allowance (student) and Youth Allowance (other), and the age which Family Tax Benefit (FTB) is available, which creates better incentives for youth to undertake training or study, rather than moving on to unemployment benefits. At the same time, the Government will introduce a more generous income free area and working credit for Youth Allowance (other). The Government will also provide $67.6 million through Job Services Australia to fund foundation skills activities for early school leavers.

The Government will further direct $50.7 million into a new Indigenous Youth Career Pathways Program that will provide supported School Based Traineeships to assist

Indigenous students in targeted schools to transition from school into further education and/or work.

The Government will also increase FTB Part A assistance for 16 to 19 year olds in full-time secondary study to encourage increased school completion rates which is vital for future workforce participation.

Single parents

Australia has the fourth highest proportion of children under the age of 15 living in jobless families in the OECD. There were 640,000 families with a dependent child aged under 15 on income support in December 2010. Single parent families also make up around 70 per cent of jobless families.

A reformed income test will increase the rewards from part-time work for single parents. The Government will reduce the taper rate for single parents on Newstart Allowance to 40 cents in the dollar at a cost of $179 million over four years. This will allow single parents to keep up to $3,900 extra of their income from part-time work every year.

In addition, the Government will deliver a package of assistance for single parent families to help them transition into work, including:

- $80.0 million for additional training places, which will also assist teenage parents;
- $3.7 million for career advice; and
- $19.1 million for the Communities for Children program.

From 1 January 2013, the Government will also gradually align Parenting Payment eligibility rules for families whose youngest child is aged over 12. The changes will only affect parents who were payment recipients before 1 July 2006 and have a youngest child born since 1 January 2000.

People with disability

The number of DSP recipients is growing and the participation rates of people with disability are substantially lower than the general population.

The Government has already announced that it will introduce more accurate and efficient assessments for Disability Support Pension (DSP) and employment services. DSP applicants will need to provide evidence that they have tested their future work capacity. DSP applicants with a terminal illness or profound disability will not be impacted by this measure.

The Budget brings forward the start date of this measure to 3 September 2011.

The Government will also update the definitions of incapacity used for DSP assessments, with the new definitions to apply from 1 January 2012. This will update definitions that haven't been updated since 1993.

The Government will also introduce additional measures designed to further encourage DSP recipients into the workforce. Measures include:

- the introduction of appropriate participation requirements for DSP recipients under 35 years of age with an assessed work capacity of more than eight hours;
- relaxing the number of hours recipients can work before their payment is suspended; and
- providing additional wage subsidies.

Very long-term unemployed

Nearly 230,000 income support recipients registered with employment services are estimated to have been receiving support for two or more years, notwithstanding the strong labour market conditions over this period.

The Government will provide $232.6 million to increase the support available to get the very long-term unemployed into work. This includes $94.6 million for the introduction of targeted wage subsidies to encourage employers to hire those who have not worked for over two years.

Addressing geographic disadvantage

Across Australia there are large differences in unemployment and participation rates.

The Government will target disadvantaged locations with:

- $47.3 million to introduce compulsory interviews and participation plans for teenage parents, as a first step towards a broader national effort to build their skills to get ready for work, and to get their children ready for school;
- $71.1 million to introduce participation requirements for jobless families in ten locations with preschool age children to improve school and employment readiness; and
- $117.5 million over five years to extend income management arrangements to five additional trial sites to help recipients of income support better manage their affairs.

To improve services for regions that need extra help, the Government will provide:

- $19.1 million over two years to develop 34 Regional Education Skills and Jobs Plans aimed at improving access to and participation in education, training and employment; and
- $45.2 million to extend the priority employment areas and local employment coordinators measure until 30 June 2013 and enhance it through a new flexible funding pool.

Skilled migration for the regions

The Government will make a modest increase to the permanent migration program of 16,300 places, aimed at attracting skilled migrants to live and work in regional Australia. As the level of net overseas migration has significantly fallen from a peak of 315,700 to 185,800, this increase will not place pressure on Australia's population.

To ensure new migrants are settling in regions of Australia where their skills are in demand, the Government is specifying 16,000 places to the Regional Skilled Migration Scheme and providing priority processing for regional visa categories.

The Government is also introducing Enterprise Migration Agreements to address the short term labour needs of major resource projects in the construction phase. This will be complemented by Regional Migration Agreements, where the Government will work with regional communities to develop tailored solutions to address their labour shortages.

INFRASTRUCTURE — EXPANDING OUR PRODUCTIVE CAPACITY

The 2011-12 Budget includes innovative measures to improve opportunities for private sector investment in infrastructure and to increase the quality of infrastructure development, in order to expand capacity and boost productivity.

This builds on the Government's Nation Building Program which is rolling-out around $36.2 billion of Australian Government funding over six years to 2013-14.

The package of measures in this Budget:

- helps remove impediments to private sector investment in infrastructure through improved tax provisions;
- enhances the transparency of planning, implementation and evaluation of infrastructure projects; and
- increases the role and independence of Infrastructure Australia.

Leveraging private sector investment in infrastructure

The Government will provide relief from impediments in the tax system that discourage private investment in infrastructure designated to be of national significance.

Investors will have greater certainty that:

- tax losses can still be accessed where project ownership and business structures change; and
- that the value of any accumulated losses are maintained by indexing them at the government bond rate.

These changes will reduce the risks faced by private investors by providing certainty about their ability to access losses generated by their investments in designated infrastructure projects.

Enhanced transparency and evaluation

The Government will establish a National Infrastructure Construction Schedule listing large infrastructure projects with Commonwealth, State, Territory or local government funding. This will help guide investment in the national pipeline of projects and provide greater certainty for the construction industry.

Infrastructure Australia

The Government is enhancing Infrastructure Australia, providing funding of $36 million over four years to allow it to focus on identifying nationally significant projects by undertaking a top-down strategic view of infrastructure needs in the Australian economy. Infrastructure Australia will also be given the role to work closely with the States and Territories and the private sector to promote infrastructure development linked to the National Priority List.

Meeting infrastructure needs in regional communities

The Government will help meet the infrastructure needs of Australia's regions and to connect our distant communities.

The Government is providing $6 billion to the new Regional Infrastructure Fund (RIF) over the eleven years to 2020-21. Of this, $916 million is being committed in this Budget to specific transport projects:

- $434 million for six projects in Queensland, including the Gladstone Port Access Road, the Blacksoil Interchange, the Townsville Ring Road, the Peak Downs Highway, upgrades to the intersection of the Bruce and Capricorn Highways and the Mackay Ring Road Study;

- $480 million for the Gateway Western Australia project; and
- $2 million for the Scone level crossing study in New South Wales.

Infrastructure Australia will also review existing regional infrastructure plans to ensure they complement national infrastructure objectives.

The Regional Development Australia Fund is providing around $1 billion over five years to 2015-16 for a range of economic and community infrastructure projects, funded by a dedicated $573 million stream of the RIF and funds from previous Priority Regional Infrastructure Program.

The Budget also includes additional funding of $1.0 billion of support for the planning, route assessment, design and other work for the duplication of the Pacific Highway in NSW.

Infrastructure of the future — the NBN

The National Broadband Network (NBN) is the single largest nation building infrastructure project in Australia's history. The Government has prioritised the roll-out of the NBN in regional areas of Australia. Twenty-three of the thirty-three early release sites are located in regional Australia. The NBN will benefit communities by delivering economic and social benefits, including through improving access to information, health, education and government services.

MAKING MENTAL HEALTH A NATIONAL PRIORITY

Mental illness affects nearly every Australian in some way. It is the leading cause of disability and nearly one third of Australians will experience a mental illness at some stage in their lives. Untreated mental illness can lead to disengagement from society, unemployment, family breakdown, substance abuse, homelessness and suicide.

Many individuals experience difficulty in accessing services and navigating a fragmented system. This is why the Government is making substantial investments to expand effective programs and better integrate their delivery, and is also committing to ongoing action.

National Mental Health Reform

The Government is investing $2.2 billion over five years to deliver additional services, a greater focus on prevention and early intervention, and a more targeted and better coordinated mental health care system as a step towards long-term reform. These investments will focus on:

- delivering better and more integrated support for people with severe mental illness;

- prevention and early intervention for children and young people;
- improving access to primary health care for people with a mental illness; and
- increasing accountability and transparency through a more responsive system.

Included in this package is $624 million in previous investment, including the Government's election commitments on taking action to tackle suicide.

This package also forms part of the Government's commitment to develop a Ten Year Roadmap for Reform.

Delivering better support for people with severe mental illness

The Government is investing another $571 million over five years to improve outcomes for people with severe and debilitating mental illness by expanding services and improving service coordination.

The 2011-12 Budget provides $344 million over five years to provide better coordinated care and flexible funding for people with severe and persistent mental illness. This includes:

- funding local organisations to act as Care Facilitators and a single point of contact for clinical and social services;
- developing a single assessment process for all individuals with severe mental illness to ensure services are matched to their needs; and
- building on the Government's 2010 election commitment by providing additional funding for Flexible Care packages for people with severe mental illness, to help them access the most appropriate mix of services.

The 2011-12 Budget will also invest $228 million over five years to expand social support services available through the Personal Helpers and Mentors program and the Support for Day to Day Living in the Community program to assist people with severe mental illness to rehabilitate and reconnect with the community.

Prevention and early intervention for children and young people

The Government is investing $523 million over five years to expand and strengthen the focus of the mental health system towards prevention and early intervention for children and young people.

The Government will expand services in proven programs, including:

- $197 million over five years to establish 30 new *headspace* youth mental health centres around Australia to achieve national coverage of 90 centres to connect young people and their families to mental and health wellbeing support, and information and services, that are more suited to their needs;

- $222 million over five years in a 50/50 partnership with the States and Territories to establish up to a total of 16 Early Psychosis Prevention and Intervention Centres (EPPIC) to provide holistic support for young people with emerging psychotic disorders and their families around the country; and

- $61 million over five years to fund 40 additional Family Mental Health Support (FMHS) services to provide integrated prevention and early intervention services for vulnerable, at-risk and disadvantaged children, young people and their families.

Prevention and early intervention activities will also be enhanced by providing additional funding to develop a three year old health and wellbeing check to intervene early to provide the best chance of preventing mental disorders later in life, and to ensure the ongoing implementation of the Australian Early Development Index.

Improving access to primary health care for people with mental illness

The Government is committing $206 million over five years to deliver more psychology and psychiatry services through the *Access to Allied Psychological Services* (ATAPS) program. This program will make services more accessible for children and their families, people in rural and remote settings, Aboriginal and Torres Strait Islander people and other hard to reach populations.

Increasing accountability and transparency

The Government will provide $32 million over five years to establish Australia's first National Mental Health Commission within the Prime Minister's portfolio. This will increase accountability and transparency in the mental health system and give mental health prominence at a national level.

Partnering with the States and Territories

The Government will allocate $201 million over five years in a new National Partnership with the States and Territories to address major service gaps in their mental health systems.

The new National Partnership will focus on accommodation support for those at risk of homelessness and admission and discharge from hospitals. This will improve access to, and coordination of, services for people with severe mental illness.

Better targeting mental health funding

The Government will better target investment in the *Better Acces*s initiative by redirecting $580 million over five years to fund new mental health investments and achieve better value for money. Informed by an independent evaluation, savings will be achieved by:

- reducing the Medicare rebate for specific general practitioner mental health care services to align with the time usually taken to provide them; and
- rebalancing the cap on consultations for allied psychological services to reflect the program's focus on better aligning treatment to people's needs.

These savings have been re-invested into new and more effective mental health spending.

NEW INVESTMENTS IN HOSPITALS AND HEALTH SERVICES

In addition to the Government's major initiatives in mental health, this Budget provides funding for a range of investments in key health services and infrastructure. These include delivering on national health reform, major funding for regional health infrastructure, access to new medicines and services, and a focus on dental health care. New funding provided in the Budget for these measures will cost $1.8 billion over five years.

Delivering on national health reform

In February 2011, all States and Territories signed a new Heads of Agreement on National Health Reform.

Under the National Health Reform Agreement, the Government will increase its share of public hospital funding by meeting the cost of 45 per cent of efficient growth from 2014-15, increasing to 50 per cent from 2017-18.

As part of this new Agreement, the Government has guaranteed at least $16.4 billion in efficient growth funding for public hospitals over the period 2014-15 to 2019-20.

New hospitals and health services for regional Australia

The Government is investing $1.8 billion over six years under the Health and Hospitals Fund regional priority round. This includes $315 million for the Port Macquarie Base and Royal Hobart hospitals.

In total the Government will fund 63 new major projects across Australia. The funding will support upgrades to regional health infrastructure, expand regional hospitals, and support the clinical training capacity of regional hospitals into the future.

The $1.8 billion includes $475 million set aside for new proposals for the next Health and Hospitals Fund regional round.

This $1.8 billion investment builds on the $3.2 billion allocated in the 2009-10 Budget to upgrade hospital infrastructure and expand medical research and training infrastructure across Australia. It brings the total commitment in health and hospitals infrastructure to $5 billion over the last three years.

Expanding access to dental care and new medicines and technology

The 2011-12 Budget will provide an additional $53 million for dental health over the next four years to deliver improved access to dental services, particularly for those on low incomes.

- Funding will be provided for a dental internship program, focused on the public dental system to increase its capacity to deliver services.
- The National Advisory Council on Dental Health will be established to provide advice on the dental health system.

This new investment in the dental workforce will ensure the system is well placed to meet future demands. Significant reform to dental health, in line with the Government's agreement with the Australian Greens, will be a priority in the 2012-13 Budget.

The 2011-12 Budget is also investing in access to new medicines and technology by providing new funding for diagnostic imaging and other medical services and pharmaceuticals.

This package will provide total funding of $740 million over five years, comprising:

- $104 million for important diagnostic imaging services like Magnetic Resonance Imaging;
- $613 million to new medicines to be available through the Pharmaceutical Benefits Scheme (PBS), Life Saving Drugs Program and the National Immunisation Program; and
- $23 million to make amendments to the Medicare Benefits Schedule to improve access to medical services.

This brings the total number of new medicines or brands of medicines approved by the Government for the PBS, Life Saving Drugs Program, and National Immunisation Program over the last four years to around 500, at a cost of around $4 billion.

MAKING EVERY SCHOOL A GREAT SCHOOL

The Government is improving the quality of our education system. Since coming to office, it has almost doubled school investment to over $64 billion, engaged the States and Territories in a series of ambitious National Partnership agreements and also launched a comprehensive review of the funding arrangements for schooling.

The Government's school reform agenda is focused on:

- improving teacher quality; and
- supporting all students to reach their potential.

Rewarding our great teachers and boosting the teacher workforce

In recognition that teachers represent the single greatest in-school influence on student outcomes, the Government is delivering on key election commitments to increase the number and quality of teachers.

The new National Rewards for Great Teachers program will provide $125 million each semester, from the start of 2014, in reward payments for the best teachers. Around 25,000 of the country's best teachers each year will receive a reward payment worth up to 10 per cent of their salary.

The Government will also develop an employment-based training program for new teachers, offering a new pathway into a teaching career for professionals with specialist qualifications or relevant work experience. This will commence from 1 January 2012.

These initiatives build on the Reward Payments for School Improvement, which will provide reward grants from 2012-13 of up to $75,000 for primary schools and up to $100,000 for secondary schools who have shown the most improved performance over 12 months, and on reforms to improve the transparency, accountability and empowerment of the school system.

Supporting children with disability

The Government is introducing a range of measures which will improve the assistance provided to students and young people, with a particular focus on children with disability, including:

- the Better Start for Children with Disability initiative, which will provide $146.5 million over five years to improve access to early intervention services for eligible children with disability, through grants to families of up to $12,000 to access services up to the child's seventh birthday; and
- providing $28.7 million over three years in additional funding for the existing Helping Children with Autism initiative which similarly provides grants to families to access early intervention services for their children.

In addition, the Healthy Start for School measure will encourage parents to take their child for a pre-school health check to ensure they are healthy and ready to learn, by making receipt of the Family Tax Benefit Part A end of year supplement contingent on undertaking a health check in the year a child starts school.

The Government is providing $200 million over three years for the More Support for Students with Disabilities initiative, which will support students with disability in their classrooms and improve learning outcomes. This will also provide an opportunity to identify the strategies which best improve the learning experiences of these students.

SUPPORTING FAMILIES — HELPING WITH COSTS OF LIVING

The Budget provides a range of measures to help with the costs of living, building on major initiatives introduced since the Government came to office in 2007 such as the $46.7 billion of personal income tax cuts since 2008-09; the increase in the Child Care Rebate from 30 to 50 per cent; the Education Tax Refund; and Paid Parental Leave.

The measures in this Budget provide extra support and more timely and flexible assistance for families.

Supporting families with teenagers

The Government will provide $771.9 million over five years in new support for families, through an improvement in the adequacy of FTB Part A for dependent 16 to 19 year olds in full time secondary study. This measure will simplify assistance and remove the choice between Youth Allowance and FTB for the majority of families with 16-19 year old children.

The rate of FTB Part A for dependent 16 to 19 year olds in full time secondary study will be increased to equal the rate for 13 to 15 year olds. This will increase the level of FTB Part A support provided by up to $4,208 a year for 16 and 17 year olds, and up to $3,741 a year for 18 and 19 year olds. This will help families to meet the costs of older children, and to support their teenagers to stay in school.

Improving the Low Income Tax Offset

The Government is changing the way the LITO operates to provide more timely relief to low- and middle-income earners, and to reward participation in the workforce. An individual on an income of $30,000 will receive an extra $300 during the year as a result of this measure, to provide assistance when it is needed. The measure will bring around $1.4 billion of tax assistance into 2011-12 and assist more than 6.5 million low- to middle-income taxpayers.

Taxpayers eligible for the LITO currently receive one-half of the benefit during the year through the PAYG withholding schedule, with the rest received on assessment of income tax returns. The Government is increasing the proportion recipients receive during the year to 70 per cent.

Enhancing the Education Tax Refund

The Government is committed to helping families meet cost of living pressures by expanding assistance provided to parents and carers of school-aged children through the Education Tax Refund (ETR). The ETR provides valuable help by assisting parents and carers with expenses such as computers, stationery and textbooks.

The Government is extending the ETR to cover school uniform expenses at an estimated cost of $460 million over four years. From 1 July 2011 the extension will cover expenditure on uniforms which are required or otherwise approved by a school, including optional school uniforms, and sports or physical education uniforms.

More flexible access to family payments

The Government will provide families in receipt of FTB Part A with more flexible access to their entitlement, to assist them meet these unexpected expenses as they arise.

- From 1 July 2011, families will be eligible for an advance of up to 7.5 per cent, up to a maximum of $1,000, of their annual FTB Part A entitlement, at any time throughout the year. Advances will be repaid over six months by direct deductions from future FTB payments.

Families will also continue to be able to apply to receive an advance of around $160, paid every six months from a date of the recipient's choosing and repaid by reductions in their FTB Part A payments through the rest of the six month period.

More flexible child care rebate payments

The Government is giving parents greater choice about when and how they receive their child care payments.

- From 1 July 2011, families will be able to choose to have their Child Care Rebate paid at the time they incur child care costs. For most families, this will mean they will receive their Child Care Rebate payments fortnightly or weekly.

The option of more regular Child Care Rebate payments will reduce the upfront costs of care and make it easier for parents to manage the family budget.

Families will also be able to choose to have their Child Care Rebate paid directly to their child care provider as an immediate reduction on their bills or continue to receive the Rebate as a direct payment. This ensures families can choose the payment arrangements that work best for them.

SUPPORTING SMALL BUSINESSES AND MANUFACTURING

The Government will now allow small businesses to claim up to $5,000 as an immediate deduction for motor vehicles from the 2012-13 income year, providing a $350 million cash flow benefit to small business. The remaining cost will continue to be depreciated at 30 per cent (15 per cent in the purchase year).

As a motor vehicle is often the most important asset of many small businesses, this measure will be of significant benefit. For a motor vehicle purchased for $33,960, there would be a $9,344 tax deduction in the first year, an increase of $4,250 on the old arrangements.

The Government will also reduce Pay As You Go instalments for 2011-12, providing a $700 million cash flow benefit to small business and other eligible taxpayers.

These measures will improve cash flow for up to 2.7 million small businesses and builds on past announcements including an early cut to the company tax rate and the $5,000 instant asset write-off arrangements last year.

The Government is also working to ensure the manufacturing industry benefits from the mining boom with a $34.4 million package to help Australian suppliers better secure resource sector projects.

IMPROVING THE INTEGRITY AND FAIRNESS OF THE TAX SYSTEM — TAX REFORM

The Government has built on the *Stronger, Fairer, Simpler* package to continue the process of tax reform, including by:

- reforming the statutory formula for valuing car fringe benefits by introducing a single statutory rate that applies regardless of distance travelled so as to remove the tax incentive for people to travel longer distances, using more fuel;
- allowing investors in infrastructure projects of national significance to get full tax value for their investments;
- phasing out the Dependant Spouse Tax Offset and replacing the Entrepreneurs' Tax Offset with a small business tax package including a new $5,000 immediate deduction for motor vehicles, reducing complexity and improving incentives;

- providing more timely tax relief to working families by ensuring the Low Income Tax Offset reduces their tax liabilities through the year, when they need it;

- reforming access to the Low Income Tax Offset for unearned income of minors, to remove the incentive for income splitting, such as through trusts which direct income from parents on high marginal tax rates to their children; and

- reforming family payments to better reflect the costs of children and reduce overlap between family payments and income support for young people.

Since the 2010-11 Budget, the Government has announced a further 12 measures that deliver on reform directions identified in the Australia's Future Tax System review.

SUSTAINABLE COMMUNITIES

The Government understands that some communities are feeling the pressures of congestion and urban growth. The key to relieving pressure on these communities is delivering balanced growth across our regions and major cities.

This is why the Government's sustainable Australia strategy makes $4.3 billion of investments in regional hospitals, health care, universities and roads — to lift living standards outside the big capitals, provide the best services closer to home, and help regional communities reach their potential.

The Government will invest:

- $1.8 billion to renew regional health infrastructure, expand regional hospitals and support training in regional hospitals, providing families in regional Australia with confidence they will be able to access the health care they need, when they need it;

- $609.9 million for investment in regional higher education and vocational education and training projects, providing a real choice to school leavers in regional areas on where they advance their education;

- $916 million for the first projects to be funded from the Regional Infrastructure Fund to help unlock the economic potential of our regions;

- $1 billion through the Regional Development Australia Fund to finance infrastructure projects that best fit the economic and community needs of the region — from bridges, to child care centres to sporting facilities;

- $29.2 million to improve strategic planning for regional and coastal high growth centres, reducing red tape for business and fast-tracking investment; and

- $11.5 million to support regional cities to promote the benefits and opportunities of living away from the capital cities.

On top of this, in this Budget the Government will invest an additional $10.1 million to develop new sustainability indicators for Australia and report progress against these indicators.

All of this is in addition to the National Broadband Network, which will help connect regional families, communities and businesses — reducing the tyranny of distance, changing the way Australians live and work, and offering new opportunities in areas like health and education.

The Government will also invest in making living in outer urban areas more sustainable and liveable through a National Urban Policy, including investing:

- $100 million to encourage the development of employment hubs in outer suburbs, to promote local jobs closer to residential areas. It also will support local infrastructure to attract employers, targeting areas with the highest travel times;

- $61 million for managed motorways that allow more efficient use of our road infrastructure, bringing mums and dads home from work faster; and

- $20 million to support demonstration projects for urban renewal in our inner cities.

The Prime Minister will also begin a rigorous COAG process that asks state premiers to lead the development of Commonwealth-State reforms that are of particular relevance to their jurisdiction, whether it be labour mobility in the west or easing congestion in capital cities in the east.

CLIMATE CHANGE — MOVING TO A CLEAN ENERGY FUTURE

Australia produces more carbon pollution per head than any other advanced economy — 27 tonnes per person compared to a world average of almost six tonnes per person.

To reduce Australia's carbon pollution and drive investment in clean energy technologies, the Government will introduce a carbon price to commence on 1 July 2012.

There is broad consensus among economists that a market mechanism is the best way to reduce emissions at least cost and to create the incentives for new investment. The carbon price will work by putting a price on every tonne of pollution produced. Less than 1000 companies — the biggest polluters in our economy — will be required to pay.

Australia will cut carbon pollution while maintaining an economy that grows strongly, expands job opportunities and continues to deliver long-term growth in real wages.

The Government will use every cent raised from the carbon price to assist households, support jobs in the most affected industries, and to encourage the transition to a clean energy future. More than 50 per cent of the revenue will be used to assist households.

The Government is considering the details of the carbon pricing mechanism. All revenue raised by this scheme will be returned to assist households and businesses and fund climate programs and will be broadly budget neutral. Consistent with the *Charter of Budget Honesty Act 1998* the full budgetary impacts will be included in the first economic and fiscal update after the scheme's design has been determined.

REBUILDING COMMUNITIES AFFECTED BY NATURAL DISASTERS

This Budget reflects the substantial commitment the Government has made to support affected communities deal with the tremendous impact of the recent natural disasters. Around $6.6 billion over six years is being provided for immediate relief and assistance, and to support the difficult task of rebuilding affected communities.

To ensure value for money for taxpayers, the Government has introduced a number of oversight and accountability measures, including the establishment of a Reconstruction Inspectorate to provide an additional level of checks and balances.

Funding the recovery and rebuilding effort

Under the long standing Natural Disaster Relief and Recovery Arrangements (NDRRA) with the States and Territories, the Government expects to contribute around $5.4 billion to the States and Territories to aid the recovery.

The vast majority of this funding is being invested in rebuilding damaged essential public infrastructure, mostly roads and bridges but also other items such as schools. Current assessments indicate that more than 79,000 kilometres of Queensland's state and local government road network has been damaged.

The Government is contributing $213.6 million to help Queensland's local councils repair utilities and infrastructure, and support their efforts in recovering from the floods and Tropical Cyclone Yasi. A tailored package of assistance totalling over $950 million has been developed to address the unique challenges faced by far north Queensland in rebuilding.

Within the package to help Queensland's local councils, up to $176.5 million is being provided to fast-track the repair of damaged infrastructure owned by local governments, including severely damaged water and sewerage infrastructure, marine infrastructure in the Cassowary Coast, and reconstruction of the Brisbane ferry terminals and Riverwalk. There is also funding of $37 million to help regional and remote councils employ people to perform important clean-up and repair work.

Funding provided under the NDRRA has also contributed to personal hardship and distress assistance for individuals and families, concessional loans and clean-up and recovery grants for small business, primary producers and not-for-profit organisations, and freight subsidies for primary producers.

In addition, funding will go towards Community Recovery Packages to support community development and recovery, mental health services, financial counselling support, crisis accommodation and respite care for people with disability.

The Government is providing advance payments of NDRRA funding to Queensland to ensure that funds are available to start rebuilding affected communities and support the return of economic activity as fast as possible, and stands ready to provide an advance payment to Victoria should a National Partnership Agreement be signed.

Additional help to get those affected back on their feet

The Government is also providing direct assistance to support individuals, families and businesses in those areas worst affected by the disasters. Around $900 million in Australian Government Disaster Recovery Payments (AGDRP) is expected to be paid to individuals and families in those areas worst affected by the disasters. The payments are $1,000 per eligible adult and $400 per eligible child. More than 700,000 AGDRP payments have been made as at 29 April 2011 as a result of the natural disasters since late last year. Other key measures include the following:

- more than $95 million in Disaster Income Recovery Subsidies is expected to be paid to provide income support to eligible employees, small business and primary producers in the worst affected areas in Queensland;
- to assist local councils with the clean up and recovery effort, the Government brought forward more than $354 million in Financial Assistance Grants to the Queensland and Victorian Governments. These grants have been made available to local councils in disaster affected areas;
- the Government has also pledged donations totalling $14.1 million to the Queensland Premier's Disaster Relief Appeal, the Red Cross Victorian Flood Appeal and the Perth Lord Mayor's Distress Relief Fund; and
- the Government is providing $6 million towards a Tourism Industry Support Package to provide a vital boost for the many families and small businesses that depend on Queensland's reputation as one of the world's most attractive tourism destinations.

These measures are in addition to the Government's substantial contribution under the NDRRA, in recognition of the enormous scale of the damage caused to communities across Australia.

The Government has fully funded its response to the recent natural disasters. In addition to the expenditure savings identified, the Government also introduced a modest one-year progressive levy, which will not be paid by people directly affected by the floods or cyclones, or by low-income earners.

CONTINUING OUR COMMITMENT TO NATIONAL SECURITY

This Budget reaffirms the Government's commitment to meeting Australia's national security challenges.

The 2011-12 Budget invests in new defence capabilities. It also provides funding for Australia to continue its efforts in tackling global security challenges, including maintaining our presence in Afghanistan.

As part of ongoing reforms in Defence, new efficiencies have been found to add to those already identified under the existing Defence Strategic Reform Program. The Defence capital budget will also be reprogrammed to better align funding with the development and delivery of capability projects.

In addition, this Budget continues the Government's strong approach to preventing, deterring and disrupting people smuggling.

Contributing to global stability

Australia remains committed to global security through its contribution to international counter-terrorism efforts. The Budget is providing $1.3 billion to support the defence force presence in Afghanistan, to help ensure that Afghanistan cannot again become a safe haven and training ground for global terrorism.

The Government is also continuing its commitment to regional stability. This Budget is providing $140.7 million to maintain Australian Defence Force (ADF) operations in East Timor and $44.1 million to continue Australia's contribution to ensuring stability in the Solomon Islands.

Capability building to meet our international commitments

The Government is continuing to upgrade ADF capabilities to ensure Australia remains well equipped to meet our international commitments.

- A Bay Class amphibious ship, *Largs Bay*, will be purchased and refitted at a cost of $177.4 million to significantly enhance the ADF's capacity to provide operational and humanitarian support in our region.

- Australia is also acquiring a new C-17 heavy lift aircraft at a cost of $251.9 million. This will strengthen Australia's military long-range heavy airlift capability including to support Australian forces in Afghanistan.

An additional $32 million will be provided for the establishment of an Australian Civilian Corps Rapid Deployment Fund to enable civilian specialists to be deployed overseas in support of stabilisation, recovery and development planning in the aftermath of natural disasters or conflict. By delivering civilian technical assistance quickly, Australia can help improve the prospects for stabilising and rebuilding the essential functions of government in affected countries.

Maintaining the integrity of Australia's borders

The Government has made significant progress in implementing its commitment to develop a Regional Cooperation Framework agreed at the recent Bali Process Ministerial Conference, and in this Budget will provide $292.3 million for this purpose.

The Government has agreed to enter into a groundbreaking cooperative transfer agreement with the Government of Malaysia to limit people's incentive to arrive in Australia by boat. Under this agreement Australia will transfer 800 irregular maritime arrivals (IMAs) to Malaysia for refugee status determination. In exchange, Australia has agreed that for every IMA transferred to Malaysia, Australia will receive five genuine refugees currently residing in Malaysia for settlement. This will be accommodated through an increase of 4,000 places in the Humanitarian Migration Program over four years.

This measure, along with other Government border security initiatives, are part of the Government's comprehensive approach of dealing with people smuggling by including countries in the region to deal with a regional problem.

Regional governments' capacity for migration and border management will be strengthened through the provision of $95.3 million for a range of activities including the identification of irregular migrants and the establishment of processes for return. This includes funding to enhance Australian Government cooperation with key regional government agencies to prevent and disrupt people smuggling.

The Government will maintain a strong surveillance presence in Australia's northern waters, including by extending the lease of the *ACV Triton* maritime patrol vessel and by continuing extra aerial surveillance in support of the detection and interception of people smuggling ventures. The Royal Australian Navy will also continue to patrol the northern waters as part of Operation Resolute.

An additional $107.7 million will be provided to maintain the Government's rigorous but fair asylum seeker processing system, including for scrutiny of refugee claims.

Statement 2: Economic Outlook

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

Statement 2: Economic Outlook

Recent natural disasters will reduce Australia's economic growth in the first half of 2011, but the negative macroeconomic impacts are expected to be temporary. Australia's medium-term fundamentals remain strong, with the economy forecast to grow at an above-trend rate in 2011-12 and 2012-13, supported by strong economic conditions in the region. Robust growth in emerging Asia has pushed Australia's terms of trade towards historical highs, underpinning an extremely strong outlook for resources investment and exports. Strong real GDP growth is expected to drive solid growth in jobs and reduce unemployment. With the unemployment rate already low, price and capacity pressures are likely to emerge. However, conditions will remain uneven across the economy, with the appreciation of the Australian dollar and legacy effects from the global financial crisis (GFC) weighing heavily on some sectors. The key risks to Australia's economic outlook arise from fragilities in the international economy, with recent events in Japan and rising world oil prices adding to existing concerns.

Overview

The recent natural disasters in Australia, Japan and New Zealand will reduce Australia's economic growth in early 2011. Combined, these natural disasters are expected to detract around ¾ of a percentage point from Australia's economic growth in 2010-11, with real GDP likely to have contracted in the March quarter. While it will take many years for the affected communities to recover from these tragic events, the negative impacts on Australia's economic growth are expected to be temporary, with the resumption of activity and commencement of reconstruction expected to add to real GDP growth from 2011-12.

More broadly, the Australian economy is in a strong position and the outlook is favourable, with above-trend real GDP growth forecast over the next two years. Employment has grown strongly with over 300,000 jobs created over the past year and the unemployment rate has fallen to around 5 per cent. Underlying inflation has moderated and is currently at around decade lows. Beyond the short-term impact of the natural disasters, Australia's real GDP growth is forecast to strengthen to 4 per cent in 2011-12 and 3¾ per cent in 2012-13, led by record levels of investment in the resources sector.

The favourable outlook for the Australian economy is supported by improving global conditions, although the international recovery remains uneven following the GFC and risks remain elevated. The world economy continues to recover and fears that growth would not be sustained have receded. Financial conditions have also improved, and global risk aversion and financial market volatility have moderated, notwithstanding ongoing concerns in some European countries. Looking ahead, the recovery in advanced economies is forecast to consolidate, while growth in the large emerging economies is expected to moderate to more sustainable rates. Accordingly, the global economy is expected to grow 4¼ per cent in 2011 and 4½ per cent in 2012, down from 5 per cent growth in 2010.

However, global economic conditions remain unbalanced. Output in the major advanced economies is still well below potential and, while economic growth has strengthened, it is not yet sufficient to make substantial inroads into high unemployment. This is at a time when governments in some major advanced economies are under pressure to make credible commitments towards medium-term fiscal consolidation, leading to difficult policy trade-offs. By contrast, after sustaining strong growth through the global recession, the large emerging market economies are now confronting significant capacity pressures.

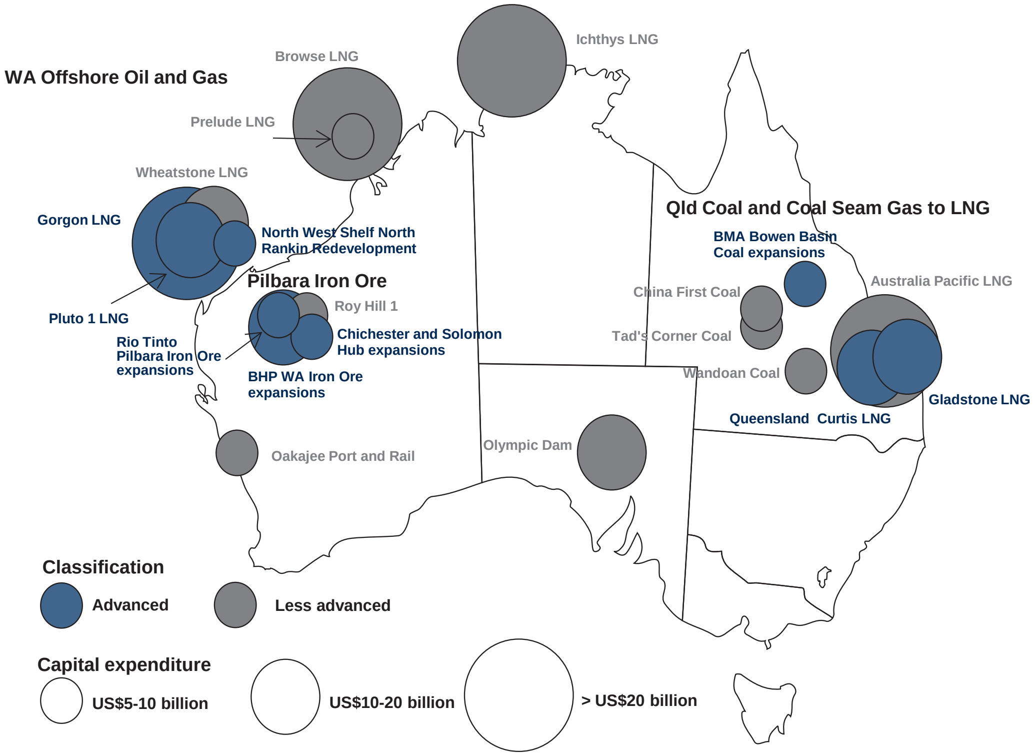
While gaining traction, the global economic recovery also remains vulnerable. Uncertainty about the speed and strength of the Japanese recovery, compounded by the ongoing nuclear situation, and rising world oil prices are adding to existing fragilities. While financial conditions have improved in recent months, the potential for sovereign debt concerns in the euro area to affect the broader European financial sector and cause contagion effects beyond Europe remains a key risk. Failure to develop a credible medium-term response to the unsustainable US fiscal position also poses a threat to the sustainability of the global recovery. Inflationary pressures continue to build in emerging market economies, driven by reduced spare capacity and compounded by rising food and oil prices. While oil prices have not returned to their July 2008 peaks, a further significant and sustained increase could pose broader risks to global growth in the context of a fragile global recovery.

Notwithstanding these risks, strong growth in China (now Australia's largest export market), India and in the other emerging economies of Asia is expected to underpin strong demand for Australian exports. Australia's major trading partners grew by a record 6.6 per cent in 2010, albeit from a low base, and are expected to grow by a robust 4½ per cent in 2011 and 5 per cent in 2012. This will continue to boost demand for Australia's non-rural commodities and further support Australia's terms of trade.

Sustained high prices for Australia's key non-rural commodity exports are driving record investment intentions in the mining sector and strong forecast growth in commodity exports. New engineering construction is expected to grow 56 per cent over the next two years, underpinned by large liquefied natural gas (LNG) projects, driving new business investment to 50-year highs as a percentage of GDP. The surge in investment will expand the economy's capacity over time, with previous investment in mine and transport infrastructure underpinning a forecast increase in the volume of non-rural commodity exports of over 20 per cent over the next two years.

Forecast growth in mining investment is well-supported by projects that are already at an advanced stage and by the longer term outlook for global resources demand (Chart 1). While cyclical fluctuations in global growth will have implications for commodity prices, investment decisions are taken over longer time horizons and are underpinned by projections of the growing resource needs of the large emerging market economies over a period of decades. In value terms around two-thirds of the large mining projects included in the economic forecasts have received final investment approval, with the majority of these already under construction.

Chart 1: Selected major resource projects



Note: ABARES defines advanced projects as either 'committed' or 'under construction' and less advanced projects as those undergoing a feasibility (in some cases, pre-feasibility) study, or that have not yet been subject to a final investment decision since the completion of a feasibility study.
Source: Indicative estimates based on ABARES, company reports and other publicly available information.

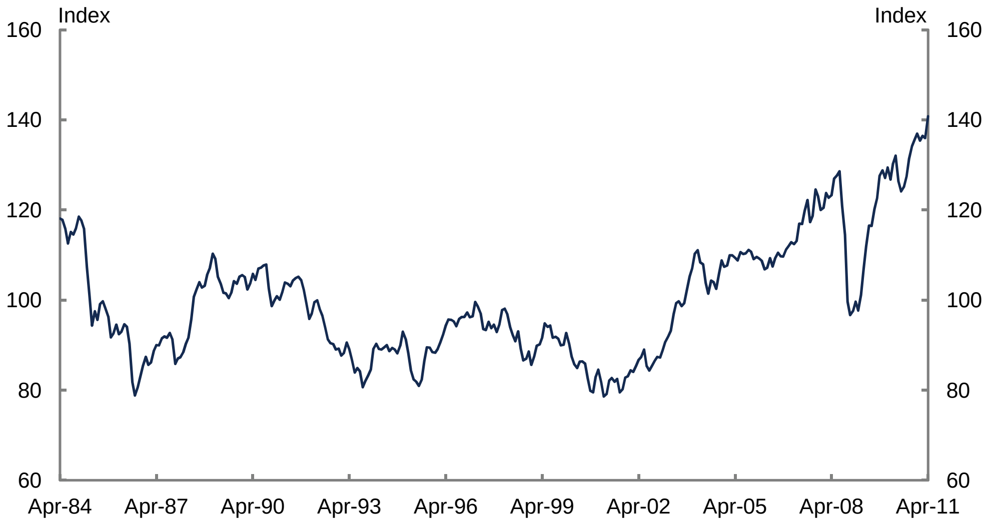
The medium-term outlook is for Australia's terms of trade to decline as the global supply of iron ore and coal increases. Still, the rapid pace of economic development in emerging Asia, and the prospect that strong resources-intensive investment in China and India will continue for many years to come, underpin expectations that the decline in Australia's terms of trade will be gradual. One consequence of the increasing concentration of Australia's trade in non-rural commodity exports to China and India is that Australia's economic outlook is now more sensitive to developments in those two countries.

Australia's high terms of trade are supporting strong national incomes and growth in the broader economy. However, conditions are expected to remain challenging in those sectors that are not benefitting — either directly or indirectly — from the resources boom. Australia's high terms of trade, strong growth relative to other advanced economies and tightened macroeconomic policy settings have seen the

Australian dollar appreciate to post-float highs. In real trade-weighted terms, the exchange rate is currently around 40 per cent above its post-float average, reducing the competitiveness of trade-exposed sectors of the economy (Chart 2).

Chart 2: Real trade-weighted exchange rate

(Post-float average = 100)



Source: RBA.

The high exchange rate and withdrawal of fiscal and monetary policy stimulus are helping to moderate inflationary pressures as the economy returns to full capacity. However, these same factors are also bearing down on activity and profits in some sectors. For many businesses, these challenges are compounded by more cautious household spending behaviour and greater difficulty accessing credit following the GFC. The mining investment boom is also increasing competition for labour and other inputs, raising cost pressures for some businesses. Therefore, while the Australian economy is expected to grow at an above-trend rate over the next two years, conditions are likely to remain uneven across the economy.

Consistent with the strong outlook for real GDP growth, employment growth is expected to remain solid over the forecast period and the workforce participation rate is expected to remain at around record highs. The unemployment rate is forecast to fall gradually from around 5 per cent currently to 4½ per cent in the June quarter of 2013 as the economy approaches capacity. Underlying inflation is expected to remain contained but increase steadily, as the labour market tightens, to 3 per cent by the June quarter of 2013. Headline inflation will be higher in the short-term due to the increase in world oil prices and the impact of the recent floods and Cyclone Yasi on fruit and vegetable prices.

While Australia's economic outlook is favourable, the significant risks to the global recovery noted earlier would, if they eventuated, have serious negative implications for economic growth. The adjustment in the economy as the mining sector expands, adding to capacity pressures and placing additional strains on other sectors, is a source of further uncertainty in the forecasts. Australia's high terms of trade also present risks. While the terms of trade are expected to remain at historically high levels, the prospect of heightened volatility and large adjustments become more significant the further prices for Australia's key non-rural commodity exports are away from sustainable long-run levels.

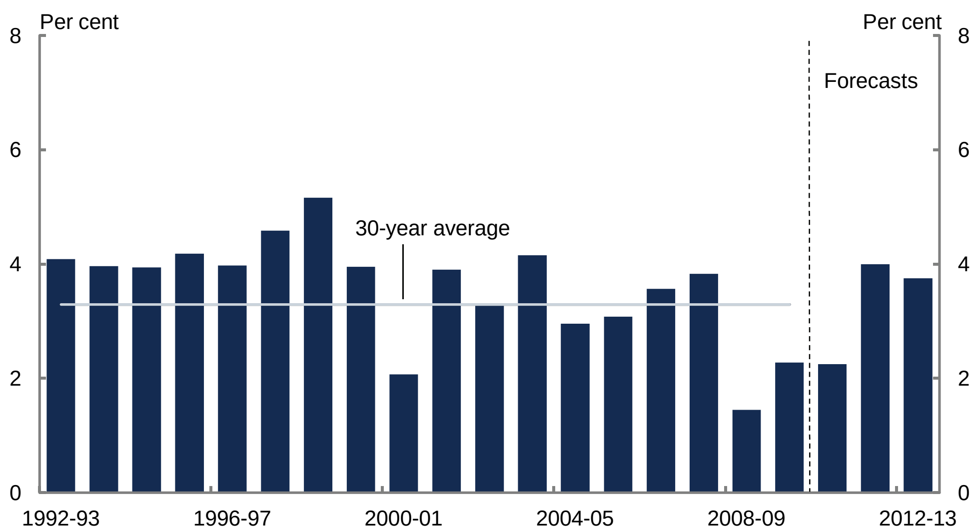
Notwithstanding Australia's positive medium-term outlook, these risks, especially those to the global economy, heighten the importance of Australia continuing to pursue robust macroeconomic and structural policies. Fiscal consolidation will ensure that the Government is not compounding the pressures of a strengthening economy and that Australia is well prepared for any eventuality.

Summary of forecasts

The **world economy** is forecast to grow 4¼ per cent in 2011 and 4½ per cent in 2012 as strong growth in emerging market economies moderates slightly and the recoveries in a number of advanced economies gather momentum.

Australia's real GDP is forecast to grow 4 per cent in 2011-12 and 3¾ per cent in 2012-13 (Chart 3). The main drivers of economic growth are expected to be business investment and commodity exports.

Chart 3: Growth in real GDP



Source: ABS cat. no. 5206.0 and Treasury.

Household consumption is expected to grow moderately in the context of a buoyant labour market and solid growth in household disposable income, with consumers remaining cautious following the GFC. Household consumption is expected to increase 3½ per cent in both 2011-12 and 2012-13.

Dwelling investment is expected to be subdued, with forecast growth of 1½ per cent in 2011-12 and 3 per cent in 2012-13, dampened by tighter credit conditions and ongoing supply constraints.

New business investment is forecast to grow by a strong 16 per cent in 2011-12 and 14½ per cent in 2012-13, underpinned by record capital expenditure in the mining sector, while non-residential building investment is expected to remain subdued.

Public final demand growth is expected to decline sharply over the next two years, reflecting the conclusion of fiscal stimulus in line with the Government's fiscal consolidation strategy. This is notwithstanding reconstruction spending by the Commonwealth and State governments following the recent natural disasters.

Exports are forecast to grow a solid 6½ per cent in 2011-12 and 5½ per cent in 2012-13 as domestic production of non-rural commodities expands to meet global demand. However, the high Australian dollar is expected to weigh on growth in exports of manufactures and services, notwithstanding the improved global outlook.

Imports are forecast to increase strongly over the next two years, driven by robust domestic demand and the high Australian dollar. While import growth is expected to be broad-based, the largest contribution is expected to come from an increase in capital goods imports required for major resource projects.

The **terms of trade** are forecast to reach their highest sustained levels in 140 years, based on strong price rises for Australia's key non-rural commodity exports. This reflects increased global commodity demand and significant supply disruptions — particularly to Queensland's metallurgical coal exports, due to the floods. The terms of trade are expected to decline gradually over 2011-12 and 2012-13, driven by a modest decline in non-rural commodity prices as increased global supply comes on line.

The **current account deficit** is expected to narrow sharply in 2010-11, reflecting the expected increase in the terms of trade, and then widen in 2011-12 and 2012-13, reflecting strong growth in import volumes and the expected gradual fall in the terms of trade. The trade balance moved into surplus in 2010-11 and is expected to remain in surplus over the next two years. The net income deficit is expected to widen over 2011-12 and 2012-13, as rising export earnings generate increased equity income outflows.

Employment is forecast to grow 1¾ per cent through the year to the June quarters of both 2012 and 2013, in line with strengthening economic growth. The **unemployment rate** is forecast to fall, reaching 4¾ per cent by the end of 2011-12 and 4½ per cent by the end of 2012-13. The participation rate is expected to remain at around record highs of 66 per cent.

Wages growth returned to trend in 2010, and is expected to increase as the labour market tightens. The wage price index is expected to grow 4 per cent through the year to the June quarter of 2012 and 4¼ per cent through the year to the June quarter of 2013.

Underlying inflation is expected to increase steadily from 2½ per cent through the year to the June quarter of 2011 to 3 per cent through the year to the June quarter of 2013. Following an initial spike associated with the recent natural disasters, **headline inflation** is also expected to be 3 per cent through the year to the June quarter of 2013.

Nominal GDP is forecast to grow 6¼ per cent in 2011-12 and 5¾ per cent in 2012-13, reflecting strength in real GDP growth and the gradual forecast decline in the terms of trade.

Table 1: Domestic economy forecasts[(a)]

	Outcomes(b)	Forecasts		
	2009-10	2010-11	2011-12	2012-13
Panel A - Demand and output(c)				
Household consumption	2.1	3	3 1/2	3 1/2
Private investment				
Dwellings	2.1	2 1/2	1 1/2	3
Total business investment(d)	-4.9	4 1/2	16	14 1/2
Non-dwelling construction(d)	-8.2	8	18 1/2	17 1/2
Machinery and equipment(d)	-4.8	2	17 1/2	14
Private final demand(d)	0.7	3	6	6
Public final demand(d)	7.0	3 1/2	1 1/4	-1 1/4
Total final demand	2.1	3	4 3/4	4 1/2
Change in inventories(e)	0.3	0	0	0
Gross national expenditure	2.4	3 1/4	4 3/4	4 1/4
Exports of goods and services	5.2	4	6 1/2	5 1/2
Imports of goods and services	4.9	9	10 1/2	8 1/2
Net exports(e)	0.1	-1	-1	- 3/4
Real gross domestic product	**2.3**	**2 1/4**	**4**	**3 3/4**
Non-farm product	2.3	2	4	3 3/4
Farm product	1.5	13	1	-3
Nominal gross domestic product	2.3	8	6 1/4	5 3/4
Panel B - Other selected economic measures				
External accounts				
Terms of trade	-4.4	19 1/4	- 1/4	-3
Current account balance (per cent of GDP)	-4.1	-2	-4	-5 1/4
Labour market				
Employment (labour force survey basis)(f)	2.4	2 3/4	1 3/4	1 3/4
Unemployment rate (per cent)(g)	5.2	5	4 3/4	4 1/2
Participation rate (per cent)(g)	65.3	66	66	66
Prices and wages				
Consumer price index(h)	3.1	3 1/4	2 3/4	3
Gross non-farm product deflator	0.2	6	2 1/4	2
Wage price index(f)	3.0	4	4	4 1/4

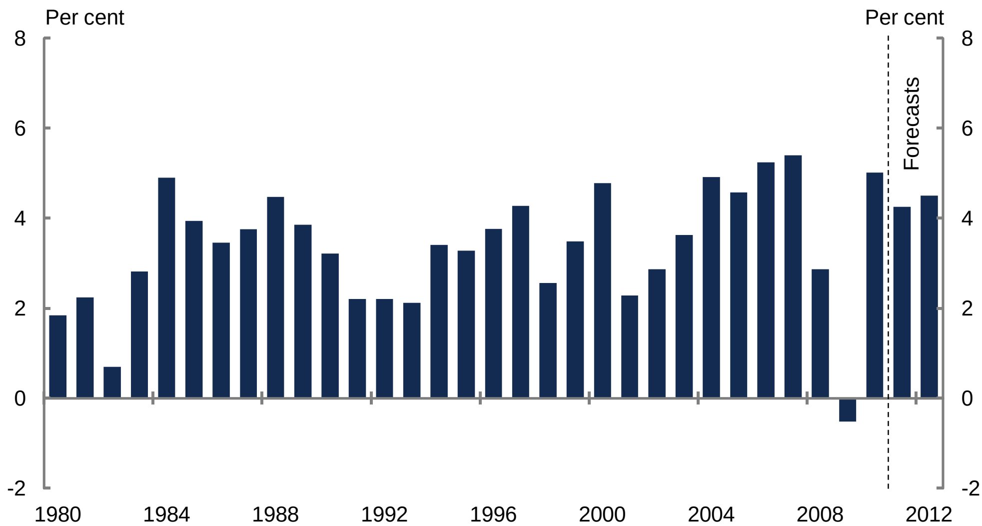
(a) Percentage change on preceding year unless otherwise indicated.
(b) Calculated using original data unless otherwise indicated.
(c) Chain volume measures except for nominal gross domestic product which is in current prices.
(d) Excluding second-hand asset sales from the public sector to the private sector.
(e) Percentage point contribution to growth in GDP.
(f) Seasonally adjusted, through-the-year growth rate to the June quarter.
(g) Seasonally adjusted rate in the June quarter.
(h) Through-the-year growth rate to the June quarter.
Note: The forecasts for the domestic economy are based on several technical assumptions. The exchange rate is assumed to remain around its recent average level — a trade-weighted index of around 78 and a US$ exchange rate of around 107 US cents. Interest rates are assumed to move broadly in line with market expectations. World oil prices (Malaysian Tapis) are assumed to remain around US$132 per barrel. The farm sector forecasts are based on average seasonal conditions in 2012-13.
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 global economic recovery is gaining momentum, but remains uneven and subject to significant downside risks. The recovery in the United States is consolidating, while robust growth in emerging market economies is continuing. Global financial conditions have also improved, notwithstanding the shocks from the earthquake in Japan and unrest in the Middle East and North Africa. However, output in the major advanced economies is still well below potential following the GFC, while the large emerging market economies are confronting significant capacity pressures. The strength and sustainability of the global recovery remains vulnerable due to ongoing stresses in European sovereign debt markets, enduring weaknesses in financial sector balance sheets, fiscal consolidation pressures in many of the major advanced economies, a build-up of inflationary risks in emerging market economies and rising oil prices.

The global economy is expected to grow 4¼ per cent in 2011 and 4½ per cent in 2012, slightly lower than the stronger-than-expected 5 per cent growth recorded in 2010 (Chart 4).

Chart 4: World GDP growth



Source: IMF *World Economic Outlook* April 2011, Thomson Reuters and Treasury.

Australia's major trading partners (MTPs) are forecast to grow 4½ per cent in 2011, and 5 per cent in 2012 (Table 2) following 6.6 per cent growth in 2010, the strongest rate in more than 20 years. The easing in MTP growth in 2011 reflects, in part, the economic impact of the Japanese earthquake, and more generally an expected moderation in the rapid expansion in emerging Asia that occurred during the initial phase of the recovery. The Japanese earthquake is expected to detract around ¼ of a percentage point from MTP growth in 2011 and, through the reconstruction, add ¼ of a percentage point to MTP growth in 2012 (see Box 1).

Table 2: International GDP growth forecasts[(a)]

	Actuals	Forecasts	
	2010	2011	2012
United States	2.9	3	3
Euro area	1.8	1 1/2	1 1/2
Japan	3.9	1/4	2 1/2
China(b)	10.3	9 1/2	9
India(b)	10.4	8 3/4	8 1/4
Other East Asia(c)	7.6	5	5
Major trading partners	6.6	4 1/2	5
World	5.0	4 1/4	4 1/2

(a) World, euro area, and other East Asia growth rates are calculated using GDP weights based on purchasing power parity (PPP), while growth rates for major trading partners are calculated using export trade weights.
(b) Production-based measure of GDP.
(c) Other East Asia comprises the newly industrialised economies (NIEs) of Hong Kong, South Korea, Singapore and Taiwan and the Association of Southeast Asian Nations group of five (ASEAN-5), which comprises Indonesia, Malaysia, the Philippines, Thailand and Vietnam.
Source: National statistical agencies, IMF *World Economic Outlook* April 2011, Thomson Reuters and Treasury.

Developments in the United States and China, which are in different phases of their economic cycle, will largely determine the shape and durability of the global recovery. In the United States, macroeconomic policy remains highly accommodative, while in China the government is attempting to reduce inflationary pressures and overheating.

The outlook for the United States economy has solidified in recent months, with private consumption playing a larger role in the recovery. Extraordinary monetary policy accommodation continues to provide support to the economy. The fiscal package enacted in December 2010, based largely on tax cuts, will also play a role in supporting growth in 2011 by encouraging consumer spending. Following growth of 2.9 per cent in 2010, the United States economy is expected to continue to grow slightly above trend at 3 per cent in both 2011 and 2012, supporting a gradual fall in the unemployment rate.

A key uncertainty for the United States recovery is the potential for an extended period of high oil prices or continued lacklustre employment growth to dampen incomes growth and private consumption. Although the unemployment rate has fallen since November 2010 and employment growth has improved recently, there are still around 7 million fewer people employed than before the crisis. Unemployment is likely to remain significantly above pre-crisis levels over the forecast period, weighing on recovery prospects. Further, although conditions in the United States housing market are stabilising and are unlikely to detract much more from growth, bloated inventories and weak house price growth will continue to restrain housing activity. Additionally, the wind-down of stimulus and efforts to consolidate the fiscal position will be a drag on growth in 2012 and beyond.

The Chinese economy has continued to grow strongly, with GDP growth of 10.3 per cent in 2010. Despite a wind-down of the Government's fiscal stimulus program and a tightening of monetary conditions, investment contributed over half (5.6 percentage points) of this growth and now makes up around half of GDP.

In 2011, the Chinese economy is forecast to grow 9½ per cent, before moderating slightly to 9 per cent in 2012. Domestic demand is expected to make a stronger contribution to growth, while net exports are expected to make a small positive contribution to growth in 2011 and 2012, as they did in 2010.

Consumption is expected to contribute more to growth than in the past, as China seeks to redirect growth away from investment by slowing credit expansion and moderating activity in the property sector. China's 12th Five Year Plan, which outlines key economic and social objectives for the next five years, is focused on restructuring China's economic model towards internal sources of growth.

Overall, Chinese Government policy continues to be supportive of growth. The key risks to the short-term outlook are centred on controlling inflation and managing inflation expectations. Inflation is being driven by high food prices and excess liquidity. Despite recent increases in the reserve requirement ratio and interest rates, further tightening is likely, with the attendant risk of an overcorrection.

While the global outlook has improved, it is exposed to shocks and a number of key downside risks remain. Sovereign debt problems are most pressing in Europe. Greece and Ireland have already received European Union-IMF rescue packages, and Portugal reached an agreement on a rescue package in early May with the EU and IMF. Each of these countries is undergoing large-scale fiscal consolidation and implementing broad-ranging structural reforms. However, market concern over the sustainability of the debt burden remains, as does the potential for contagion to the European banking sector.

The United States and Japan also face the challenge of addressing the longer-term sustainability of their public finances. In the near term, considerable uncertainty shrouds the ultimate form of long-term fiscal consolidation in the United States, while in Japan the near-term focus will be on funding recovery and reconstruction from the earthquake. In both countries, credible long-term consolidation plans have yet to be agreed.

Another significant risk to the global recovery is the inflationary pressure building in emerging economies. In fast-growing emerging economies, spare capacity has been significantly reduced and inflationary pressures have been building for some time. Rapid capital inflows and rising food and oil prices are accentuating these pressures, adding impetus to the need for policy tightening. Measures are being taken, with monetary authorities in a number of these economies increasing interest rates since the start of 2011. However, as the pressure on authorities to further tighten policy increases, it will be crucial that inflationary pressures are reduced while avoiding a sharp slowing of growth. Given that emerging economies have driven the global recovery to date, a sharp slowing in these economies would not bode well for the global recovery.

Resurgent demand for oil, and improving confidence in the strength of the global recovery, underpinned rising oil prices during 2010. Disruptions to oil supply due to the unrest in the Middle East and North Africa in recent months have pushed oil prices to well over US$100 per barrel. In addition, the damage to Japan's nuclear power capacity from the recent earthquake may also result in an increase in oil and gas demand from Japan, the world's third-largest consumer of oil, as well as from other economies reassessing their use of nuclear power.

A significant and sustained oil price rise would pose a significant risk to the global economic outlook. Recent work by the IMF estimates that a temporary rise in oil prices to an average of US$150 per barrel for 2011 could reduce the level of advanced economies' real GDP by ¾ of a per cent in 2012 from its current projections. In emerging economies, the effect is estimated to vary widely across regions, from GDP losses of close to ¾ of a per cent in Asia and ½ of a per cent in Latin America, to GDP gains in the Middle East and North Africa and in the Commonwealth of Independent States.

While the balance of risks is to the downside, there are also upside risks to the global recovery. There is potential for a rapid improvement in sentiment and a subsequent surge in investment and activity more broadly, financed from the substantial levels of liquidity sitting idle with banks and corporates, particularly in the United States but also in Japan. A continuation of the recovery in equity markets would also reduce some of the need for continued deleveraging.

Box 1: Japanese earthquake

The magnitude-9.0 Tohoku earthquake in March 2011 was the most powerful in Japan's recorded history. On top of the tragic loss of human life, the earthquake and associated tsunami and nuclear emergency have had a significant impact on the Japanese economy.

Japanese GDP is expected to decline sharply in the first half of 2011, with industrial production in March falling 15.3 per cent. Reconstruction activity will add to GDP growth later this year and in 2012.

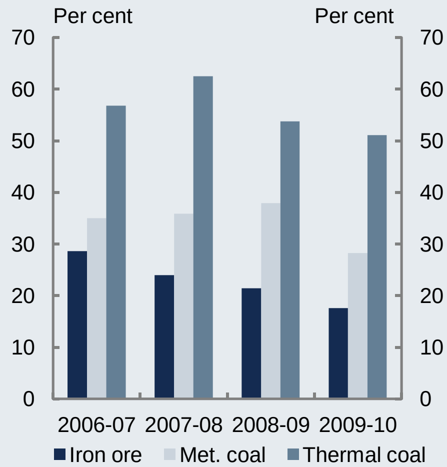
Japan's productive capacity was reduced significantly in the immediate area of the disasters, with structural damage estimated at ¥16-25 trillion ($180-300 billion) — far more than the 1995 Kobe quake. Damage extended to key ports and power plants, particularly the Fukushima Daiichi nuclear power plant. Other parts of Japan have also been affected by power shortages, disruptions to supply chains and falls in consumer confidence particularly associated with concerns about radiation leaking from the damaged nuclear power plant.

Short-term global economic impacts are expected to be material, given that Japan accounts for around 6 per cent of world GDP. Japan is a key producer of high-end intermediate goods, such as electronics parts, which are crucial to closely-integrated global supply chains.

The disruption to Japanese production and damage to port infrastructure are expected to reduce Japan's short-term demand for Australia's (non-rural) commodity exports (Chart A), reducing Australia's real GDP growth in 2010-11 by up to ¼ of a percentage point.

Chart A: Selected Australian commodity exports to Japan

(per cent of total value exported)



Source: ABS customised report.

Australian earnings from exports to Japan are expected to be reduced by around $2 billion in 2010-11, primarily reflecting disruptions to commodity shipments and the short-term effect on commodity prices. Australian exporters whose products were earmarked for Japan may be forced to find alternative customers in the near term, causing delays to exports. Spot prices for Australia's key non-rural commodity exports fell after the earthquake amid expectations of a short-term reduction in Japanese demand, but have since rebounded.

Japan's reconstruction efforts are likely to boost Australia's export earnings from 2011-12 through higher world commodity prices.

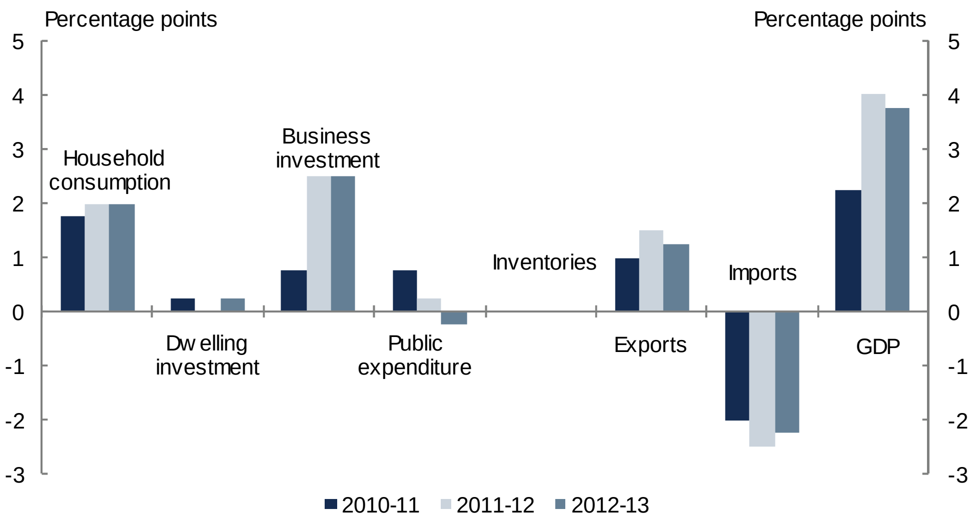
THE OUTLOOK FOR THE DOMESTIC ECONOMY

Demand and output

The recent natural disasters in Australia, Japan and New Zealand are expected to detract ¾ of a percentage point from Australia's economic growth in 2010-11 (see Box 1, Box 2). This, combined with recent weakness in household demand, has driven a 1 percentage point downgrade in forecast real GDP growth since the *Mid-Year Economic and Fiscal Outlook 2010-11* (MYEFO) to 2¼ per cent in 2010-11. However, the macroeconomic impact of these natural disasters is expected to be temporary and the medium-term outlook remains strong, with real GDP forecast to grow 4 per cent in 2011-12 and 3¾ per cent in 2012-13. The strong growth outlook is underpinned by unprecedented growth in resources investment and strong growth in non-rural commodity exports, which are surging in response to high global prices for Australia's bulk commodity exports (Chart 5).

The strong expected growth in the overall economy masks some significant divergences between sectors, with conditions outside of mining and related industries expected to remain challenging. Tighter macroeconomic settings and credit conditions, heightened consumer caution and the high Australian dollar are all weighing heavily on some sectors, particularly retailing, manufacturing and tourism.

Chart 5: Contributions to real GDP growth



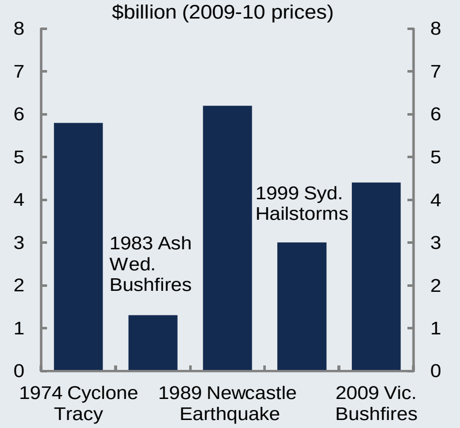
Note: Business investment and public expenditure are adjusted for second-hand asset sales from the public sector to the private sector.
Source: ABS cat. no. 5206.0 and Treasury.

Box 2: Impact of recent Australian floods and cyclones

The flooding across eastern Australia, followed by Cyclone Yasi, has had a significant impact on economic activity — disrupting coal production, destroying agriculture, reducing activity in the tourism and retail sectors, and damaging infrastructure.

In economic terms, it is estimated that the recent floods were the most costly natural disaster in Australia's history, larger than the 1989 Newcastle Earthquake and Cyclone Tracy (Chart A).

Chart A: Estimated economic impact of previous natural disasters



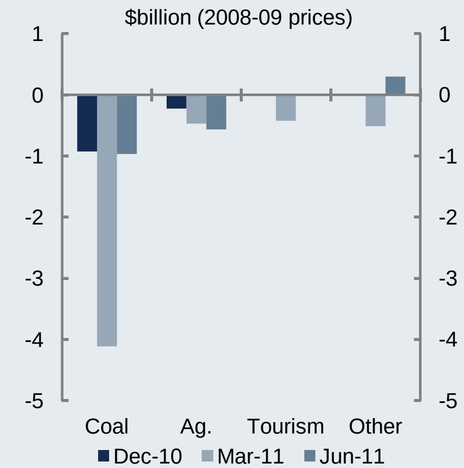
Source: Economic Costs of Natural Disasters in Australia, Bureau of Transport Economics, 2001; 2009 Victorian Bushfires Royal Commission, final report.

The direct negative impact of the recent natural disasters is expected to be largely confined to the first half of 2011 — reducing real production by $9 billion and real GDP growth by ½ of a percentage point in 2010-11, and leading to temporary price rises for affected rural and non-rural commodities.

In 2011-12, reconstruction and the resumption of economic activity are expected to add to real GDP growth.

Reduced coal production from Queensland is the largest direct impact, with production losses estimated to be around 25 million tonnes (around $6 billion in real terms — Chart B).

Chart B: Estimated impact of recent floods and Cyclone Yasi on real economic activity



Source: Treasury.

Floodwaters covered and damaged key rail lines and inundated a large number of coal pits. While much of the affected rail infrastructure is now fully operational, ongoing de-watering of coal mines means that mine production will take time to return to full capacity. The impact on export earnings is expected to be partly offset by higher prices — with contract prices for metallurgical coal in the June quarter around 50 per cent higher than for the previous quarter. Prices are expected to return to around pre-flood levels when production capacity is restored.

Box 2: Impact of recent Australian floods and cyclones (continued)

For the rural sector, the floods and Cyclone Yasi led to significant losses and quality downgrades to a range of agricultural products — with the total real production impact estimated to be $1.9 billion (with Queensland accounting for the majority of this). This has led to what is expected to be temporary price rises for a number of agricultural products — most notably, bananas. It is estimated that these price rises will add around ½ a percentage point to inflation over the March and June quarters. Around two-thirds of this increase is expected to be unwound by the end of the September quarter — consistent with the experience of previous natural disasters of this sort.

Household consumption

Household consumption growth has moderated since the onset of the GFC. While the labour market has strengthened, household incomes have grown solidly and consumer confidence is around its long-term average, consumers continue to be cautious. This follows a period prior to the mid-2000s where growth in household consumption had exceeded growth in household incomes, supported by strong growth in both housing market and sharemarket returns. Since the crisis, the household saving ratio has risen sharply to around 20-year highs, coinciding with slower growth in household credit (Box 3).

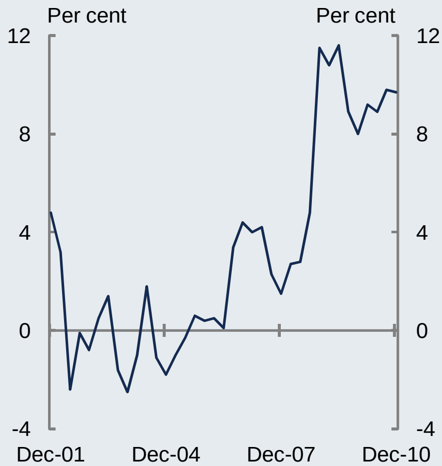
Household consumption growth is expected to increase steadily over the next two years, supported by strengthened household finances and increasingly favourable economic conditions. With household consumption forecast to grow broadly in line with household income, the household saving ratio is expected to remain at around its current level. Household consumption growth is forecast to be 3 per cent in 2010-11, before rising to 3½ per cent in both 2011-12 and 2012-13.

Box 3: Consumer caution

Australian households have been more cautious in their approach to spending and borrowing since the GFC, even as economic conditions have strengthened.

Household saving was negative in the mid-2000s, with consumption exceeding disposable income (Chart A). Household consumption growth has moderated though since the GFC. With solid growth in disposable income, this has seen the household saving ratio rise to around 10 per cent.

Chart A: Household saving ratio

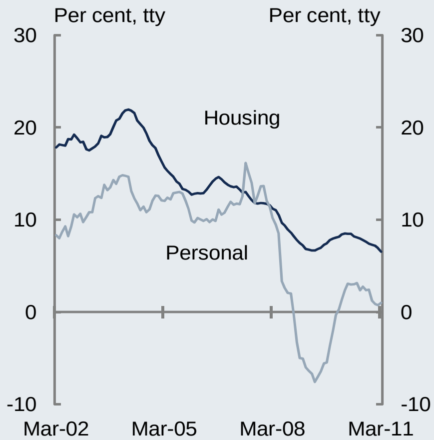


Source: ABS cat. no. 5206.0.

The boost in household saving has accompanied a substantial reduction in household credit growth from the double-digit rates seen in much of the past decade. The slowdown in credit growth has been broad-based, with annual growth in housing credit and personal credit each more than 6 percentage points below their 10-year averages (Chart B). Lower credit growth has seen a stabilisation in the household sector's debt-to-asset and debt-to-income ratios, after two decades of increases. The household debt-to-asset ratio was 19.1 per cent in December 2010, down from a high of 20.6 per cent in March 2009.

Higher saving and subdued credit growth have enabled a rebuilding of household balance sheets following the decline in household net worth caused by the GFC. This changed behaviour may reflect the subdued recovery in household wealth and a heightened awareness among Australians of the risks associated with high rates of indebtedness, having witnessed the severe impact of the GFC in other advanced economies.

Chart B: Household credit growth



Source: RBA.

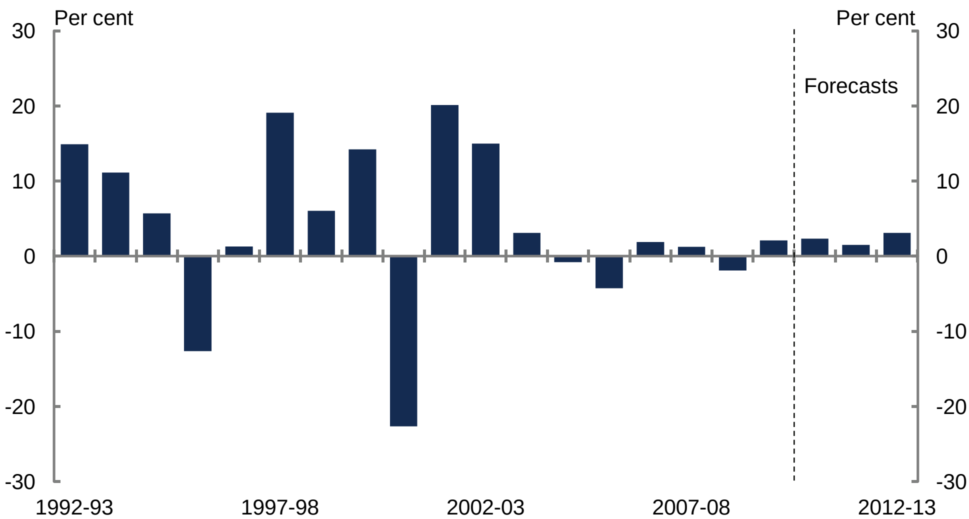
While putting near-term pressure on some sectors such as retail, these developments will ultimately benefit the Australian economy. Sturdier balance sheets will buffer households from economic shocks; and a smaller contribution of household spending to domestic demand growth will create room for rising investment in the resources sector, helping to moderate price and wage pressures.

Dwelling investment

Households also remain cautious with respect to their dwelling investment decisions, with tighter credit conditions further weighing on activity in this sector. In the short term, forward indicators are pointing to continued weakness, with housing finance for new dwellings and dwelling approvals falling in recent months. In the medium term, demand for housing is expected to be supported by low unemployment, solid growth in household incomes and past strength in population growth. However, ongoing supply constraints associated with planning and approval processes and land release restrictions are expected to continue to weigh on dwelling investment growth.

Dwelling investment is forecast to grow 1½ per cent in 2011-12, and 3 per cent in 2012-13 (Chart 6). There has been little growth in the supply of new dwellings in Australia since 2002-03.

Chart 6: Growth in dwelling investment



Source: ABS cat. no. 5206.0 and Treasury.

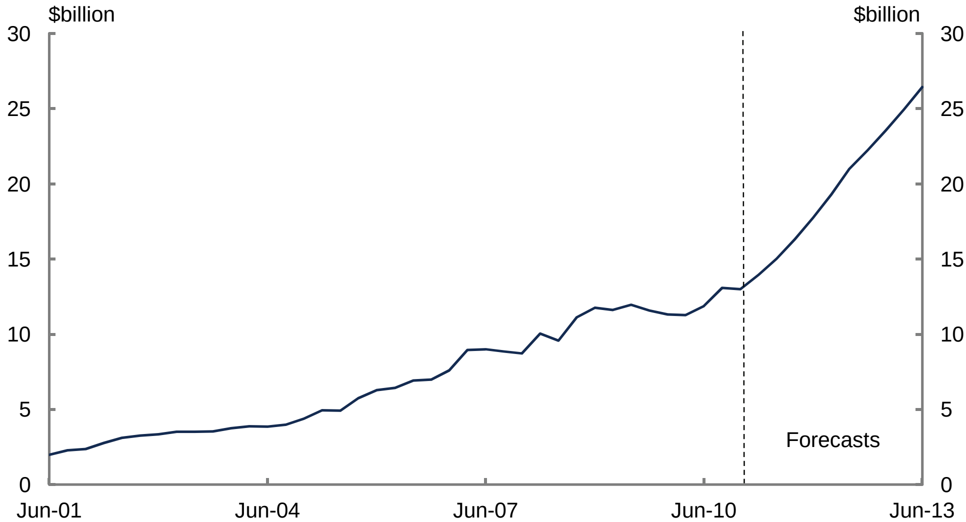
Business investment

Business investment is rapidly gaining momentum, with sustained high prices for Australia's key non-rural commodity exports driving record investment intentions in the mining sector. New business investment is expected to grow 16 per cent in 2011-12, and 14½ per cent in 2012-13, underpinned by strong growth in both engineering construction, and machinery and equipment investment. Non-residential building investment is expected to remain modest over the next two years. New business investment is expected to reach 50-year highs as a share of GDP by the end of 2012-13.

The mining sector is expected to be the key driver of business investment over the next two years, with continuing strong global demand for Australia's mineral resources and record levels of profitability underpinning an unprecedented pipeline of investment activity. The ABS *Private New Capital Expenditure and Expected Expenditure* (CAPEX) survey suggests that mining investment will reach a record $76 billion in 2011-12. Mining investment is also expected to remain at high levels over subsequent years, with the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) estimating that the current pipeline of resources investment is over $380 billion (see Box 4).

The expected surge in new engineering construction investment is well underway with growth of 12.4 per cent through the year to the December quarter of 2010. New engineering construction investment is forecast to grow a further 56 per cent over the next two years, led by the LNG sector and with strong support from the iron ore and coal sectors (Chart 7). Over the past year, the oil and gas industry has committed to more than $30 billion in additional investment, including a number of world-first coal seam gas-to-LNG projects in Queensland.

Chart 7: New engineering construction (value)



Source: ABS cat. no. 5206.0 and Treasury.

New machinery and equipment investment fell in 2010, in part due to businesses bringing forward investment into 2009 to take advantage of the Small Business and General Business Tax Break. However, the recent CAPEX survey points to strong growth in investment during the remainder of 2010-11 and 2011-12, led by mining-related activity and supported by the resumption of maintenance and replacement spending in other sectors. Investment in new machinery and equipment is forecast to grow 17½ per cent in 2011-12 and 14 per cent in 2012-13.

Investment in new non-residential building is expected to recover modestly in 2011-12 and 2012-13. Non-residential investment declined during the second half of 2010 as Building the Education Revolution activity wound down. While declining vacancy rates and modest growth in building approvals in recent months suggest the sector is stabilising, conditions remain relatively weak with activity still below pre-crisis levels. Investment in the sector is expected to grow 2½ per cent in 2011-12 and 8 per cent in 2012-13, largely supported by growing demand for office space associated with strong employment growth.

Box 4: Mining boom mark II

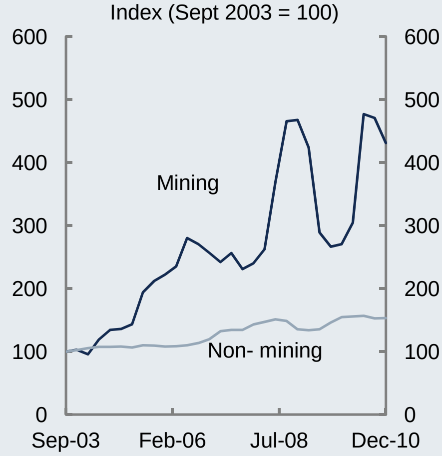
The Australian economy is in the early stages of the biggest investment boom on record, generating substantial benefits.

The rapid industrialisation and urbanisation of emerging Asia, particularly China, is expected to sustain strong growth in resources demand for some time. Strong demand for commodities is supporting prices for Australia's key non-rural commodity exports and the terms of trade. In 2010-11, the terms of trade are expected to reach their highest sustained levels in 140 years on the back of substantial price rises for coal and iron ore.

High prices for non-rural commodities are generating a significant supply response, both in Australia and overseas. From 2011-12, the terms of trade are expected to decline gradually as growth in the global supply of non-rural commodities starts to outpace demand. That said, with demand for Australia's key commodity exports expected to remain strong, the terms of trade are likely to remain well above historical levels for an extended period.

Australia's high terms of trade have supported strong growth in national incomes, particularly in the mining industry (Chart A). Mining's share of total company profits has more than doubled since the start of the boom, notwithstanding a large temporary decline during the GFC.

Chart A: Business profits



Source: ABS cat. no. 5676.0 and Treasury.

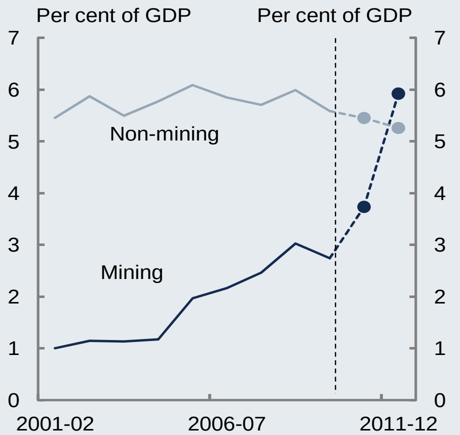
Record mining profitability and the prospect of continued strong demand for our non-rural commodities is reflected in the massive forward pipeline of mining investment.

Mining investment has risen from $12 billion in 2003-04 to an estimated $56 billion in 2010-11. This is a precursor to an even larger surge over coming years as a range of large resource projects ramp up, led by the LNG sector. Mining investment is expected to reach record highs as a share of GDP over the next two years (Chart B).

The surge in mining investment will lead to a substantial increase in mining capacity and exports. The annual value of real non-rural commodity exports is anticipated to increase by around $25 billion over the next two years to more than $203 billion in 2012-13. This would see non-rural commodity

Box 4: Mining boom mark II (continued)

Chart B: Mining and non-mining investment intentions



Note: Estimates for 2010-11 and 2011-12 are from the ABS CAPEX survey, and based on long-run average realisation ratios.
Source: ABS cat. no. 5625.0 and Treasury.

exports increase from around 10 per cent of GDP in 2009-10 to around 13 per cent of GDP in 2012-13.

The high level of mining investment will also significantly increase the demand for labour. While mining is more capital intensive than other industries, employment demand is still expected to be strong. Over the past year, 27,700 jobs have been created in the mining industry, which now employs over 200,000 people. While small as a share of total employment, the mining sector's employment share has almost doubled to 1.8 per cent since 2003-04.

Mining investment will also draw heavily on the construction sector, with around $63 billion planned to be spent on buildings and structures in 2011-12.

This represents around 70 per cent of planned private non-dwelling construction in 2011-12, adding to demand for skilled construction workers and placing pressure on a tightening labour market.

The current mining boom (mark II) is a continuation of the boom that started in the mid 2000s (mark I), but it has some key differences.

The starting point of the economy is now different, with the economy operating closer to full capacity at the start of mining boom mark II, indicating less room for above-trend growth without generating price and wage pressures.

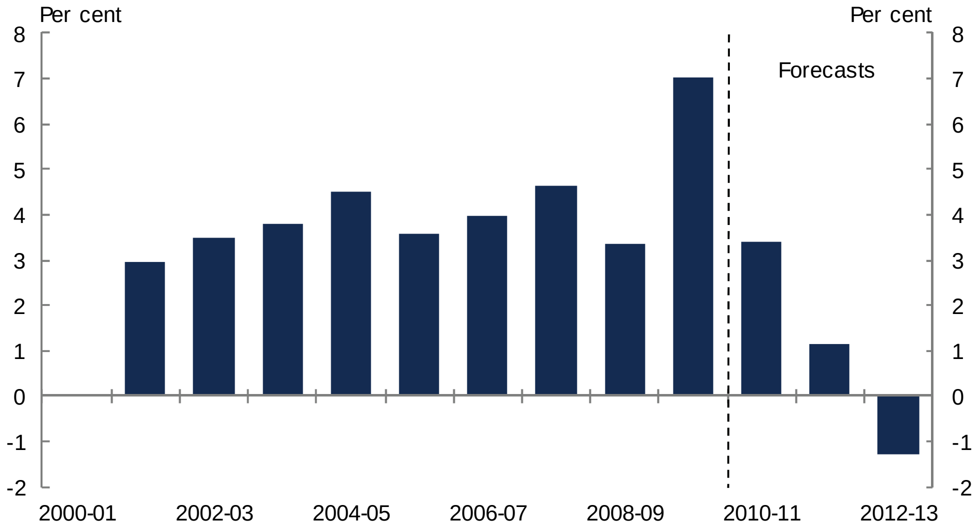
Consumers are behaving more cautiously, notwithstanding strong employment and incomes growth. Access to credit is tighter, both for consumers and businesses. Policy settings are tighter and the exchange rate is higher. These forces have seen the emergence of a patchwork economy, with a substantial divergence between the performance of the mining and non-mining related sectors of the economy.

The other key difference is that, compared with mark I, throughout which the terms of trade continued to rise strongly, the terms of trade are now around expected peaks, with gradual declines in prospect. While levels are expected to remain elevated, the strong growth in incomes and Government revenues that occurred in mark I are unlikely to be repeated in mark II. Further details on the impacts on revenue can be found in Budget Statement 5.

Public final demand

Public final demand growth is expected to decline sharply over the next two years, notwithstanding additional spending associated with post-disaster rebuilding efforts. Public final demand is expected to grow 3½ per cent in 2010-11, underpinned partly by reconstruction activity, and 1¼ per cent in 2011-12, before declining 1¼ per cent in 2012-13 (Chart 8). This decline reflects the conclusion of the Australian Government's fiscal stimulus as well as fiscal consolidation across all levels of government. The withdrawal of the fiscal stimulus is expected to reduce GDP growth by around 1 percentage point in 2010-11 and by ½ of a percentage point in 2011-12.

Chart 8: Growth in public final demand



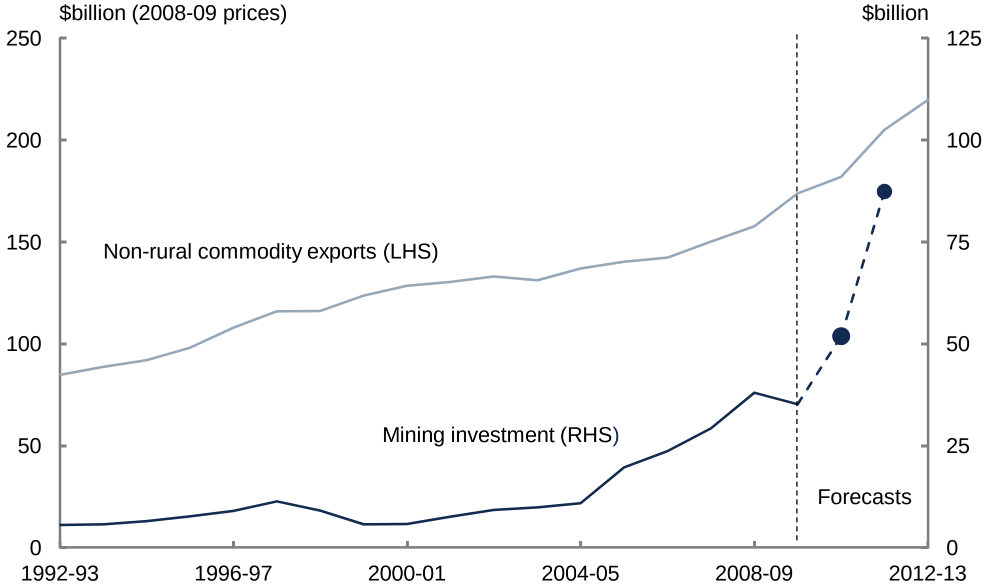
Source: ABS cat. no. 5206.0 and Treasury.

Exports and imports

Aggregate export volumes are forecast to increase 4 per cent in 2010-11, 6½ per cent in 2011-12 and 5½ per cent in 2012-13, driven by a significant expansion of production capacity in the resources sector.

Non-rural commodity exports are expected to grow strongly as ongoing expansions to mine and infrastructure capacity facilitate greater export volumes to meet global demand (Chart 9). Mine and port capacity expansions in Western Australia are expected to boost iron ore exports, while coal infrastructure expansions in Queensland are expected to boost both metallurgical and thermal coal exports. Coal exports will continue to suffer in the near term due to the disruption to mining operations and rail infrastructure caused by the severe flooding in Queensland. However, with the exception of a few smaller mines, coal production is expected to return to around full capacity by the September quarter 2011. Recent disasters in Japan also reduced demand for Australia's non-rural commodity exports but this is expected to be temporary, with reconstruction activity likely to add to demand for Australia's non-rural commodities. Non-rural commodity exports are expected to grow 4½ per cent in 2010-11, 12½ per cent in 2011-12 and 7 per cent in 2012-13.

Chart 9: Mining investment intentions and non-rural commodity export volumes



Note: Estimates for 2010-11 and 2011-12 for mining investment are from the ABS CAPEX survey, and based on long-run average realisation ratios.
Source: ABS cat. no. 5302.0 and 5625.0 and Treasury.

Rural exports are expected to increase 13½ per cent in 2010-11 and remain at a high level over the next two years, in line with a strong outlook for farm production. The growth in 2010-11 largely reflects favourable seasonal conditions for the winter crop, partly offset by subsequent crop losses arising from the floods and Cyclone Yasi. The major impact of these disasters is expected to be a significant downgrade to crop quality. A bumper summer crop is also expected in 2011-12, with recent rainfall increasing the availability of irrigation water and improving sub-soil moisture. In 2012-13, farm production is expected to decline slightly, under an assumption of a return to more normal seasonal conditions.

Exports of elaborately transformed manufactures (ETMs) are expected to increase a little over the next two years, but remain below pre-crisis levels. While demand is expected to rise in line with strong forecast growth in Australia's major trading partners, the high exchange rate is expected to continue to weigh on ETMs export growth. ETMs exports are expected to be flat in 2010-11, decline by ½ of a percentage point in 2011-12, but increase by 4 per cent in 2012-13.

Exports of services are also not expected to recover to pre-crisis levels over the next two years, again largely due to the strength of the Australian dollar. Tourism exports are expected to remain weak, as are education-related exports. Services exports are expected to fall ½ of a per cent in 2010-11 and 3½ per cent in 2011-12, before growing 1½ per cent in 2012-13.

Imports are expected to grow strongly over the next two years, driven by strengthening domestic demand and a high Australian dollar. While growth is expected to be relatively broad-based, the largest contribution is expected to come from capital goods imports. This reflects the expected ramp up of construction activity on major resource projects, particularly in the LNG sector where more than two-thirds of capital investment comprises imported products. Import volumes are forecast to grow 9 per cent in 2010-11, 10½ per cent in 2011-12 and 8½ per cent in 2012-13.

Terms of trade

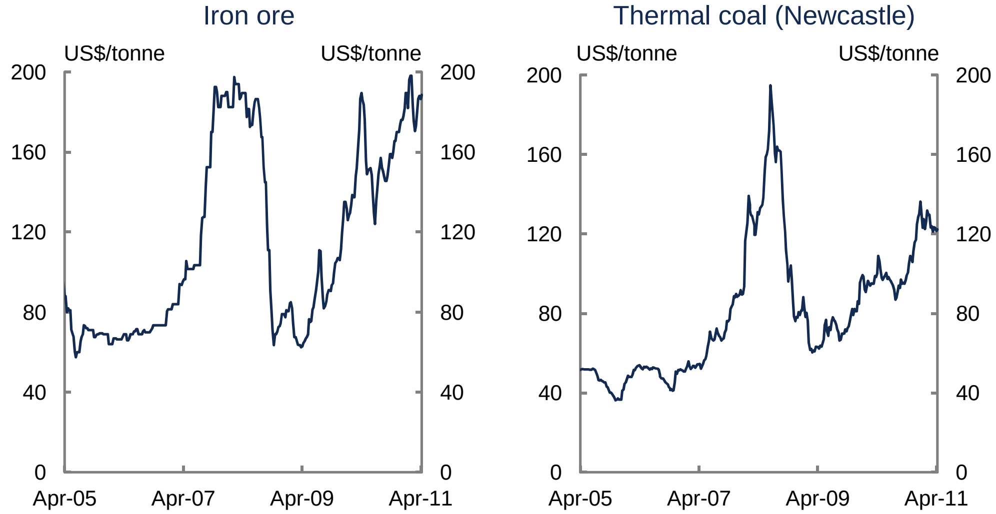
The terms of trade are forecast to increase 19¼ per cent in 2010-11, underpinned by strong increases in the prices of Australia's key non-rural commodity exports, before declining gradually over 2011-12 and 2012-13 as increasing global commodity supply starts to match growth in demand (Chart 10).

Chart 10: Terms of trade

Source: ABS cat. no. 5206.0 and Treasury.

Prices for Australia's non-rural commodity exports have increased significantly in 2010-11, reflecting ongoing strong global demand, coupled with supply disruptions in Australia and abroad. Iron ore spot prices have increased by more than 50 per cent since mid-2010, reflecting strengthening global demand and weather-related disruptions to global supply (Chart 11). The Queensland floods severely disrupted both the production and transportation of coal — leading to strong price rises, particularly for metallurgical coal. Contract prices for metallurgical coal for the June quarter 2011 are around 50 per cent higher than for the previous quarter. Coal prices are expected to decline as affected supply is restored.

Chart 11: Bulk commodity prices



Source: Bloomberg and Global Coal.

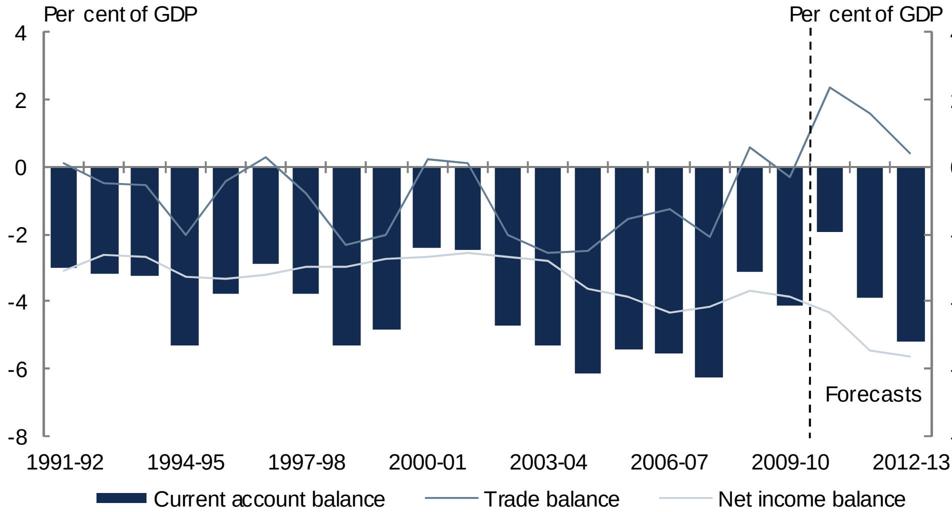
The terms of trade are forecast to decline gradually over the next two years, but remain at historically high levels. Global commodity demand is expected to continue to grow solidly, driven by strong economic growth in emerging Asia, coupled with reconstruction activity in Japan following the earthquake. However, increasing global supply is expected to begin to weigh on commodity prices over the next two years, with further gradual commodity price declines projected over the medium term. The terms of trade are forecast to fall ¼ of a per cent in 2011-12 and 3 per cent in 2012-13, largely reflecting a modest fall in non-rural commodity prices.

Current account balance

The current account deficit is expected to narrow to 2 per cent of GDP in 2010-11, the smallest deficit as a share of GDP since 1979-80. The trade balance is expected to move from a deficit of 0.3 per cent of GDP in 2009-10 to a surplus of 2½ per cent of GDP in 2010-11, largely reflecting a strong rise in non-rural commodity prices and volumes. With a large share of mining profits repatriated to overseas investors, a wider net income deficit is expected to more than offset the trade surplus, leaving the current account in deficit.

The current account deficit is expected to widen to 4 per cent of GDP in 2011-12 and to 5¼ per cent of GDP in 2012-13, as non-rural commodity prices fall slightly and import volumes increase strongly (Chart 12). From a saving and investment perspective, the widening of the current account deficit reflects the expected increase in national investment, driven by record high capital expenditure intentions in the mining sector. National saving will be supported by the Australian Government's fiscal consolidation and an expectation that household saving will remain elevated.

Chart 12: Current account balance



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

Labour market

The labour market has strengthened over the past year and this is expected to continue in 2011-12 and 2012-13 (Box 5).

Employment has grown well above trend over the past year with over 300,000 jobs created. The unemployment rate has declined below 5 per cent and the participation rate has increased to around record levels. While employment growth slowed in the aftermath of the recent natural disasters, the impact is expected to be temporary, with labour demand indicators pointing to a rebound in coming months. Employment is expected to grow 1¾ per cent through the year to the June quarter of both 2012 and 2013.

Labour force participation has increased over the past year, notwithstanding the demographic drag associated with the first of the post-War baby boomers turning 65. This reflects the return of job seekers previously discouraged during the downturn and also the trend rise in the participation of females and older workers. The national participation rate is expected to remain at around record highs of 66 per cent over the next two years, before commencing a long gradual decline associated with the ageing of the population.

The unemployment rate is expected to continue declining, reflecting the strong growth in employment. The unemployment rate is expected to fall to 4¾ per cent in the June quarter of 2012 and then to 4½ per cent in the June quarter of 2013.

Box 5: The Australian labour market and the global financial crisis

Unlike most advanced economies, the Australian labour market was remarkably resilient during the GFC and, following a short period of weakness, has since strengthened. Over the past 18 months, employment has grown strongly, the unemployment rate has fallen steadily, and the participation rate has reached record highs. The long-term unemployment rate remains low and continues to decline.

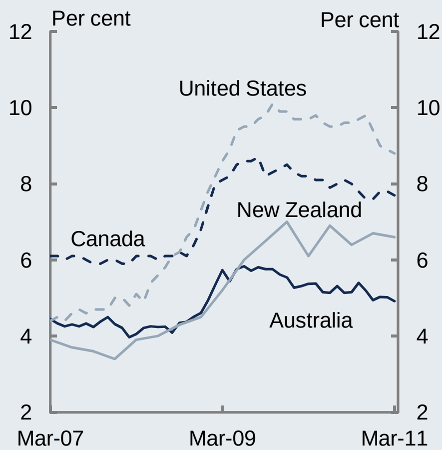
In the lead up to and during the GFC, the unemployment rate rose by a total of around 1¾ percentage points (from 4.0 to 5.8 per cent) in Australia, compared with around a 2¾ percentage point rise in Canada, a 3½ percentage point rise in New Zealand and a 5¾ percentage point rise in the United States (Chart A). Not only was the increase in Australia's unemployment rate relatively modest, but the subsequent recovery has been substantial, with the unemployment rate falling to 4.9 per cent as at March 2011, lower than all the major advanced economies except Japan.

Australia's record on unemployment during the GFC is all the more impressive in the context of the increase in labour force participation that has occurred over this period.

After a short decline during the downturn, Australia's participation rate rebounded strongly, reaching a record high of 66.0 per cent in November 2010. Since March 2007, Australia's participation rate has increased around ¾ of a percentage point, compared with no change in New Zealand, a ½ of a percentage point decrease in Canada and a 2 percentage point decrease in the United States (Chart B).

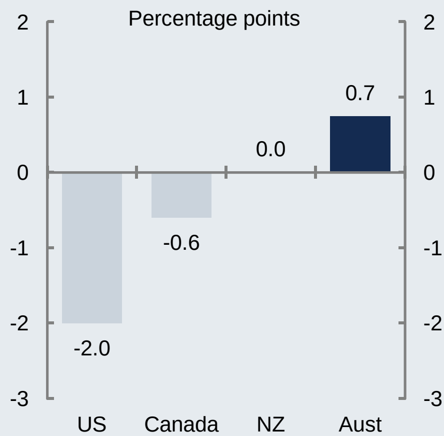
In Australia, this reflects the return of previously discouraged job seekers, as well as a trend increase in the participation of females and older workers. The participation rate of those aged 55+ has increased by around 4 percentage points since March 2007.

Chart A: Unemployment rates



Note: New Zealand data are quarterly.
Source: ABS cat. no. 6202.0, national statistical agencies and Thomson Reuters.

Chart B: Participation rates (change since March 2007)

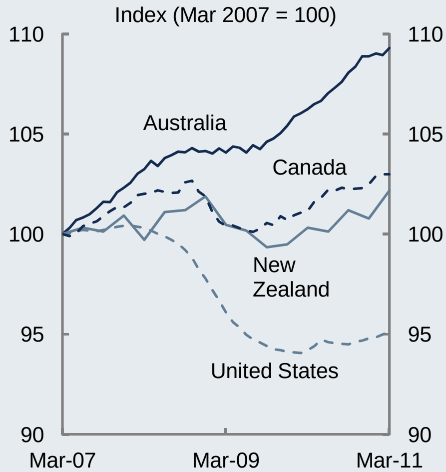


Note: New Zealand data are quarterly.
Source: ABS cat. no. 6202.0, national statistical agencies, Thomson Reuters and Treasury.

Box 5: The Australian labour market and the global financial crisis (continued)

The decline in the unemployment rate at a time of increasing labour force participation reflects an impressive increase in employment. Since March 2007, employment has increased by around 9¼ per cent in Australia compared with around 3 per cent in Canada, 2¼ per cent in New Zealand and a decrease of 4¾ per cent in the United States (Chart C). Whereas Australia has added around 750,000 jobs since the end of 2007, there are 7.2 million fewer jobs in the United States.

Chart C: Employment



Note: New Zealand data are quarterly.
Source: ABS cat. no. 6202.0, national statistical agencies, Thomson Reuters and Treasury.

Australia's success during this episode reflected the relative shallowness of our domestic downturn and the flexibility of our labour market. In Australia, much of the labour market adjustment occurred through reduced hours worked and lower wages growth rather than through the large-scale job losses that occurred in many other advanced economies.

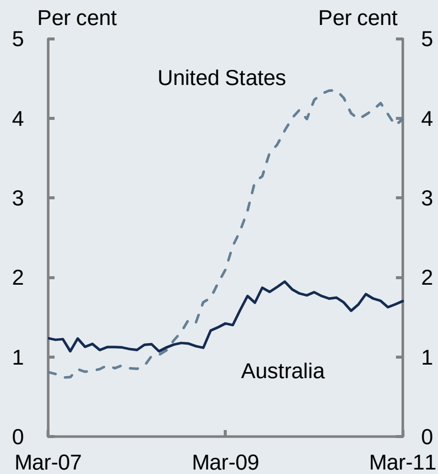
By limiting job losses, Australia also significantly reduced the economic and social costs associated with large scale longer-term unemployment.

In Australia, the long-term unemployment rate, defined for the purpose of international comparison as the proportion of the labour force that has been unemployed for six months or more, increased by much less than it did in the United States and started to decline earlier.

In the lead up to and during the GFC, the long-term unemployment rate rose by a total of 1 percentage point (from around 1 to 2 per cent) in Australia compared with around 3¾ percentage points in the United States (Chart D).

Australia's long-term unemployment rate has fallen over the past 18 months and now is a relatively low 1.7 per cent compared with 4.0 per cent in the United States.

Chart D: Long-term unemployment rates



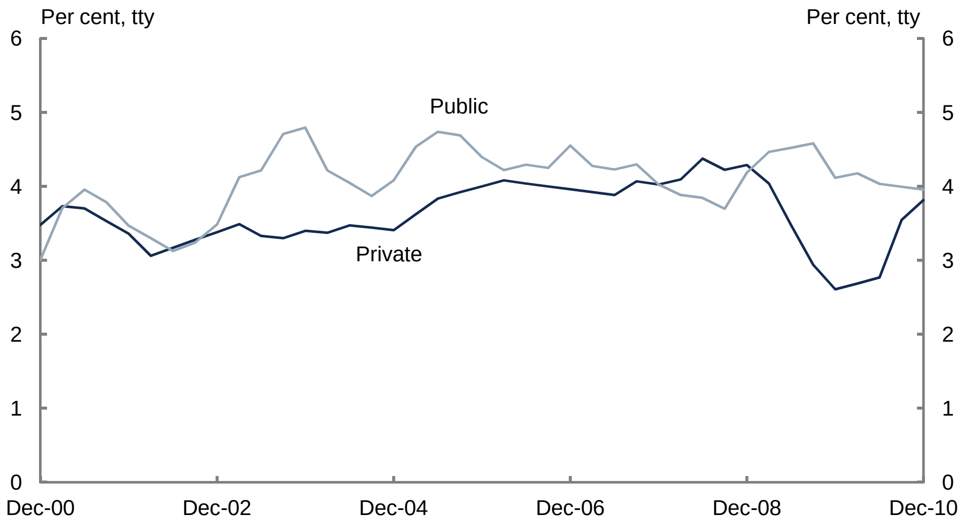
Note: The long-term unemployment rate is defined as the proportion of the labour force unemployed for six months or more.
Source: ABS cat. no. 6291.0.55.001, Bureau of Labor Statistics, Thomson Reuters and Treasury.

Wages

Wages growth increased during 2010, driven by a strong recovery in private sector wages (Chart 13). Wages growth is now around trend, and is expected to increase gradually as the labour market tightens. However, solid growth in aggregate wages is expected to mask considerable divergences between industries, with resource-related industries likely to continue to experience much stronger wages growth than other sectors, supported by extremely strong growth in labour demand.

The Wage Price Index is expected to grow 4 per cent through the year to the June quarters of 2011 and 2012, and 4¼ per cent through the year to the June quarter of 2013.

Chart 13: Growth in the Wage Price Index



Source: ABS cat. no. 6345.0.

Consumer prices

Inflation is contained, but is forecast to rise steadily over the next two years as the economy starts to push against capacity constraints.

Treasury's most recent estimates of the non-accelerating inflation rate of unemployment (NAIRU)[1] — the rate of unemployment at which inflation pressures start to emerge — range between 4½ and 5 per cent. With the unemployment rate expected to decline to the bottom of this range, and the economy forecast to grow strongly, wage and price pressures are expected to build. Moderating these pressures

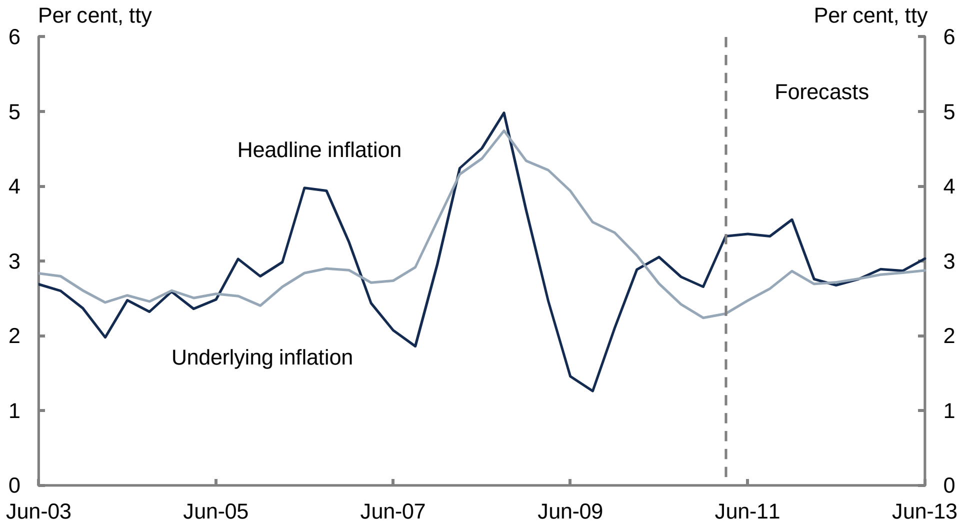
1 Treasury's estimates are based on a methodology detailed in Gruen, Pagan and Thompson (1999), 'The Phillips curve in Australia', Journal of Monetary Economics, and updated in Kennedy, Luu and Goldbloom (2008), 'Examining full employment in Australia using the Phillips and Beveridge Curves', The Australian Economic Review.

are the withdrawal of monetary and fiscal stimulus and the high Australian dollar. However, recent historical experience suggests that, with such a low expected unemployment rate, inflationary risks remain on the upside.

Underlying inflation is currently at around 10-year lows, but is expected to rise from 2½ per cent through the year to the June quarter of 2011, to 2¾ per cent through the year to the June quarter of 2012 and to 3 per cent through the year to the June quarter of 2013.

Headline inflation is expected to increase similarly after an initial spike due to the impact of the floods and Cyclone Yasi on fruit and vegetable prices and the recent rise in oil prices. Headline inflation is forecast to be 3¼ per cent through the year to the June quarter 2011, 2¾ per cent to the June quarter 2012 and 3 per cent to the June quarter 2013 (Chart 14).

Chart 14: Headline and underlying inflation



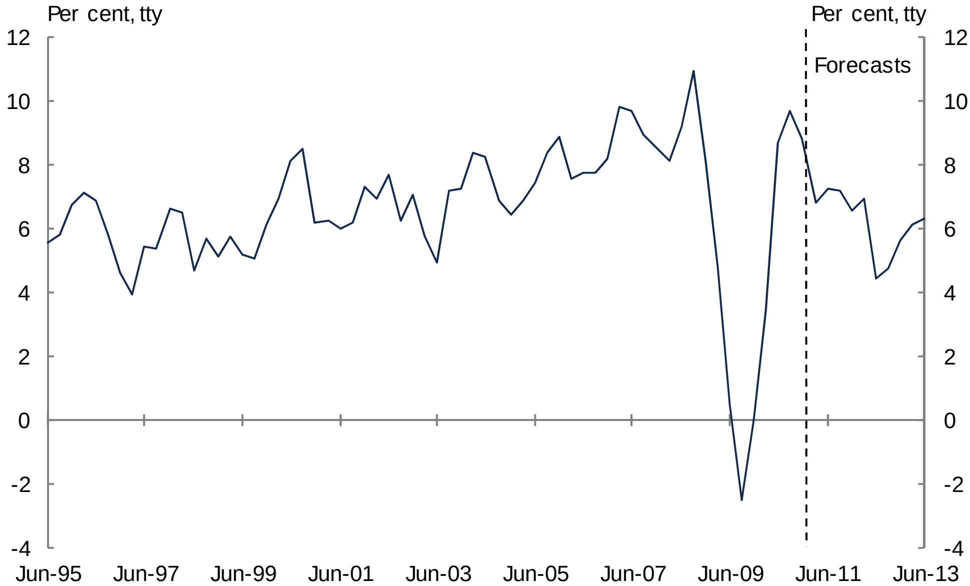
Note: The underlying inflation measure is the average of the RBA trimmed mean and weighted median.
Source: ABS cat. no. 6401.0, RBA and Treasury.

The main driver of inflation over the past decade has been rising domestic goods and services prices. Non-tradables inflation averaged around 4 per cent over the past 10 years, while tradables inflation averaged close to 2 per cent. Australia's tightening labour market, combined with rising prices for health, education and utilities, suggest that non-tradables inflation will remain firm over the period ahead. In addition, while the recent appreciation of the exchange rate will continue to dampen tradable prices in the near-term, import prices may be less of a deflationary influence over the medium-term as advanced economies recover from the GFC and rising wages in emerging market economies add to global manufacturing costs and demand for food and other consumables. This represents a medium-term risk to Australia's inflation outlook.

Incomes

Nominal GDP is expected to grow strongly in 2010-11, underpinned by a sharp rise in the terms of trade. While nominal GDP growth is expected to ease in 2011-12 and 2012-13, it will remain solid, underpinned by strong growth in real activity (Chart 15).

Chart 15: Nominal GDP growth



Source: ABS cat. no. 5206.0 and Treasury.

Following 8 per cent growth in 2010-11, growth in nominal GDP is forecast to ease to 6¼ per cent in 2011-12 and 5¾ per cent in 2012-13, with a declining terms of trade partly offset by rising growth in domestic prices and strong growth in real GDP (Chart 16).

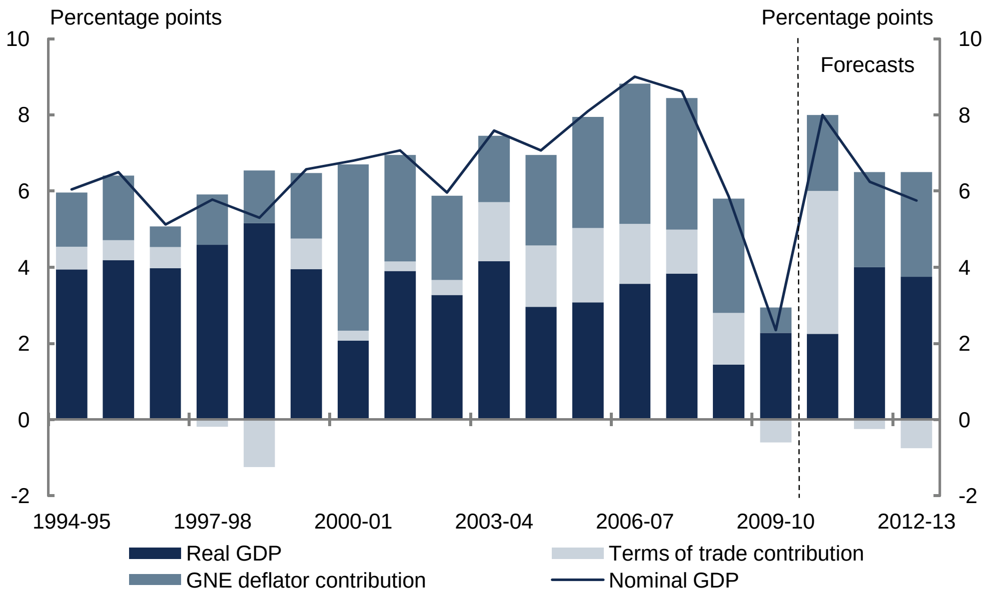
Nominal GDP is distributed throughout the economy mainly as compensation of employees, gross operating surplus and gross mixed income.

Gross operating surplus is expected to grow 5 per cent in 2011-12 and 4¾ per cent in 2012-13. Growth in 2011-12 is largely underpinned by strong mining profits reflecting strong non-rural export volumes growth. While growth in gross operating surplus is expected to be more broadly based in 2012-13, it is expected to ease further, in line with the forecast decline in the terms of trade.

Compensation of employees is forecast to grow 7¼ per cent in 2011-12 and 6½ per cent in 2012-13, underpinned by strong employment and wages growth. The strong growth in compensation of employees is expected to result in an increase in the wage share and a fall in the profit share of income over these years.

Gross mixed income, which includes the wages and profits of farm and other unincorporated enterprises, is forecast to grow a modest 3¾ per cent in both 2011-12 and 2012-13.

Chart 16: Components 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.

Medium-term projections

The fiscal aggregates in the Budget are underpinned by a set of forward estimates consisting of short-term economic forecasts and projections based on medium-term assumptions.

The economy is projected to remain at full capacity over the projection period. Real GDP is projected to grow at its trend rate of around 3 per cent per annum over the two projection years of the forward estimates (Chart 17).

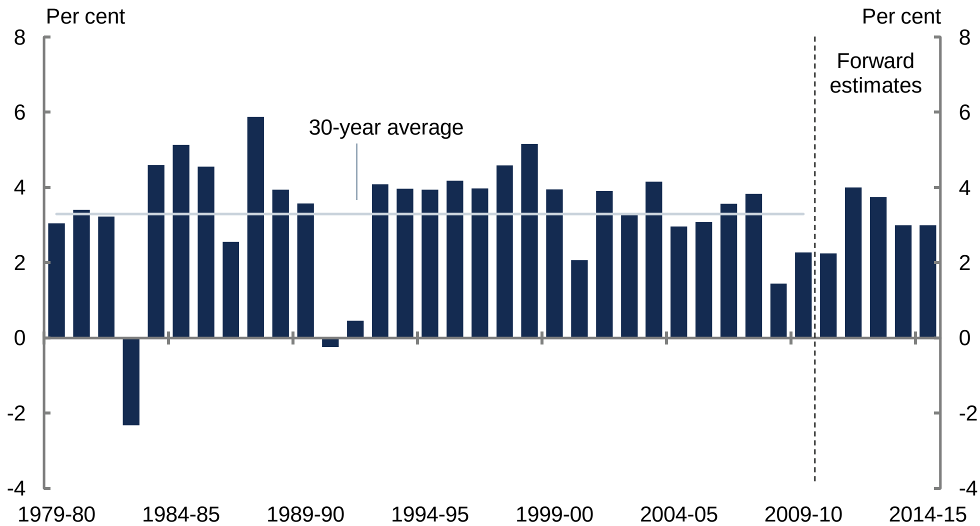
Beyond the forward estimates, real GDP is projected to grow at around 3 per cent until 2017-18, when growth is projected to slow to around 2¾ per cent as population ageing generates a gradually falling participation rate.

The unemployment rate is projected to be 5 per cent over the medium term, the assumption that has long been used for medium-term projections, and near the top of the band of current estimates of the NAIRU (4½ to 5 per cent). Inflation is projected to be 2½ per cent, consistent with the Reserve Bank of Australia's medium-term target band.

The terms of trade are projected to decline by a total of around 20 per cent over a 15-year period, settling just above their 2006-07 level. This reflects an expectation that current levels of commodity prices will not be sustained in the longer term, as supply increases gradually bring down prices over time.

The exchange rate is assumed to remain at its current average level during the forecast period. Over the projection period, the exchange rate is assumed to move in line with the long-term historical relationship between the terms of trade and the real effective exchange rate. This technical assumption has been introduced to provide greater internal consistency during the projection period. This is in contrast to the 2010-11 MYEFO, where the exchange rate was assumed to remain constant at its then current level over the medium term. The current terms of trade projections imply a fall in the real exchange rate of 0.9 per cent per annum over the projection period.

Chart 17: Real GDP growth over the forward estimates period



Source: ABS cat. no. 5206.0 and Treasury.

Statement 3: Fiscal Strategy and Outlook

The cost of recent natural disasters and the weaker outlook for tax receipts have had a significant impact on the fiscal outlook for 2010-11 and 2011-12. Despite these challenges, the Government's strict adherence to the fiscal strategy means that the budget is on track to return to surplus in 2012-13, well ahead of Australia's peers.

The Government is supporting affected communities to rebuild after the recent natural disasters. While the Government has fully funded the costs of its contribution to the recovery effort over the forward estimates, the underlying cash balance will be affected as a significant share of the costs are incurred in 2010-11 and 2011-12.

Natural disasters have also affected tax receipts in the near term because production and profits have been lost. In addition the legacy effects of the global financial crisis have been greater than expected, as companies utilise capital losses. Overall, tax receipts have been revised down by $16.3 billion over 2010-11 and 2011-12 relative to the *Mid-Year Economic and Fiscal Outlook 2010-11* (MYEFO).

Notwithstanding the immediate pressures on the budget, the Government will return the budget to surplus in 2012-13. Returning the budget to surplus will ensure the Government does not draw on resources needed to support the growing investment in the resources sector and the expansion of the economy more generally. The fiscal consolidation will strengthen the long term position of the budget and support Australia's capacity to respond to unanticipated shocks, including those related to the uncertain global economic outlook.

This means that the budget is projected to return to surplus only three years after the deficit peaked during the global financial crisis, despite the challenges faced this year and next due to natural disasters and the legacy effects of the crisis. This will be the fastest fiscal consolidation in the 44 years for which data are available.

The Government is delivering the return to surplus through its ongoing commitment to the fiscal strategy. The Government has paid for its new spending, including the cost of the recent natural disasters, by making $22 billion in saving decisions. Over two thirds of savings are reductions in payments. This restraint has resulted in real growth in spending averaging 1 per cent a year over five years for the first time since the 1980s.

Net debt is expected to peak at 7.2 per cent of GDP in 2011-12, higher than previously anticipated, reflecting the impact of natural disasters and weaker tax receipts. Still, the Australian Government's balance sheet remains one of the strongest in the developed world, and its level of net debt in 2011-12 is less than one tenth the average of the major advanced economies in 2011.

Contents

STATEMENT 3: FISCAL STRATEGY AND OUTLOOK

OVERVIEW OF FISCAL POSITION

The 2011-12 Budget shows the Government remains on track to deliver a surplus in 2012-13. This is despite short-term challenges that have led to a deterioration of the budget bottom line this year and next and made the return to surplus more difficult.

The recent natural disasters are expected to result in additional payments of $6.6 billion over six years to assist affected communities with the costs of rebuilding.

Tax receipts have fallen by $16.3 billion over 2010-11 to 2011-12 relative to the estimates in the *Mid-Year Economic and Fiscal Outlook 2010-11* (MYEFO) reflecting a more subdued economic outlook and larger than anticipated losses accumulated during the global financial crisis.

The downward revisions to tax receipts and the rebuilding cost of recent natural disasters have increased the budget deficit in 2010-11 and in 2011-12 compared to the 2010-11 MYEFO. The underlying cash deficit is expected to be $49.4 billion (or 3.6 per cent of GDP) in 2010-11 and $22.6 billion (or 1.5 per cent of GDP) in 2011-12.

Notwithstanding these developments, the Government will deliver a surplus in 2012-13 through its continuing focus on fiscal consolidation. Returning the budget to surplus will make room for the private sector to respond to the strong demand for Australia's commodity exports and avoid compounding capacity and price pressures. The fiscal consolidation will enable the Government to strengthen the position of the budget and support Australia's capacity to respond to unanticipated shocks.

The budget projects a surplus of $3.5 billion (0.2 per cent of GDP) in 2012-13. This represents a fiscal consolidation of $52.9 billion (3.8 per cent of GDP) in the space of two years. This means that the Budget is projected to return to surplus only three years after the deficit peaked during the global financial crisis. This return to surplus will be the fastest in the 44 years for which data are available and is well ahead of any major advanced economy.

Table 1: Budget aggregates

	Actual	Estimates			Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Underlying cash balance($b)(a)	**-54.8**	**-49.4**	**-22.6**	**3.5**	**3.7**	**5.8**
Per cent of GDP	-4.3	-3.6	-1.5	0.2	0.2	0.3
Fiscal balance($b)	**-52.9**	**-45.7**	**-20.3**	**4.0**	**3.2**	**8.5**
Per cent of GDP	-4.1	-3.3	-1.4	0.3	0.2	0.5

(a) Excludes expected Future Fund earnings.

The Government's fiscal strategy

The Government's medium-term fiscal strategy is designed to ensure fiscal sustainability.

The Government's medium-term fiscal strategy is to:

- achieve budget surpluses, on average, over the medium term;
- keep taxation as a share of GDP below the level for 2007-08 (23.5 per cent of GDP), on average; and
- improve the Government's net financial worth over the medium term.

The strategy has remained unchanged since 2008-09, this Government's first budget. It has guided the Government's response to the global financial crisis and provides the basis for the Government's commitment to return the budget to surplus.

The strategy provides the necessary flexibility for the budget position to vary in line with economic conditions to support macroeconomic stability.

Consistent with the fiscal strategy, the Government took swift action through 2008 and 2009 to support the economy through the global financial crisis. The Government's delivery of a timely, targeted and temporary fiscal stimulus supported economic growth at a time that the private sector was in retreat.

In the *Updated Economic and Fiscal Outlook* (UEFO) released in February 2009 the Government also committed to take action to return the budget to surplus once the economy recovered to grow above trend. As part of this strategy, the Government will:

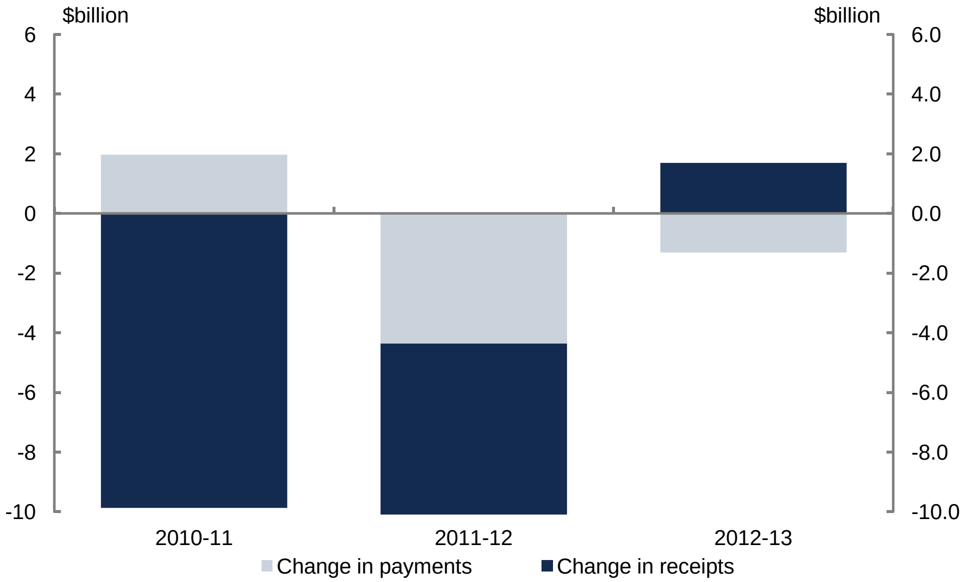
- allow the level of tax receipts to recover naturally as the economy improves, while maintaining the Government's commitment to keep taxation as a share of GDP below the 2007-08 level on average; and
- hold real growth in spending to 2 per cent a year until the budget returns to surplus.

Once the budget returns to surplus, and while the economy is growing at or above trend, the Government will maintain expenditure restraint by retaining a 2 per cent annual cap on real spending growth, on average, until surpluses are at least 1 per cent of GDP.

Short term pressures on the fiscal position

Significant pressures have emerged since MYEFO which are affecting the budget position. These pressures have increased the size of the deficits expected in 2010-11 and 2011-12.

Chart 1: Decomposition of the change to the underlying cash balance since the 2010-11 MYEFO(a)



(a) Includes GST receipts and GST payments, but excludes Future Fund earnings.

Chart 1 shows the change to the underlying cash balance since MYEFO.

Over two thirds of the change in the deficits in 2010-11 and 2011-12 is the result of the write down in tax receipts. This reflects the softer economy stemming from the impact of the recent natural disasters and the strong dollar, as well as the legacy of the global financial crisis, particularly the impact on tax receipts of unanticipated losses.

In 2010-11, all of the change in the fiscal position is driven by the downward revisions to tax receipts.

In 2011-12, around half of the change in the fiscal position is driven by the downward revisions to tax receipts. Only one quarter of the change reflects government policy decisions, and these largely reflect the Government's commitment to the military operations in Afghanistan and the bring forward of the Low Income Tax Offset.

From 2012-13, the outlook for tax receipts is expected to improve, particularly as the impact of the natural disasters diminishes and the stronger economic outlook in 2011-12 — buoyed by the higher terms of trade — flows through to tax collections. The improving outlook for tax receipts is also assisted by policy measures in this Budget to remove or adjust tax expenditures. As a result tax receipts as a share of the economy are expected to recover to 22.7 per cent of GDP in 2012-13 which is the level projected at the MYEFO.

Natural disasters

The recent natural disasters have placed considerable strain on the budget because of their unprecedented economic and fiscal costs. It is estimated that the cost to the budget from increased spending will be $6.6 billion over six years.

Recognising this significant impact, the Government has cut spending, and introduced a modest progressive temporary levy, to make room in the budget for the cost of rebuilding. Through these actions the Government has fully funded the costs of its contribution to the recovery effort over the five years of the budget estimates.

In addition, the production losses associated with the natural disasters experienced in 2010-11 are expected to reduce tax receipts by around $1¾ billion, almost entirely in the 2010-11 and 2011-12 years, compounding the impact on the budget of the increased spending on natural disasters.

Box 1 : Recovering and rebuilding from the recent natural disasters

The recent natural disasters throughout much of Australia are estimated to cost the Australian Government $6.6 billion over six years ($5.9 billion over the forward estimates) owing to increased spending to assist the States in the recovery effort through the Natural Disaster Relief and Recovery Arrangements (NDRRA) and direct Commonwealth assistance to those affected by the disasters.

The vast majority of this funding will rebuild damaged public infrastructure, mostly roads and bridges, but also other items such as schools and local council utilities and infrastructure.

The Government is also providing assistance for individuals, families, businesses, primary producers and not-for-profit organisations affected by the disasters, and assistance to help communities recover from the devastating events.

Of the total estimated expenditure, $3.9 billion will fall in 2010-11. The Budget impact in this financial year reflects immediate assistance made available to help people, business and communities affected by the disasters. The Commonwealth also agreed to provide advance payments to Queensland and Victoria (as soon as Victoria signs a national partnership agreement) to ensure that the recovery and rebuilding task could start as quickly as possible and to help fund recovery in Queensland as the work is taking place.

Rebuilding infrastructure will take time given the unprecedented scale of the natural disasters and to ensure that it is done properly. Reconstruction activities are not expected to be completed by the States until 2013-14. The Commonwealth's reimbursement of the States' costs normally occurs a year or two following reconstruction activities. Historically there have been lags in payments following significant natural disasters. For Tropical Cyclone Larry, which occurred in March 2006, the Commonwealth made payments to Queensland to fund reconstruction through to the 2009-10 financial year.

While the majority of the impact is in the early years, it is anticipated that significant expenditure as a result of the floods and cyclone will occur across the forward estimates. The Commonwealth expects to provide reimbursements of more than $1.3 billion in 2012-13 to 2014-15, with $0.7 billion anticipated to be paid outside the forward estimates. However, if reconstruction and repair work is finalised more quickly than expected then the affected States will be reimbursed sooner.

Box 1 : Recovering and rebuilding from the recent natural disasters (continued)

Table A: Budget impact of Commonwealth recent natural disasters assistance(a)

	Estimates			Projections		Total
	2010-11	2011-12	2012-13	2013-14	2014-15	
	$m	$m	$m	$m	$m	$m
Commonwealth natural disaster assistance						
Rebuilding infrastructure (NDRRA)	-2,550	-500	-140	-226	-982	-4,398
Assistance to individuals	-1,039	-11	-6	0	0	-1,055
Assistance to business	-49	-86	-28	-8	0	-170
Supporting local governments and communities	-214	0	0	0	0	-214
Donations to appeals	-13	0	0	0	0	-13
Natural Disasters Recovery Taskforce and Reconstruction Inspectorate	-1	-7	-3	0	0	-12
Total Commonwealth natural disaster assistance	**-3,865**	**-604**	**-177**	**-234**	**-982**	**-5,862**

(a) Underlying cash basis.

The Government has fully funded its contribution to the cost of the floods as part of the $22 billion in savings identified in the budget. These include the spending cuts, infrastructure deferrals and the temporary levy which were announced on 27 January 2011.

Weaker tax receipts

The outlook for tax receipts has been revised down significantly in the near term, with this year and next being the most significantly affected. In total, tax receipts have been revised down since MYEFO by $9.8 billion in 2010-11 and $6.6 billion in 2011-12.

The downward revisions reflect the influence of a number of important factors including:

- slower economic growth in 2010-11 and reduced production associated with the impact of natural disasters, a stronger than anticipated exchange rate and weakness in household consumption expenditure; and

- larger than anticipated losses accumulated during the global financial crisis, with the utilisation of those losses driving significant downward revisions to receipts since MYEFO, particularly to company tax and capital gains tax collections.

Tax receipts in the near term are therefore projected to remain significantly below the projections published in the 2008-09 Budget, with the shortfall being around $40 billion in 2010-11 and around $15 billion in 2011-12.

Returning the budget to surplus

Notwithstanding the challenges posed by natural disasters and the near term revenue weaknesses, the Government remains committed to return the budget to surplus as the appropriate policy response given the domestic economic outlook. Recent natural disasters will reduce Australia's economic growth in the first half of 2011, but the negative macroeconomic impacts are expected to be temporary. Australia's medium-term outlook remains strong. The economy is forecast to grow at an above-trend rate in 2011-12 and 2012-13 underpinned by an extremely strong outlook for resources investment and exports. Solid growth in jobs is forecast to reduce unemployment to 4½ per cent by the end of 2012-13.

Returning the budget to surplus will reduce the public sector's call on resources and create space for the private sector to grow, particularly in response to strong demand for Australia's commodity exports. The planned fiscal consolidation is particularly important to avoid compounding the capacity pressures expected to emerge as the result of the extremely high level of investment in the resources sector.

Australia's economic outlook remains favourable with above trend economic growth forecast over the next two years. But risks to the international outlook, if realised, would have serious negative implications for Australia. The fiscal consolidation will help ensure that the Government is well placed to respond to any eventuality.

The Government is delivering the return to surplus through its ongoing commitment to the fiscal strategy and the implementation of the most rapid fiscal consolidation in the 44 years for which data are available.

Tax receipts

The commitment to allow the natural increase in tax receipts associated with a strengthening economy to flow through to the budget is a significant part of the fiscal consolidation.

Tax receipts are expected to recover from the short term weakness that characterises 2010-11 and 2011-12, to remain broadly in line with the MYEFO projections from 2012-13 in nominal terms and as a share of the economy.

As a result, tax as a share of the economy is projected to grow from 20.3 per cent of GDP in 2010-11 to 22.7 per cent in 2012-13. This represents an increase in tax receipts of over 2 per cent of GDP which is an important part of returning the budget to surplus. Still, the projected tax-to-GDP ratio in 2012-13 remains significantly below the level specified in the Government's fiscal strategy.

The 2 per cent cap on spending

The Government has continued to meet its commitment to keep real growth in spending to 2 per cent or less in the years when the economy is expected to grow above trend. The Government has kept real growth below 2 per cent for the five years from 2010-11 to 2014-15.

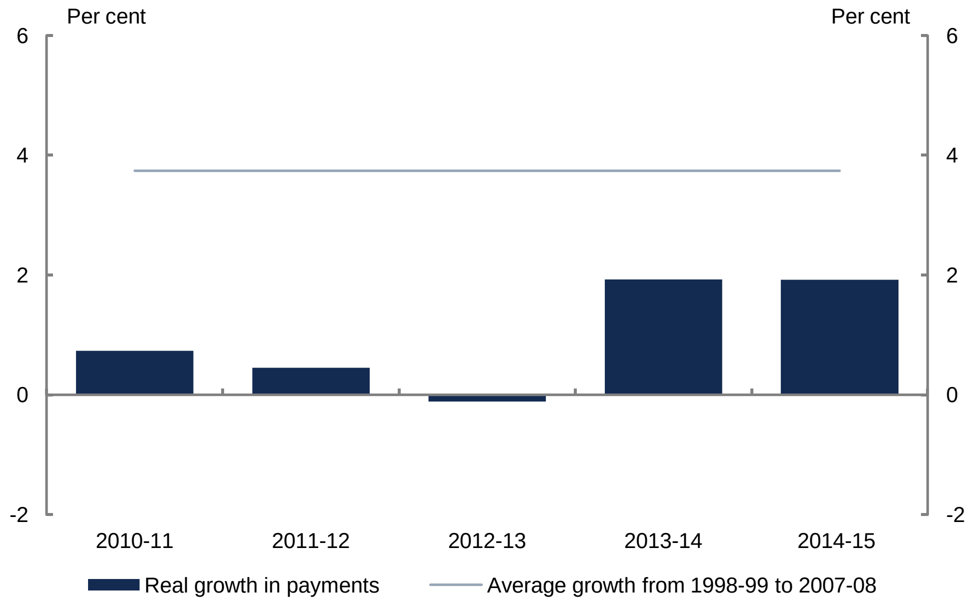
Table 2: Delivering on the 2 per cent commitment

	2010-11	2011-12	2012-13	2013-14	2014-15
Real payment growth	0.7	0.5	-0.1	1.9	1.9

The commitment to hold real growth in spending to 2 per cent has placed — and will continue to place — a significant constraint on Government spending.

- Real spending growth was above 2 per cent in 8 out of the 10 years preceding the financial crisis, with average real spending growth around 3.7 per cent.
- Real growth in spending averages around 1 per cent per year over the forward estimates, the lowest average growth rate in a five year period since the 1980s.
- Government spending, as a share of the economy, is projected to fall to 23.5 per cent of GDP by 2014-15. This is significantly below the average of the ten years preceding the financial crisis (24.0 per cent).

Chart 2: Real Growth in payments



This restraint in spending growth in the years immediately following the global financial crisis is the result, in part, of the withdrawal of the temporary fiscal stimulus. In addition, the Government has constrained spending growth by delivering its fiscal strategy.

In this Budget, the Government has built on the 2010-11 Budget by continuing to offset the cost of its new policies by making over $22 billion in savings decisions.

Fiscal discipline — savings

As part of the savings task, the Government has identified significant reductions in expenditure to help fund new priorities, with savings broadly drawn from the following areas:

- limiting growth in payments to families higher up the income scale, by maintaining the upper income thresholds for certain family payments at their current levels. This policy will improve the long-term sustainability of the family payment system;
- reforming income support payments, including Parenting Payment Single, Newstart and Youth Allowance (along with phasing out the Dependent Spouse Tax Offset), to encourage participation and enhance social and economic outcomes for individuals and the economy more broadly;
- further improving the sustainability of the health budget by capping pathology services expenditure under the Medicare Benefits Schedule;
- making the higher education loan program fairer, by reducing the upfront discount;
- requiring greater efficiency from the public sector, by temporarily increasing the efficiency dividend;
- delivering new efficiencies in defence, through ongoing reforms; and
- reducing industry assistance and spending across the budget, and better targeting the timing of programs, including infrastructure deferrals to enable re-building in flood and natural disaster affected areas.

The savings build on previously announced changes to the private health insurance arrangements, better targeting of family payments, and changes to pension eligibility, all of which are designed to improve the long-term structural position of the budget.

Box 2: Savings in the 2011-12 Budget

The 2011-12 Budget makes $22 billion worth of savings to pay for the costs of natural disasters over the recent summer and the new priorities outlined in the Budget. This fiscal discipline required difficult choices, with around two-thirds of the savings coming from reductions in expenditure.

Many of the budget savings identified deliver continuing benefits to the bottom line beyond the forward estimates, improving the sustainability of Government finances. These enduring savings build on previous saves identified by the Government in the three budgets since 2008-09, where over $80 billion of savings had been identified.

Family Payments System

This Budget continues the reform of family payments to ensure the sustainability of family payments and targeting support to those most in need. To continue limiting growth in payments to families higher up the income scale now and in the future, the Government will maintain higher income thresholds for certain family payments at their current levels.

These saves build on previous changes that are delivering enduring benefits to the budget over time such as:

- reforms in 2008-09 which better targeted Baby Bonus and Family Tax Benefit Part B payments with an income test, to ensure support was provided to families on the basis of need; and
- changes made in 2009-10 which removed the link to pension indexation for FTB-A, and maintained higher income thresholds for family payments for a three year period.

Health services

This Budget introduces reforms to pathology service items funded through the Medicare Benefits Schedule (MBS), including maximum growth rates over five years, resulting in a cap on pathology services expenditure under the MBS.

This save adds to previous changes introduced to reform the system so that it can better cope with the challenges of an ageing population and rising health care costs (the Intergenerational Reports identified these as a rapidly growing pressure in the budget), while also delivering a more responsive and better coordinated health and hospitals system.

- Reforms in the 2009-10 Budget included changes to private health insurance funding arrangements, and capping extended Medicare safety net benefits for items with excessive fees.

Box 2: Savings in the 2011-12 Budget (continued)

- Longer-term saves in the 2010-11 Budget introduced ongoing pricing reforms to the Pharmaceutical Benefits Scheme, and new arrangements for supporting community pharmacy through the Community Pharmacy Agreement with the Pharmacy Guild of Australia.

Retirement incomes

The Government has also taken additional steps in this Budget to reform aspects of our retirement incomes system. The Government has extended the freeze on the co-contribution income thresholds for another year to 2012-13. This ongoing save builds on previous reforms to the retirement income system such as:

- changes which enhanced the sustainability of the pension system by revising income test arrangements to target the pension to those who are most in need; and
- the decision, in response to the long-term cost of demographic change, and improvements in life expectancy, to increase gradually the qualifying age for the Age Pension to 67 years, at a rate of six months every two years, beginning in 2017.

Tax expenditures

The Budget also contains a number of tax measures to adjust or remove tax expenditures which improve the fairness and integrity of the tax system and provide enduring improvements to the tax system over time. These measures include:

- reform of the statutory formula for valuing FBT on car fringe benefits to remove the incentive to drive greater distances; and
- phasing out the Dependent Spouse Tax Offset for taxpayers with a dependent spouse who was born on or after 1 July 1971, strengthening the incentives for dependent spouses in couples without children to seek paid employment.

Other tax integrity measures include:

- removal of access to the Low Income Tax Offset for unearned income of minors to reduce the tax benefits available from income splitting with children; and
- improved reporting of taxable payments made to some contractors.

The overall impact of new spending and savings in the budget is a net saving of $5.2 billion over the forward estimates.

Table 3 shows the net savings achieved since the MYEFO. The net effect of policy decisions takes into account amounts that have previously been provided for in the Contingency Reserve (and as a result have no net impact on the budget position) and which principally relate to Official Development Assistance.

The savings in the budget more than cover the $4.4 billion variations in payments related to natural disasters, primarily being payments under the Natural Disaster Relief and Recovery Arrangements (NDRRA).

Table 3: Impact of policy decisions and natural disasters(a)

	Estimates			Projections		
	2010-11	2011-12	2012-13	2013-14	2014-15	Total
	$m	$m	$m	$m	$m	$m
Effect of policy decisions since MYEFO						
Spends	-2,368	-6,292	-3,050	-3,998	-3,248	-18,956
Saves	460	3,733	5,000	5,343	7,145	21,681
Total effect of policy decisions since MYEFO	**-1,908**	**-2,559**	**1,950**	**1,345**	**3,897**	**2,725**
Add Savings from not proceeding with the Cleaner Car Rebate(b)(c)	0	157	119	85	69	430
Add Contingency reserve offsets to policy decisions	66	142	288	601	937	2,033
Net budget impact of policy decisions	**-1,841**	**-2,260**	**2,357**	**2,031**	**4,903**	**5,189**
Add spending variations related to natural disasters	-2,550	-504	-147	-233	-988	-4,421
Net budget impact of policy decisions and natural disaster variations	**-4,391**	**-2,764**	**2,210**	**1,798**	**3,915**	**768**

(a) On an underlying cash balance basis.
(b) The Cleaner Car Rebate Save is an estimates variation, but is included in this table because it is a decision not to proceed with an election commitment.
(c) On 27 January 2011, the Government also announced reductions in spending of $244 million, which are reflected in estimates variations which improve the budget position.

FISCAL OUTLOOK

An underlying cash deficit of $22.6 billion is expected in 2011-12, compared with an estimated deficit of $12.3 billion at MYEFO. In accrual terms, a fiscal deficit of $20.3 billion is expected for 2011-12.

Table 4: Australian Government general government sector budget aggregates

	Actual	Estimates			Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Receipts($b)(a)	**284.7**	**303.7**	**342.4**	**378.5**	**395.9**	**415.5**
Per cent of GDP	22.2	21.9	23.2	24.3	24.1	24.0
Payments($b)(b)	**336.9**	**349.7**	**362.1**	**372.1**	**389.2**	**406.5**
Per cent of GDP	26.2	25.2	24.5	23.9	23.7	23.5
Future Fund earnings	2.5	3.4	2.9	2.9	3.0	3.2
Underlying cash balance($b)(c)	**-54.8**	**-49.4**	**-22.6**	**3.5**	**3.7**	**5.8**
Per cent of GDP	-4.3	-3.6	-1.5	0.2	0.2	0.3
Revenue($b)(a)	**292.8**	**310.8**	**350.0**	**383.1**	**405.2**	**425.8**
Per cent of GDP	22.8	22.4	23.7	24.6	24.7	24.6
Expenses($b)	**339.2**	**350.8**	**365.8**	**380.5**	**399.0**	**414.1**
Per cent of GDP	26.4	25.3	24.8	24.4	24.3	23.9
Net operating balance($b)	-46.5	-40.0	-15.9	2.6	6.2	11.7
Net capital investment($b)	6.4	5.7	4.4	-1.4	3.0	3.2
Fiscal balance($b)	**-52.9**	**-45.7**	**-20.3**	**4.0**	**3.2**	**8.5**
Per cent of GDP	-4.1	-3.3	-1.4	0.3	0.2	0.5
Memorandum item:						
Headline cash balance($b)	-56.5	-54.1	-31.9	0.8	0.3	3.8

(a) Includes expected Future Fund earnings.
(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(c) Excludes expected Future Fund earnings.

Underlying cash balance estimates

The increase in the estimated 2011-12 underlying cash deficit since MYEFO is largely the result of changes in economic conditions reducing tax receipts and increasing a range of cash payments.

Policy decisions since MYEFO have reduced the underlying cash balance for 2011-12 by $2.6 billion. Over the forward estimates to 2014-15, Government decisions are expected to improve the underlying cash balance by $2.7 billion, consistent with the Government's fiscal strategy of returning the budget to surplus (see Table 3), before accounting for offsets to new spending previously provisioned in the Contingency Reserve.

Table 5 provides a reconciliation of the variations in the underlying cash balance since the 2010-11 Budget.

Table 5: Reconciliation of 2010-11 Budget, 2010 PEFO, 2010-11 MYEFO and 2011-12 Budget underlying cash balance estimates

	Estimates			Projections
	2010-11	2011-12	2012-13	2013-14
	$m	$m	$m	$m
2010-11 Budget underlying cash balance(a)	**-40,756**	**-13,045**	**1,016**	**5,432**
Per cent of GDP	-2.9	-0.9	0.1	0.3
Changes from 2010-11 Budget to 2010 PEFO				
Effect of policy decisions(b)	-108	135	-309	-5,381
Effect of parameter and other variations	176	2,526	2,796	4,495
Total variations	**68**	**2,661**	**2,487**	**-886**
2010 PEFO underlying cash balance(a)	**-40,689**	**-10,384**	**3,503**	**4,546**
Per cent of GDP	-2.9	-0.7	0.2	0.3
Changes from 2010 PEFO to 2010-11 MYEFO				
Effect of policy decisions(b)	-62	-540	581	-122
Effect of parameter and other variations	-718	-1,363	-964	-1,167
Total variations	**-779**	**-1,903**	**-383**	**-1,289**
2010-11 MYEFO underlying cash balance(a)	**-41,468**	**-12,288**	**3,120**	**3,257**
Per cent of GDP	-3.0	-0.8	0.2	0.2
Changes from 2010-11 MYEFO to 2011-12 Budget				
Effect of policy decisions(b)(c)				
Receipts	*82*	*-406*	*2,001*	*1,906*
Payments	*1,989*	*2,153*	*51*	*561*
Total policy decisions impact on underlying cash balance	-1,908	-2,559	1,950	1,345
Effect of parameter and other variations(c)				
Receipts(d)	*-9,957*	*-5,560*	*-312*	*1,660*
Payments	*-3,964*	*2,212*	*1,260*	*2,590*
Total parameter and other variations impact on underlying cash balance	-5,993	-7,772	-1,572	-930
2011-12 Budget underlying cash balance(a)	**-49,369**	**-22,618**	**3,498**	**3,672**
Per cent of GDP	-3.6	-1.5	0.2	0.2

(a) Excludes expected Future Fund earnings.
(b) Excludes secondary impacts on public debt interest of policy decisions and offsets from the contingency reserve for decisions taken.
(c) A positive number for receipts indicates an increase in the underlying cash balance, while a positive number for payments indicates a decrease in the underlying cash balance.
(d) Receipts will differ from the cash receipts reconciliation published in Budget Statement 5 because they exclude Future Fund earnings.

Receipt estimates

Receipts have been revised down by $9.9 billion in 2010-11 and $6.0 billion in 2011-12 since MYEFO largely reflecting the revision to economic parameters and the legacy of the global financial crisis.

New policy decisions have increased receipts by $82 million in 2010-11 and reduced receipts by $406 million in 2011-12. Parameter and other variations, including the economic impacts of natural disasters, have reduced receipts by $10.0 billion in 2010-11 and $5.6 billion 2011-12 since MYEFO.

Major policy decisions that have increased receipts over the forward estimates period from 2010-11 to 2014-15 include:

- the introduction of a temporary flood and cyclone reconstruction levy from 1 July 2011. This measure is expected to raise $1.7 billion over the forward estimates;
- the current 'statutory formula' for valuing car fringe benefits will be reformed by replacing progressive rates with a single 20 per cent statutory rate. This will be phased in over four years and apply to new contracts entered into after 7:30pm (AEST) on 10 May 2011. This measure is expected to increase the underlying cash balance by $970 million over the forward estimates period;
- phasing out the dependent spouse tax offset (DSTO) for taxpayers with a dependent spouse born on or after 1 July 1971. This measure has an ongoing gain to receipts which is estimated to be $755 million over the forward estimates period;
- removing the ability of minors (children under 18 years of age) to access the low income tax offset (LITO) to reduce tax payable on their unearned income with effect from 1 July 2011. This measure has an ongoing gain to receipts estimated to be $740 million over the forward estimates; and
- the removal of the Entrepreneurs' Tax Offset (ETO), with effect from the 2012-13 income year. This measure has an ongoing gain to receipts estimated to be $365 million over the forward estimates.

The impact of these policy decisions on receipts has been partially offset by a number of decisions that have reduced receipts, including:

- allowing low and middle income earners to receive 70 per cent of the benefits of the LITO through a reduction in tax payable on their regular pay, rather than only half as provided under existing arrangements. The remaining 30 per cent of the LITO benefit will be paid as a lump sum on assessment of income tax returns. This is estimated to reduce receipts by $1.3 billion over the forward estimates;
- the delay in the introduction, until 1 December 2011, and other arrangements for excise and excise-equivalent customs duty on alternative fuels. This is expected to reduce receipts over the forward estimates period by $641 million which is almost entirely offset by a reduction in related payments;
- allowing small businesses to claim up to $5,000 as an immediate deduction for motor vehicles, with effect for vehicles acquired from the 2012-13 income year. The remainder of the motor vehicle value will be pooled in the general small business pool. This measure is estimated to have a cost to receipts of $350 million over the forward estimates period;

- increasing the Medicare Levy low income tax thresholds to $18,839 for individuals and $31,789 for families, with effect from 1 July 2010. This has an ongoing cost to receipts estimated to be $125 million over the forward estimates; and
- an income tax exemption for certain Category C clean up and recovery grants paid to small businesses and primary producers under the Natural Disaster Relief and Recovery Arrangements. This measure is expected to cost an estimated $98 million over the forward estimates.

Payment estimates

Since MYEFO, estimated total cash payments for 2011-12 have increased by $4.4 billion, reflecting new policy decisions of $2.2 billion and parameter and other variations of $2.2 billion.

Major policy decisions since MYEFO that have increased cash payments in 2011-12 include:

- the extension of Australia's military operations in Afghanistan and the Middle East Area of Operations, East Timor and the Solomon Islands until June 2012 at a cost of $1.1 billion in 2011-12 ($1.5 billion over the five years to 2014-15);
- the Health and Hospitals Fund (HHF) Regional Priority Round, which allocates $110 million in 2011-12 ($969 million over four years) to improving regional health services, including through new hospital beds, operating theatres and patient accommodation. This is part of a total $1.8 billion investment over 6 years in new health infrastructure, which includes funding for the Royal Hobart and Port Macquarie Base Hospitals announced at MYEFO and $475 million to fund a further Regional Priority Round from the HHF; and
- enhancing mental health services by providing a more coordinated approach to mental health care and increasing access to services. The mental health initiatives are expected to increase payments by $1.5 billion over five years to 2015-16.

These increases in cash payments have been partially offset in 2011-12 by decisions that have reduced payments, including:

- achieving increased operational efficiencies in the Department of Defence that are expected to reduce payments by $227 million in 2011-12 ($1.2 billion over four years);
- deferring payments to the Victorian and NSW governments for infrastructure projects including for the Victorian Regional Rail Link, the upgrade of the Princes Highway between Traralgon and Sale and the Northern Sydney Freight Corridor, which is expected to reduce payments by $369 million in 2011-12 ($620 million over five years to 2014-15). These deferrals were previously announced as part of the Government's response to the recent natural disasters;

- increasing the rate of the efficiency dividend (to 1.5 per cent in 2011-12 and 2012-13 and 1.25 per cent in 2013-14 and 2014-15), reducing payments by $126 million in 2011-12 ($1.1 billion over four years to 2014-15);
- reducing and deferring funding for the Carbon Capture and Storage Flagships program, of $127 million in 2011-12 ($671 million over five years to 2014-15);
- reducing the discounts applying to payments under the Higher Education Contribution Scheme, saving $62 million in 2011-12 ($479 million over four years); and
- reallocating funding from the Priority Regional Infrastructure Program to support flood recovery efforts in regional Australia, reducing payments by $50 million in 2011-12 ($350 million over four years).

The Government has also decided to provide significant support to individuals, businesses and governments affected by recent natural disasters, increasing payments by $1.3 billion in 2010-11 ($1.4 billion over five years to 2014-15).

Further details of Government policy decisions are provided in Budget Paper No. 2, *Budget Measures 2011-12*. The expense estimates provided in Budget Paper No. 2 are in accrual terms and may not align exactly with the underlying cash payments figures provided in this Statement.

Major increases in expected payments in 2011-12 as a result of parameter and other variations since MYEFO include:

- offshore asylum seeker management costs largely reflecting the higher than previously expected number of irregular maritime arrivals ($585 million in 2011-12 and $825 million from 2011-12 to 2013-14);
- the re-profiling of spending under the Restoring the Balance in the Basin, National Water Security Plan for Cities and Towns, and National Urban Water and Desalination Plan as well as other Water for the Future programs (resulting in an increase in payments of $463 million in 2011-12, but an overall reduction in payments of $317 million over four years to 2013-14 including a reduction in payments of $1.2 billion in 2010-11). This re-profiling reflects lengthy negotiations to finalise funding agreements, project delays due to recent weather events, and the impact of state restrictions on trade on the settlement of water entitlement purchases;
- natural disaster relief payments to the States under the Natural Disaster Relief and Recovery Arrangements reflecting the natural disasters in 2010-11 as well as in earlier years ($887 million in 2011-12). Refer to Box 1 for further details of the recent natural disasters;

- residential aged care subsidies, owing to an increase in the estimated average subsidy for aged care residents based on recent trends in demand for residential care places ($331 million in 2011-12 and $1.1 billion over four years);

- Medicare Services payments mainly stemming from the extension of the Chronic Disease Dental Scheme (CDDS) to 31 December 2011 as a result of the Senate disallowing the determination to close the program. The closure of the CDDS remains the Government's policy. Over the forward years, Medicare Services payments are lower than forecast at MYEFO, mainly because of larger than previously expected savings from the capping of rebates for obstetrics and assisted reproductive technology services announced in the 2009-10 Budget. The expected overall change is an increase in payments of $265 million in 2011-12 but a reduction in payments of $142 million over four years to 2013-14;

- road transport payments to the States and Territories, owing to a bring forward of payments to the NSW Government to reflect the Hunter Expressway and Kempsey Bypass projects progressing faster than originally anticipated ($233 million in 2011-12 but neutral over the forward estimates). Offsetting these bring forwards, some Queensland construction that was to have been undertaken in 2010-11 has been delayed because of the floods and is now expected to be undertaken from 2011-12;

- Disability Support Pension payments, reflecting an increase in expected average payments along with higher indexation forecasts consistent with increases in forecast wage and price inflation ($214 million in 2011-12 and $1.1 billion over four years to 2013-14); and

- income support for seniors, reflecting higher than previously forecast payment indexation, consistent with updated wage and price inflation forecasts over the forward estimates ($266 million in 2011-12 and $1.3 billion over four years to 2013-14).

Major reductions in expected payments in 2011-12 as a result of parameter and other variations since MYEFO include:

- GST payments to the States and Territories consistent with a reduction in GST receipts ($1.7 billion in 2011-12 and $5.9 billion over four years to 2013-14);

- improving Australia's energy efficiency program payments reflecting lower than anticipated demand in the Renewable Energy Bonus Scheme — Solar Hot Water Rebate program, the Solar Homes and Communities Plan and the Home Insulation Safety Plan ($254 million in 2011-12 and $524 million over four years to 2013-14);

- Cleaner Fuels Scheme payments, because of a reduction in the forecast quantity of Liquid Petroleum Gas (LPG) being imported or manufactured since MYEFO ($215 million in 2011-12 and $455 million over four years to 2013-14). The

Government has announced it will amend the Scheme by replacing the payments of grants with revised taxation arrangements from 1 December 2011. This decision reduces both payments and receipts, so that its impact on the underlying cash balance is broadly neutral; and

- Superannuation Co-contribution Scheme payments, partly because of the expectation that a lower than previously anticipated number of eligible taxpayers will choose to make personal contributions to trigger the Government's co-contribution ($143 million in 2011-12 and $588 million over four years to 2013-14).

As a consequence of the weaker fiscal outlook in the near term, and higher interest rates, net interest payments have increased by $588 million in 2011-12 and $3.1 billion over four years to 2013-14.

Consistent with previous budgets, the underlying cash balance has been improved by the regular draw down of the conservative bias allowance. Details of this draw down are provided in Appendix B of Statement 6.

In 2010-11, a number of parameter and other variations have reduced expected payments, including GST payments to the States and Territories, the reprofiling of water programs and estimates adjustments for Defence. These adjustments were partly offset by higher natural disaster relief payments, increased residential aged care subsidies and costs associated with accommodating and processing irregular maritime arrivals.

Fiscal balance estimates

The fiscal deficit is estimated to be $20.3 billion in 2011-12, an increase of $9.3 billion since MYEFO.

Table 6 provides a reconciliation of the variations in the fiscal balance since the 2010-11 Budget.

Table 6: Reconciliation of 2010-11 Budget, 2010 PEFO, 2010-11 MYEFO and 2011-12 Budget fiscal balance estimates

	Estimates			Projections
	2010-11	2011-12	2012-13	2013-14
	$m	$m	$m	$m
2010-11 Budget fiscal balance	**-39,598**	**-12,093**	**1,960**	**6,325**
Per cent of GDP	-2.8	-0.8	0.1	0.4
Changes from 2010-11 Budget to 2010 PEFO				
Effect of policy decisions(b)	-106	663	-246	-5,329
Effect of parameter and other variations	282	2,692	3,387	5,092
Total variations	**176**	**3,355**	**3,141**	**-237**
2010 PEFO fiscal balance	**-39,422**	**-8,738**	**5,101**	**6,088**
Per cent of GDP	-2.8	-0.6	0.3	0.4
Changes from 2010 PEFO to 2010-11 MYEFO				
Effect of policy decisions(b)	-63	-511	584	-118
Effect of parameter and other variations	-2,434	-1,695	-1,473	-1,656
Total variations	**-2,497**	**-2,206**	**-889**	**-1,774**
2010-2011 MYEFO fiscal balance	**-41,920**	**-10,943**	**4,211**	**4,314**
Per cent of GDP	-3.0	-0.7	0.3	0.3
Changes from 2010-11 MYEFO to 2011-12 Budget				
Effect of policy decisions(a)(b)				
Revenue	102	-367	2,043	1,943
Expenses	1,971	1,722	-119	798
Net capital investment	33	379	54	-358
Total policy decisions impact on fiscal balance	-1,901	-2,467	2,107	1,504
Effect of parameter and other variations(a)				
Revenue	-9,006	-5,049	758	2,746
Expenses	-5,516	2,094	3,853	5,665
Net capital investment	-1,574	-291	-742	-267
Total parameter and other variations impact on fiscal balance	-1,916	-6,852	-2,352	-2,652
2011-12 Budget fiscal balance	**-45,737**	**-20,262**	**3,966**	**3,166**
Per cent of GDP	-3.3	-1.4	0.3	0.2

(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 secondary impacts on public debt interest of policy decisions and offsets from the contingency reserve for decisions taken.

Revenue estimates

Changes in revenue are generally driven by the same factors as receipts, though differences arise where revenue raised in a given year is not received in that year (see Budget Statement 5, *Appendix E: Taxation Revenue Recognition*, for further information on the difference between accrual and cash estimates).

Expense estimates

Movements in accrual expenses over the forward estimates are broadly similar to the movements in cash payments. The key exceptions include:

- changes in net capital investment, largely relating to capital reprogramming by Defence and also in relation to a range of water initiatives, which are reported as cash payments;
- superannuation benefits and the Superannuation Co-contribution Scheme, where there are differences between timing of cash payments and accruing expenses; and
- the Natural Disaster Relief and Recovery Arrangements, where expenses are being recognised at a different time to the cash payments advanced to Queensland and Victoria.

More detailed information on expenses can be found in Statement 6.

Net capital investment estimates

Forecast net capital investment for 2011-12 is largely unchanged since the MYEFO.

In 2010-11 net capital investment is forecast to be $1.5 billion lower than forecast in the MYEFO, largely reflecting the reprogramming of Defence investments and a range of water initiatives.

The higher exchange rate since MYEFO has also resulted in the forecasts of net capital investment being reduced across the forward estimates.

More detailed information on net capital investment can be found in Statement 6.

Net financial worth, net worth and net debt

The downward revisions to estimated tax receipts in this year and next, and higher than expected payments owing, in part, to the recent natural disasters, have contributed to higher estimated net debt, and lower net worth and net financial worth than was forecast in the MYEFO.

Net debt is forecast to peak in 2011-12 at $106.6 billion (or 7.2 per cent of GDP), an increase of $12.2 billion from the MYEFO. Net debt is expected to reduce to 5.8 per cent of GDP in 2014-15.

The change to the projected peak in net debt is driven primarily by an increase in the amount of Commonwealth Government Securities on issue largely reflecting the weaker fiscal outlook in 2010-11 and 2011-12, though this is partially offset by an increase in the Government's investment in Residential Mortgage-Backed Securities, an increase in Australia's quota with the International Monetary Fund, and an increase in the Future Fund's asset values in 2010-11.

The Australian Government's net debt remains extremely low by international standards. The average net debt level in the major advanced economies, measured for all levels of government, is projected to be around 80 per cent of GDP in 2011. Net debt in the major advanced economies is expected to reach an average of around 90 per cent of GDP in 2016, over 12 times higher than the expected peak in the Australian Government's net debt.

The changes to net debt described above also impact on net financial worth and net worth.

- Net financial worth is estimated to be -$200.6 billion in 2011-12, $17.2 billion lower than the MYEFO estimate.
- Net worth is estimated to be -$87.5 billion in 2011-12, $15.6 billion lower than the MYEFO estimate.

In addition to the drivers for change to the net debt position, the change in net financial worth and net worth also reflect the revaluation of the Government's superannuation liability.

Further details on the balance sheet are outlined in Statement 7, Asset and Liability Management.

Table 7 provides a summary of Australian Government general government sector net financial worth, net worth, net debt and net interest payments.

Table 7: Australian Government general government sector net financial worth, net worth, net debt and net interest payments

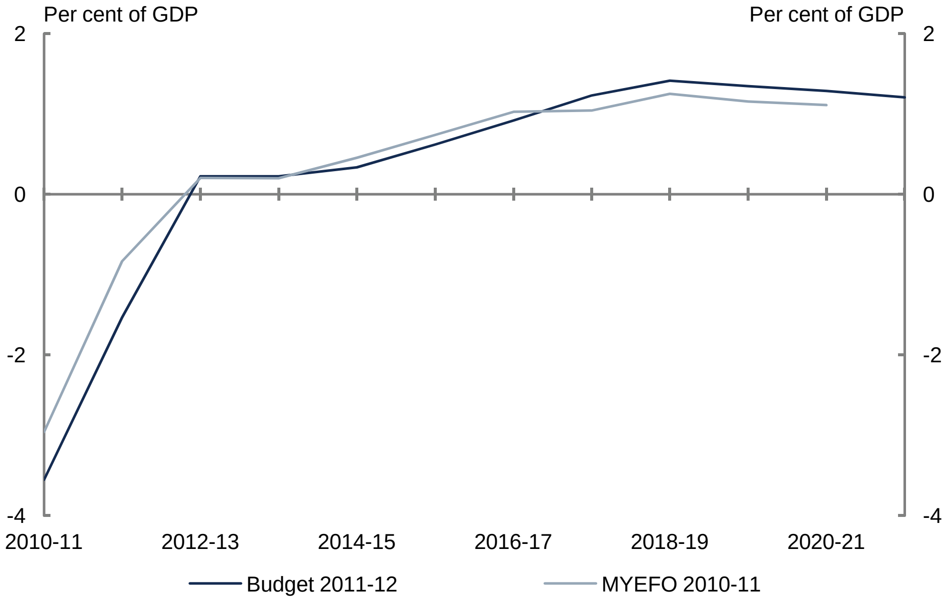
	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$b	$b	$b	$b	$b
Financial assets	214.6	232.1	241.0	252.2	263.9
Non-financial assets	108.4	113.1	115.1	115.4	117.4
Total assets	**323.0**	**345.2**	**356.1**	**367.6**	**381.3**
Total liabilities	**391.3**	**432.7**	**439.5**	**447.6**	**452.3**
Net worth	**-68.3**	**-87.5**	**-83.4**	**-80.0**	**-71.0**
Net financial worth(a)	**-176.6**	**-200.6**	**-198.5**	**-195.4**	**-188.5**
Per cent of GDP	-12.7	-13.6	-12.7	-11.9	-10.9
Net debt(b)	**82.4**	**106.6**	**104.6**	**105.3**	**100.9**
Per cent of GDP	5.9	7.2	6.7	6.4	5.8
Net interest payments	**4.6**	**5.5**	**6.7**	**6.8**	**7.5**
Per cent of GDP	0.3	0.4	0.4	0.4	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.

Medium term fiscal outlook

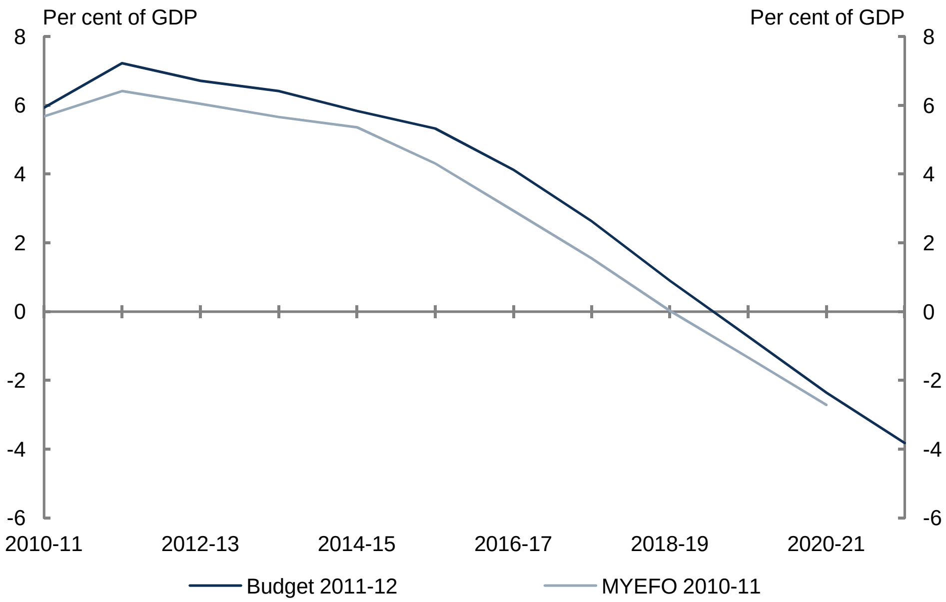
On current projections, it is expected that the budget surplus will reach 1 per cent of GDP in 2017-18. Net debt is projected to peak in 2011-12 at 7.2 per cent of GDP and fall to zero by 2019-20.

Chart 3: Underlying cash balance projected to 2021-22



Source: Treasury projections.

Chart 4: Government net debt projected to 2021-22



Source: Treasury projections.

APPENDIX A: SENSITIVITY OF BUDGET ESTIMATES TO ECONOMIC DEVELOPMENTS

The estimates contained in the 2011-12 Budget are based on forecasts of the economic outlook. Changes to the economic assumptions underlying the estimates will impact on receipts and payments, and hence the size of the underlying cash balance.

This section examines the effects on receipts and payments of altering some of the key economic assumptions. Tables A2 and A4 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 owing 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 receipts, payments 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 over the forecast period. 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 alternative picture of the economic forecasts under these scenarios, but instead gives an indication of the sensitivity associated with different components of receipts and payments to changes in the economy. As such, the changes in the economic variables and their impact on the fiscal outlook are merely 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 consistent with a fall in the terms of trade of around 4 per cent, which causes a 1 per cent fall in nominal GDP. The sensitivity analysis evaluates the flow-on effects on the economy, the labour market and prices. The impacts in Table A1 are highly stylised and refer to per cent deviations from the baseline levels of the economic parameters.

Table A1: Illustrative impact of a permanent non-rural commodity price fall consistent with a 1 per cent fall in nominal GDP by 2012-13 (per cent deviation from the baseline level)

	2011-12 per cent	2012-13 per cent
Real GDP	0	- 1/4
Non-farm GDP deflator	- 3/4	- 3/4
Employment	- 1/4	- 1/2
Wages	0	- 1/4
CPI	0	- 1/4
Company profits	-3	-3
Consumption	- 1/4	- 1/2

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 export component of GDP) and lower domestic incomes. Lower domestic incomes cause both consumption and investment to fall, resulting in lower real GDP, employment and 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 uncertain in the short term. In the event of a depreciation in the exchange rate, the impacts on the external sector would dampen the real GDP effects, and there would be some offsetting upward pressure on domestic prices.

Given these assumptions, the overall impact of the fall in the terms of trade is a decrease in the underlying cash balance of around $2.8 billion in 2011-12 and around $6.3 billion in 2012-13 (see Table A2).

Table A2: Illustrative sensitivity of the budget balance to a 1 per cent decrease in nominal GDP due to a fall in the terms of trade

	2011-12 $b	2012-13 $b
Receipts		
Individuals and other withholding taxation	-0.7	-1.7
Superannuation taxation	-0.1	-0.1
Company tax	-1.8	-3.5
Resource rent taxes	0.0	-0.7
Goods and services tax	-0.1	-0.2
Excise and customs duty	0.0	-0.1
Other taxation	0.0	0.0
Total receipts	**-2.7**	**-6.2**
Payments		
Income support	-0.1	-0.1
Other payments	0.0	0.1
Goods and services tax	0.1	0.2
Total payments	**0.0**	**0.2**
PDI	-0.1	-0.3
Underlying cash balance impact	**-2.8**	**-6.3**

On the receipts side, a 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 decreases company profits. Lower company profits are assumed to flow through to lower Australian equity prices, therefore reducing capital gains tax from individuals, companies and superannuation funds. A fall in commodity prices is also expected to reduce resource rent tax collections.

The weaker economy results in lower aggregate demand which flows through to lower employment and wages. For this reason, individuals' income tax collections fall and the decrease in disposable incomes leads to lower consumption, which in turn results in a decrease in GST receipts (decreasing 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 in both years due to a higher number of unemployment benefit recipients. The increase in unemployment benefits in 2012-13 is partly offset by reduced expenditure on pensions and allowances reflecting lower growth in benefit rates resulting from lower wages growth. At the same time other payments linked to inflation fall in line with the reduced growth in prices.

The reduction in the underlying cash balance results in a higher borrowing requirement and a higher public debt interest cost.

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 2012-13. Once again, the sensitivity analysis evaluates the flow-on effects on the economy, the labour market and prices. The impacts in Table A3 are highly stylised and refer to per cent deviations from the baseline levels of the parameters.

The 1 per cent increase in real GDP increases nominal GDP by slightly less 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 A3: Illustrative impact of an ongoing equal increase in both labour productivity and participation consistent with a 1 per cent increase in real GDP by 2012-13 (per cent deviation from the baseline level)

	2011-12	2012-13
	per cent	per cent
Nominal GDP	3/4	3/4
Non-farm GDP deflator	- 1/4	- 1/4
Employment	1/2	1/2
Wages	1/4	1/4
CPI	- 1/4	- 1/4
Company profits	1 3/4	1 3/4
Consumption	1	1

The increase in labour force participation and labour productivity both 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 $2.9 billion in 2011-12 and around $4.4 billion in 2012-13 (see Table A4).

Table A4: 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

	2011-12	2012-13
	$b	$b
Receipts		
Individuals and other withholding taxation	1.7	1.5
Superannuation taxation	0.0	0.1
Company tax	1.0	2.2
Goods and services tax	0.4	0.5
Excise and customs duty	0.2	0.3
Other taxation	0.0	0.0
Total receipts	**3.3**	**4.7**
Payments		
Income support	-0.1	-0.1
Other payments	0.0	0.0
Goods and services tax	-0.4	-0.5
Total payments	**-0.5**	**-0.6**
PDI	0.1	0.3
Underlying cash balance impact	**2.9**	**4.4**

On the receipts side, individuals' income tax collections increase because of the rise in number of wage earners and, additionally, higher real wages. Due to the progressivity of the tax system, wage rises may lead individuals to pay more tax than is warranted in the current year which increases individuals' refunds in the following year when tax returns are lodged. This moderates the positive impact on total individuals' income tax in 2012-13. The stronger labour market also increases superannuation fund taxes through higher contributions (including compulsory contributions) to superannuation funds. The increase in personal incomes leads to higher consumption which results in an increase in GST receipts (with the corresponding receipts passed on in higher GST payments to the States). In addition, the stronger economy results in higher levels of corporate profitability, increasing company taxes.

On the payments side, overall estimated expenditure on income support payments (including pensions and allowances) is slightly higher primarily reflecting growth in benefit rates flowing from higher wages growth. Lower inflation has a partially offsetting effect.

On balance, the rise in estimated tax collections is only partially offset by increased payments. This improves the underlying cash position, which results in a lower borrowing requirement and lower public debt interest cost.

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

STATEMENT 4: OPPORTUNITIES AND CHALLENGES OF AN ECONOMY IN TRANSITION

The statement discusses the opportunities and challenges of an economy in transition, particularly those flowing from the shifting weight of the global economy towards Asia. The statement draws policy lessons from an analysis of how the Australian economy has changed over the longer term and in the more recent past. It concludes that the policy settings for managing this transition — particularly whether we embrace changes in the global economy — will be a critical determinant of Australia's future economic success.

Statement 4: Opportunities and Challenges of an Economy in Transition

Introduction

Over time Australia has undergone major changes in the structure of its economy, converting its natural advantages into an economy built primarily on the skills, effort and innovation of its people and businesses. This transformation into a knowledge-based, diversified and service-oriented economy will underpin Australia's long-term prosperity.

The current shift in the global economy towards Asia will also have a profound influence on this evolution.

For Australia, this change in the world's economic geography is evident in the high terms of trade and the gathering pace of the mining boom, which are being underpinned by strong demand for our mineral resources. Australia has been able to take advantage of high commodity prices, including through the shift of resources to the booming industries and states. These developments have resulted in challenging times for other trade-exposed industries — reflecting a prolonged shift in comparative advantage.

But the implications will not stop at the mining boom. Asia's re-emergence will have other major and lasting effects on how Australia does business in the 21st century. As incomes in Asia rise and as more people are brought into the global middle class, consumption patterns will continue to shift towards higher order goods and services. The rise in the Asian middle class will drive global consumer markets and lead to broader economic opportunities for Australia.

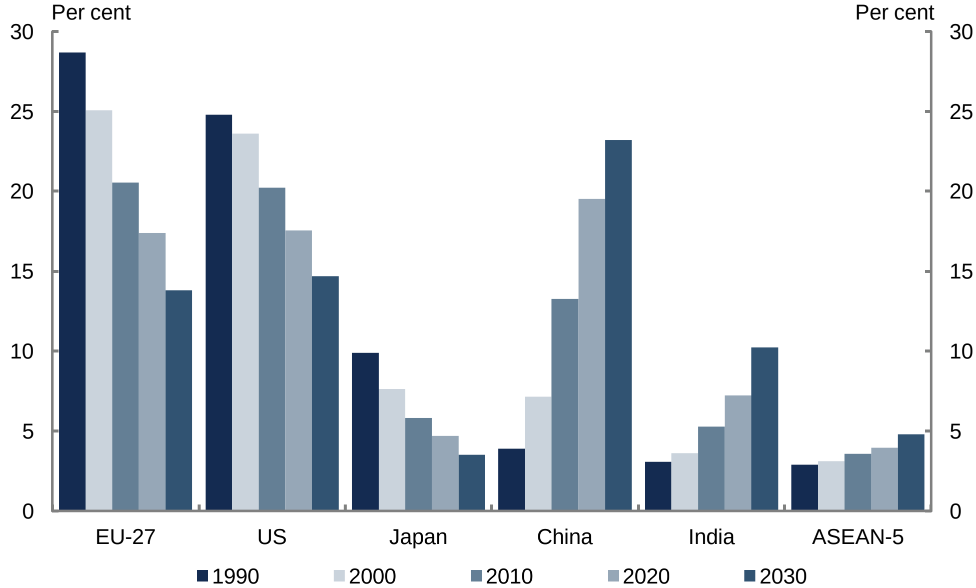
To maximise the opportunities that will flow from the continued rise of Asia, Australia needs to continue to change and innovate — as it has done in the past. We need policy settings and institutions that harness the talents of our people and allow them to make the most productive use of those talents and respond to a changing world. Australia will also need to manage some of the short term challenges from the current mining boom. Managing this transition successfully will allow Australia to convert opportunities into lasting prosperity.

The need to lay the groundwork for transition reinforces the importance of policies, including those in this Budget, to provide for macroeconomic stability, flexibility and appropriate incentives — including a price on carbon — for individuals and firms, and that develop peoples' skills to make full use of their talents. Doing so will allow for an improvement in material living standards across the community, notwithstanding the pressures from other long-term drivers affecting Australia.

THE ASIAN CENTURY AND THE CHANGING STRUCTURE OF AUSTRALIA'S ECONOMY

The continuing economic re-emergence of Asia has lifted global economic growth and is leading to a shift in the world's economic activity from west to east. Together, China and India accounted for less than a tenth of world gross domestic product (GDP) in 1990 and almost a fifth in 2010 (Chart 1). In 2020 they are projected to account for more than a quarter of world GDP — which will be equivalent to the combined share of US, Japan and ASEAN-5. In 2030 they are projected to account for a third of world GDP.

Chart 1: World GDP projections



Note: Purchasing power parity adjusted GDP. ASEAN-5 comprises Indonesia, Malaysia, The Philippines, Thailand and Vietnam.
Source: The Conference Board Total Economy Database, Maddison (2007), IMF World Economic Outlook Database, World Bank, OECD, United Nations Population Database and Treasury.

Asia's rise will bring great economic opportunities closer to Australia's doorstep. It will also require the economy to make a major transition, of a magnitude akin to those that have been traversed in the past.

While robust economic conditions in Australia's region are driving strong demand for Australia's mineral resources, the current transition that Australia faces is much broader than the mining boom. The growing cities of Asia will be populated by an increasingly wealthy and upwardly mobile middle class, and this will bring a broader range of opportunities and challenges for Australia that will become increasingly evident.

To take advantage of this global transition in economic geography, to be able to respond to inevitable shocks in the future and to ensure that the prosperity we enjoy today outlasts the current surge in the terms of trade, Australia needs to manage a transition in economic structure and build flexibility while providing the basis for future growth.

This is not the first time in our history when we have had to make major transitions. For Australia, change has been the norm rather than the exception. The critical determinant for success, past and future, is whether we embrace the need for change or attempt to resist the economic forces at work.

The movement towards a service-based knowledge economy

While mining and agriculture continue to play a valuable role, Australia has become more than just a commodity economy. Over time, a wide variety of forces has seen Australia convert its natural advantages into a knowledge-based, diversified and service-oriented economy, and this transition has continued throughout the mining boom.

In the 19th century, pastoral and agricultural industries were the dominant contributors to economic growth in Australia. They established their dominance by taking advantage of a combination of factors, including developments in Europe, Australia's rich natural resource endowments and a number of 'learning by doing' innovations to improve productivity — including innovations that are today taken for granted, such as fencing (Sinclair 1976). At one point in the mid-1830s, pastoral production alone may have contributed more than a quarter of Australian GDP (Butlin 1985).

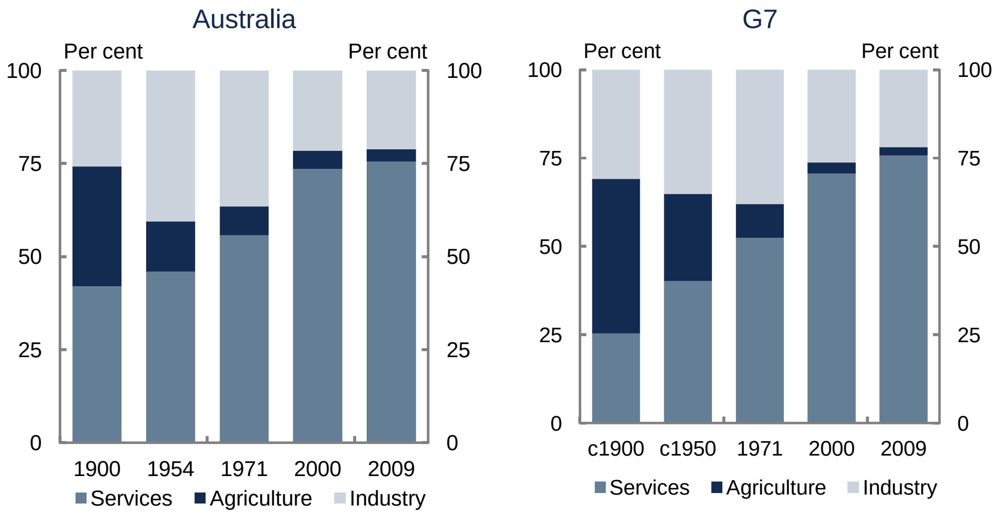
Consistent with the experience of other advanced countries, agriculture's share of economic activity has declined. Through adopting new technologies and using scarce resources better, productivity growth in agriculture has been strong — producing more food and other basic rural goods that people demand while drawing on less labour.

Gradual industrialisation, arguably beginning in the middle of the 19th century, saw manufacturing grow in importance. As labour productivity and incomes grew, consumer tastes shifted towards new types of manufactured goods (like consumer durables) that were being brought onto the marketplace. The World Wars also provided further impetus for domestic industrial production.

A period of relative decline in the industrial base, as a share of both GDP and employment, has since followed and is continuing today — also a common phenomenon across developed countries. This relative decline has occurred as global barriers to trade fell and as the service industries expanded, reflecting consumer and business demand for an increasingly diverse range of services — including in the areas of recreation, education, professional services, finance, health and information and communication.

Over the past century or so, Australia's economic evolution has therefore followed an overall pattern similar to the world's most advanced economies (Chart 2), notwithstanding Australia's relatively large mining sector. Rather than standing still as an agrarian society dependent on the land for its economic outcomes, or as an economy characterised by low-skilled jobs, Australia's economic development has seen the benefits of a rich natural resource endowment being transformed into a diverse economy that is service-oriented yet maintains a core of technologically advanced sectors engaged in agricultural, mining and other industrial production.

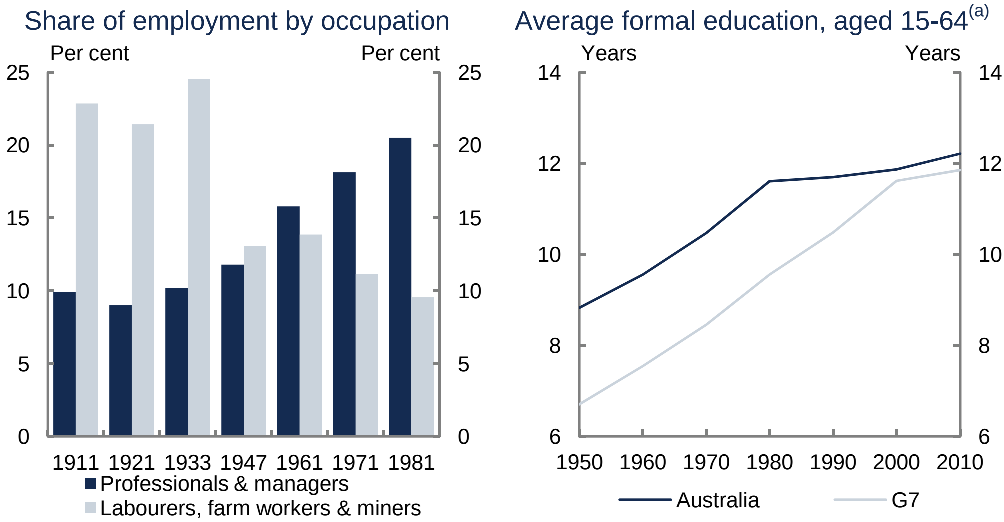
Chart 2: Employment share by activity



Note: Identifies broad changes and does not fully account for definitional or technical changes in data. Industry includes mining, manufacturing, construction, gas, electricity and water. Agriculture includes forestry and fishery. See also Withers et al. (1985) for similar historical estimates for Australia. Withers et al. (1985) estimated that Australian employment in agriculture and industry in 1900 was around a quarter and third respectively.
Source: Feinstein (1999), OECD Statistics and Treasury.

The relative decline in low-skilled jobs has been accompanied by a shift towards a better educated workforce and higher skilled occupations (Chart 3). As in other economies, the educational outcomes of the labour force improved significantly over the latter half of the 20th century. Retention rates to Year 12 in Australia, for example, have more than trebled between 1968 and 2010 — from 23 to 78 per cent (ABS 2001 and 2010a).

Chart 3: Occupations and education in Australia



(a) Years of primary, secondary and tertiary education for all people aged 15-64.
Source: Withers et al. (1985), World Bank EdStats, Barro and Lee (2010) and Treasury.

Australia has also avoided the levels of inequality seen in some other advanced countries (OECD 2008), achieving a better spread of the gains of economic progress. Australia has high levels of intergenerational income mobility that have not changed significantly in recent decades (Leigh 2007), a reflection of the relatively high standard of minimum education outcomes in Australia (Wilkie 2007).

Recent patterns: developments over the first phase of the mining boom

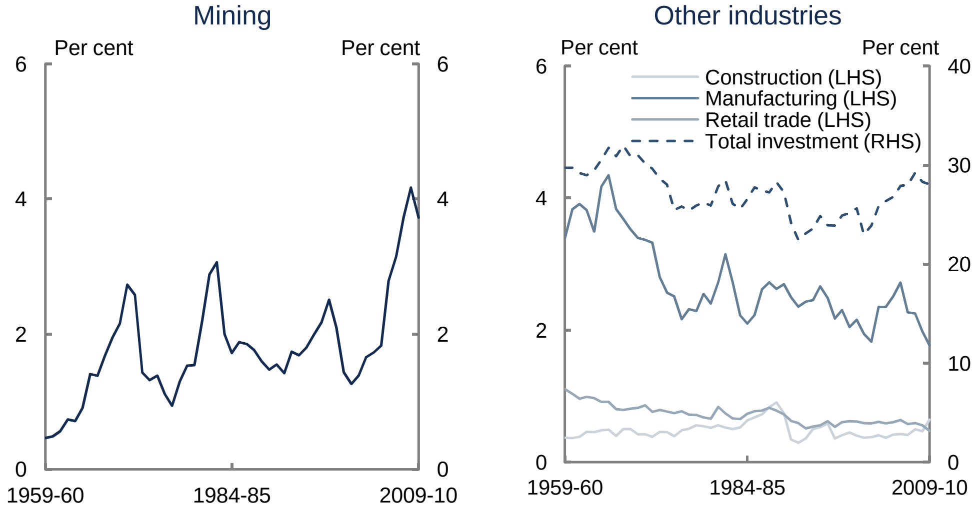
Mining boom mark I, which began in 2003-04 and continued until the global financial crisis, gave rise to an unprecedented and ongoing rise in mining investment. But despite the growth of the mining sector, the overall long-term trend of an ongoing shift towards service industries and stronger relative growth in skilled over unskilled jobs has continued.

The period of the mining boom to date has also demonstrated the flexibility of the Australian economy in dealing with significant structural change.

A mining investment boom

Strong demand for Australia's mineral commodities has led to strong growth in mining investment over the last decade (Chart 4), reaching its highest level in history (RBA 2010a). At its peak in 2008-09, mining investment was above 4 per cent of GDP — around eight times its share 50 years ago and matching levels of manufacturing investment in the 1960s.

Chart 4: Investment as a share of GDP



Source: ABS 5204.0 and Treasury.

Investment in the other sectors as a share of GDP, however, has broadly remained flat. While manufacturing investment has experienced a gradual decline over the longer term — reflecting the declining output share of manufacturing common to developed countries — it has remained broadly stable as a share of GDP in the 2000s. The boom in mining investment, together with a lift in general government investment, has been a key driver behind the lift in total investment. In 2009-10, total investment as a share of GDP had risen to match the high levels seen in the 1960s and 1980s.

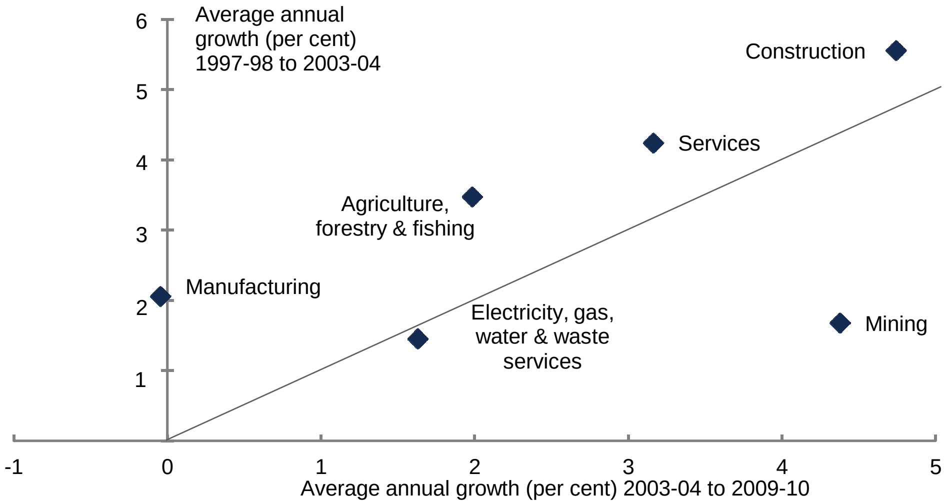
Trends in industry production have continued

The strong terms of trade has placed pressure on manufacturing and other trade-exposed sectors through a strong appreciation in the real exchange rate.

The expected result of an appreciation in the real exchange rate is for output in mining industries to grow faster than other sectors that face foreign competition but which are not enjoying the benefits of the high terms of trade. Sectors not exposed to international trade, such as some parts of services, would be expected to grow at a rate somewhere in between.

While Australia has also been faced with other significant economic events since the mining boom began, such as persistent periods of drought and the global financial crisis, the long-term trends towards services and the relative decline of manufacturing have continued (Chart 5). Unlike mining and construction, manufacturing did not experience real output growth during the boom — despite an average growth rate of 2 per cent per annum in the six-year period prior to mining boom mark I.

Chart 5: Growth by industry, before and during the mining boom



Note: Gross value added, 2008-09 dollars. Services exclude construction and utilities. A point close to the diagonal line indicates that the industry grew during the boom at a similar rate to the six years prior to the boom. A point north (south) of the diagonal indicates that the industry grew slower (faster) during the boom. The further a point is away from the origin, the faster the rate of growth or contraction.
Source: ABS 5206.0 and Treasury.

There has been a long-term shift away from the parts of manufacturing characterised by low profit margins and low-skilled jobs paying relatively low wages. However, broad industry level trends are not givens for underlying sub-industries and firms. While the relative decline in some sub-industries (such as textiles and clothing) accelerated, others linked to the mining sector (such as metal and mineral products and to a lesser degree machinery and equipment) have fared better.

A responsive, diversified and increasingly skilled labour market

Labour market developments over the mining boom to date demonstrated the economy's flexibility and continued the shift to a diversified, highly skilled workforce.

Responsiveness of earnings growth

As non-rural commodity export prices have risen sharply, the prices received for mining outputs have grown at a much faster rate than the returns to those working in the mining sector.

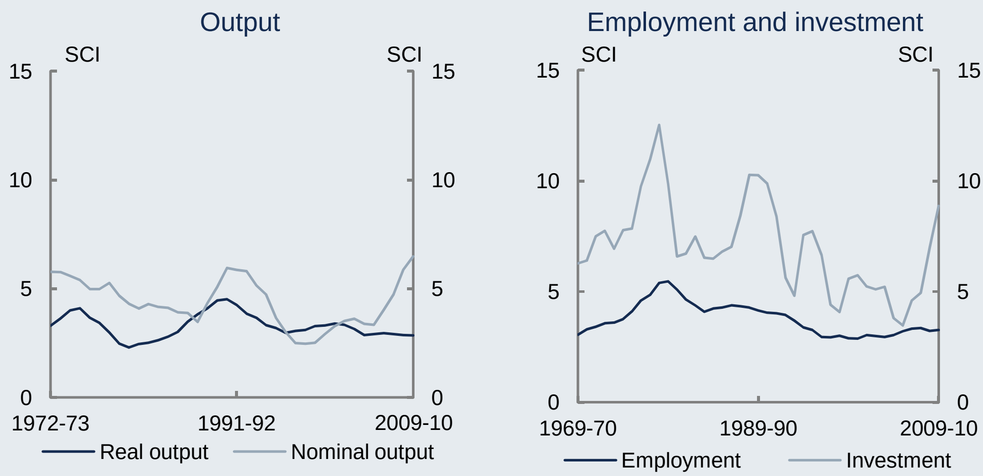
Box 1: How fast is the composition of the economy changing?

The composition of the economy is constantly changing, with around 300,000 businesses entering and exiting and half a million workers changing industries in a typical year (ABS 2010b and 2010c). The recent pace of change, in some respects, is as big a change in the industry composition of the economy as seen in recent history. While there is no all encompassing measure available, structural change indices (SCIs) show the rate at which the economy's composition changes. While index construction methods differ (and hence their volatility and magnitudes), SCIs generally point to common themes.

Past periods of rapid structural change have broadly coincided with the rise of services, the relative decline of agriculture and manufacturing, downturns in the economic cycle and major reforms. The rate of structural change in recent years, using nominal output and investment shares, has been at historically high levels (Chart 6). These highs reflect a mining investment boom driven by high export prices. The pace of compositional change in investment can be expected to pick up further in light of the strong mining investment outlook.

The pace of compositional change in terms of real output and employment has been more in line with recent history. This reflects the capital intensity of the mining sector and lags in production constraining the pace of change in the composition of real output.

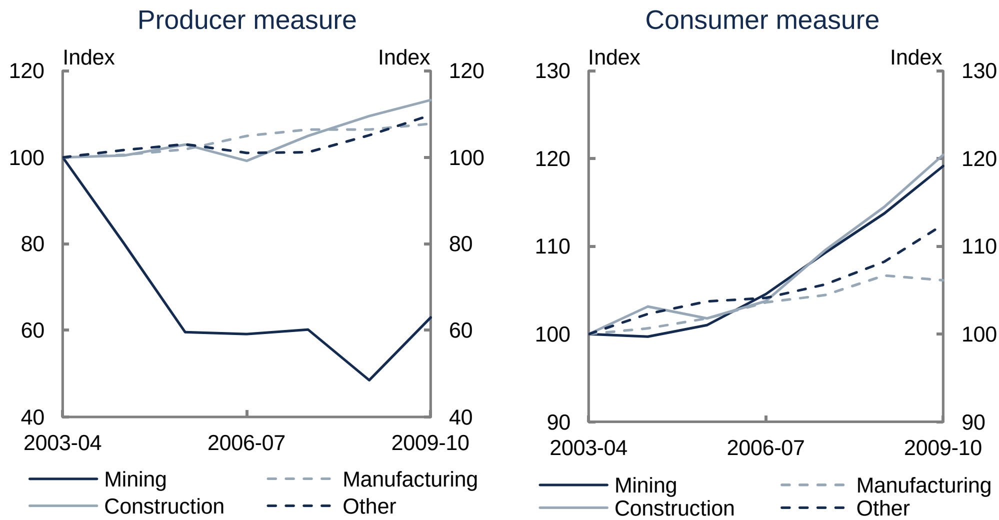
Chart 6: Structural change between industries



Note: SCI = $1/2\sum 100|x_{i,t}-x_{i,t-5}|$ where $x_{i,t}$ is the i^{th} industry group's average share of output, employment or investment in 5-years to time t for 9 industry groupings. The SCI shows the rate at which the economy's composition changes. SCIs take values between 0 and 100. For example, where the share of one industry group increases by one percentage point over a five year period, with a corresponding decrease in other groups, the SCI would have a value of 1. A large number represents a sharp change in industry composition. Real output in 2008-09 dollars. See also RBA (2010b) and Productivity Commission (1998).
Source: ABS 5204.0, 5206.0 and 6291.0, RBA, Butlin (1985), Withers et al. (1985) and Treasury.

Hence, the real producer measure of average earnings in the mining sector (labour costs relative to producer prices) has declined sharply, halving during the mining boom (Chart 7).[1] This is in effect the price signal to mining firms to hire more labour, driving strong employment growth in the mining sector. In contrast, the relative wage costs for firms in other industries like manufacturing have increased.

Chart 7: Real average earnings by industry
Index 2003-04=100



Source: ABS 6302.0, 6401.0, 6291.0.55.001, 5206.0 and Treasury.

Yet for workers, the incentives they face and their standard of living depend on how their earnings have fared relative to consumer prices, not producer prices. Average earnings in both nominal and real consumer terms (that is, the consumption power of earnings) have broadly risen across the board — albeit much more quickly in the mining and related sectors since the mid-2000s.

Relatively strong growth in earnings in the booming sectors is a sign of the economy's flexibility. This reflects positively on past labour market reforms which have helped moderate across the board wage inflation pressures.

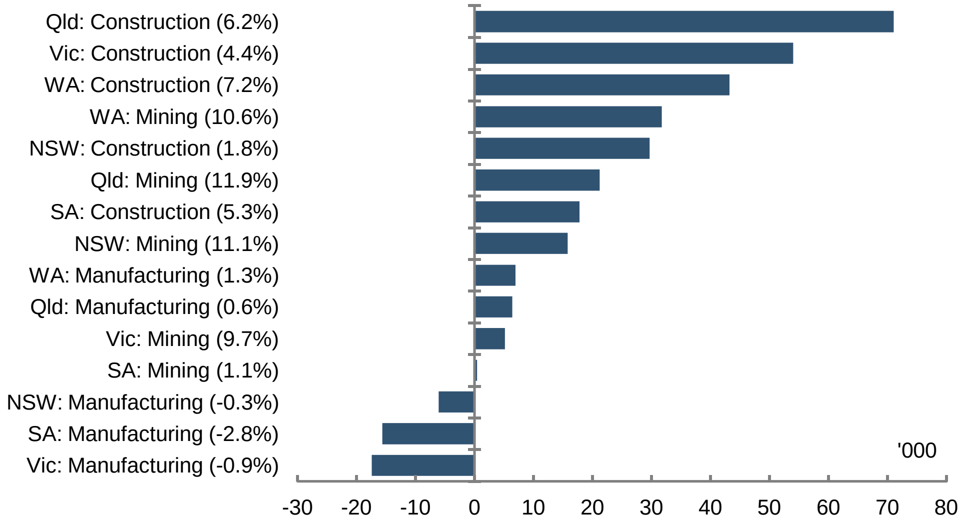
The rise in the consumer purchasing power of earnings can also be seen in the growth in real incomes across households. From 2000-01 to 2007-08, real disposable household incomes (including transfers and adjusted for household size) rose by 42 per cent for all households and rose by 36 per cent for the low income earner group — that is, those in the second and third income deciles (ABS 2010d).

1 The real producer wage is given much attention in trade theory, in particular the Stolper-Samuelson theorem which suggests that an increase in commodity export prices will drive down the real producer wage in the capital intensive commodities sector — not just in absolute terms but also relative to returns to capital services (which rise).

Broad-based, skill-focused employment growth

Since the beginning of the boom, strong incentives to work in the mining and construction industries have contributed to strong growth in employment in those industries in states with large mining sectors (Chart 8). Employment growth in the construction sector across states has also benefited from general government investment.

Chart 8: Employment change by selected State and industry, 2003-04 to 2009-10



Note: Average annual growth in parentheses.
Source: ABS 6291.0.55.003 and Treasury.

Between 2003-04 and 2009-10, the geographic distribution of manufacturing employment growth has been mixed. Employment in manufacturing in New South Wales, Victoria and South Australia — states where traditional manufacturing is dominant — has fallen. By contrast, Western Australia and Queensland — where metal product manufacturing is a greater share of the manufacturing sector — have seen moderate increases in employment in manufacturing. While these state differences are illustrative of shifts in activity across states, local or regional outcomes have not become more disparate (Box 2).

Overlaying these mining and investment boom related trends is continued strong growth in service sector employment, reflecting the ongoing diversity of the Australian workforce. Despite strong annual rate of employment growth of around 10 per cent, mining only contributed around 77,000 of the 1.5 million increase in total employment between 2003-04 and 2009-10 (Chart 10).

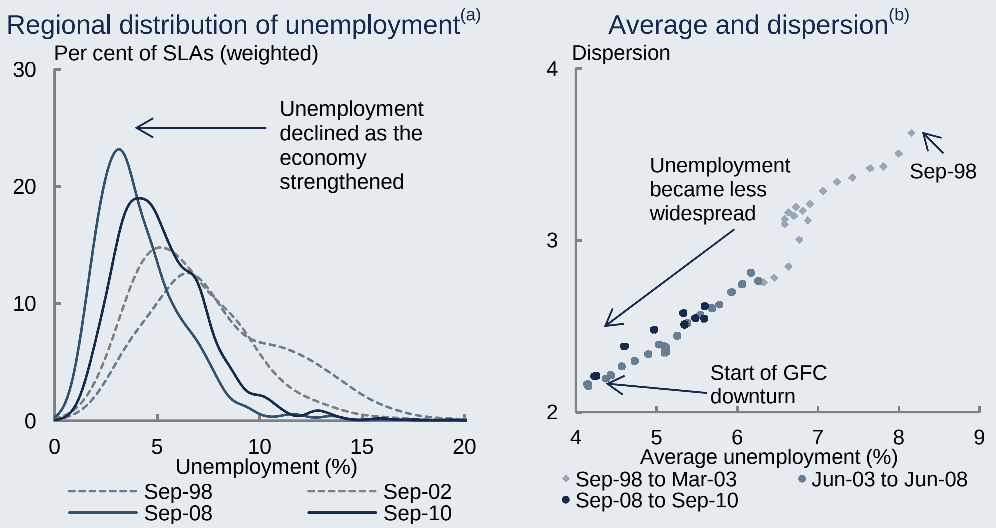
Box 2: Regional unemployment disparities in recent years

Since at least 1998, regional disparities in unemployment rates have declined as unemployment in aggregate declined (Chart 9). The onset of the mining boom has not yet changed this relationship — although areas of disadvantage remain. When the economy has strengthened, the regional distribution of unemployment has become more compressed — with a smaller proportion of regions experiencing high unemployment.

Around half of the (unweighted) standard small local areas (Statistical Local Areas or SLAs) had unemployment rates of less than 5 per cent in September 2010. Around 90 per cent faced unemployment rates of less than 10 per cent. Twelve years before, in September 1998, less than 15 per cent had unemployment rates less than 5 per cent and around 70 per cent had unemployment rates of less than 10 per cent.

The fall in the regional dispersion of unemployment as the national unemployment rate falls is evidence that to date, despite different rates of growth in some industries and regions, the material gains of the nation's economic success are being spread broadly to people across Australia through (among other mechanisms) improved labour market outcomes.

Chart 9: Regional unemployment over time



Note: Statistical Local Areas (SLAs) are standard small geographic regions in Australia. There are around 1,400 SLAs under current classifications. As the size of the labour force for SLAs varies from less than 100 to around 100,000, figures in the chart use employment outcomes weighted by labour force size.

(a) Regional distributions are smoothed using Gaussian kernel density estimation (see for example Wand and Jones 1995). For presentational clarity, distributions were deliberately over-smoothed with windows of 1, 1, ½ and ½ selected for Sep-1998, Sep-2002, Sep-2008 and Sep-2010 respectively.

(b) Each point on the scatter plot represents the weighted average and weighted standard deviation of regional unemployment for a particular quarter between Sep-1998 and Sep-2010. The weighted average unemployment rates for all SLAs differ slightly from those estimated in ABS 6202.0.

Source: DEEWR Small Area Labour Market database and Treasury.

Box 2: Regional unemployment disparities in recent years (continued)

Looking at standard intermediate-sized regions (Statistical Subdivisions or SSDs, which are one level of aggregation above SLAs), between the September 2003 and September 2010 quarters, two-thirds of all SSDs experienced a decline in unemployment rates. This includes all SSDs in Tasmania and the Northern Territory and around 80 per cent of Queensland regions.

However, outcomes remain patchy for some regions (Table 1). Unemployment rates in some regions rose over the period — including regions in Western Australia and Victoria, outer areas of Melbourne, Far North Queensland and Central Western Sydney. Many of these regions had unemployment rates in September 2010 well above the national average despite being below average in September 2003.

This highlights the importance of policy to manage the regional effects of transition.

Table 1: Change in unemployment rate since September quarter 2003 by selected region

Statistical Subdivisions (SSD)(a)	State	Change from Sep-03 to Sep-10	Unemployment rates (per cent)	
			Sep-10	Sep-03
Whyalla	SA	-7.3	5.2	12.5
Hervey Bay City Part A	QLD	-6.6	8.3	14.9
Bundaberg	QLD	-6.6	7.0	13.6
Pirie	SA	-5.7	4.6	10.3
East Arnhem(b)	NT	-5.7	4.3	10.0
Wide Bay-Burnett (Statistical Division Balance)(c)	QLD	-5.5	6.4	11.9
Central NT	NT	-4.7	4.7	9.4
Townsville City Part A	QLD	-4.5	4.4	8.9
Hunter (Statistical Division Balance)(b)(c)	NSW	-4.2	3.0	7.2
Lismore	NSW	-4.2	6.1	10.3
West Mallee(b)	VIC	2.2	4.9	2.7
Central Western Sydney	NSW	2.2	8.1	5.9
North Goulburn	VIC	2.3	6.1	3.8
Mildura Rural City Part A	VIC	2.4	8.8	6.4
Murray Mallee	SA	2.8	7.9	5.1
Greater Shepparton City Part A	VIC	2.9	9.1	6.2
Cairns City Part A	QLD	3.3	9.3	6.0
Hume City	VIC	3.5	10.0	6.5
Lefroy	WA	4.7	7.9	3.2
Far North (Statistical Division Balance)(c)	QLD	4.8	11.1	6.3
All SSDs (weighted average)(d)		**-0.9**	**5.3**	**6.2**

Note: Table 1 presents the top and bottom 10 Statistical Subdivisions (SSDs), with a labour force size greater than 5,000 in September quarter 2010, ranked by the size of the change in the unemployment rate between the September 2003 and September 2010 quarters. There are around 200 SSDs.

(a) SSDs are standard intermediate sized geographic regions, one level of aggregation above SLAs. SSDs are defined under Australian Standard Geographical Classification (ASGC) 2001 unless otherwise stated. Where possible, adjustments have been made to accommodate AGSC changes.

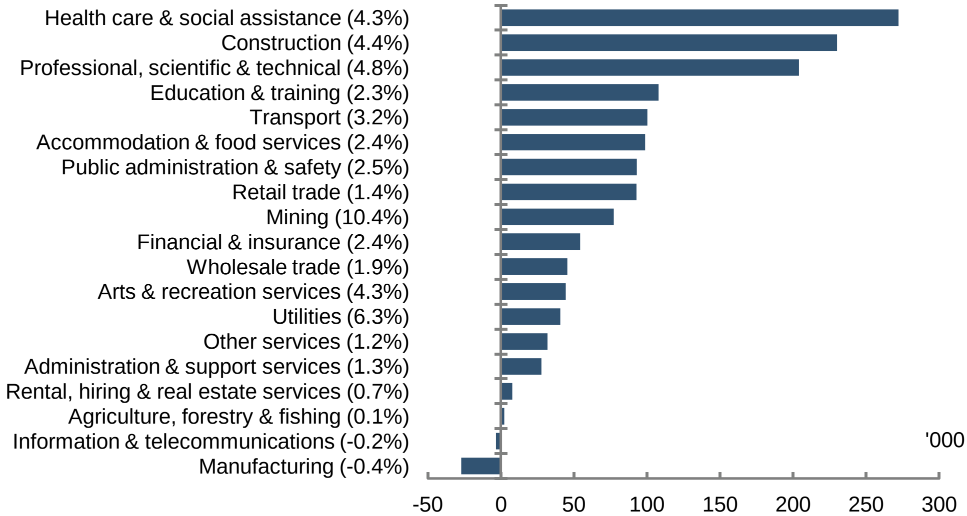
(b) September quarter 2010 unemployment figures relate to the ASGC 2006 definition of these SSDs.

(c) Statistical Divisions are a level of aggregation above SSDs. For example, the Far North Statistical Division comprises two SSDs: Far North (Statistical Division Balance) and Cairns City Part A.

(d) Weighted average unemployment rates for SSDs differ slightly from those estimated in ABS 6202.0.

Source: DEEWR Small Area Labour Market database and Treasury.

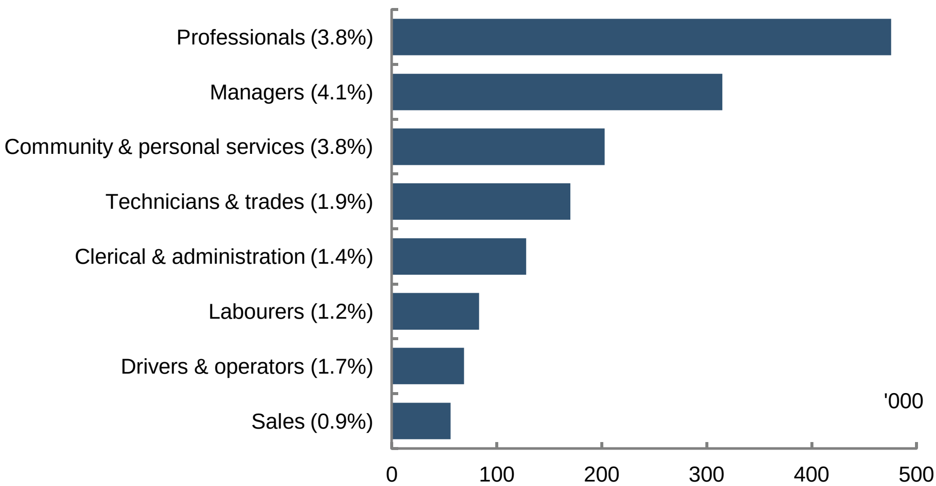
Chart 10: Employment change by industry, 2003-04 to 2009-10



Note: Average annual growth in parentheses.
Source: ABS 6291.0.55.003 and Treasury.

Sectors like health and social services, construction, and professional services have recorded more moderate rates of employment growth of between 4 and 5 per cent. However, given their size, together they have contributed around an additional 700,000 jobs to total employment. Large labour force growth in the services sectors reflects longer term general trends towards services and higher skilled occupations, driven by income growth, technological and demographic change and other factors. The general trend can also be seen in employment growth by occupation (Chart 11).

Chart 11: Employment change by occupation, 2003-04 to 2009-10



Note: Average annual growth of total in parentheses.
Source: ABS 6291.0.55.003 and Treasury.

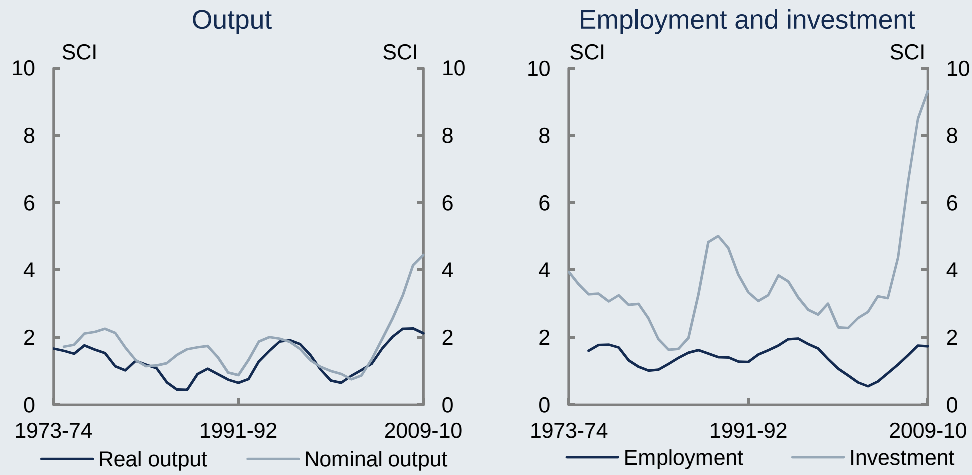
The number of high skill white collar professionals and managers (some of whom work in the mining and construction sectors) has increased by more than 800,000. The number of high skilled blue collar technicians and trades jobs has also increased significantly — by 170,000.

Box 3: How fast is Australia's economic geography changing?

Since the mining boom commenced, the pace of change in the distribution of economic activity between the different states and territories has been unprecedented in recent history, and even more marked than the pace of change in industry structure (Box 1).

The pace of the recent shift in the share of investment between states has been the biggest in the last four decades (Chart 12). The same can be said of nominal output. In terms of real output, and to a lesser extent employment, the recent pace of change has been among the fastest in recent history. In large part, the rapid increases in the relative economic power of some states reflect the increase in the value of mineral products from resource rich states and flow-on effects for other activity in those states.

Chart 12: Structural change between states and territories



Note: SCI = $1/2\sum 100|x_{i,t}-x_{i,t-5}|$ where $x_{i,t}$ is the i^{th} state or territory's average share of output, employment or investment in the 5 years to time t. The SCI shows the rate at which the economy's composition changes. SCIs take values between 0 and 100. For example, where the share of one state increases by one percentage point over a five year period, with a corresponding decrease in others, the SCI would have a value of 1. A large number represents a sharp change in composition. Real output in 2008-09 dollars. See Box 1, RBA (2010b) and Productivity Commission (1998).
Source: ABS 6204.0.55.001, 5220.0, Donovan (1981), Harris and Harris (1992) and Treasury.

Together, the number of professionals, managers, technicians and tradespeople has increased by around one million over this time. That is, two-thirds of the 1.5 million added to total employment over 2003-04 to 2009-10 are highly skilled. In mining, employment has grown across all of its major occupations groups. In particular, more than half of the increase in mining employment was for highly skilled technicians, tradespeople, professionals and managers.

THINGS TO COME: THE MINING BOOM AND BEYOND

The next phase in Australia's economic evolution will be profoundly influenced by the continuing shift of global economic activity towards Asia. The rapid industrialisation and urbanisation of Asia have driven global demand for Australia's mineral and energy resources. Australia's natural advantages, relative proximity, and the skills and capabilities of the workforce, have given it a head start in capitalising on opportunities that will flow from this transition.

Yet the implications of the rise of Asia will not be limited to demand for Australia's resources. The mining boom is just the first manifestation for Australia of this change in the world's economic geography.

At some point in the coming decades, the majority of the global middle class will be living in the Asia-Pacific region — especially in China and India. Their re-emergence will have a major and lasting effect on how Australia does business in the 21st century — well beyond the current mining boom. As China and India continue to develop, the growing cities which are now driving high demand for Australia's mineral resources will be populated by an increasingly wealthy and upwardly mobile middle class. Like the mining boom, these developments will have a profound influence on the shape of the Australian economy into the future.

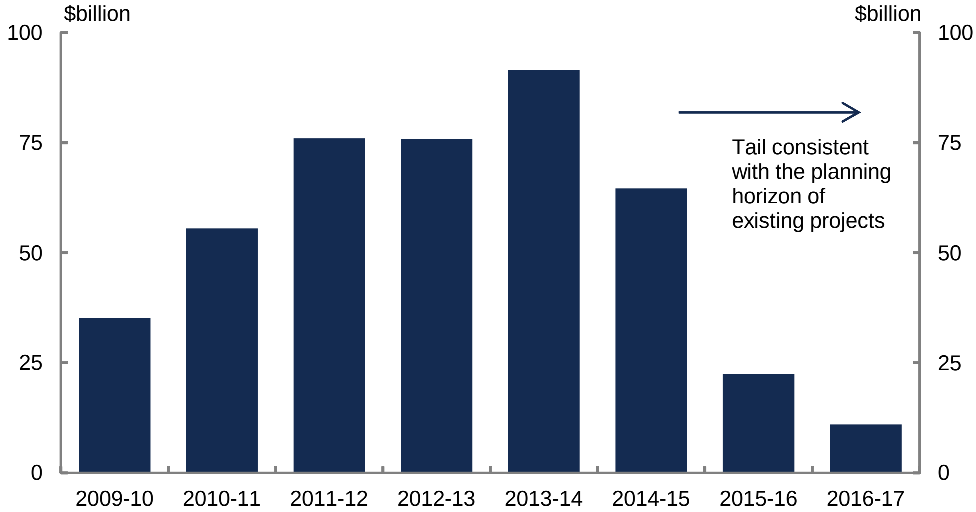
Mining boom mark II

The current phase of the mining boom shares many of the characteristics of mining boom mark I. However, there are a number of features which will set the next phase of the mining boom apart (Statement 2). These differences mean that some of the challenges associated with mining boom mark II will play out differently.

The terms of trade, and so mining activity, are expected to remain at historically high levels for an extended period. However, this time around, the magnitude of business investment is set to be even more impressive.

Driven by the mining sector, new business investment is expected to attain 50-year highs as a share of GDP. This investment boom will be underpinned by a massive pipeline of resources projects planned for the next five years and beyond (Chart 13). The capital expenditure survey of the ABS suggests planned mining investment will reach a record $76 billion in 2011-12 (ABS 2010e). ABARES estimates that this high level of investment is set to continue, with an estimated pipeline of resource investment of over $380 billion (ABARES 2010).

Chart 13: Indicative profile of mining projects (planned or under construction)

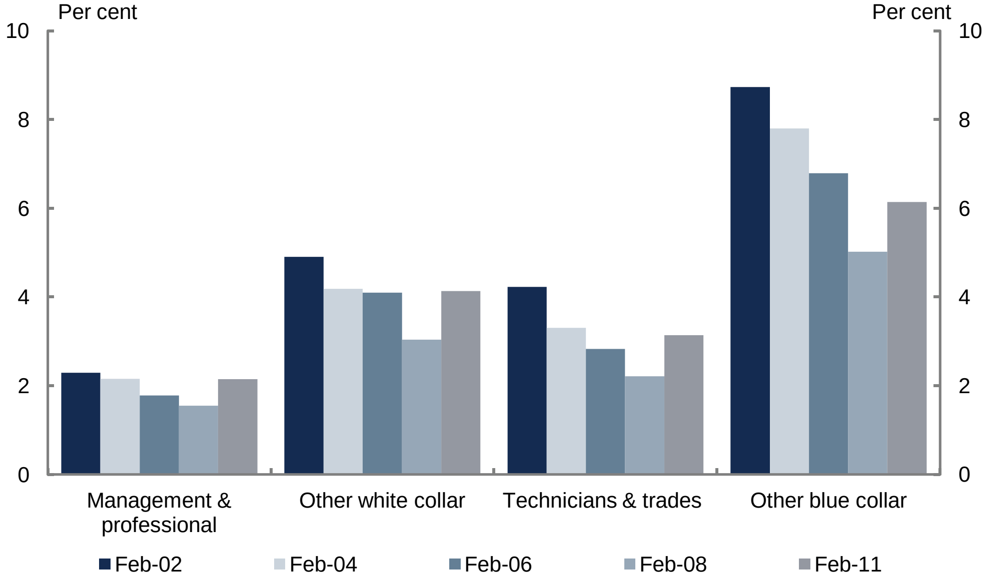


Note: Value of projects and investment profiles are based on publicly available information and information received from mining companies through the Treasury's Business Liaison Program. Projects are classified as under construction/committed ($149 billion) and under consideration ($232 billion). Where no information is available on timing, the profile of a 'typical' resource project is assumed — beginning in 2011-12, with 5 per cent of investment in the first year, followed by 15 per cent, 25 per cent, 35 per cent and 20 per cent in subsequent years. These estimates may fluctuate as profiles change, new projects come under consideration and/or existing projects are cancelled.
Source: ABS 5625.0, ABARES (2010) and Treasury.

Despite its capital intensity, labour and other inputs will continue to be drawn to the mining sector to support increasing levels of activity. Together with the long-term expansion of the sizable labour-intensive services industries, demand for large numbers of highly skilled workers is likely to strengthen.

As was the case at the start of mining boom mark I, there is some existing capacity to meet the growing labour market demands (Chart 14), albeit to a lesser extent given the lower rate of unemployment and the higher rates of participation in this phase of the boom.

Chart 14: Ratio of short-term unemployment to total employment, by occupation



Note: Excludes those unemployed for more than two years and those who have never worked for more than two weeks. 'Other white collar' includes workers in community and personal services, clerical and administration and sales. 'Other blue collar' includes machinery operators, drivers and labourers.
Source: ABS 6291.0.55.003 and Treasury.

While pressures associated with approaching capacity constraints are again expected to increase as unemployment continues to fall, another difference is the higher exchange rate. At the beginning of the first phase of the mining boom in 2003, the real exchange rate (in terms of the trade-weighted index) was at a level comparable to its average since the floating of the Australian dollar. In contrast, it is now around 40 per cent above its post-float average.

The stronger starting point for the dollar may mean that the effect on other trade-exposed sectors of the economy is more pronounced and may also affect the nature and pace of the rise in skills shortages in particular areas of the economy. In addition, with the terms of trade expected to remain at historically high levels for an extended period, these implications are likely to be played out well into the foreseeable future — reflecting a prolonged shift in Australia's comparative advantage.

Given the adverse effect a high exchange rate can have on other trade-exposed sectors, there are understandable concerns about the possibility of the mining boom leading to long-term economic underperformance — a phenomenon often called 'Dutch disease'.

If the high exchange rate proves to be long-lived, there can be concerns over a loss to the economy of skills, value-adding and expertise that would otherwise have provided spillover benefits to other industries. Another concern associated with Dutch disease is that if a spike in the real exchange rate proves to be temporary, other tradable sectors that have suffered will not simply rebound to previous levels.

However, international evidence suggests that these concerns around Dutch disease are overstated and tend not to apply to advanced countries, which typically have policy and institutional settings conducive to the accumulation and development of investment, skills and expertise, and there is no evidence that Dutch disease reduces overall economic growth (see IMF 2010, Davis 1995, Larsen 2003 and 2006, Gylfason 2006, Statement 4 in Budget 2010-11 and Box 4). These countries have capitalised on the expertise gained in their resources sectors and converted them into new economic opportunities.

Resource sectors in advanced economies tend to be highly skilled and generate their own spillovers — stimulating other industries as well as driving opportunities for long term economic growth.

In the case of Norway's oil boom, for example, Larsen (2006) finds little loss in spillovers since the 1970s, with any losses being substituted by gains in offshore oil extraction technologies. Norway has managed to maintain a well functioning non-oil traded goods sector (Larsen 2006) and Norwegian manufacturing has benefited from the impact of higher oil revenues (Bjørnland 1998). For Finland, despite being a country rich in forestry resources, its share in forestry-related machinery and equipment in world markets is larger than its share in wood, paper and pulp (Gylfason 1999).

For Australia, there is evidence of similar developments. Despite mining being 9 per cent of GDP in 2008-09 (ABS 2010f), mining's share of total business expenditure on research and development (R&D) was at around 25 per cent (ABS 2010g) — suggesting that Australian mining is highly intensive in the development and use of knowledge, expertise and innovation.

Australia's mining technology services and equipment sector is also recognised as a leading supplier to miners globally (Tedesco and Haseltine 2010). In 2008-09 it employed over 30,000 people and generated $8.7 billion (0.7 per cent of GDP) in revenue, with about 30 per cent of this coming from exports. These firms have a wide range of capabilities — many of which have applications beyond mining — including software design, technical consulting, equipment and machinery, automation systems, drilling, metallurgy, surveying, research and mining engineering services.

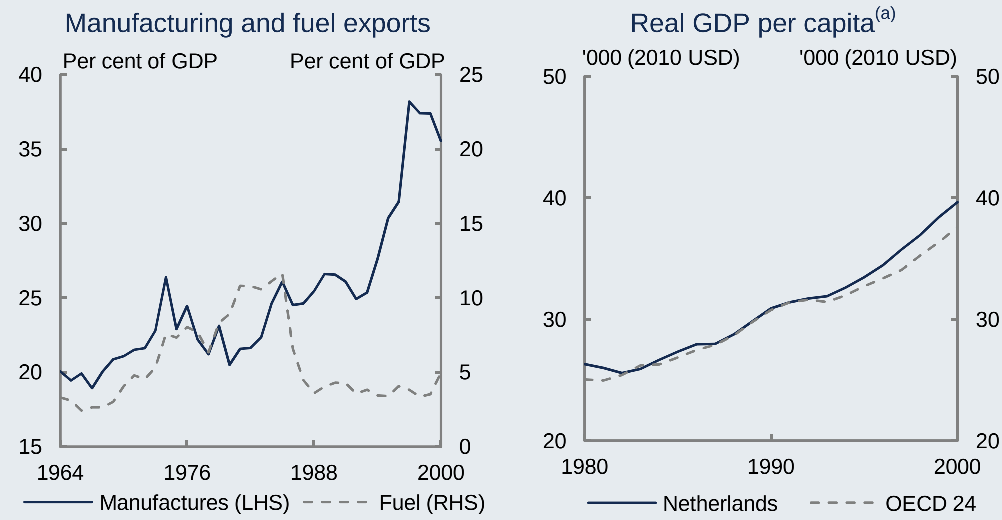
Box 4: Did the Dutch suffer from Dutch disease?

The potential for a commodity boom to have implications for other industries through the real exchange rate was first formalised and pointed out by Australian economist Bob Gregory in the 1970s (Gregory 1976 and Corden 2006). This effect was subsequently called 'Dutch disease'. While Australia's terms of trade can be expected to remain at historically high levels for some time, one concern around Dutch disease is that if a commodity boom proves to be temporary then those trade-exposed sectors that have been negatively affected will not simply reappear or rebound, negatively affecting long-term growth.

International evidence suggests that these concerns around Dutch disease tend not to apply to advanced countries. It is possible for these countries, with the right institutions and policy settings, experiencing a temporary surge in their resources sector to reverse boom induced structural adjustments.

This was the case even in the Netherlands (Chart 15). Dutch manufacturing declined during an intense period of energy resource extraction. This period of intense resource production ended in the early- to mid-1980s, coinciding with an international economic downturn. Subsequently, Dutch manufacturing exports rebounded, both as a share of GDP and as a share of total exports. Manufacturing exports continued its resurgence in the 20 years following the Dutch disease period — reaching nearly 40 per cent of GDP and around 70 per cent of total exports in 1997. This period was also matched by solid long-term per capita GDP growth — matching and, for long periods, exceeding average growth in the OECD.

Chart 15: The Netherlands, real GDP, manufacturing and fuel exports



(a) Purchasing power parity adjusted GDP.
Source: World Bank World Tables, Conference Board Total Economy Database and Treasury.

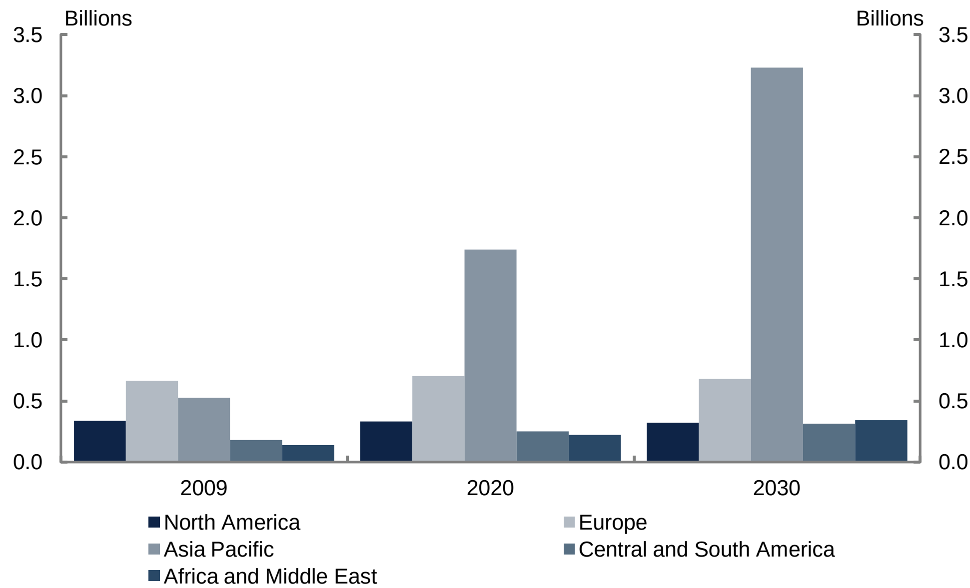
The burgeoning global middle class

The mining boom is an early manifestation for Australia of the shift in the world's economic geography from west to east. As China and India continue to develop, the growing cities now driving demand for Australia's mineral resources will be populated by an increasingly wealthy and upwardly mobile middle class, with incomes and tastes to match. Increasing consumer purchasing power and changing spending patterns will open up new, often unforeseen, opportunities for Australia — well beyond those flowing from the current mining boom. However, this will also bring a new set of challenges.

While recent studies differ on exactly how to define, measure and forecast the global middle class, the common thread is the sheer magnitude of the income shifts in Asia which have occurred and will continue to occur.

Using the average poverty line in Portugal and Italy as the lower bound for its measure of the global middle class, one prominent study (Kharas and Gertz 2010) estimated that the number of middle class consumers in Asia could increase by more than 1.2 billion people by 2020. If borne out, these projections would mean that by the end of this decade Asia would have more middle class consumers than the rest of the world combined (Chart 16), with China surpassing the US as the world's single largest middle class market in dollar terms. By 2030, with India following China's lead, the world could have gone from mostly poor to mostly middle class, with two-thirds of the world's middle class consumers living in the Asia-Pacific region.

Chart 16: Projection of the global middle class by region, persons



Source: Kharas and Gertz (2010).

These projections inevitably rest on assumptions about future productivity and population growth, and the trends they suggest are not assured. In China and other emerging economies, the process of structural reform to facilitate progress will not be easy. Change will take place over decades rather than years, and there will be setbacks along the way. However, near-term growth paths suggest that the continued sharp rise in the Asian middle class is the most likely scenario.

Consumption patterns change as incomes rise

Looking at the ratio of consumption to GDP over time can provide insights into how consumer spending patterns evolve as an economy develops (Chart 17).

In poorer countries, spending on basic goods typically accounts for a higher share of income, with household incomes barely covering spending on the necessities of life. However, in the early stages of development and incomes growth, the ratio of consumption to GDP can fall quite sharply, especially if there is a surge in investment.

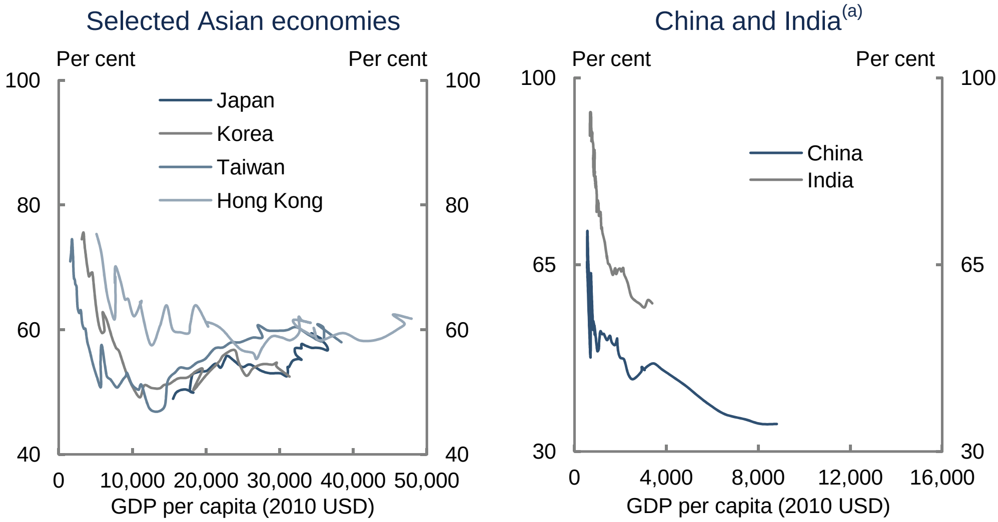
In time, with continued income growth, a larger middle class devotes more money to purchasing luxury goods and services, both in absolute terms and as a share of their total spending. As a result, the ratio of consumption to GDP typically tends to increase as economies reach, and surpass, middle income status.

This process has been evident in the recent experience of Japan, Korea and other major Asian economic success stories of the past half century. The ratio of consumption to GDP declined as incomes grew at lower levels before picking up again as these economies grew towards high income status.

In contrast, China's consumption to GDP ratio has declined markedly over recent decades during the early, investment-led stages of its economic re-emergence, reaching a low of only 35 per cent of GDP in 2009. However, China is fast approaching income levels where consumption often turns, and the Chinese government is focused on reforms to foster higher incomes growth and rebalance the economy towards domestic demand. There is considerable scope for a strong rise in the ratio of consumption to GDP in the medium term.

This shift in consumption patterns also manifests in the composition of household consumption. For the earlier industrialisers like Japan and Korea, the composition of consumer spending has evolved in tandem with its increasing size, with consumers devoting relatively more of their growing incomes towards services and consumer durables in recent decades.

Chart 17: Private consumption as a share of GDP



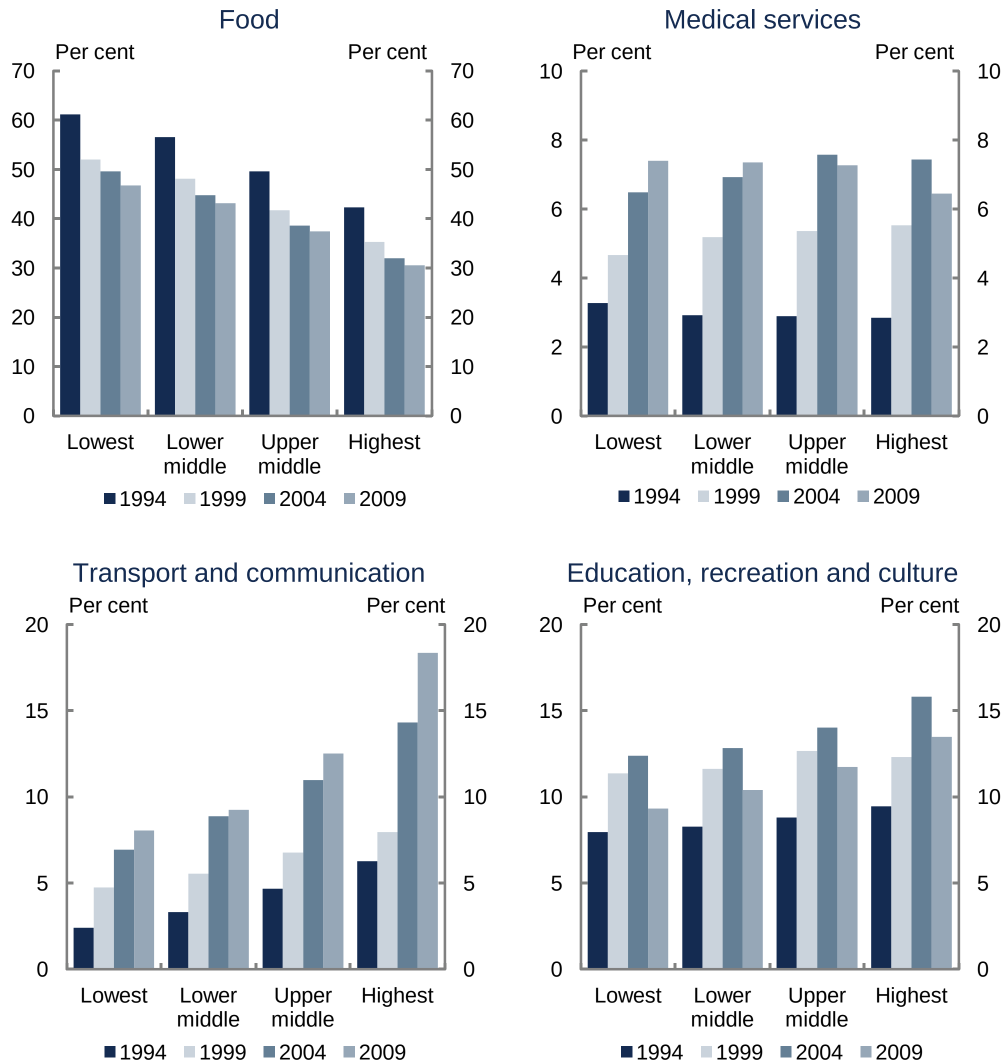
(a) Data for India is for financial years.
Note: Purchasing power parity adjusted GDP.
Source: National statistical agencies, World Bank, Conference Board Total Economy Database and Treasury.

More recently, the early stages of a similar shift in the pattern of consumer spending are already evident in China (Chart 18). Since the early 1990s, growing incomes and overall consumption across each of the urban income groupings have been accompanied by shifts away from basic goods and towards the goods and services associated with higher income levels.

In the poorest urban households in China, between 1994 and 2009, the portion of per capita spending devoted to food fell from 61 per cent to 47 per cent. For the wealthiest households, the share of spending on food fell from 42 to 31 per cent. Similar falls were evident across the middle income groupings. The share of spending for clothing, like food, also fell across the board.

Correspondingly, across each group, China's urban consumers have generally dedicated a greater share of total spending over time to residences, medical services, transport and communication, and educational, recreational and cultural services. The largest shifts towards the latter two categories have occurred in the higher income groups.

Chart 18: China's urban consumption structure by income groupings



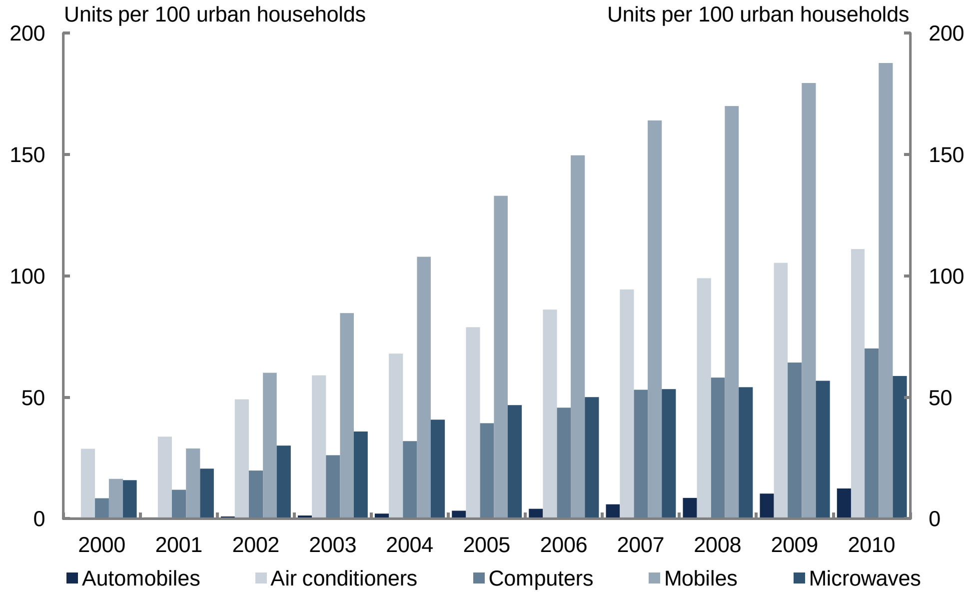
Note: Figures based on per capita consumption expenditure data for eight urban household income groupings.
Source: CEIC China database and Treasury.

Asia's rise will generate opportunities as well as challenges

The path of development taken by Japan, Korea and a number of other Asian economies has already had a distinct impact on Australia's pattern of trade. A key difference which sets the current and future phases of the rise of the Asian middle class apart is the size of the Chinese and Indian populations. The growth in China's middle class is still in its early stages and India remains some way behind China by almost all indicators. Yet as these giants continue to grow and as the preferences of their people change — in favour of goods and services associated with higher income levels like consumer durables, culture, tourism and advanced education — the potential size and depth of global consumer markets is vast.

An appreciation of the potential scale of these emerging consumer markets can be gained from the rapid rise in the ownership of consumer durable goods in Chinese urban households — a sizable and growing proportion of the 400 million households in China (Chart 19). Between 2000 and 2010, the number of automobiles per 100 urban households in China is estimated to have risen from less than one to more than 12; the number of mobile phones from 16 to 188; computers from eight to 70 and the number of microwave ovens from 16 to 58. While rates of growth between different consumer durables vary, similar patterns are evident across a whole range of goods — with growth especially strong for 'new technology' goods.

Chart 19: Number of consumer durable goods for urban households, China

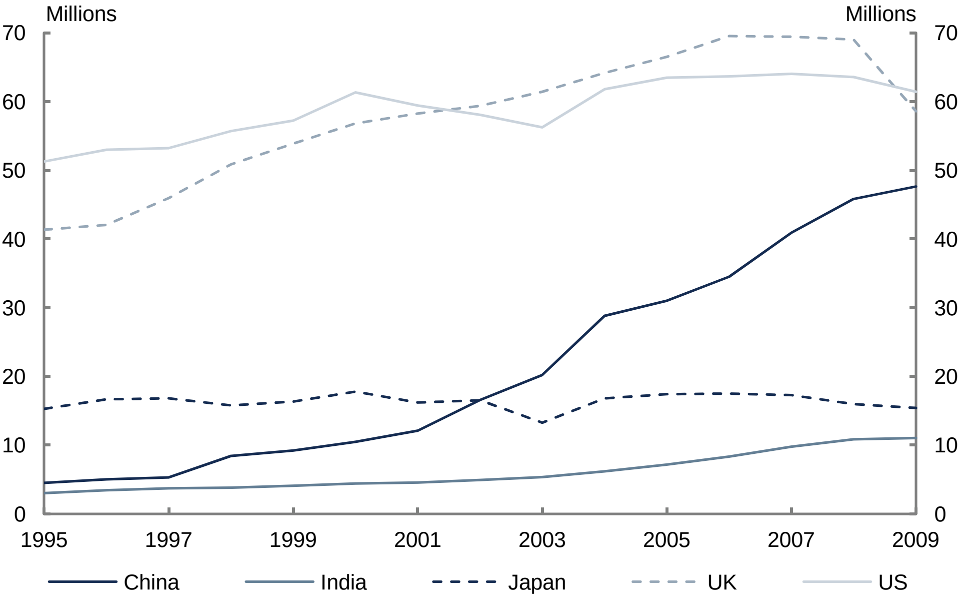


Source: CEIC China database.

This potential scale can also be seen in China's and India's sizable and increasing share of world outbound tourism over the past 15 years (Chart 20). While countries like the US, UK and Japan have been the more traditional sources for outbound tourism, the number of people departing from China and India for international travel and tourism has risen dramatically. In 1995, around 4.5 million residents from mainland China and 3 million from India travelled abroad for business and leisure. By 2009, outbound tourism from China had increased tenfold (to 48 million) and was close to catching up with the US and UK, while India had experienced a three- to four-fold increase (to 11 million).

The emergence of a large global middle class will generate demand for a sizable array of goods and services. Nevertheless, it is not possible to forecast the exact mix of goods and services that will be demanded in the future, let alone the shape of the global economy that will best service these demands. Technological advances are also likely to lead to major, often unforeseeable, shifts in consumer spending — as seen in the rapid rise in spending on newer technologies.

Chart 20: Outbound tourism, resident departures by country of origin



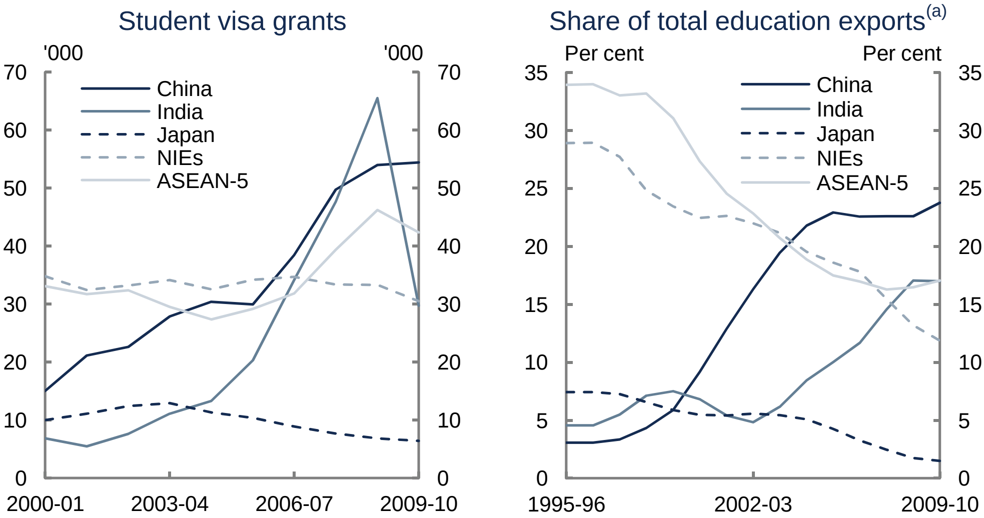
Note: Figures for China include travel to Hong Kong, Macau and Taiwan.
Source: United Nations World Tourism Organisation.

Some non-mining benefits are already evident

While not all opportunities from these emerging markets necessarily fall within areas of Australia's comparative advantage, some of the benefits from the rise in the Asian middle class are already evident.

Education is the largest of Australia's services exports. The number of international students studying in Australia from Asia, in particular from China, India and the ASEAN-5, has grown strongly (Chart 21). As a result, education exports to China and India as a share of total education exports have risen sharply. A similar pattern can be seen for Australia's wine exports, where China's share is now five times larger than it was five years ago.

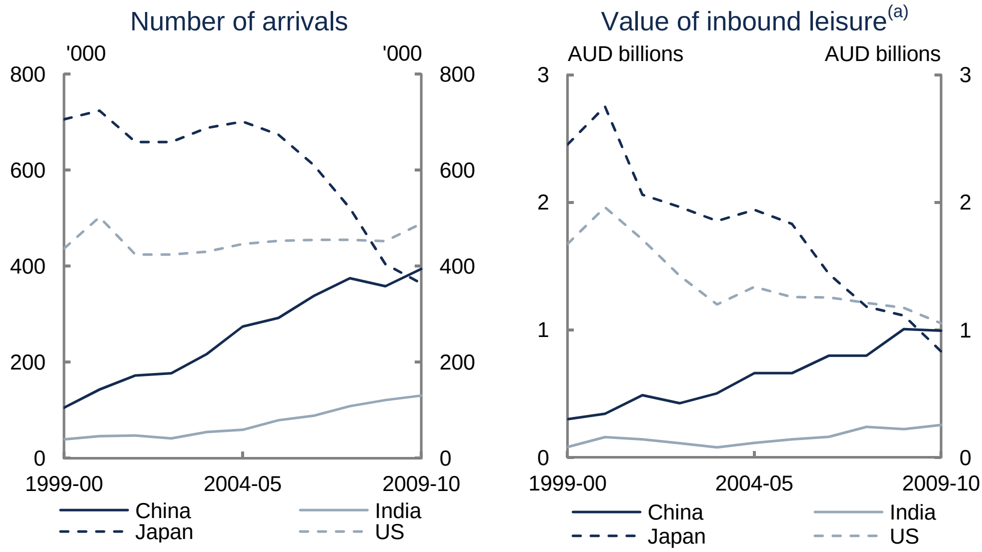
Chart 21: Australia's education exports



(a) 'Education related travel services' by country (which include fees and other spending from international students studying onshore) as a share of total education related services exports.
Note: NIEs include Hong Kong, Korea, Singapore and Taiwan. ASEAN-5 consists of Indonesia, Malaysia, The Philippines, Thailand and Vietnam.
Source: DIAC, ABS 5368.0.55.003 and Treasury.

Additionally, China and India already make up an increasing share of international tourism in Australia (Chart 22).

Chart 22: International arrivals to Australia by country



(a) June quarter 2010 dollars.
Source: Tourism Research Australia (2010).

While the number of tourists from traditional markets like Japan has declined substantially over the last decade, those from China and India have grown. Arrivals from China have more than trebled, overtaking Japan in 2008-09 and are now close to catching up with those from the US. Despite the strong Australian dollar, growth in arrivals from China and India is likely to continue given the strong income growth in these emerging markets (Tourism Research Australia 2010).

To maximise the opportunities that will flow from the rise of the global middle class, Australia needs to continue to change and innovate in order to compete on the global stage. Notwithstanding the recent strong performance in education, tourism and a range of other exports to these emerging consumer markets, competition will be fierce. As China and India grow and develop, and as they catch up to the global technological frontier, the size and quality of their domestic education sectors is also likely to improve. Their reliance on foreign education providers may therefore ease, with a greater proportion of their education spending shifting to domestic sources.

Similarly, as emerging countries improve their tourism infrastructure, they will provide fierce competition for global tourism spending. Australia has a highly developed tourism sector characterised by rich natural endowments, excellent infrastructure and institutional stability. Yet other countries, often in addition to a rich natural and cultural heritage, are typically abundant in labour as well and are able to deliver high quality tourism services at relatively low cost.

Laying the groundwork for transition while managing the boom

The right policy settings are needed for Australia to take advantage of the opportunities and challenges presented by the rise of Asia, and to lay the foundations for future growth.

Critically, the Government's strict fiscal strategy built on a return to budget surplus in 2012-13 will ensure that it does not compound price pressures that are likely to re-emerge as the investment boom gathers pace. The Government's fiscal strategy will also support the strengthening of the Government's finances over time. A strong government balance sheet affords the necessary ongoing flexibility for the budget position to vary in line with economic conditions and to respond to unforseen events — promoting macroeconomic stability.

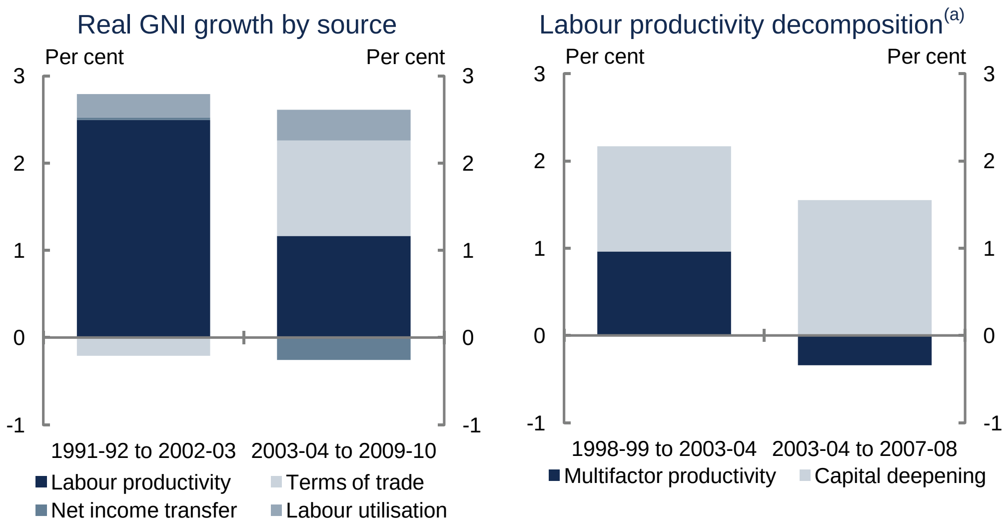
The Government's reform agenda will assist in laying the groundwork for managing the current boom and spreading the benefits to more Australians. In particular, investments in skills, infrastructure and innovation will support productivity growth and the flexibility of the economy. The participation package in this Budget will further support labour force participation and social inclusion. By doing so, these reforms build capacity to take advantage of current global demands while providing opportunities across diverse industries and regions. These policies are designed to accommodate transition, not resist the economic forces at work.

Such policies benefit the economy at the local and macroeconomic level. There are many examples of local communities successfully making such shifts, facing challenges of adjustment and maintaining a vibrant society. This has been the case even where large local employers have relocated or closed down. Rather than resisting change, these communities have overcome short-term adversity by sharpening their natural advantages and reviving their fortunes (Box 5).

Building flexibility and productive capacity

Australia's strong terms of trade — reflecting an increase in prices paid by foreigners for what we produce — has led to improvements in the purchasing power and living standards of Australians in recent times. Since the start of the mining boom in 2003-04, improvements in Australia's terms of trade have provided nearly half of national income growth (Chart 23).

Chart 23: Gross national income (GNI) and labour productivity growth



(a) The time periods for the labour productivity decomposition reflect the productivity growth cycles selected by the ABS.
Source: ABS 5206.0, 6202.0, 3101.0, 5260.0.55.002 and Treasury.

However, Australia's productivity growth — our ability to produce more per hour worked — has been weaker during the mining boom than in the 1990s, when previous economic reforms delivered strong growth. Underlying the decline in productivity performance has been a decline in multifactor productivity growth (the efficiency with which labour and capital inputs are used). Indeed, between 2003-04 and 2007-08 multifactor productivity growth was negative. One-off factors such as lags between investment and production can explain only a part of the decline.

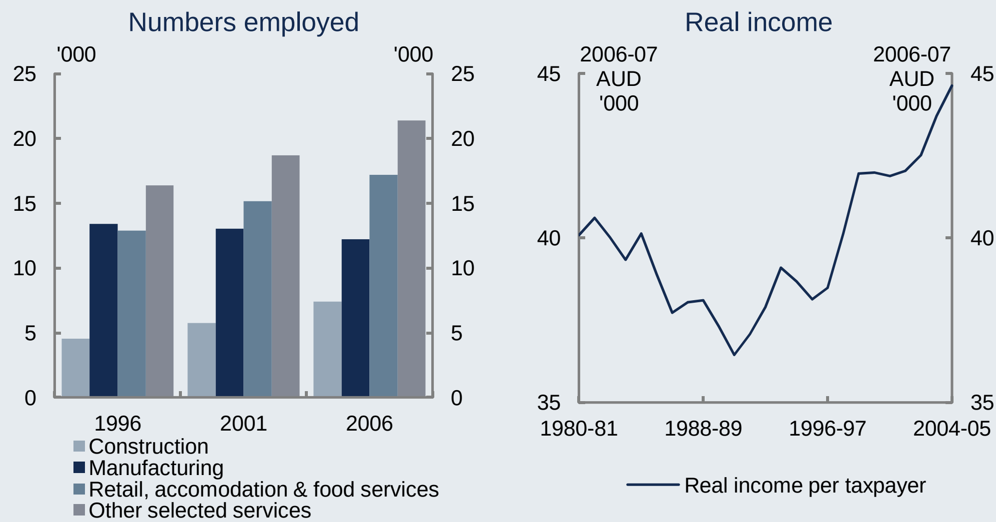
Box 5: Case study of a community adapting to change — Geelong

Founded in the 1830s, Geelong became one of Australia's premier port towns. In the second half of the 19th century, it shipped the agricultural exports of western Victoria around the world. In the 20th century, rapid advances in technology and the advent of mass production techniques provided a new economic opportunity for Geelong. A strong manufacturing sector emerged, providing work for Geelong's growing population. Large firms, such as Ford, also spawned a wide range of related and supporting industries.

In the early 1990s, the recession and the collapse of the Pyramid Building Society hit the Geelong region hard. Mirroring events in the broader economy, jobs were also lost in textiles, clothing, footwear and leather manufacturing. The population declined and the region was under pressure. Some firms opted to relocate or close. Developments in technology also meant that certain occupations became redundant.

Yet new technologies and a competitive economic environment provided new opportunities and generated improved living standards (Chart 24). Many manufacturing firms abandoned traditional, labour-intensive modes of production. Firms, including those in the growing biotech industry, switched to capital-intensive and knowledge-intensive approaches. These firms focused on research and development and required workers with design, engineering and science skills. While manufacturing is still a large employer in Geelong, employment in services (across a range of areas) has grown considerably over the past decade (DPCD 2010a and 2010b).

Chart 24: Employment by industry and income, Greater Geelong



Note: 'Other selected services' include education and training, health and social assistance and professional, science and technical services.
Source: ABS 2003.0 and BITRE taxable income database.

With the terms of trade projected to decline over time as the global supply of mineral resources responds to high commodity prices, movements in the terms of trade can be expected to eventually detract from national income growth even while the boom continues to boost investment and real output.

In the long-run, it is labour force participation and productivity growth, rather than continually rising export prices, that determines Australian living standards.

Supporting workforce participation across the community

Reducing disincentives to work and providing well-targeted assistance for those not employed will encourage labour force participation. This will strengthen the economy and also ensure that the benefits of transition reach more individuals in the community, including groups with typically low participation in the workforce.

The Building Australia's Future Workforce package in this Budget is an example of this approach. It focuses on providing appropriate incentives and support for families on income support, younger people, the long-term unemployed and people with disability who are capable of working — balancing increased participation requirements with additional services and support such as training, childcare and employment services and better rewards for workers and employers.

The Government's productivity agenda

Boosting productivity does not mean working harder and longer. Rather it means firms and people working more efficiently by having the infrastructure, investments, skills, resources and flexibility to produce more with less. Improving productivity frees up resources to respond to changes in the economy's structure and move to higher value uses as well as allowing people more freedom in the choices they make about work and leisure.

Improving productivity is not just about more physical investments and more skills. It is also about fostering an environment that encourages innovation and where people and resources can move to where they are most valuable. Burdening individuals and firms with unnecessary and restrictive regulations runs counter to innovation and productivity. Unleashing these positive contributors to future prosperity requires barriers to the efficient functioning of markets to be removed, along with proactive measures to address market failures such as the absence of a market price on carbon.

The Australian Government has a broad ranging and extensive productivity agenda that is built around three broad aims:

(a) achieving continued macroeconomic stability — to deliver strong, and sustainable, growth with low inflation;

(b) providing flexibility — with the right incentives to ensure we are getting the most out of time spent at work and other resources; and

(c) investing in capability — with well-targeted investments in skills and human capital, public and private infrastructure and innovation.

In carrying out this agenda, managing the necessary transformation to a low carbon emissions economy in an economically responsible way will be particularly important for continued productivity growth. Moving quickly to put a price on carbon will be crucial in this regard.

Another priority is ensuring the timely and efficient implementation of existing initiatives such as the National Broadband Network and the remaining Seamless National Economy deregulation, competition and related reforms being undertaken with the states. These will build on investments being made in skills, infrastructure and innovation, and reforms in areas such as higher education.

Tax reform and infrastructure

The Government is ensuring that the benefits of the mining boom are made available to the broader community and are used to generate long-run benefits. Implementation of the Minerals Resource Rent Tax provides the basis for cutting the company income tax rate, which will help broaden the benefits of the mining boom. By helping to meet the fiscal cost of improved superannuation arrangements (including a gradual increase in the superannuation guarantee rate from 9 to 12 per cent) and infrastructure investment in regional Australia (through the Regional Investment Fund), it also helps extend the benefits of the mining boom into the future.

Building on the initial response to the Australia's Future Tax System review, the Government will further improve the tax system by reforming poorly targeted concessions. In particular, the Government is removing the connection between the statutory value of car fringe benefits and kilometres travelled — addressing the perverse incentive to travel more, thereby contributing to environmental damage. The Government is also ending the poorly targeted Entrepreneurs Tax Offset. Instead it is helping all small businesses through simpler and more generous depreciation arrangements for motor vehicles and other assets, and reduced company income tax for small businesses operating as companies.

In this Budget the Government has also announced measures to improve the tax treatment of losses for designated infrastructure projects of national significance. Accessibility of tax losses will be maintained in the event of ownership changes and the value of accumulated losses will also be maintained over time. The operation of Infrastructure Australia will also be enhanced.

Responsive labour and education markets

Since well functioning education and training systems are a key means of increasing the supply of workers with appropriate skills, the Budget includes measures to reform current arrangements.

Current rigidities in the vocational education and training (VET) sector represent a critical medium- to long-term failing in the flexibility of the labour and education markets (Box 6), and the system requires structural reform. To help meet longer term labour demands, particularly in service industries such as health care and social assistance, the Government is taking a new approach to VET to achieve higher quality and responsiveness.

The Government will establish a National Workforce Development Fund to invest in training projects for key sectors such as mining and construction and for priority occupations in partnership with industry. The new approach will improve the quality of training places delivered, and will help ensure the training meets the needs of industry. A more responsive training system will support employers, and improve the likelihood of students securing quality employment at the end of their course. The Fund will be managed by a National Workforce and Productivity Agency to work with industry to identify critical skill needs and develop sector skill plans, with a regional and training focus.

This Budget also includes measures to continue the modernising and reform of apprenticeships. These will provide for a better targeting of incentives, enhancements to competency based progression, mentoring support, and support for better training choices.

To help drive longer-term reform of the training system, the Government will set new reform standards for its $7 billion over five years investment in the Skills and Workforce Development National Agreement. A review of the National Agreement by the Council of Australian Governments will allow the Commonwealth and States to partner in a strengthened training system. The Commonwealth will also offer $1.75 billion over five years (from 2012-13) to states and territories who are prepared to partner with the Commonwealth on more ambitious reform for VET.

The Government will also make a modest increase to the 2011-12 Migration Program — with an emphasis on attracting skilled migrants to live and work in regional areas. The Government will for the first time specify 16,000 places to the Regional Sponsored Migration Scheme and introduce Regional Migration Agreements to better meet location specific needs.

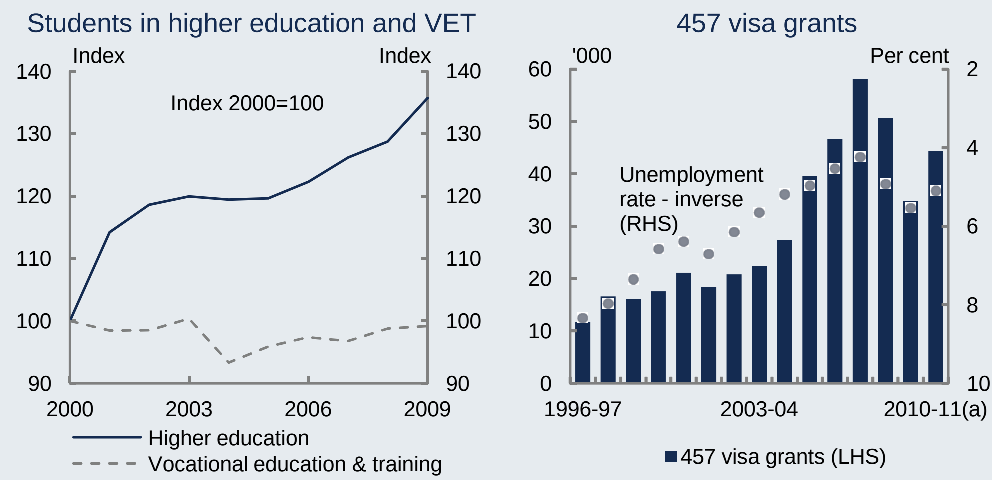
Box 6: Building responsive labour and education markets

Flexible labour markets require that relative wages can adjust to attract workers to areas of higher value; that information flows are effective so people are aware of employment opportunities; that they are free to change occupations, industries or regions in response to market signals; and that education and training markets are responsive to economic change. Well functioning education and training systems are the key means of increasing the supply of workers with appropriate skills.

However, the publicly-funded vocational education and training (VET) system has not responded to demand for VET qualifications over the past decade (Chart 25). Student numbers have been stagnating at around 1.7 million students per year. The Productivity Commission recently found clear deficiencies in the VET sector, including in meeting changing contemporary skills needs (Productivity Commission 2011). The Government's reforms to the VET sector are aimed at improving the quality of training and making the system more responsive to the needs of individuals and businesses (Statement 1). By contrast, despite inflexibilities of its own, the higher education sector has responded to demand for higher level qualifications, with student numbers increasing from around 600,000 in 2000 to around 800,000 in 2009. The Government's action to uncap student places from 2012 will allow universities to respond even more effectively.

However, time lags in the acquisition of education and skills, both through training and then on-the-job experience, can be an obstacle to meeting short-run demands. Appropriately targeted skilled migration assists in addressing these time lags. The Temporary Business Long Stay (subclass 457) visa program, which allows employers to access skilled workers not otherwise available to them in the domestic labour market, is highly responsive to the business cycle.

Chart 25: Students in tertiary education and employer sponsored workers



Source: DIAC, ABS 6202.0, DEEWR, National Centre for Vocational Education Research, and Treasury.

CONCLUSION

The Australian economy has always faced continuous changes, but perhaps few periods as dramatic as the current mining boom.

The unrelenting shift in the economic centre of gravity towards Asia will continue to create both opportunities and challenges. Australia, because of our advantages, has been given a head start in capitalising on the opportunities generated by Asia's economic rise and now needs to demonstrate an ability to reap those gains and lock-in our future prosperity.

The mining boom will continue to play out for some time — leading to further major changes in Australia's economic structure. The extent of other opportunities from Asia's rise, and the changes required to benefit from them, are only beginning to be appreciated. A rising Asia will contain the majority of the world's increasingly wealthy middle class. Their rising consumer purchasing power and changes in their spending patterns will lead to a global consumer market with unprecedented scale and diversity.

It is not possible to fully anticipate the exact form that these other, potentially more important, opportunities will take — let alone the exact shape of the Australian economy that will best service them. However, what is clear is that these opportunities will not just fall into our lap — taking advantage of them will also require a significant change in the structure and, perhaps more importantly, mindset of Australian businesses and will require greater innovation and flexibility in how the skills of Australian workers are used.

The key to future success, and converting opportunity into prosperity that outlasts the mining boom, is to lay sound foundations for the economy's continued adaption and transformation. Australia will need to continue to build productive capacity and ensure that the economy remains flexible and open to the changes required to take advantage of changing global demands. Doing so will provide opportunities across industries and regions, and provide the means to improve the living standards of all Australians. This will be particularly important in the face of other long-term challenges such as demographic change and the need to transform our economy to reduce carbon pollution.

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STATEMENT 5: REVENUE

The outlook for tax receipts in 2010-11 and 2011-12 is significantly weaker against a more subdued near term economic outlook and larger than anticipated losses associated with the global financial crisis. Since the 2010-11 MYEFO, tax receipts in 2010-11 and 2011-12 have been revised down by a total of $16.3 billion (with downward revisions since the 2010-11 Budget of $19.1 billion over the same period).

Tax receipts in 2012-13 and over the remainder of the forward estimates are projected to improve with the strong outlook for the economy, and in broad terms, remain little changed from the levels of tax receipts expected at the 2010-11 Budget and 2010-11 MYEFO. The benefits to tax receipts of stronger growth prospects from 2011-12, underpinned by the resources boom, are moderated by significant depreciation expenses associated with strong investment in mining, continued caution on the part of consumers, a strong dollar and the continued utilisation of losses associated with the global financial crisis.

Over the four years from 2010-11 to 2013-14, tax receipts have been revised down by $12.4 billion since the 2010-11 MYEFO (with revisions since the 2010-11 Budget of $22.3 billion).

STATEMENT 5: REVENUE

OVERVIEW

Total tax receipts have been revised down by $9.8 billion in 2010-11 and $6.6 billion in 2011-12 relative to the *Mid-Year Economic and Fiscal Outlook 2010-11* (MYEFO). The $16.3 billion write downs in tax receipts over these two years more than account for the total downward revisions in tax receipts of $12.4 billion over the four years from 2010-11 to 2013-14. Table 1 reconciles this Budget's tax receipts estimates with those at the 2010-11 Budget and the 2010-11 MYEFO.

The significant revisions in tax receipts in 2010-11 and 2011-12 reflect an economy buffeted in the short term by the natural disasters in early 2011, a strong dollar and the legacy of the global financial crisis. That legacy is seen clearly in the emergence of a more 'cautious consumer' and subdued household demand. It is also evident in the larger-than-anticipated losses accumulated during the global financial crisis.

The outlook for tax receipts improves from 2012-13, on the back of a projected recovery in the economy buoyed by stronger terms of trade, and assisted by policy measures. Despite a lower starting point, tax receipts are projected to remain at levels broadly similar to those in the 2010-11 MYEFO.

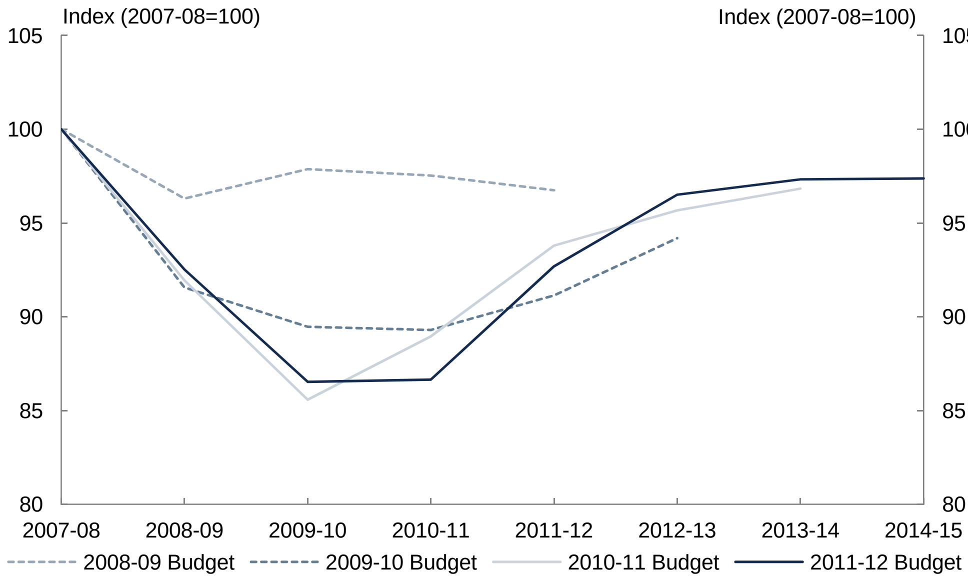
The recovery in tax receipts within the forward estimates period is, however, more moderate than might be suggested by the strong terms of trade and the resurgent resources boom. This reflects both significant depreciation expenses associated with strong investment in the mining sector, and conditions remaining challenging in those sectors not benefitting from the resources boom. Continued caution on the part of consumer, a strong dollar and losses associated with the financial crisis work also to dampen tax receipts over the remainder of the forward estimates period.

Table 1: Reconciliation of Australian Government general government taxation receipts estimates from the 2010-11 Budget

	Estimates			Projection
	2010-11	2011-12	2012-13	2013-14
	$m	$m	$m	$m
Tax receipts at 2010-11 Budget	**294,338**	**328,366**	**353,747**	**378,164**
Changes from 2010-11 Budget to 2010-11 MYEFO	-2,069	-680	-1,420	-5,744
Tax receipts at 2010-11 MYEFO	**292,269**	**327,686**	**352,327**	**372,420**
Changes from 2010-11 MYEFO to 2011-12 Budget	-9,754	-6,583	1,099	2,879
Tax receipts at 2011-12 Budget	**282,515**	**321,103**	**353,426**	**375,298**

The weaker outlook for tax receipts in the near term means that the tax-to-GDP ratio is expected to be slightly lower than levels projected in the 2010-11 Budget (Chart 1). The outlook now is for a relatively slower, more extended recovery in tax receipts relative to GDP. Nonetheless, by 2012-13, tax receipts as a share of GDP are broadly in line with expectations at the time of the 2010-11 Budget.

Chart 1: Tax-to-GDP ratio



Source: Treasury estimates.

Total receipts (that is, tax receipts and non-tax receipts) have been revised down in 2010-11 and 2011-12 but have been revised up since 2010-11 MYEFO in the latter part of the forward estimates.

Table 2 provides a summary of receipts estimates and projections.

Table 2: Australian Government general government receipts

	Actual	Estimates			Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Total taxation receipts ($b)	**261.0**	**282.5**	**321.1**	**353.4**	**375.3**	**395.4**
Growth on previous year (%)	-4.3	8.3	13.7	10.1	6.2	5.3
Per cent of GDP	20.3	20.3	21.8	22.7	22.9	22.9
Non-taxation receipts ($b)	**23.7**	**21.2**	**21.3**	**25.1**	**20.6**	**20.1**
Growth on previous year (%)	18.6	-10.6	0.5	17.9	-17.8	-2.7
Per cent of GDP	1.8	1.5	1.4	1.6	1.3	1.2
Total receipts ($b)	**284.7**	**303.7**	**342.4**	**378.5**	**395.9**	**415.5**
Growth on previous year (%)	-2.7	6.7	12.7	10.6	4.6	4.9
Per cent of GDP	22.2	21.9	23.2	24.3	24.1	24.0

Receipts estimates are measured on a cash basis while revenue estimates refer to accrual based estimates. See Appendix E for further detail regarding the differences between cash and accrual concepts.

Table 3 provides a summary of revenue estimates and projections.

Table 3: Australian Government general government revenue

	Actual	Estimates			Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Total taxation revenue ($b)	**268.0**	**290.3**	**329.2**	**362.1**	**383.9**	**404.9**
Growth on previous year (%)	-3.8	8.3	13.4	10.0	6.0	5.5
Per cent of GDP	20.9	20.9	22.3	23.2	23.4	23.4
Non-taxation revenue ($b)	**24.8**	**20.5**	**20.7**	**21.0**	**21.2**	**21.0**
Growth on previous year (%)	22.1	-17.3	1.1	1.5	1.0	-1.3
Per cent of GDP	1.9	1.5	1.4	1.3	1.3	1.2
Total revenue ($b)	**292.8**	**310.8**	**350.0**	**383.1**	**405.2**	**425.8**
Growth on previous year (%)	-2.1	6.2	12.6	9.5	5.8	5.1
Per cent of GDP	22.8	22.4	23.7	24.6	24.7	24.6

WEAKER TAX RECEIPTS IN THE NEAR TERM

The outlook for tax receipts has been significantly revised down in the near term, with 2010-11 and 2011-12 being the most significantly affected, and revisions forecast across all key revenue heads. In total, tax receipts have been revised down since MYEFO by $16.3 billion in 2010-11 and 2011-12, reflecting a $9.8 billion downward revision in 2010-11 and $6.6 billion downward revision in 2011-12.

The downward revisions in 2010-11 and 2011-12 reflect:

- more subdued short term economic conditions with growth in 2010-11 impacted by natural disasters, more cautious behaviour on the part of consumers, and a strong dollar; and
- larger than anticipated losses accumulated during the financial crisis.

Subdued economic conditions

Natural disasters, more subdued household demand and a strong exchange rate have all contributed to lower forecasts of real GDP growth and nominal incomes in 2010-11. The one percentage point downward revision to nominal GDP in that year lowers tax receipts in 2010-11 and, given lags in the tax system, continues to impact in 2011-12.

As the downward revision to forecast economic growth in 2010-11 is predominantly in corporate profits and consumption, there are consequent downward revisions to consumption taxes, mainly GST receipts, as well as company taxes over both 2010-11 and 2011-12. Recent softness in aggregate wages is similarly reflected in lower individuals' income tax withholding receipts over both 2010-11 and 2011-12.

Domestic natural disasters in early 2011 are, on their own, estimated to reduce tax receipts by broadly around $1¾ billion, with the impact felt predominantly in 2010-11 and 2011-12, and a broad range of revenue heads likely to be affected (see Box 1).

The significant downward revisions to household consumption expenditure is expected to primarily affect GST receipts and other consumption based taxes such as excise and customs duty. In total, these have been revised down by $1.1 billion in 2010-11 and $1.3 billion in 2011-12. There is increasing evidence to suggest that there has been a fundamental shift by households to consolidate their household balance sheets in the wake of the global financial crisis while, at the same time, there has been a general tightening in financial conditions in the aftermath of the crisis.

The exchange rate has been strengthening over most of 2010-11. The 2011-12 Budget assumption of US$1.07 per Australian dollar is significantly higher than either the 2010-11 MYEFO assumption or 2010-11 Budget assumption. The stronger Australian dollar works to dampen corporate profits in both the mining and non-mining sectors, and boost consumption of imports. Overall, a stronger exchange rate tends to lead to lower company taxes, and somewhat higher consumption taxes, with the overall impact detracting from total tax receipts.

Continuing legacy of the global financial crisis

From the onset of the global financial crisis it had been anticipated that the crisis would hit tax receipts hardest in 2010-11, with a still significant effect continuing in 2011-12. Between the 2008-09 and 2009-10 Budgets, tax receipts for 2010-11 were initially revised down by $54 billion, with a further $45 billion revision to 2011-12 tax receipts.

Although, in subsequent updates, this estimate was revised upwards given a faster than anticipated economic recovery, the magnitude of the anticipated loss of tax receipts in these years remained large, reflecting the pattern of expected loss utilisation. Together with the latest revisions to tax receipts, total tax receipt write-downs in 2010-11 since the 2008-09 Budget are still expected to be around $40 billion, or $14 billion less than was initially expected. For 2011-12, tax receipts remain around $15 billion lower than at the 2008-09 Budget.

Box 1: Natural disasters hinder receipts

The significant reduction in economic activity and incomes associated with natural disasters, such as Cyclone Yasi and the flooding in eastern Australia, are expected to have a significant adverse impact on tax receipts.

The Australian natural disasters are expected to result in around $9 billion in lost real output, and subtract around ½ of a percentage point from real GDP in 2010-11, with the major impact falling on the mining and agricultural sectors. Coupled with the output loss associated with disasters outside Australia, most notably that in Japan, the estimated impact of these recent natural disasters is expected to reduce real GDP by ¾ of a percentage point (see Box 2, Statement 2).

The cyclone and floods have disrupted coal production in Queensland due to the flooding of a number of coal mines, while floods have destroyed many crops in Queensland and Victoria. Losses within the mining and agricultural sectors will reduce current and future income tax receipts. Indeed, more generally, the losses incurred by businesses can have a significant impact on revenue over the medium to long term as they are available to be claimed as deductions against income earned in future financial years.

This reduction in economic activity and incomes impacts on a broad range of tax receipts. The disruption to economic activity and destruction of fixed capital (including buildings and equipment) will be reflected in reduced profits and hence lower company taxes and personal taxes. There may also be a temporary increase in unemployment in affected regions, lowering individuals' income taxes. In the immediate period following a natural disaster, consumption (particularly discretionary consumption) is reduced, affecting indirect taxes such as GST and excise duties. The lower consumption can also be expected to adversely affect business profits and hence further reduce company taxes.

Overall, the production losses associated with recent natural disasters are estimated to reduce tax receipts by an estimated $1¾ billion across the forward estimates, with the impact falling almost entirely in 2010-11 and 2011-12. However, losses remain in the system for some years.

The need to replace buildings, rebuild plant and equipment, and consumers replacing their stocks of damaged goods are likely to see a boost to economic activity over the next few years, with some associated recovery in tax receipts.

There is increasing evidence that the effects of the subdued economy on receipts have been exacerbated by what are now seen to be larger than previously anticipated losses incurred during the global financial crisis.

In the 2010-11 Budget, it was observed that while past economic cycles provided some indication of loss utilisation as the economy recovers, the relative depth and extent of the global financial crisis — and how it would impact on the Australian economy — made this comparison particularly difficult (Budget Statement 5, Budget Paper 1, 2010-11).

With the benefit of further information, it has become clearer that the extent of capital losses incurred during the crisis is significantly larger than was anticipated previously (Box 2). Indeed, the stock of capital losses in 2008-09 is estimated to have climbed to over 20 per cent of GDP, or more than double 2007-08 levels.

The utilisation of these losses as well as operating losses has driven significant downward revisions to receipts since 2010-11 MYEFO, primarily in company tax and other individuals' tax receipts.

The larger quantum of losses means that it will take longer to recoup those losses. Loss utilisation can also be expected to be drawn out over a longer period given the weaker recovery in profits and growth in 2010-11.

While not felt as strongly as in 2010-11, it is anticipated that these losses will continue to exert a larger and more significant influence in 2011-12 on company tax receipts, and capital gains tax receipts more broadly, than had previously been anticipated, and continue to impact on receipts for some years after that.

With the share market still well below its pre-crisis peak, and the housing market remaining sluggish, wealth has been slow to recover. To put it in perspective, at the 2008-09 Budget, the ASX200 was around 5600 points. Had the share market risen at its historical average, it would be around 7000 now—rather than its current level of less than 5000 points. Meanwhile gains from the property market have also been subdued. This further exacerbates the weakness in capital gains tax receipts.

The past losses and slow recovery in wealth are suggestive of capital gains tax receipts not returning to pre-crisis levels for some years. Capital gains tax is expected to be $3.2 billion lower in 2010-11, and $3.0 billion lower in 2011-12, than anticipated at 2010-11 MYEFO.

Box 2: Capital Gains Tax

The rapid deterioration of financial asset values during the global financial crisis has had a pronounced effect on CGT receipts, which is compounded by the subdued recovery in wealth.

Net capital gains were $30 billion for 2008-09, which is $60 billion lower than for 2007-08. The stock of capital losses more than doubled from $104 billion in 2007-08 (8.8 per cent of GDP) to $260 billion in 2008-09 (20.8 per cent of GDP), the latest year for which data are available (Chart A). The stock of losses was also around double the average over the period 2000-01 to 2007-08.

Chart A. Stock of capital losses as share of GDP

Source: 2008-09 Taxation Statistics, Australian Taxation Office.

The full impact of these losses on future CGT receipts depends on when the stock of accumulated losses is claimed against future gains. Although it is difficult to gauge from history how quickly these losses will be used, two factors suggest continued softness in CGT receipts.

Firstly, features of the tax system (such as CGT only being levelled on realised gains) mean that, like company tax, CGT is partly paid in the years after capital income is earned. A major proportion of capital gains earned during the 2009-10 and 2010-11 income years will be offset by the utilisation of the large stock of losses. This results in a more subdued outlook for CGT receipts in 2010-11 and 2011-12, despite the recovery in other forms of revenue.

Secondly, history shows that existing losses in the system take a considerable time to be run down. For example, there was only a modest draw down of losses between the 2003-04 and 2006-07 income years — a period of strong asset price growth. This suggests a much longer period of strong asset price growth will be needed to draw down the large 2008-09 stock of losses.

Taken together, the weaker economic conditions in 2010-11, and larger than anticipated losses incurred during the global financial crisis, have led to downward revisions to 2010-11 company tax receipts since MYEFO of around $5.3 billion. Notably, a significant part of the 2010-11 weakness relates to weaker than expected company tax payments in respect of the 2009-10 year and the natural disasters in the latter half of 2010-11, though a softer outlook for capital gains in 2010-11 is also a factor. In 2011-12, company taxes have been revised down by a further $2.6 billion.

Individuals' income taxes have been revised down since MYEFO by $2.7 billion in 2010-11 and $2.8 billion in 2011-12, reflecting both recent weakness in aggregate wages associated with the weaker economic growth in 2010-11, as well as lower than anticipated capital gains.

The global financial crisis had the biggest impact on taxes from profits, capital gains and consumption (Box 1, Budget Statement 5, Budget Paper 1, 2010-11) and it is these taxes that still remain below their pre-crisis levels. In contrast, taxes on wages are expected to recover to their pre-crisis forecasts in 2010-11.

LONGER TERM RECOVERY IN TAX RECEIPTS

From 2012-13, tax receipts are expected to recover from the weakness characterising 2010-11 and 2011-12. Indeed, the pickup in tax receipts is expected to be slightly stronger in 2012-13 and 2013-14 than anticipated at 2010-11 MYEFO. In level terms, however, given the lower starting base, tax receipts in 2012-13 and 2013-14 remain broadly in line with those projected at the time of the 2010-11 MYEFO.

The stronger outlook for the terms of trade associated with the current mining boom that buoys the economic outlook over the next few years, is expected to flow through to higher nominal incomes and employment from 2011-12, which in turn should provide some boost to income taxes from 2012-13. The improvement in the terms of trade also boosts the incomes received from commodity exports, which are expected to be reflected in a stronger outlook for resource rent taxes.

That said, substantial capital investment in the mining sector, softer prospects in sectors not directly benefitting from the resources boom, the strong dollar and consumer caution, along with loss utilisation will all work to moderate tax receipts over the forward estimates.

Mining boom mark II

It is not anticipated that the strong surge in tax receipts experienced under mining boom mark I (mid-2000s before the global financial crisis) will be replicated under mining boom mark II (currently in prospect). Abstracting from policy decisions, tax receipts are estimated to have grown by around 11 per cent per year during mining boom mark I. By comparison, tax receipts (excluding policy) are estimated to grow at rates that are around a third less than this between 2012-13 and 2014-15.

The anticipated surge in mining investment, coupled with conditions remaining challenging in sectors not benefitting from the resources boom, and continued subdued household demand, all point to a more tempered outlook for receipts under the mining boom mark II relative to the earlier boom.

Anticipated surge in mining investment

A key difference relates to capital expenditure by the mining sector over coming years. Even allowing for the fact that the mining sector tends to be highly capital intensive in general, the current mining boom looks set to be associated with a substantially stronger increase in investment compared with the earlier mining boom. During mining boom mark I, mining investment as a share of GDP increased from 1 per cent to 3 per cent. During the current boom mining investment is forecast to rise to 6 per cent of GDP in 2011-12.

While this is in itself not surprising, as the current mining boom is occurring at a time when the terms of trade have already been at record highs for a number of years, along with this rapidly growing capital base come significantly rising tax deductions, which work to reduce the company taxes payable. Over the longer term, as the associated production comes on line (and depending on commodity prices prevailing at the time), one would expect to see higher tax receipts from the mining sector.

Box 3 provides further detail comparing the mining boom of the mid-2000s with the current mining boom.

The multi-speed economy

Another key difference explaining the softer receipts outlook in prospect in mining boom mark II relative to the earlier boom is an apparent divergence of fortunes between the mining sector and sectors of the economy not benefiting directly from the resources boom.

Box 3: Company tax and a surge in mining investment

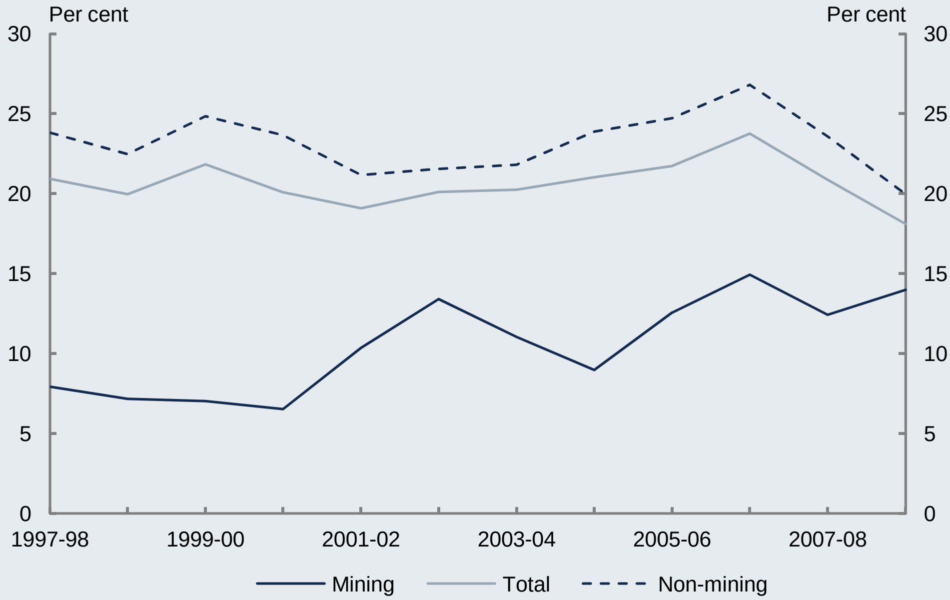
The mining boom in the mid-2000s saw a surge in mining profits and tax receipts. After the global financial crisis, the terms of trade is rising again, as are profits in the mining sector (Box 4, Statement 2). However, differences between the earlier mining boom and the mining boom in prospect suggest that there is unlikely to be an accompanying surge in company tax receipts for some years.

In 2003-04, mining gross operating surplus (GOS) was around 15 per cent of total private corporate GOS. It is presently around a third. That is, the mining sector now accounts for a larger share of the company tax base.

However, the mining sector is highly capital intensive, and hence tends to have a larger capital stock available for depreciation deductions. Over the decade to 2008-09, the mining sector accounted for over 20 per cent of total corporate GOS, but only around 10 per cent of company tax receipts. A rising share of the capital intensive mining sector, with relatively larger deductions, is therefore expected to have a dampening effect on growth in company tax receipts relative to growth in corporate profitability.

As a result of the surge in mining profits, the overall ratio of company tax to private corporate GOS fell from 20.3 per cent in 2003-04 to 18.1 per cent in 2008-09 (Chart A). Given the mining sector's currently larger share of GOS, it is reasonable to anticipate the current mining boom will be associated with an even larger decline in this ratio.

Chart A: Ratio of company tax to corporate GOS — Mining versus non-mining



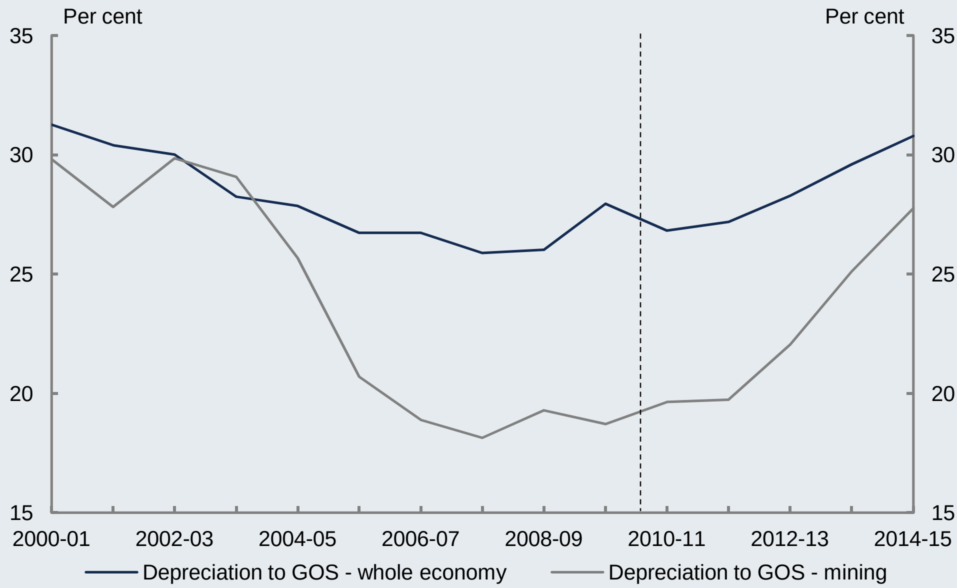
Source: ABS, ATO, Treasury estimates.

Box 3: Company tax and a surge in mining investment (continued)

However, there is another, even more, important factor. While mining investment did increase during the boom of the last decade, the increase in mining GOS was not accompanied by a commensurate increase in the capital stock. By contrast, the current mining boom is expected to be associated with a substantial increase in investment by the mining sector. There is a massive pipeline of investment that is expected from the mining sector over the forecast period (Box 4, Statement 2) such that mining investment intentions for the next year are outstripping private business investment plans for the rest of the economy.

This implies that the re-emergence of the boom over the forward estimates is projected to be accompanied by a significant increase in the capital stock. This increase, which underpins higher levels of deprecation expenses, means that depreciation is projected to grow faster than GOS for the whole economy across the forward estimates. Depreciation expenses relative to GOS are projected to increase even faster in the mining sector than the economy as a whole (Chart B).

Chart B: Depreciation expenses as proportion of corporate GOS — mining versus whole economy



Source: ABS, Treasury estimates.

Higher levels of depreciation expenses mean that the levels of taxable income, and thus company tax receipts, are lower than would have been the case otherwise.

The improvements in the medium term economic outlook since MYEFO driven by stronger capital investment (and higher associated levels of depreciation expenses) in the mining sector, are therefore expected to be accompanied by a relatively more subdued outlook for company tax receipts.

The strong Australian dollar (the Budget assumes an exchange rate of US$1.07 per Australian dollar compared with an average of US$0.78 during the boom of the mid-2000s), continued subdued household consumption and the legacy of the global financial crisis are all expected to dampen tax receipts from sectors not directly benefitting from the resources boom. While corporate profits outside the resources sector grew solidly during mining boom mark I (at around 9 per cent per year), they have been weak in the early stages of the current one. Indeed, over 2010, mining profits grew by around 60 per cent while non-mining profits fell slightly.

The utilisation of losses associated with the global financial crisis is also expected to impact on tax receipts over the entire forward estimates period.

Nonetheless, along with the strong outlook for economic growth, the prospects for solid employment growth and stronger wages over the forecast horizon, as well as revenue savings measures, mean that individual withholding taxes are expected to be above their earlier forecast levels from 2012-13. This is, however, somewhat offset by weaker capital gains.

A still cautious consumer

Despite the re-emergence of the mining boom and the associated rise in incomes, the cautious approach to consumption adopted by households in recent years (and reflected in forecasts of lower GST receipts in 2010-11 and 2011-12) translates to lower expected household consumption over the remainder of the forward estimates period. In total, GST receipts have been revised down by $5.7 billion over the budget and forward estimates since MYEFO.

Further exacerbating the weakness in GST are signs of a long term trend decline in the share on consumer spending on goods and services subject to GST (Box 4). That is, consumers appear to be directing relatively more of their total consumer spending on GST-free goods and services. This, in turn, appears to reflect relatively higher price increases in goods and services not subject to GST.

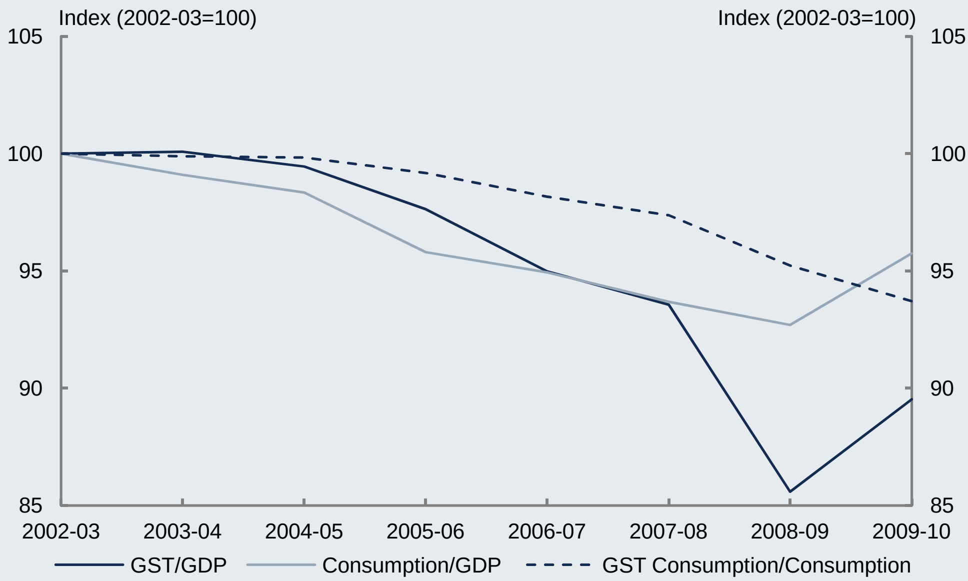
Box 4: GST

Over recent years, there has been a discernible decline in GST revenues as a share of nominal GDP. This reflects the confluence of a number of factors.

An important factor is the decline in consumption as a share of GDP. As Chart A indicates, consumption steadily declined as a share of GDP over most of the 2000s. This is heavily influenced by increased household savings associated with the 'cautious consumer' and the consolidation of household balance sheets.

There has also been a steady decline in the expenditure on items attracting GST as a share of total consumption (also in Chart A). This effect is partly cyclical — during downturns, households tend to allocate a greater proportion of their income towards GST-free goods and services, and spend less on goods and services that attract GST.

Chart A: Decline in GST as share of GDP

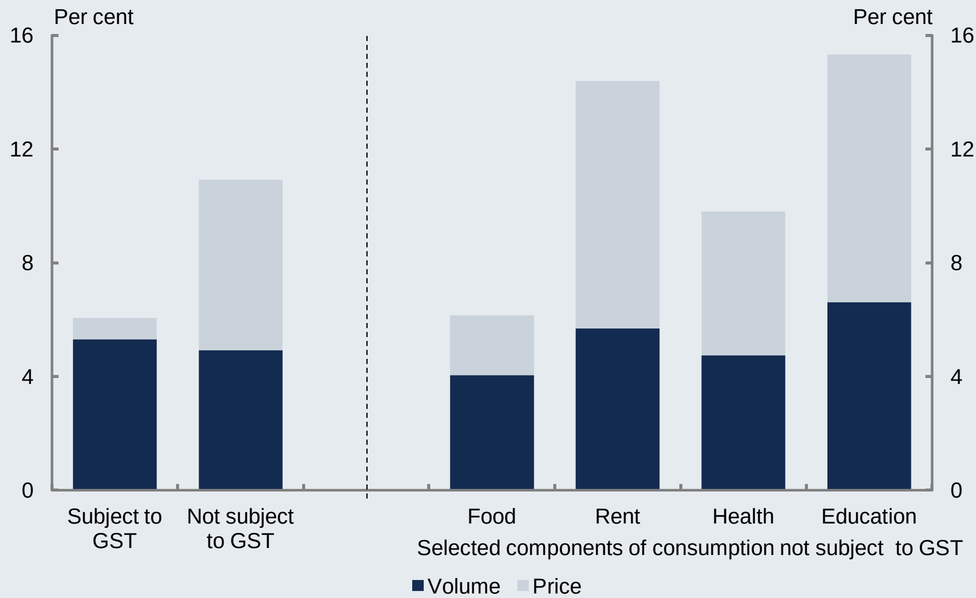


Source: ABS, Treasury estimates.

However, there are other factors at work. Chart B breaks down growth in consumption expenditure on goods and services that attract GST and those that do not, by volume and price components for the two years ending December 2010. While volumes of goods both subject and not subject to GST have grown at a similar pace, there are significant variations in prices. Prices of goods not subject to GST increased markedly over this period while prices of goods subject to GST rose only modestly. The price increases were most significant in areas such as rental services, health and education. As these areas are largely non-tradeable, they are unlikely to have benefitted from factors such as a stronger Australian dollar.

Box 4: GST (continued)

Chart B: Growth in expenditure on GST versus GST-free goods and services (Dec 2008 to Dec 2010)



Source: ABS, Treasury estimates.

VARIATIONS IN THE RECEIPTS ESTIMATES SINCE THE 2010-11 BUDGET

Total receipts have been revised down by $9.5 billion in 2010-11, almost entirely reflecting parameter and other variations. The $5.8 billion downward revision in 2011-12 reflects a contribution of $0.4 billion in policy decisions and $5.4 billion in parameter and other variations.

Table 4 reconciles this Budget's receipts estimates with those at the 2010-11 Budget and the 2010-11 MYEFO.

Table 4: Reconciliation of Australian Government general government receipts estimates from the 2010-11 Budget

	Estimates			Projection
	2010-11	2011-12	2012-13	2013-14
	$m	$m	$m	$m
Receipts at 2010-11 Budget	**314,417**	**348,834**	**378,014**	**398,983**
Changes from 2010-11 Budget to 2010-11 PEFO				
Effect of policy decisions	-3	-10	-901	-5,950
Effect of parameter and other variations	32	1,767	1,811	3,343
Total variations	**29**	**1,757**	**909**	**-2,607**
Receipts at 2010-11 PEFO	**314,446**	**350,590**	**378,923**	**396,376**
Changes from 2010 PEFO to 2010-11 MYEFO				
Effect of policy decisions	318	43	513	155
Effect of parameter and other variations	-1,559	-2,439	-2,744	-4,374
Total variations	**-1,242**	**-2,396**	**-2,231**	**-4,219**
Receipts at 2010-11 MYEFO	**313,205**	**348,194**	**376,693**	**392,157**
Changes from 2010-11 MYEFO to 2011-12 Budget				
Effect of policy decisions	82	-406	2,001	1,906
Effect of parameter and other variations	-9,596	-5,399	-174	1,872
Total variations	**-9,515**	**-5,804**	**1,827**	**3,778**
Receipts at 2011-12 Budget	**303,690**	**342,390**	**378,520**	**395,935**

Variations to total receipts in the estimates years since MYEFO

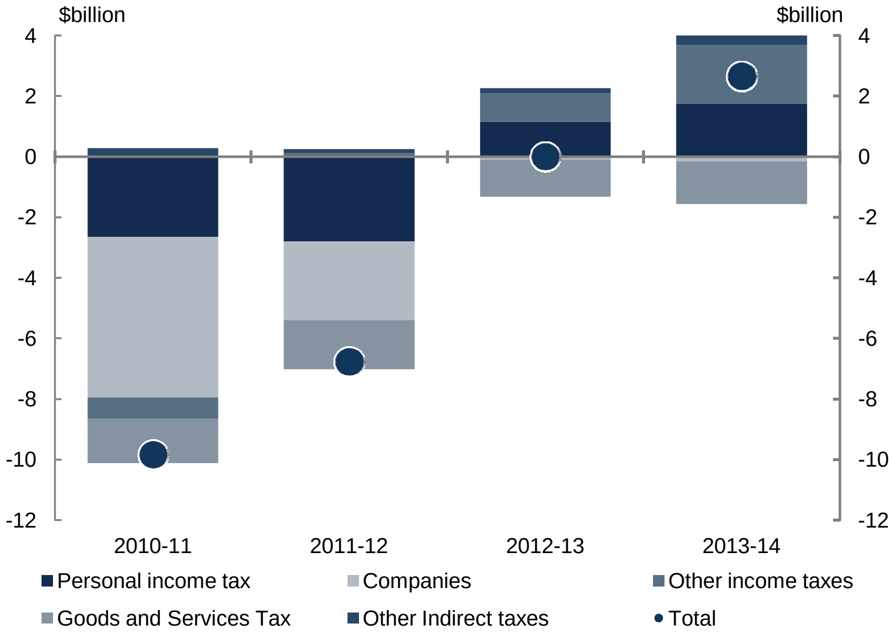
Total tax receipts for 2010-11 have been revised down by $9.8 billion since the 2010-11 MYEFO.

Income tax receipts account for most of this revision in 2010-11 with total downward revisions of $8.7 billion. Company tax receipts alone account for $5.3 billion of the revision to income tax receipts. This reflects more subdued economic conditions associated with natural disasters, a strong dollar and lower consumption. In addition, larger than anticipated losses incurred during the global financial crisis are weighing down on company tax receipts. Similar factors account for downward revisions of $2.7 billion in individuals' income tax receipts in 2010-11. Indirect taxes have been revised down by a total of $1.1 billion, largely reflecting a $1.5 billion decline to GST receipts associated with subdued household consumption.

Total tax receipts for 2011-12 have been revised down by $6.6 billion since the 2010-11 MYEFO. Once again, revisions to income taxes — particularly company tax and individuals' income taxes — account for the majority of these movements, though GST has also been revised down. Given timing lags, many of the factors contributing to receipts downgrades in 2010-11 also affect receipts in 2011-12, including the impacts of the natural disasters, weaker aggregate wages and ongoing utilisation of capital losses accrued during the global financial crisis.

Chart 2 shows the revisions to forecast tax receipts since MYEFO.

Chart 2: Revisions to tax receipts forecasts since the 2010-11 MYEFO



Source: Treasury estimates.

Non-tax receipts are expected to increase by $780 million in 2011-12, largely reflecting increases in offshore petroleum royalties resulting from higher prices and increased production. This receipt is partly offset by a corresponding payment to Western Australia and the Northern Territory through the General Revenue Assistance mechanism.

Effect of policy decisions

Policy decisions since the 2010-11 MYEFO are expected to decrease receipts by $406 million in 2011-12. Policy decisions increase receipts by $2.0 billion and $1.9 billion in 2012-13 and 2013-14 respectively, and an additional $2.6 billion in 2014-15. The revenue savings measures include decisions removing certain inefficient tax expenditures, as well as a package of compliance measures aimed at improving fairness in the tax system. The key revenue savings measures include the following:

- The introduction of a temporary flood and cyclone reconstruction levy from 1 July 2011, expected to raise $1.725 billion over the forward estimates.
- Reform of the current statutory formula for valuing car fringe benefits replacing progressive rates with a single 20 per cent statutory rate. This is expected to increase the underlying cash balance by $970 million over the forward estimates.
- Phasing out the dependent spouse tax offset (DSTO) for taxpayers with a dependent spouse born on or after 1 July 1971, estimated to save $755 million over the forward estimates period.

- Removing the ability of minors (children under 18 years of age) to access the low income tax offset (LITO) to reduce tax payable on their unearned income with effect from 1 July 2011, with an estimated gain to receipts of $740 million over the forward estimates period.

- The removal of the Entrepreneurs' Tax Offset (ETO), with effect from the 2012-13 income year, estimated to save $365 million over the forward estimates.

- A number of tax compliance measures aimed at improving fairness in the tax system increase the underlying cash balance by an estimated $1.1 billion over the forward estimates.

This Budget also includes a few revenue spending measures, including the following:

- Allowing low and middle income earners to receive 70 per cent of the LITO through a reduction in tax payable on their regular pay, rather than only half as provided under existing arrangements. This is estimated to reduce receipts by $1.25 billion over the forward estimates.

- A delay in the introduction, until 1 December 2011, and other arrangements for excise and excise-equivalent customs duty on alternative fuels. This is expected to reduce receipts over the forward estimates period by $641 million. The revenue impact of this is almost entirely offset by a reduction in related expenses.

- Allowing small businesses to claim up to $5,000 as an immediate deduction for motor vehicles, with effect for vehicles acquired from the 2012-13 income year. This measure is estimated to have a cost to receipts of $350 million over the forward estimates.

Table 5: Revenue policy decisions since the 2010-11 MYEFO (receipts basis)

	2010-11	2011-12	2012-13	2013-14	2014-15	Total
	$m	$m	$m	$m	$m	$m
Temporary flood and cyclone reconstruction levy	-	1,500.0	225.0	-	-	1,725.0
Low Income Tax Offset – bring forward	-	-1,370.0	65.0	25.0	30.0	-1,250.0
Fringe benefits tax - reform of the car fringe benefit rules	5.0	30.0	140.0	335.0	460.0	970.0
Building Australia's Future Workforce – Dependent Spouse Tax Offset – phase-out	-	60.0	220.0	230.0	245.0	755.0
Removing minors' eligibility for low income tax offset on unearned income	-	-	240.0	250.0	250.0	740.0
Alternative fuels – delayed introduction of taxation and other changes	-	-238.0	-199.0	-135.0	-69.0	-641.0
Tax Compliance						
reporting taxable payments	-	-	7.9	217.0	288.1	513.0
countering fraudulent phoenix activities by company directors	-	..	50.0	95.0	100.0	245.0
enhanced refund fraud detection and management	-	60.4	64.7	58.1	42.4	225.6
reporting Government grants and payments	-	15.0	35.6	42.0	45.2	137.8
Abolish the Entrepreneurs' Tax Offset	-	-	-	180.0	185.0	365.0
Small business depreciation – accelerated initial deduction for motor vehicles	-	-	-	-200.0	-150.0	-350.0
Deferral of Tax Breaks for Green Buildings	-	-	15.0	100.0	180.0	295.0
Amendments to the scrip for scrip roll-over and the small business concessions	-	5.0	50.0	50.0	55.0	160.0
Superannuation contribution caps – adjusting arrangements to indexation	-	-	-	65.0	90.0	155.0
Excise and excise-equivalent customs duty – refunds, remissions and drawbacks	24.7	28.1	31.4	33.1	35.1	152.4
Increasing the Medicare levy low-income thresholds	-	-50.0	-25.0	-25.0	-25.0	-125.0
Tax treatment of clean up and recovery business assistance grants	-	-55.0	-30.0	-10.0	-3.0	-98.0
New tax system for managed investment trusts – clarifying the 2010-11 Budget measure	-	-	50.0	20.0	5.0	75.0
Tax treatment of payments made under the Sustainable Rural Water Use and Infrastructure Program	-	-10.0	-45.0	-5.0	30.0	-30.0
Pay As You Go (PAYG) instalment taxpayers – reduction in the gross domestic product (GDP) adjustment factor	-	-700.0	700.0	-	-	-
Other measures	51.9	319.0	405.3	580.5	793.9	2,150.6
Total impact of revenue measures	**81.6**	**-405.5**	**2,000.9**	**1,905.7**	**2,587.7**	**6,170.4**

Effect of parameter and other variations

In addition to new policy decisions, revisions to expected receipts are driven by recent economic conditions and tax collections, and the updated economic outlook. The receipts variations discussed in this section stem from these parameter and other variations, explicitly excluding the impact of new policy decisions on receipts.

The revenue forecasts are based on the economic outlook presented in Statement 2, with changes in nominal incomes and spending, including changes in their composition, having consequent impacts on expected tax receipts. The key economic parameters that influence revenue are shown in Table 6. Analysis of the sensitivity of the taxation receipts estimates to changes in the economic outlook is provided in Statement 3.

Table 6: Key revenue parameters[(a)]

	Estimates			Projections	
	2010-11 %	2011-12 %	2012-13 %	2013-14 %	2014-15 %
Revenue parameters at 2011-12 Budget					
Nominal gross domestic product (non-farm)	8.1	6.3	5.8	5 1/4	5 1/4
Change since 2010-11 MYEFO	*-0.9*	*1.1*	*0.6*	*0*	*na*
Compensation of employees (non-farm)(b)	7.4	7.2	6.4	5 1/2	5 1/2
Change since 2010-11 MYEFO	*-0.6*	*0.1*	*0.9*	*0*	*na*
Corporate gross operating surplus(c)	11.8	4.8	4.5	5	5
Change since 2010-11 MYEFO	*-2.9*	*4.0*	*-0.8*	*- 1/4*	*na*
Unincorporated business income	4.5	3.3	4.8	5 1/4	5 1/4
Change since 2010-11 MYEFO	*-2.2*	*0.1*	*-0.7*	*- 1/4*	*na*
Property income(d)	16.7	8.6	5.3	5 1/4	5 1/4
Change since 2010-11 MYEFO	*7.0*	*0.1*	*-0.2*	*- 1/4*	*na*
Consumption subject to GST	4.4	5.4	5.5	5 1/2	5 1/2
Change since 2010-11 MYEFO	*-1.1*	*-0.1*	*0.0*	*0*	*na*

(a) Current prices, per cent change on previous years. Changes since MYEFO are percentage points.
(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 not applicable.

Parameter and other variations have led to downward revisions to receipts of $9.6 billion in 2010-11 and $5.4 billion in 2011-12 since MYEFO. These revisions largely reflect more subdued economic conditions in 2010-11 than earlier anticipated — owing, at least in part, to the recent natural disasters. The revisions also reflect the influence of the global financial crisis, most notably through its impact on lower than anticipated capital gains. The latter is attributable to prior year losses and the slow recovery in wealth. Continued caution shown by households, another legacy of the global financial crisis, is also weighing down on consumption based tax receipts in these years.

Revisions relative to the 2010-11 MYEFO to each revenue head in 2010-11 and 2011-12 are described below.

Gross income tax withholding receipts are expected to be around $800 million lower in 2010-11 and $700 million lower in 2011-12. While employment has strengthened marginally in 2010-11 relative to MYEFO expectations, this is outweighed by softer than anticipated average wages.

Gross other individuals' receipts are expected to be $1.4 billion lower in 2010-11 and $1.5 billion lower in 2011-12. This has been driven by lower property income and unincorporated business income (two of the principal components of individuals' earnings outside of wages and salaries), and downward revisions to expected capital gains tax receipts.

Individuals' refunds are expected to be $500 million higher in 2010-11 and $300 million higher in 2011-12, in part reflecting more subdued capital gains.

Fringe benefits tax receipts are largely unchanged in both 2010-11 and 2011-12.

Superannuation funds' receipts are expected to be $200 million lower in 2010-11, owing to lower than expected taxable contributions. Superannuation funds' receipts are expected to be $200 million higher in 2011-12.

Company tax receipts are expected to be $5.3 billion lower in 2010-11. This reflects the subdued economic conditions that have seen a downward revision to corporate gross operating surplus (GOS), owing in part to the recent natural disasters but also due to the strong dollar and more subdued consumption. The larger than anticipated losses accumulated during the global financial crisis are also affecting company taxes, as are softness in capital gains. These losses are a key factor in the observed weakness in company tax payments in respect of the 2009-10 year. Given the lags in the tax system, these factors continue to hamper company taxes in 2011-12, notwithstanding a stronger outlook for GOS in that year. As a result, company taxes are expected to be $2.4 billion lower in 2011-12.

Capital gains tax, which is a component of individuals, companies and superannuation funds income taxes, is expected to be lower by $3.2 billion and $3.0 billion in 2010-11 and 2011-12 respectively. This reflects the larger than anticipated losses suffered during the global financial crisis and the sluggishness in asset prices.

Petroleum resource rent tax receipts are estimated to be lower by $510 million in 2010-11 and $20 million in 2011-12, reflecting substantially greater investment costs (which lower tax payable) associated with some fields and the high exchange rate, offset in part by higher oil prices.

GST receipts have been revised down by $1.5 billion in 2010-11 and $1.6 billion in 2011-12, reflecting a weaker outlook for consumption, dwelling investment and ownership transfer costs.

Luxury car tax receipts have been revised down by $40 million in 2010-11 and $70 million in 2011-12, reflecting the impact of slower demand for new motor vehicles.

Wine equalisation tax receipts are expected to be $60 million lower in 2010-11 and $70 million lower in 2011-12, reflecting weaker than expected growth in both prices and consumption volumes.

Excise duties have been revised up in 2010-11 by $820 million and by $800 million in 2011-12, following stronger than expected growth in the production of diesel and tobacco. These increases are partly offset by lower demand for petrol, other fuel products, beer and ready to drink alcoholic beverages.

Customs duty estimates have been revised down by $470 million in 2010-11 and by $330 million in 2011-12, primarily reflecting lower than expected household demand, which in turn reduces imports of goods that attract customs duties.

REVENUE VARIATIONS SINCE MYEFO

While changes in revenue are generally driven by the same factors as receipts, there are differences, as not all revenue raised in a given year is actually paid in that year. For example, past tax assessments may be amended as a result of compliance activity or the settlement of legal disputes and taxpayers may accrue new tax debts. These differences exist for most revenue heads, and vary across years. Further information on the difference between the accrual and cash taxation estimates is provided in *Appendix E: Taxation Revenue Recognition*.

Table 7 provides a reconciliation of the Budget's revenue estimates with those at MYEFO.

Since the 2010-11 MYEFO, total revenue has been revised down by $8.9 billion in 2010-11.

The same factors affecting tax receipts in 2010-11 are driving similar downward revisions to total revenue. Total revenue has been revised down by $9.0 billion from parameter and other variations, largely reflecting downward revisions to company taxes, individuals income taxes and GST. Weaker company tax revenue reflects the more subdued economic conditions, owing in part to the recent natural disasters and lower than expected consumption expenditure. Lower capital gains and higher than anticipated accumulated losses accrued during the global financial crisis also play a role. Individuals' income tax revenue is lower due to weaker capital gains and slower aggregate wage growth. Downward revisions in GST receipts reflect weaker than anticipated consumption expenditure.

Since MYEFO, total revenue has been revised down by $5.4 billion in 2011-12.

Total revenue has been revised down by $5.0 billion from parameter and other variations. The weakness reflects both subdued capital gains and company profitability owing to ongoing legacy effects of the global financial crisis, but also due to the impacts of the natural disasters. The legacy effects of the global financial crisis are expected to have ongoing impacts on individuals', companies and capital gains taxes across the forecast horizon.

Table 7: Reconciliation of total Australian Government general government revenue estimates from the 2010-11 MYEFO

	Estimates			Projections
	2010-11	2011-12	2012-13	2013-14
	$m	$m	$m	$m
Revenue at 2010-11 MYEFO	**319,682**	**355,376**	**380,320**	**400,485**
Per cent of GDP	22.8	24.2	24.5	24.5
Changes from 2010-11 MYEFO to 2011-12 Budget				
Effect of policy decisions(a)	102	-367	2,043	1,943
Effect of parameter and other variations	-9,006	-5,049	758	2,746
Total variations	**-8,904**	**-5,416**	**2,801**	**4,689**
Revenue at 2011-12 Budget	**310,779**	**349,961**	**383,121**	**405,174**
Per cent of GDP	22.4	23.7	24.6	24.7

(a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the contingency reserve for decisions taken.

REVENUE ESTIMATES BY REVENUE HEAD

The revenue estimates are constructed using the outcomes for 2009-10, information on the 2010-11 year-to-date revenue collections, and the latest economic forecasts for 2010-11 to 2012-13. Revenue estimates for the projection years (2013-14 and 2014-15) are based mainly on underlying trends in economic parameters.

In 2010-11, total revenue is forecast to grow by 6.2 per cent ($18.0 billion) on the back of growth in personal income and company taxes.

In 2011-12, further growth of 12.6 per cent ($39.2 billion) in total revenue is expected. This is driven by 10.4 per cent ($13.6 billion) growth in income withholding tax revenue and a 28.9 per cent ($16.7 billion) growth in company tax revenue. Indirect taxation revenue is expected to grow by 5.2 per cent ($4.4 billion).

Individuals' income and other withholding taxation revenue

Table 8: Individuals' income and other withholding taxation revenue

	Actual	Estimates			Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m	$m
Individuals and other withholding taxes						
Gross income tax withholding	119,922	131,320	144,930	156,920	168,960	181,150
Gross other individuals	27,287	29,860	33,360	38,680	41,890	45,710
less: Refunds	24,390	24,850	27,400	28,000	30,900	33,750
Total individuals and withholding taxation	122,820	136,330	150,890	167,600	179,950	193,110
Fringe benefits tax	3,523	3,670	3,760	4,220	4,770	5,230
Total individuals taxation revenue	**126,343**	**140,000**	**154,650**	**171,820**	**184,720**	**198,340**

Gross income tax withholding

Revenue from gross income tax withholding is expected to grow by 9.5 per cent ($11.4 billion) in 2010-11, reflecting solid growth in employment and wages in the aftermath of the global financial crisis.

In 2011-12 and 2012-13, income tax withholding is expected to increase by 10.4 per cent ($13.6 billion) and 8.3 per cent ($12.0 billion) respectively. This reflects anticipated growth in employment and wages as the labour market moves towards full capacity.

In the projection years, revenue from income tax withholding is expected to grow by 7.7 per cent in 2013-14 and 7.2 per cent in 2014-15, as employment and wage growth return to their long-term trends.

See Table 9 for personal income tax rates.

Gross other individuals

Gross revenue from other individuals is expected to grow by 9.4 per cent ($2.6 billion) in 2010-11, reflecting growth in unincorporated business income, and interest and dividend income.

In 2011-12, revenue from other individuals is expected to grow 11.7 per cent ($3.5 billion), followed by growth of 15.9 per cent ($5.3 billion) in 2012-13. This reflects accelerated growth in tax instalments from unincorporated business income and growth in net capital gains and interest income.

In the projection years, revenue from other individuals is expected to grow by 8.3 per cent and 9.1 per cent in 2013-14 and 2014-15 respectively, reflecting a return to longer term trend growth rates.

Income tax refunds for individuals

Refunds for individuals, which have a negative impact on revenue, are expected to grow by 1.9 per cent ($460 million) in 2010-11, reflecting a modest strengthening in the labour market and personal income tax cuts delivered in 2009-10.

Refunds for individuals are expected to grow by 10.3 per cent ($2.6 billion) in 2011-12, reflecting growth in salary and wages and continued use of capital losses sustained during the global financial crisis. The lower growth of 2.2 per cent ($600 million) in 2012-13 is primarily due to the bring-forward of the low-income tax offset.

In the projection years, refunds for individuals are expected to grow by 10.4 per cent and 9.2 per cent in 2013-14 and 2014-15 respectively, largely reflecting the growth in individuals' income tax payments over the same period.

Fringe benefits tax

Revenue from fringe benefits tax (FBT) is expected to grow by 4.2 per cent ($150 million) in 2010-11 relative to the 2009-10 outcome, reflecting wages and employment growth.

In 2011-12 FBT is expected to grow by 2.5 per cent ($90 million), reflecting moderate growth in non-cash wages. From 2012-13, growth in FBT is affected by the impact of new policy related to the treatment of FBT on cars.

Table 9: Personal income tax rates[(a)]

	From 1 July 2009		From 1 July 2010		From 1 July 2011		From 1 July 2012	
	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–$35,000	15	$6,001–$37,000	15	$6,001–$37,000	15	$6,001–$37,000	15
	$35,001–$80,000	30	$37,001–$80,000	30	$37,001–$80,000	30	$37,001–$80,000	30
	$80,001–$180,000	38	$80,001–$180,000	37	$80,001–$180,000	37	$80,001–$180,000	37
	> $180,000	45	> $180,000	45	> $180,000	45	> $180,000	45
Non-residents	$0–$35,000	29	$0–$37,000	29	$0–$37,000	29	$0–$37,000	29
	$35,001–$80,000	30	$37,001–$80,000	30	$37,001–$80,000	30	$37,001–$80,000	30
	$80,001–$180,000	38	$80,001–$180,000	37	$80,001–$180,000	37	$80,001–$180,000	37
	> $180,000	45	> $180,000	45	> $180,000	45	> $180,000	45
Medicare levy	$0–$18,488	Nil	$0–$18,839	Nil	$0–$18,839	Nil	$0–$18,839	Nil
for singles	$18,489-$21,750	10% of > $18,488	$18,839-$22,163	10% of > $18,839	$18,839-$22,163	10% of > $18,839	$18,839-$22,163	10% of > $18,839
	> $21,750	1.5	> $22,163	1.5	> $22,163	1.5	> $22,163	1.5
		Amount		**Amount**		**Amount**		**Amount**
Low Income	$0-$30,000	$1,350	$0-$30,000	$1,500	$0-$30,000	$1,500	$0-$30,000	$1,500
Tax Offset	$30,001-$63,750	less 4% of > $30,000	$30,001-$67,500	less 4% of > $30,000	$30,001-$67,500	less 4% of > $30,000	$30,001-$67,500	less 4% of > $30,000
	> $63,750	Nil	> $67,500	Nil	> $67,500	Nil	> $67,500	Nil

(a) This table includes legislated changes to tax rates and thresholds, excluding temporary changes including the Temporary Flood and Cyclone Reconstruction Levy in 2011-12.

Company and other related income taxation revenue

Table 10: Company and other related income taxation revenue

	Actual	Estimates			Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m	$m
Company tax	53,193	57,880	74,600	78,140	80,300	83,470
Superannuation funds	6,182	7,220	9,330	10,490	11,800	12,810
Resource rent taxes(a)	1,297	940	2,050	8,090	8,870	7,310
Total company and related income taxation revenue	**60,672**	**66,040**	**85,980**	**96,720**	**100,970**	**103,590**

(a) Resource rent taxes include Petroleum Resource Rent Tax (PRRT) and gross receipts from the Minerals Resource Rent Tax (MRRT) from 2012-13.

Company tax

Losses associated with the global financial crisis, the impact of the natural disasters, and the stronger dollar all worked against a strong recovery in company tax revenue from its low point in 2009-10. Company tax revenue is now expected to grow by 8.8 per cent ($4.7 billion) in 2010-11.

In 2011-12, company tax revenue is projected to grow by 28.9 per cent ($16.7 billion). Not only are the factors that influenced growth in 2010-11, while still prevalent, anticipated to unwind gradually, but timing effects within the tax system are also expected to contribute to the high growth rate in 2011-12. Firstly, the strongest sector of the economy — mining — largely operates on a calendar year basis, resulting in tax payments appearing earlier than for companies which operate on a financial year ending in June. Secondly, low instalment rates through the 2010-11 income year mean that tax from increased growth in corporate profits will generate higher payments on assessment in 2011-12. These effects were discussed in more detail in Box 1, Part 3, 2009-10 MYEFO.

In addition, several measures from previous budgets increase revenue in 2011-12. These include the unwinding of the small and general business tax break, the research and development tax credit and gains associated with increased Australian Taxation Office compliance activities.

In 2012-13, company tax revenues are expected to grow by around 4.7 per cent ($3.5 billion), reflecting the unwinding of instalment rate effects.

Over the projection years, revenue from company tax is expected to grow by 2.8 per cent in 2013-14 and 3.9 per cent in 2014-15. Growth in company tax revenue over these years is moderated to some degree by the continued utilisation of prior year losses but also deductions related to capital investment expenditures in the mining sector.

Superannuation Funds

Following falls of 23 per cent in 2008-09 and 33 per cent in 2009-10, revenue from superannuation funds is expected to increase by around 16.8 per cent in 2010-11, 29.3 per cent in 2011-12 and 12.4 per cent in 2012-13. The ongoing recovery from the global financial crisis is tempered by the utilisation of capital losses.

In the projection years, revenue from superannuation funds is affected by the utilisation of capital losses as well as the reclassification of the Low Income Earner's Superannuation Co-Contribution program from revenues to expenses (see Table 9.2 in Budget Statement 6).

Resource rent taxes

Resource rent taxes include Petroleum Resource Rent Tax (PRRT) and the Minerals Resource Rent Tax (MRRT — to be introduced in 2012-13). They are a highly variable source of revenue as they are heavily influenced by commodity prices and exchange rate levels.

Revenue from PRRT is expected to decline by 27.5 per cent ($360 million) in 2010-11. The fall reflects higher investment costs (which increase tax deductions) associated with some fields.

In 2011-12 revenue from resource rent taxes is expected to grow by 118 per cent ($1.1 billion), reflecting strength in oil prices.

In 2012-13, revenue from resource rent taxes is expected to grow by 295 per cent ($6.0 billion) largely reflecting the MRRT commencing in 2012-13.

In the projection years, revenue from resource rent taxes is expected to grow by 9.6 per cent in 2013-14, but decline by 17.6 per cent in 2014-15. These changes largely reflect changes in forecast commodity prices and anticipated production trends.

Sales taxation revenue

Table 11: Sales taxation revenue

	Actual	Estimates			Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m	$m
Goods and services tax	46,553	48,180	50,630	54,230	57,320	60,150
Wine equalisation tax	748	720	760	810	840	890
Luxury car tax	499	500	510	530	560	590
Total sales taxation revenue	**47,800**	**49,400**	**51,900**	**55,570**	**58,720**	**61,630**

Goods and services tax

Goods and services tax (GST) revenue is expected to grow by 3.5 per cent ($1.6 billion) in 2010-11 reflecting a softer outlook for consumption, dwelling investment and ownership transfer costs.

In 2011-12 and 2012-13, revenue from GST is expected to grow by 5.1 per cent ($2.5 billion) and by 7.1 per cent ($3.6 billion), in line with the growth in consumption.

In the projection years, GST revenue is expected to grow by around 5.7 per cent in 2013-14 and 4.9 per cent in 2014-15, in line with growth in consumption.

Other sales taxes

Other sales taxes include the wine equalisation tax and the luxury car tax.

Wine equalisation tax (WET) revenue is expected to decline by 3.7 per cent ($30 million) in 2010-11, reflecting subdued alcohol consumption. In 2011-12 and 2012-13, WET revenue grows from this lower base by 5.6 per cent ($40 million) and 6.6 per cent ($50 million) respectively in line with general consumption growth. That said, expected growth in 2011-12 and 2012-13 is still moderate compared with previous expectations. In the projection years, WET revenue is expected to grow by 3.7 per cent in 2013-14 and 6.0 per cent in 2014-15.

Luxury car tax (LCT) revenue is expected to remain flat in 2010-11 consistent with recent consumption patterns. In 2011-12 and 2012-13, LCT revenue is expected to grow by 2.0 per cent ($10 million) and 3.9 per cent ($20 million) respectively. In the projection years, LCT revenue is expected to grow by 5.7 per cent in 2013-14 and 5.4 per cent in 2014-15.

Excise and customs duty

Table 12: Excise and customs duty revenue

	Actual	Estimates			Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m	$m
Excise duty						
Petrol	6,339	5,910	5,870	5,680	5,230	5,380
Diesel	6,886	7,300	7,610	7,850	8,290	8,530
Beer	2,006	1,950	2,070	2,210	2,350	2,450
Tobacco(a)	5,652	6,720	5,830	5,780	6,120	6,490
Other excisable products	3,665	4,180	4,950	5,390	5,870	6,330
Of which: Other excisable beverages(b)	880	900	960	1,030	1,090	1,140
Total excise duty revenue	24,547	26,060	26,330	26,910	27,860	29,180
Customs duty						
Textiles, clothing and footwear	767	610	620	670	710	600
Passenger motor vehicles	1,226	780	780	790	830	880
Excise-like goods	2,826	3,530	4,830	5,160	5,400	5,630
Other imports	1,248	1,240	1,410	1,610	1,720	1,920
less: Refunds and drawbacks	319	120	120	120	120	120
Total customs duty revenue	5,748	6,040	7,520	8,110	8,540	8,910
Total excise and customs duty revenue	**30,295**	**32,100**	**33,850**	**35,020**	**36,400**	**38,090**

(a) The impact of the increase in the tax rate on tobacco products affects both excise and customs duty (reported within the 'excise-like goods category). The resulting increase in excise duty is largely offset over the forward estimates by the expected offshore relocation of a large tobacco manufacturer, which will then fulfil its tax obligations via customs duty.

(b) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol.

Excise duty

The Government receives excise duties from a range of sources including alcohol (including beer, spirits and RTDs), petroleum (including diesel, petrol and other fuel products) and tobacco. See Table 13 for excise rates.

Revenue from excise is expected to increase by 6.2 per cent ($1.5 billion) in 2010-11. This largely reflects the impact of the 25 per cent increase in the tobacco excise rate from 30 April 2010. In 2011-12 and 2012-13, excise is expected to increase by 1.0 per cent ($270 million) and 2.2 per cent ($580 million) respectively.

The scheduled relocation overseas of a large tobacco producer is expected to moderate growth in overall excise in the affected years (the relocation is expected to be revenue neutral as it results in a transfer from excise to customs duty — see Customs variation).

In the projection years, excise revenue is expected to rise by 3.5 per cent in 2013-14 and 4.7 per cent in 2014-15, broadly reflecting long-term trend growth rates.

Table 13: Excise rates[(a)]

Commodity	Rates applying from 1 Feb 2010 $	Rates applying from 30 Apr 2010 $	Rates applying from 2 Aug 2010 $	Rates applying from 1 Feb 2011 $
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	0.03556	0.03556
Aviation kerosene	0.02854	0.02854	0.03556	0.03556
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	7.14	7.14	7.25	7.33
Draught beer, mid strength	22.42	22.42	22.76	23.01
Draught beer, high strength	29.34	29.34	29.78	30.11
Other beer, low strength	35.77	35.77	36.31	36.71
Other beer, mid strength	41.68	41.68	42.31	42.78
Other beer, high strength	41.68	41.68	42.31	42.78
Non-commercial, low strength	2.51	2.51	2.55	2.58
Non-commercial, mid and high strength	2.91	2.91	2.95	2.98
Other beverages, not exceeding 10 per cent alcohol content (per litre of alcohol)	70.61	70.61	71.67	72.46
Potable spirits (per litre of alcohol)				
Brandy	65.93	65.93	66.92	67.66
Other spirits, exceeding 10 per cent alcohol content	70.61	70.61	71.67	72.46
Cigarettes, cigars and tobacco (tobacco content of 0.8 grams or less per stick)	0.26220	0.32775	0.33267	0.33633
Tobacco products (per kilogram)	327.77	409.71	415.86	420.43

(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

Customs duties are expected to grow by 5.1 per cent ($290 million) in 2010-11 largely affected by the 25 per cent increase in the tobacco excise rate from 30 April 2010. This is offset in part by a tariff rate reduction for passenger motor vehicles and textiles, clothing and footwear which came into effect on 1 January 2010.

In 2011-12 and 2012-13, customs duty revenue is expected to grow by 24.5 per cent ($1.5 billion) and 7.8 per cent ($600 million) respectively. The scheduled relocation of a large tobacco producer is expected to increase growth in overall customs duty.

In the projection years, customs duty revenue is expected to grow by 5.3 per cent in 2013-14 and 4.3 per cent in 2014-15.

Table 14: Customs duty 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(a)	5	5	5
Passenger motor vehicles(b)	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	0	0	0

(a) The general tariff of 5 per cent applies to most manufactured goods. Many goods, including primary products, textiles, clothing and footwear and other manufactured goods have free rate of duty.
(b) This category includes new passenger vehicles and off-road vehicles and parts. Used or second-hand vehicles are subject to an additional impost of $12,000.

Other taxation revenue

Table 15: Other taxation revenue

	Actual	Estimates			Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m	$m
Agricultural levies	395	404	414	413	414	415
Levies other than agriculture	447	474	538	488	493	498
Super guarantee charges	507	473	497	517	538	559
Penalties	1	2	0	0	1	0
Broadcasting license fees	241	265	198	254	329	338
Other taxes	1,298	1,141	1,220	1,293	1,353	1,409
Total other taxation revenue	**2,889**	**2,758**	**2,867**	**2,965**	**3,127**	**3,219**

Other taxation revenue is expected to increase by around 4 per cent ($109 million) in 2011-12.

Non-taxation revenue

Table 16: Non-taxation revenue

	Actual	Estimates			Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m	$m
Sales of goods and services						
Fees from regulatory services	2,091	2,223	2,487	2,642	2,754	2,831
Other sales of goods and services	5,508	5,835	5,563	5,583	5,493	5,099
Total sales of goods and services	7,599	8,058	8,050	8,225	8,247	7,930
Interest						
From other governments	168	185	183	182	179	173
From other sources	4,262	5,092	5,552	5,581	5,613	5,304
Total interest	4,430	5,277	5,735	5,763	5,792	5,477
Dividends						
From public sector entities	6,262	627	380	457	492	544
Other dividends	1,396	1,212	949	945	937	987
Total dividends	7,658	1,839	1,328	1,402	1,429	1,531
Other non-taxation revenue						
Royalties	1,503	1,694	1,779	1,741	1,728	1,674
Other	3,577	3,613	3,822	3,895	4,041	4,355
Total other non-taxation revenue	5,081	5,307	5,601	5,636	5,769	6,029
Total non-taxation revenue	**24,767**	**20,480**	**20,714**	**21,026**	**21,238**	**20,967**

Non-tax revenue is expected to grow by 1.1 per cent ($234 million) in 2011-12, partly reflecting increases in offshore petroleum royalties resulting from higher prices and increased production.

APPENDIX A: REVENUE AND RECEIPTS FORWARD ESTIMATES

Table A1: Australian Government general government (accrual) revenue

	Actual	Estimates			Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m	$m
Individuals and other withholding taxes						
Gross income tax withholding	119,922	131,320	144,930	156,920	168,960	181,150
Gross other individuals	27,287	29,860	33,360	38,680	41,890	45,710
less: Refunds	24,390	24,850	27,400	28,000	30,900	33,750
Total individuals and other withholding taxation	122,820	136,330	150,890	167,600	179,950	193,110
Fringe benefits tax	3,523	3,670	3,760	4,220	4,770	5,230
Company tax	53,193	57,880	74,600	78,140	80,300	83,470
Superannuation funds	6,182	7,220	9,330	10,490	11,800	12,810
Resource rent taxes(a)	1,297	940	2,050	8,090	8,870	7,310
Income taxation revenue	**187,016**	**206,040**	**240,630**	**268,540**	**285,690**	**301,930**
Sales taxes						
Goods and services tax	46,553	48,180	50,630	54,230	57,320	60,150
Wine equalisation tax	748	720	760	810	840	890
Luxury car tax	499	500	510	530	560	590
Total sales taxes	47,800	49,400	51,900	55,570	58,720	61,630
Excise duty						
Petrol	6,339	5,910	5,870	5,680	5,230	5,380
Diesel	6,886	7,300	7,610	7,850	8,290	8,530
Beer	2,006	1,950	2,070	2,210	2,350	2,450
Tobacco	5,652	6,720	5,830	5,780	6,120	6,490
Other excisable products	3,665	4,180	4,950	5,390	5,870	6,330
Of which: Other excisable beverages	880	900	960	1,030	1,090	1,140
Total excise duty revenue	24,547	26,060	26,330	26,910	27,860	29,180
Customs duty						
Textiles, clothing and footwear	767	610	620	670	710	600
Passenger motor vehicles	1,226	780	780	790	830	880
Excise-like goods	2,826	3,530	4,830	5,160	5,400	5,630
Other imports	1,248	1,240	1,410	1,610	1,720	1,920
less: Refunds and drawbacks	319	120	120	120	120	120
Total customs duty revenue	5,748	6,040	7,520	8,110	8,540	8,910
Other indirect taxation						
Agricultural levies	395	404	414	413	414	415
Other taxes	2,494	2,355	2,453	2,552	2,713	2,804
Total other indirect taxation revenue	2,889	2,758	2,867	2,965	3,127	3,219
Indirect taxation revenue	**80,984**	**84,258**	**88,617**	**93,555**	**98,247**	**102,939**
Taxation revenue	**268,000**	**290,298**	**329,247**	**362,095**	**383,937**	**404,869**
Sales of goods and services	7,599	8,058	8,050	8,225	8,247	7,930
Interest	4,430	5,277	5,735	5,763	5,792	5,477
Dividends	7,658	1,839	1,328	1,402	1,429	1,531
Other non-taxation revenue	5,081	5,307	5,601	5,636	5,769	6,029
Non-taxation revenue	**24,767**	**20,480**	**20,714**	**21,026**	**21,238**	**20,967**
Total revenue	**292,767**	**310,779**	**349,961**	**383,121**	**405,174**	**425,836**
Memorandum:						
Capital gains tax(b)	*6,400*	*5,500*	*8,300*	*12,600*	*16,300*	*18,800*
Medicare levy revenue	*8,013*	*8,330*	*8,940*	*9,670*	*10,370*	*11,080*

(a) Resource rent taxes include PRRT and gross revenue from the MRRT. The net revenue from the MRRT is $3.7 billion in 2012-13, $4.0 billion in 2013-14 and $3.4 billion in 2014-15, which represents the net impact on revenue across several different revenue heads. This includes the offsetting reductions in company tax (through deductibility) and interactions with other taxes.

(b) Capital gains tax is part of other individuals, companies and superannuation funds tax. The 2009-10 reported figure is an estimate.

Table A2: Australian Government general government (cash) receipts

	Actual	Estimates			Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m	$m
Individuals and other withholding taxes						
Gross income tax withholding	118,532	130,100	143,850	155,750	167,700	179,800
Gross other individuals	25,928	27,400	31,050	36,100	39,100	42,600
less: Refunds	24,390	24,850	27,400	28,000	30,900	33,750
Total individuals and other withholding taxation	120,070	132,650	147,500	163,850	175,900	188,650
Fringe benefits tax	3,504	3,600	3,700	4,150	4,700	5,150
Company tax	52,209	57,100	72,800	76,300	78,400	81,500
Superannuation funds	6,099	7,090	9,230	10,380	11,680	12,680
Resource rent taxes(a)	1,251	840	2,080	8,100	8,880	7,320
Income taxation receipts	**183,132**	**201,280**	**235,310**	**262,780**	**279,560**	**295,300**
Sales taxes						
Goods and services tax	43,967	45,779	48,482	51,890	54,850	57,560
Wine equalisation tax	733	700	750	800	830	880
Luxury car tax	472	500	510	530	560	590
Total sales taxes	45,173	46,979	49,742	53,220	56,240	59,030
Excise duty						
Petrol	6,301	5,900	5,790	5,680	5,520	5,320
Diesel	6,844	7,320	7,630	7,870	8,290	8,530
Beer	1,994	1,950	2,070	2,210	2,350	2,450
Tobacco	5,653	6,720	5,830	5,780	6,120	6,490
Other excisable products	3,647	4,180	4,950	5,390	5,870	6,330
of which: Other excisablebeverages	875	900	960	1,030	1,090	1,140
Total excise duty receipts	24,439	26,070	26,270	26,930	28,150	29,120
Customs duty						
Textiles, clothing and footwear	763	610	620	670	710	600
Passenger motor vehicles	917	480	630	790	830	880
Excise-like goods	2,826	3,530	4,830	5,160	5,400	5,630
Other imports	1,246	1,230	1,400	1,600	1,710	1,910
less: Refunds and drawbacks	411	260	260	260	260	260
Total customs duty receipts	5,341	5,590	7,220	7,960	8,390	8,760
Other indirect taxation						
Agricultural levies	395	404	414	413	414	415
Other taxes	2,494	2,193	2,147	2,124	2,545	2,740
Total other indirect taxation receipts	2,888	2,596	2,561	2,536	2,959	3,155
Indirect taxation receipts	**77,841**	**81,235**	**85,793**	**90,646**	**95,738**	**100,066**
Taxation receipts	**260,973**	**282,515**	**321,103**	**353,426**	**375,298**	**395,366**
Sales of goods and services	7,706	7,901	7,996	8,157	8,211	7,866
Interest received	4,025	4,954	5,297	5,272	5,255	4,882
Dividends	6,999	2,984	1,422	1,428	1,453	1,536
Other non-taxation receipts	4,960	5,335	6,573	10,237	5,718	5,804
Non-taxation receipts	**23,689**	**21,175**	**21,288**	**25,094**	**20,637**	**20,087**
Total receipts	**284,662**	**303,690**	**342,390**	**378,520**	**395,935**	**415,453**
Memorandum:						
Capital gains tax(b)	*6,400*	*5,500*	*8,300*	*12,600*	*16,300*	*18,800*
Medicare levy receipts	*8,013*	*8,330*	*8,940*	*9,670*	*10,370*	*11,080*

(a) Resource rent taxes include PRRT and gross receipts from the MRRT. The net receipts from the MRRT are $3.7 billion in 2012-13, $4.0 billion in 2013-14 and $3.4 billion in 2014-15, which represents the net impact on receipts across several different revenue heads. This includes the offsetting reductions in company tax (through deductibility) and interactions with other taxes.

(b) Capital gains tax is part of other individuals, companies and superannuation funds tax. The 2009-10 reported figure is an estimate.

APPENDIX B: CHANGES SINCE 2010-11 MYEFO

Table B1: Reconciliation of 2010-11 general government (accrual) revenue

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	132,270	131,320	-950	-0.7
Gross other individuals	30,440	29,860	-580	-1.9
less: Refunds	24,350	24,850	500	2.1
Total individuals and other withholding taxation	138,360	136,330	-2,030	-1.5
Fringe benefits tax	3,660	3,670	10	0.3
Company tax	63,680	57,880	-5,800	-9.1
Superannuation funds	7,330	7,220	-110	-1.5
Resource rent taxes(a)	1,470	940	-530	-36.1
Income taxation revenue	**214,500**	**206,040**	**-8,460**	**-3.9**
Sales taxes				
Goods and services tax	49,130	48,180	-950	-1.9
Wine equalisation tax	770	720	-50	-6.5
Luxury car tax	540	500	-40	-7.4
Total sales taxes	50,440	49,400	-1,040	-2.1
Excise duty				
Petrol	6,000	5,910	-90	-1.5
Diesel	7,060	7,300	240	3.4
Beer	2,000	1,950	-50	-2.5
Tobacco	6,070	6,720	650	10.7
Other excisable products	4,170	4,180	10	0.2
Of which: Other excisable beverages	940	900	-40	-4.3
Total excise duty revenue	25,300	26,060	760	3.0
Customs duty				
Textiles, clothing and footwear	630	610	-20	-3.2
Passenger motor vehicles	830	780	-50	-6.0
Excise-like goods	3,700	3,530	-170	-4.6
Other imports	1,510	1,240	-270	-17.9
less: Refunds and drawbacks	240	120	-120	-50.0
Total customs duty revenue	6,430	6,040	-390	-6.1
Other indirect taxation				
Agricultural levies	376	404	28	7.4
Other taxes	2,374	2,355	-19	-0.8
Total other indirect taxation revenue	2,749	2,758	9	0.3
Indirect taxation revenue	**84,919**	**84,258**	**-661**	**-0.8**
Taxation revenue	**299,419**	**290,298**	**-9,121**	**-3.0**
Sales of goods and services	7,987	8,058	71	0.9
Interest	5,074	5,277	203	4.0
Dividends	1,764	1,839	75	4.3
Other non-taxation revenue	5,438	5,307	-131	-2.4
Non-taxation revenue	**20,263**	**20,480**	**217**	**1.1**
Total revenue	**319,682**	**310,779**	**-8,904**	**-2.8**
Memorandum:				
Capital gains tax	*8,700*	*5,500*	*-3,200*	*-36.8*
Medicare levy revenue	*8,220*	*8,330*	*110*	*1.3*

(a) Resource rent taxes in 2010-11 only includes PRRT.

Table B2: Reconciliation of 2011-12 general government (accrual) revenue

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	145,610	144,930	-680	-0.5
Gross other individuals	34,700	33,360	-1,340	-3.9
less: Refunds	27,100	27,400	300	1.1
Total individuals and other withholding taxation	153,210	150,890	-2,320	-1.5
Fringe benefits tax	3,760	3,760	0	0.0
Company tax	77,200	74,600	-2,600	-3.4
Superannuation funds	9,150	9,330	180	2.0
Resource rent taxes(a)	2,070	2,050	-20	-1.0
Income taxation revenue	**245,390**	**240,630**	**-4,760**	**-1.9**
Sales taxes				
Goods and services tax	52,200	50,630	-1,570	-3.0
Wine equalisation tax	830	760	-70	-8.4
Luxury car tax	580	510	-70	-12.1
Total sales taxes	53,610	51,900	-1,710	-3.2
Excise duty				
Petrol	5,970	5,870	-100	-1.7
Diesel	7,270	7,610	340	4.7
Beer	2,170	2,070	-100	-4.6
Tobacco	5,430	5,830	400	7.4
Other excisable products	4,920	4,950	30	0.6
Of which: Other excisable beverages	1,020	960	-60	-5.9
Total excise duty revenue	25,760	26,330	570	2.2
Customs duty				
Textiles, clothing and footwear	660	620	-40	-6.1
Passenger motor vehicles	920	780	-140	-15.2
Excise-like goods	4,790	4,830	40	0.8
Other imports	1,670	1,410	-260	-15.6
less: Refunds and drawbacks	240	120	-120	-50.0
Total customs duty revenue	7,800	7,520	-280	-3.6
Other indirect taxation				
Agricultural levies	384	414	30	7.9
Other taxes	2,337	2,453	116	5.0
Total other indirect taxation revenue	2,721	2,867	146	5.4
Indirect taxation revenue	**89,891**	**88,617**	**-1,274**	**-1.4**
Taxation revenue	**335,281**	**329,247**	**-6,034**	**-1.8**
Sales of goods and services	8,133	8,050	-83	-1.0
Interest	4,842	5,735	892	18.4
Dividends	1,426	1,328	-98	-6.9
Other non-taxation revenue	5,694	5,601	-93	-1.6
Non-taxation revenue	**20,096**	**20,714**	**618**	**3.1**
Total revenue	**355,376**	**349,961**	**-5,416**	**-1.5**
Memorandum:				
Capital gains tax	*11,300*	*8,300*	*-3,000*	*-26.5*
Medicare levy revenue	*8,850*	*8,940*	*90*	*1.0*

(a) Resource rent taxes in 2011-12 only includes PRRT.

Table B3: Reconciliation of 2010-11 general government (cash) receipts

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	130,900	130,100	-800	-0.6
Gross other individuals	28,750	27,400	-1,350	-4.7
less: Refunds	24,350	24,850	500	2.1
Total individuals and other withholding taxation	135,300	132,650	-2,650	-2.0
Fringe benefits tax	3,600	3,600	0	0.0
Company tax	62,400	57,100	-5,300	-8.5
Superannuation funds	7,290	7,090	-200	-2.7
Resource rent taxes(a)	1,350	840	-510	-37.8
Income taxation receipts	**209,940**	**201,280**	**-8,660**	**-4.1**
Sales taxes				
Goods and services tax	47,237	45,779	-1,459	-3.1
Wine equalisation tax	760	700	-60	-7.9
Luxury car tax	540	500	-40	-7.4
Total sales taxes	48,537	46,979	-1,559	-3.2
Excise duty				
Petrol	5,910	5,900	-10	-0.2
Diesel	7,080	7,320	240	3.4
Beer	2,000	1,950	-50	-2.5
Tobacco	6,070	6,720	650	10.7
Other excisable products	4,170	4,180	10	0.2
Of which: Other excisable beverages	940	900	-40	-4.3
Total excise duty receipts	25,230	26,070	840	3.3
Customs duty				
Textiles, clothing and footwear	630	610	-20	-3.2
Passenger motor vehicles	600	480	-120	-20.0
Excise-like goods	3,700	3,530	-170	-4.6
Other imports	1,500	1,230	-270	-18.0
less: Refunds and drawbacks	380	260	-120	-31.6
Total customs duty receipts	6,050	5,590	-460	-7.6
Other indirect taxation				
Agricultural levies	376	404	28	7.4
Other taxes	2,135	2,193	57	2.7
Total other indirect taxation receipts	2,511	2,596	85	3.4
Indirect taxation receipts	**82,329**	**81,235**	**-1,094**	**-1.3**
Taxation receipts	**292,269**	**282,515**	**-9,754**	**-3.3**
Sales of goods and services	7,879	7,901	23	0.3
Interest received	4,779	4,954	175	3.7
Dividends	2,814	2,984	170	6.1
Other non-taxation receipts	5,464	5,335	-129	-2.4
Non-taxation receipts	**20,936**	**21,175**	**239**	**1.1**
Total receipts	**313,205**	**303,690**	**-9,515**	**-3.0**
Capital gains tax	*8,700*	*5,500*	*-3,200*	*-36.8*
Medicare levy revenue	*8,220*	*8,330*	*110*	*1.3*

(a) Resource rent taxes in 2010-11 only includes PRRT.

Table B4: Reconciliation of 2011-12 general government (cash) receipts

	Estimates		Change on MYEFO	
	MYEFO $m	Budget $m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	144,400	143,850	-550	-0.4
Gross other individuals	33,000	31,050	-1,950	-5.9
less: Refunds	27,100	27,400	300	1.1
Total individuals and other withholding taxation	150,300	147,500	-2,800	-1.9
Fringe benefits tax	3,700	3,700	0	0.0
Company tax	75,400	72,800	-2,600	-3.4
Superannuation funds	9,080	9,230	150	1.7
Resource rent taxes(a)	2,100	2,080	-20	-1.0
Income taxation receipts	**240,580**	**235,310**	**-5,270**	**-2.2**
Sales taxes				
Goods and services tax	50,100	48,482	-1,618	-3.2
Wine equalisation tax	820	750	-70	-8.5
Luxury car tax	580	510	-70	-12.1
Total sales taxes	51,500	49,742	-1,758	-3.4
Excise duty				
Petrol	5,880	5,790	-90	-1.5
Diesel	7,290	7,630	340	4.7
Beer	2,170	2,070	-100	-4.6
Tobacco	5,430	5,830	400	7.4
Other excisable products	4,920	4,950	30	0.6
Of which: Other excisable beverages	1,020	960	-60	-5.9
Total excise duty receipts	25,690	26,270	580	2.3
Customs duty				
Textiles, clothing and footwear	660	620	-40	-6.1
Passenger motor vehicles	810	630	-180	-22.2
Excise-like goods	4,790	4,830	40	0.8
Other imports	1,660	1,400	-260	-15.7
less: Refunds and drawbacks	380	260	-120	-31.6
Total customs duty receipts	7,540	7,220	-320	-4.2
Other indirect taxation				
Agricultural levies	384	414	30	7.9
Other taxes	1,993	2,147	154	7.7
Total other indirect taxation receipts	2,376	2,561	185	7.8
Indirect taxation receipts	**87,106**	**85,793**	**-1,313**	**-1.5**
Taxation receipts	**327,686**	**321,103**	**-6,583**	**-2.0**
Sales of goods and services	8,075	7,996	-79	-1.0
Interest received	4,498	5,297	798	17.8
Dividends	1,552	1,422	-130	-8.3
Other non-taxation receipts	6,384	6,573	189	3.0
Non-taxation receipts	**20,509**	**21,288**	**779**	**3.8**
Total receipts	**348,194**	**342,390**	**-5,804**	**-1.7**
Memorandum:				
Capital gains tax	*11,300*	*8,300*	*-3,000*	*-26.5*
Medicare levy revenue	*8,850*	*8,940*	*90*	*1.0*

(a) Resource rent taxes in 2011-12 only includes PRRT.

APPENDIX C: REVENUE AND RECEIPTS HISTORY AND FORECASTS

Table C1: Australian Government (accrual) revenue

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 (est)	2011-12 (est)	2012-13 (est)	2013-14 (proj)	2014-15 (proj)
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Individuals and other withholding taxes													
Gross income tax withholding	84,640	90,095	98,250	103,811	107,809	114,700	117,086	119,922	131,320	144,930	156,920	168,960	181,150
Gross other individuals	18,314	21,010	24,003	25,859	26,952	31,036	32,260	27,287	29,860	33,360	38,680	41,890	45,710
less: Refunds	11,651	12,325	13,734	15,239	17,147	19,601	23,569	24,390	24,850	27,400	28,000	30,900	33,750
Total individuals and other withholding	91,303	98,779	108,519	114,431	117,614	126,135	125,777	122,820	136,330	150,890	167,600	179,950	193,110
Fringe benefits tax	3,154	3,642	3,476	4,084	3,754	3,796	3,581	3,523	3,670	3,760	4,220	4,770	5,230
Superannuation funds	4,896	5,785	6,410	6,705	7,879	11,988	9,227	6,182	7,220	9,330	10,490	11,800	12,810
Company tax	33,365	36,337	43,106	48,987	58,538	64,790	60,705	53,193	57,880	74,600	78,140	80,300	83,470
Resource rent taxes(a)	1,715	1,165	1,465	1,991	1,594	1,871	2,099	1,297	940	2,050	8,090	8,870	7,310
Income taxation revenue	134,432	145,709	162,974	176,198	189,378	208,579	201,389	187,016	206,040	240,630	268,540	285,690	301,930
Sales taxes													
Goods and services tax	31,257	34,121	35,975	39,118	41,208	44,381	42,626	46,553	48,180	50,630	54,230	57,320	60,150
Wine equalisation tax	673	705	693	657	651	661	707	748	720	760	810	840	890
Luxury car tax	261	336	302	331	365	464	384	499	500	510	530	560	590
Other sales taxes(b)	-39	-38	-13	-19	60	-19	-1	0	0	0	0	0	0
Total sales taxes	32,153	35,122	36,957	40,086	42,284	45,486	43,716	47,800	49,400	51,900	55,570	58,720	61,630
Excise duty													
Fuel excise	13,337	13,529	14,350	14,073	14,653	15,085	15,592	15,766	16,230	17,180	17,580	17,970	18,740
Other excise	7,450	7,539	7,631	7,854	8,082	8,441	8,727	8,781	9,830	9,150	9,330	9,890	10,440
Total excise duty	20,787	21,068	21,981	21,927	22,734	23,526	24,319	24,547	26,060	26,330	26,910	27,860	29,180
Customs duty	5,573	5,622	5,548	4,988	5,644	6,070	6,276	5,748	6,040	7,520	8,110	8,540	8,910
Other indirect taxation													
Agricultural levies	586	603	584	610	608	611	620	395	404	414	413	414	415
Other taxes	1,672	1,835	1,899	1,908	1,862	1,957	2,334	2,494	2,355	2,453	2,552	2,713	2,804
Total other indirect taxation revenue	2,258	2,438	2,483	2,518	2,470	2,567	2,954	2,889	2,758	2,867	2,965	3,127	3,219
Indirect taxation revenue	60,770	64,250	66,969	69,518	73,132	77,650	77,264	80,984	84,258	88,617	93,555	98,247	102,939
Taxation revenue	195,203	209,959	229,943	245,716	262,510	286,229	278,653	268,000	290,298	329,247	362,095	383,937	404,869

Table C1: Australian Government (accrual) revenue (continued)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
									(est)	(est)	(est)	(proj)	(proj)
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Interest received	1,185	1,304	1,621	2,437	3,921	5,558	5,124	4,430	5,277	5,735	5,763	5,792	5,477
Dividends and other	10,535	10,905	10,943	13,085	11,979	11,942	15,155	20,337	15,203	14,979	15,263	15,446	15,490
Non-taxation revenue	11,720	12,209	12,564	15,522	15,900	17,500	20,280	24,767	20,480	20,714	21,026	21,238	20,967
Total revenue	206,922	222,168	242,507	261,238	278,410	303,729	298,933	292,767	310,779	349,961	383,121	405,174	425,836

(a) Resource rent taxes include PRRT and gross revenue from the MRRT. The net revenue from the MRRT is $3.7 billion in 2012-13, $4.0 billion in 2013-14 and $3.4 billion in 2014-15, which represents the net impact on revenue across several different revenue heads. This includes the offsetting reductions in company tax (through deductibility) and interactions with other taxes.

(b) 'Other sales taxes' includes Wholesale Sales Tax prior to 2000-01, when it was abolished as part of the changes under A New Tax System.

Table C2: Major categories of (accrual) revenue as proportion of gross domestic product

	Income tax									Indirect taxation revenue						
	Gross ITW	Gross other ind.	Refunds	Total ind. & w'holding	FBT	Super funds	Companies	RRT(a)	Total income tax	Sales tax(b)	Excise & Customs duty	Other tax	Total indirect tax	Total tax revenue	Total non-tax revenue	Total revenue
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
1999-00	12.2	2.1	1.6	12.7	0.6	0.6	3.7	0.2	17.8	2.4	2.7	0.2	5.3	23.1	2.1	25.2
2000-01	10.7	1.9	1.6	11.0	0.5	0.7	5.0	0.3	17.6	3.6	3.3	0.3	7.2	24.8	1.4	26.3
2001-02	10.5	2.3	1.4	11.4	0.5	0.5	3.6	0.2	16.2	3.7	3.3	0.3	7.3	23.5	1.6	25.1
2002-03	10.5	2.3	1.4	11.4	0.4	0.6	4.1	0.2	16.7	4.0	3.3	0.3	7.6	24.3	1.5	25.7
2003-04	10.4	2.4	1.4	11.4	0.4	0.7	4.2	0.1	16.8	4.1	3.1	0.3	7.4	24.3	1.4	25.7
2004-05	10.6	2.6	1.5	11.7	0.4	0.7	4.7	0.2	17.6	4.0	3.0	0.3	7.2	24.8	1.4	26.2
2005-06	10.4	2.6	1.5	11.4	0.4	0.7	4.9	0.2	17.6	4.0	2.7	0.3	6.9	24.5	1.5	26.1
2006-07	9.9	2.5	1.6	10.8	0.3	0.7	5.4	0.1	17.3	3.9	2.6	0.2	6.7	24.0	1.5	25.5
2007-08	9.7	2.6	1.7	10.6	0.3	1.0	5.5	0.2	17.6	3.8	2.5	0.2	6.5	24.1	1.5	25.6
2008-09	9.3	2.6	1.9	10.0	0.3	0.7	4.8	0.2	16.0	3.5	2.4	0.2	6.2	22.2	1.6	23.8
2009-10	9.3	2.1	1.9	9.6	0.3	0.5	4.1	0.1	14.6	3.7	2.4	0.2	6.3	20.9	1.9	22.8
2010-11 est	9.5	2.2	1.8	9.8	0.3	0.5	4.2	0.1	14.8	3.6	2.3	0.2	6.1	20.9	1.5	22.4
2011-12 est	9.8	2.3	1.9	10.2	0.3	0.6	5.1	0.1	16.3	3.5	2.3	0.2	6.0	22.3	1.4	23.7
2012-13 est	10.1	2.5	1.8	10.7	0.3	0.7	5.0	0.5	17.2	3.6	2.2	0.2	6.0	23.2	1.3	24.6
2013-14 proj	10.3	2.6	1.9	11.0	0.3	0.7	4.9	0.5	17.4	3.6	2.2	0.2	6.0	23.4	1.3	24.7
2014-15 proj	10.5	2.6	2.0	11.2	0.3	0.7	4.8	0.4	17.5	3.6	2.2	0.2	6.0	23.4	1.2	24.6

(a) Resource rent taxes (RRT) include PRRT and gross revenue from the MRRT. The net revenue from the MRRT is $3.7 billion in 2012-13, $4.0 billion in 2013-14 and $3.4 billion in 2014-15, which represents the net impact on revenue across several different revenue heads. This includes the offsetting reductions in company tax (through deductibility) and interactions with other taxes.

(b) ‘Other sales taxes’ includes Wholesale Sales Tax prior to 2000-01, when it was abolished as part of the changes under A New Tax System.

Table C3: Australian government (cash) receipts

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
									(est)	(est)	(est)	(proj)	(proj)
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Individuals and other withholding taxes													
Gross income tax withholding	84,134	89,638	97,304	103,120	107,119	113,982	115,899	118,532	130,100	143,850	155,750	167,700	179,800
Gross other individuals	17,436	19,935	22,554	24,895	25,797	29,525	30,030	25,928	27,400	31,050	36,100	39,100	42,600
less: Refunds	11,651	12,325	13,734	15,244	17,145	19,601	23,569	24,390	24,850	27,400	28,000	30,900	33,750
Total individuals and other withholding	89,919	97,247	106,123	112,770	115,770	123,906	122,361	120,070	132,650	147,500	163,850	175,900	188,650
Fringe benefits tax	3,459	3,590	3,703	4,049	3,761	3,856	3,399	3,504	3,600	3,700	4,150	4,700	5,150
Superannuation funds	4,840	5,551	6,248	6,368	8,211	12,054	9,217	6,099	7,090	9,230	10,380	11,680	12,680
Company tax	32,752	36,101	40,404	48,960	57,100	61,700	60,391	52,209	57,100	72,800	76,300	78,400	81,500
Resource rent taxes(a)	1,712	1,168	1,459	1,917	1,510	1,686	2,184	1,251	840	2,080	8,100	8,880	7,320
Income taxation receipts	132,681	143,658	157,937	174,063	186,353	203,202	197,552	183,132	201,280	235,310	262,780	279,560	295,300
Sales taxes													
Goods and services tax	30,713	33,069	35,184	37,342	39,614	42,424	41,335	43,967	45,779	48,482	51,890	54,850	57,560
Wine equalisation tax	669	704	682	656	650	665	693	733	700	750	800	830	880
Luxury car tax	261	335	298	322	364	452	393	472	500	510	530	560	590
Other sales taxes(b)	-72	-48	-10	-16	-6	0	-1	0	0	0	0	0	0
Total sales taxes	31,571	34,060	36,154	38,304	40,621	43,541	42,420	45,173	46,979	49,742	53,220	56,240	59,030
Excise duty													
Fuel excise	13,283	13,540	14,276	13,992	14,663	15,252	15,637	15,675	16,240	17,120	17,600	18,260	18,680
Other excise	7,450	7,539	7,612	7,822	8,086	8,474	8,736	8,764	9,830	9,150	9,330	9,890	10,440
Total excise duty	20,733	21,079	21,888	21,814	22,749	23,727	24,373	24,439	26,070	26,270	26,930	28,150	29,120
Customs duty	4,982	5,038	5,012	4,488	5,063	5,561	5,814	5,341	5,590	7,220	7,960	8,390	8,760
Other indirect taxation													
Agricultural levies	586	603	584	610	608	611	620	395	404	414	413	414	415
Other taxes	1,578	1,655	1,740	1,936	1,999	1,734	1,848	2,494	2,193	2,147	2,124	2,545	2,740
Total other indirect taxation receipts	2,164	2,258	2,324	2,546	2,607	2,345	2,468	2,888	2,596	2,561	2,536	2,959	3,155
Indirect taxation receipts	59,450	62,435	65,377	67,152	71,039	75,174	75,075	77,841	81,235	85,793	90,646	95,738	100,066
Taxation receipts	192,132	206,092	223,314	241,215	257,392	278,376	272,627	260,973	282,515	321,103	353,426	375,298	395,366

Table C3: Australian government (cash) receipts

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2013-14
								(est)	(est)	(est)	(proj)	(proj)	(proj)
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Interest received	982	1,056	1,400	2,325	3,731	4,769	5,166	4,025	4,954	5,297	5,272	5,255	4,882
Dividends and other	11,500	10,627	11,271	12,403	11,514	11,772	14,806	19,665	16,220	15,991	19,822	15,382	15,206
Non-taxation receipts	12,482	11,683	12,670	14,728	15,245	16,540	19,973	23,689	21,175	21,288	25,094	20,637	20,087
Total receipts	204,614	217,776	235,985	255,943	272,637	294,917	292,600	284,662	303,690	342,390	378,520	395,935	415,453

(a) Resource rent taxes include PRRT and gross receipts from the MRRT. The net receipts from the MRRT are $3.7 billion in 2012-13, $4.0 billion in 2013-14 and $3.4 billion in 2014-15, which represents the net impact on receipts across several different revenue heads. This includes the offsetting reductions in company tax (through deductibility) and interactions with other taxes.

(b) 'Other sales taxes' includes Wholesale Sales Tax prior to 2000-01, when it was abolished as part of the changes under A New Tax System.

Table C4: Major categories of (cash) receipts as proportion of gross domestic product

	Income tax									Indirect taxation receipts						
	Gross ITW	Gross other ind.(b)	Refunds	Total ind. & w'holding	FBT	Super funds	Companies	RRT(c)	Total income tax	Sales tax(d)	Excise & Customs duty	Other tax	Total indirect tax	Total tax receipts	Total non-tax receipts	Total receipts
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
1977-78	10.1	2.4	0.9	11.6	0.0	0.0	2.9	0.0	14.5	1.7	3.7	0.4	5.7	20.2	2.4	22.7
1978-79	9.7	2.0	0.9	10.8	0.0	0.0	2.5	0.0	13.3	1.5	4.4	0.4	6.2	19.6	2.3	21.8
1979-80	9.9	2.1	0.8	11.2	0.0	0.0	2.5	0.0	13.7	1.4	4.8	0.4	6.5	20.2	2.1	22.3
1980-81	10.0	2.2	0.8	11.5	0.0	0.0	3.1	0.0	14.6	1.4	5.0	0.3	6.7	21.2	2.2	23.4
1981-82	10.7	2.1	0.8	12.1	0.0	0.0	2.8	0.0	14.9	1.6	4.5	0.3	6.4	21.4	2.0	23.4
1982-83	11.0	2.1	1.0	12.1	0.0	0.0	2.5	0.0	14.7	1.8	4.7	0.3	6.8	21.5	2.3	23.8
1983-84	10.6	2.1	1.1	11.6	0.0	0.0	2.1	0.0	13.7	1.9	4.7	0.4	7.1	20.8	2.4	23.2
1984-85	11.1	2.3	0.9	12.5	0.0	0.0	2.3	0.0	14.9	2.1	4.9	0.5	7.5	22.3	2.5	24.8
1985-86	11.4	2.6	1.3	12.7	0.0	0.0	2.3	0.0	15.0	2.2	4.9	0.4	7.4	22.4	2.8	25.2
1986-87	11.7	3.0	1.3	13.4	0.2	0.0	2.3	0.0	16.0	2.2	4.5	0.4	7.1	23.1	2.9	26.0
1987-88	11.3	3.0	1.3	13.0	0.3	0.0	2.7	0.0	15.9	2.3	4.2	0.4	7.0	22.9	2.6	25.5
1988-89	11.7	2.7	1.4	13.0	0.3	0.0	2.8	0.0	16.0	2.5	3.5	0.4	6.4	22.5	2.0	24.4
1989-90	11.4	2.5	1.4	12.5	0.3	0.1	3.2	0.0	16.0	2.5	3.4	0.3	6.2	22.2	1.9	24.2
1990-91	11.1	2.7	1.6	12.2	0.3	0.3	3.4	0.1	16.2	2.2	3.3	0.4	5.9	22.1	1.8	23.9
1991-92	10.8	2.1	1.8	11.1	0.3	0.3	3.1	0.2	15.1	2.1	3.0	0.3	5.4	20.4	2.0	22.4
1992-93	10.7	1.9	1.7	10.8	0.3	0.3	2.9	0.3	14.6	2.1	2.9	0.2	5.2	19.8	2.0	21.8
1993-94	10.6	1.8	1.5	10.9	0.3	0.3	2.7	0.2	14.4	2.2	3.0	0.2	5.4	19.8	2.2	22.0
1994-95	10.8	1.9	1.6	11.1	0.5	0.4	3.1	0.2	15.3	2.3	3.1	0.2	5.7	21.0	1.7	22.7
1995-96	11.3	1.9	1.6	11.6	0.6	0.3	3.4	0.1	16.1	2.4	3.0	0.2	5.7	21.7	1.6	23.4
1996-97	11.5	2.1	1.6	12.1	0.6	0.5	3.4	0.2	16.8	2.4	3.0	0.2	5.5	22.3	1.6	23.9
1997-98	11.7	2.0	1.6	12.2	0.5	0.5	3.3	0.2	16.7	2.4	2.9	0.2	5.5	22.1	1.6	23.8

Table C4: Major categories of (cash) receipts as proportion of gross domestic product[(a)]

	Income tax									Indirect taxation receipts						
	Gross ITW	Gross other ind.(b)	Refunds	Total ind. & w'holding	FBT	Super funds	Companies	RRT(c)	Total income tax	Sales tax(d)	Excise & Customs duty	Other tax	Total indirect tax	Total tax receipts	Total non-tax receipts	Total receipts
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
1998-99	12.1	2.1	1.7	12.5	0.5	0.6	3.3	0.1	17.1	2.4	2.8	0.0	5.2	22.2	2.2	24.4
1999-00	12.2	2.0	1.6	12.6	0.6	0.6	3.7	0.2	17.6	2.3	2.7	0.2	5.2	22.8	2.2	25.0
2000-01	10.6	1.9	1.6	10.9	0.5	0.7	4.5	0.3	16.9	3.6	3.3	0.2	7.2	24.0	1.8	25.8
2001-02	10.4	2.1	1.4	11.2	0.5	0.6	3.6	0.2	16.0	3.6	3.2	0.3	7.1	23.1	1.6	24.7
2002-03	10.5	2.2	1.4	11.2	0.4	0.6	4.1	0.2	16.5	3.9	3.2	0.3	7.4	23.9	1.6	25.4
2003-04	10.4	2.3	1.4	11.2	0.4	0.6	4.2	0.1	16.6	3.9	3.0	0.3	7.2	23.8	1.4	25.2
2004-05	10.5	2.4	1.5	11.5	0.4	0.7	4.4	0.2	17.0	3.9	2.9	0.3	7.1	24.1	1.4	25.5
2005-06	10.3	2.5	1.5	11.3	0.4	0.6	4.9	0.2	17.4	3.8	2.6	0.3	6.7	24.1	1.5	25.6
2006-07	9.8	2.4	1.6	10.6	0.3	0.8	5.2	0.1	17.1	3.7	2.5	0.2	6.5	23.6	1.4	25.0
2007-08	9.6	2.5	1.7	10.4	0.3	1.0	5.2	0.1	17.1	3.7	2.5	0.2	6.3	23.5	1.4	24.9
2008-09	9.2	2.4	1.9	9.7	0.3	0.7	4.8	0.2	15.7	3.4	2.4	0.2	6.0	21.7	1.6	23.3
2009-10	9.2	2.0	1.9	9.3	0.3	0.5	4.1	0.1	14.3	3.5	2.3	0.2	6.1	20.3	1.8	22.2
2010-11 est	9.4	2.0	1.8	9.6	0.3	0.5	4.1	0.1	14.5	3.4	2.3	0.2	5.8	20.3	1.5	21.9
2011-12 est	9.7	2.1	1.9	10.0	0.3	0.6	4.9	0.1	15.9	3.4	2.3	0.2	5.8	21.8	1.4	23.2
2012-13 est	10.0	2.3	1.8	10.5	0.3	0.7	4.9	0.5	16.8	3.4	2.2	0.2	5.8	22.7	1.6	24.3
2013-14 proj	10.2	2.4	1.9	10.7	0.3	0.7	4.8	0.5	17.0	3.4	2.2	0.2	5.8	22.9	1.3	24.1
2014-15 proj	10.4	2.5	2.0	10.9	0.3	0.7	4.7	0.4	17.1	3.4	2.2	0.2	5.8	22.9	1.2	24.0

(a) Figures in 1998-99 are based on the old Commonwealth Budget Sector cash accounting framework. Figures from 1999-2000 are on an 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) Resource rent taxes (RRT) include PRRT and gross receipts from the MRRT. The net receipts from the MRRT are \$3.7 billion in 2012-13, \$4.0 billion in 2013-14 and \$3.4 billion in 2014-15, which represents the net impact on receipts across several different revenue heads. This includes the offsetting reductions in company tax (through deductibility) and interactions with other taxes.

(d) Sales taxes include wholesale sales tax which was abolished in 2000-01.

APPENDIX D: FORECAST METHODOLOGY AND PERFORMANCE

The Government's revenue estimates are prepared using a 'base plus growth' methodology. The last known outcome (2009-10 for the 2011-12 Budget) is used as the base to which estimated growth rates are applied, resulting in revenue estimates for the current and future years. The growth rates are determined from forecasts for a large range of economic data, many of which are described in Statement 2.

The smaller and relatively simple heads of revenue, such as luxury car tax and many of the excises, are forecast by mapping an appropriate economic parameter growth rate forecast directly to the tax growth rate. Most of the large and complex heads of revenue, such as personal and company income taxes, are forecast by mapping appropriate economic parameter growth rates to the various income, expense and deduction items on the relevant tax returns. An estimate of total tax payable is then calculated by applying the statutory rates to the estimated income base. Timing models based on past payment behaviour assist in determining whether this tax will be paid in the year the income is earned, such as for pay as you go withholding tax, or in future years, such as for individuals' refunds.

Other information affecting revenue forecasts includes known tax collections for the current year, new policy, and properties of the calendar (for example, more pay as you go withholding tax is paid on a Thursday than any other day so years with 53 Thursdays will result in more revenue than years with 52 Thursdays).

The Government's revenue forecasts, like all forecasts, are subject to a margin of error. The discernable trend between 2000-01 and 2007-08 was for revenue forecasts to under predict revenue outcomes (Chart D1). For example, the 2007-08 Budget forecast taxation revenue to grow by 4.8 per cent in 2007-08, compared to the outcome of 9.3 per cent, a forecast error of 4.5 percentage points. Since 2008-09, reflecting the global financial crisis, the outcome for revenue has been lower than the Budget forecast.

The revenue forecasting error may be split into three underlying sources: errors in the forecasts of the economy underpinning the revenue 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 compliance activities of the Australian Tax Office 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 D1: Budget forecast error on taxation revenue growth (excluding GST)

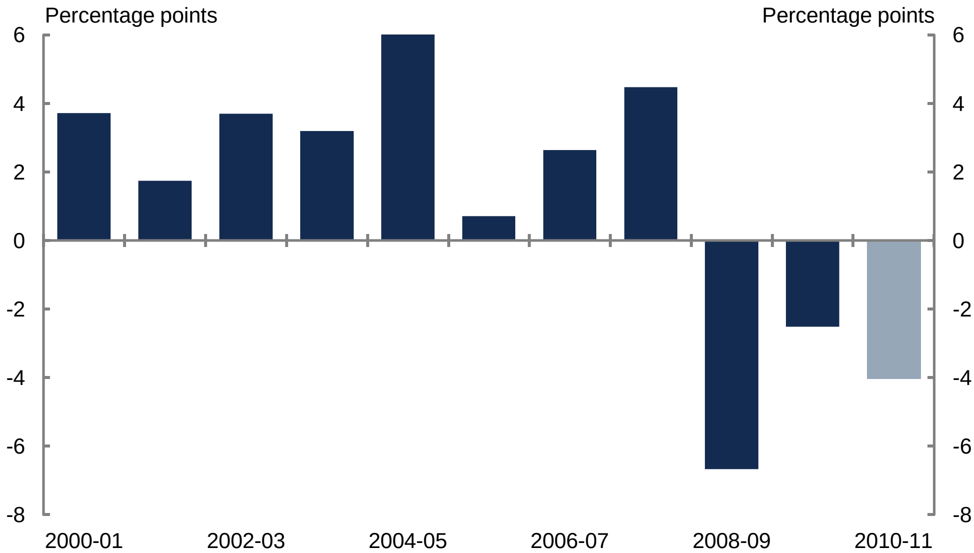
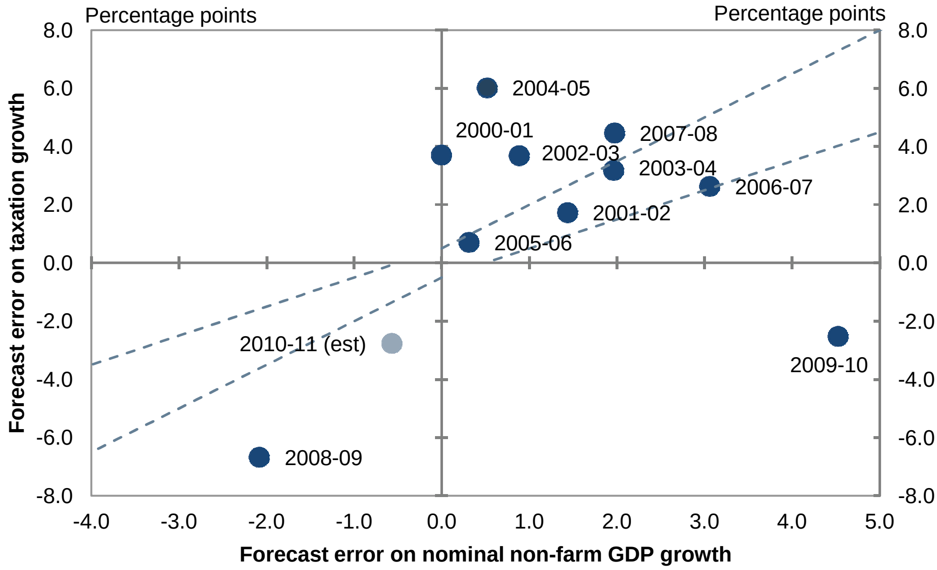


Chart D2 shows the relationship between forecast errors of the economy and tax revenue over recent years, including the current estimates for 2010-11. The dotted lines in Chart D2 represent a theoretical range for the relationship between the economic and revenue forecasting errors.

- 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 (CGT) 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 models of the tax system after broadly allowing for uncertainties such as capital gains tax and the timing of payments.

Chart D2: Budget forecast errors on nominal non-farm GDP growth and taxation revenue growth (excluding GST)



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 forecasts of tax revenue growth that were too low, 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 be theoretically associated with an economic forecasting error of that magnitude.

In recent years tax errors in tax revenue have been significantly affected by the economic downturn related to the global financial crisis, particularly with regard to capital gains tax and the utilisation of both operating and capital losses.

The 2008-09 year was strongly affected by unforeseen movements in CGT. Revenue in 2007-08 was bolstered by around $18 billion of CGT, an increase of more than 50 per cent from the previous year. Revenue in 2008-09 was affected in reverse, as plunging stock prices led to a fall in CGT of greater than 30 per cent. Abstracting from CGT, the estimated forecast errors on tax revenue in 2007-08 and 2008-09 were much closer to the expected range, given the error on nominal non-farm GDP.

Nominal GDP was overforecast for 2008-09 by around 2.5 percentage points, resulting in a much larger overforecast for revenue of around 6.5 percentage points. This high implied elasticity is due partly to overforecasting CGT and partly to compositional changes in GDP associated with the recent economic downturn.

In 2009-10, tax revenue was forecast relatively accurately despite the economy recovering much more quickly than was forecast at the 2009-10 Budget. This is partly explained by the fact that the recovery in the nominal economy in 2009-10 was heavily weighted to the end of the year — nominal GDP grew by only 0.5 per cent in the first quarter compared to 3.4 per cent in the last quarter. This is the most rapid increase in growth over the course of a financial year since 1972-73 and it has material implications for tax revenue. Because tax is paid with a lag, most of the additional tax from the stronger than expected economy was paid in the early part of the 2010-11 year rather than in 2009-10.

In addition, the larger than expected utilisation of losses generated in 2008-09 have contributed to the forecasting errors in 2009-10 and 2010-11. The current estimates for 2010-11, compared to the 2010-11 Budget, show that what appears likely to prove to be a modest over-forecast of nominal GDP will translate into a larger over-forecast of tax revenue, mostly due to a combination of natural disasters, exchange rate appreciation and larger than expected capital losses being utilised.

APPENDIX E: 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 from 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 from the taxation liability and result in a subsequent amended (refund or debit) assessment. The receipt may also be received in a period different from that to which the taxation liability relates.

Cash recognition is an integral part of budget reporting as a cash flow statement must be prepared under the accrual accounting frameworks on which the budget must be based. It also provides additional information about the structure of taxation. Cash data are 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 referred to 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 ETM.

Currently, ETM 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 (for example, the Australian Taxation Office). 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.

History of accrual revenue recognition

From 1999-2000 to 2005-06, all accrual taxation revenue was recognised in budget documents 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 E1: Estimates of taxation revenue on an accrual and cash basis

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$b	$b	$b	$b	$b
Taxation revenue (accrual)	290.3	329.2	362.1	383.9	404.9
Taxation receipts (cash)	282.5	321.1	353.4	375.3	395.4
Difference (accrual less cash)	**7.8**	**8.1**	**8.7**	**8.6**	**9.5**
Memorandum items:					
ACIS(a)	0.3	0.2	0.0	0.0	0.0
Net receivables	1.2	2.6	2.9	3.0	3.2
Write-offs of bad and doubtful debts	3.1	2.4	2.6	2.8	2.9
Penalty remissions	2.0	2.2	2.3	2.5	2.7
Other	1.1	0.8	0.9	0.4	0.7
Total	7.8	8.1	8.7	8.6	9.5

(a) Automotive Competitiveness and Investment Scheme.

Other differences between accrual and cash estimates

There are a number of other timing differences between the recognition of accrual revenue and cash receipts as well as instances where revenue has been recognised but cash payment is no longer expected to be received.

- Tax receivables arise where taxation liabilities are recognised in one period, but the taxpayer is not expected to pay the liability until a later period. In general, net receivables increase over time in line with growth in taxes.

- Penalty remissions occur where accrual 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.

- 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 F: TAX EXPENDITURES

This attachment 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, reduced tax rate or deferral of 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 programs.

The data reported in this appendix is consistent with the data reported in the 2010 Tax Expenditures Statement published in January 2011. The data does not include the impact of decisions in this Budget on tax expenditures.

Care needs to be taken when analysing tax expenditure data: see the 2010 Tax Expenditures Statement for a detailed discussion.

Table F1 contains estimates of total tax expenditures for the period 2007-08 to 2014-15.

Table F1: Total measured tax expenditures

Year	Housing $m	Superannuation $m	Other tax expenditures $m	Total $m	Tax expenditures as a proportion of GDP (%)
2007-08 (est)	41,000	38,965	45,875	125,840	10.6
2008-09 (est)	29,500	31,945	47,614	109,059	8.7
2009-10 (est)	39,000	26,972	46,932	112,904	8.8
2010-11 (proj)	40,000	28,039	48,828	116,867	8.4
2011-12 (proj)	42,500	30,863	49,440	122,803	8.3
2012-13 (proj)	43,000	33,303	52,473	128,776	8.3
2013-14 (proj)	43,000	37,983	58,635	139,618	8.5
2014-15 (proj)	43,500	42,403	65,179	151,082	8.7

Table F1 shows that measured tax expenditures as a proportion of GDP have fallen from 10.6 per cent in 2007-08 to 8.8 per cent in 2009-10.

Table F2 shows estimates of large measured tax expenditures for 2010-11.

Table F2: Large measured tax expenditures in 2010-11

Tax expenditure		Estimate $m
Large positive tax expenditures		
E5	Capital gains tax main residence exemption — discount component	22,500
E4	Capital gains tax main residence exemption	17,500
C5	Superannuation — concessional taxation of employer contributions	14,300
C6	Superannuation — concessional taxation of superannuation entity earnings	12,200
H28	GST — food — uncooked, not prepared, not for consumption on premises of sale and some beverages	5,900
E14	Capital gains tax discount for individuals and trusts	5,490
H19	GST — health; medical and health services	2,950
H16	GST — education	2,600
B110	Small business and general business tax break	2,350
H2	GST — financial supplies; input taxed treatment	2,200
B16	Exemption from interest withholding tax on certain securities	2,040
A45	Exemption of Family Tax Benefit, Parts A and B, including expense equivalent	1,950
C3	Concessional taxation of non-superannuation termination benefits	1,350
A24	Exemption of 30 per cent private health insurance refund, including expense equivalent	1,250
A23	Exemption from the Medicare levy for residents with a taxable income below a threshold	1,130
D18	Application of statutory formula to value car benefits	1,110
C8	Superannuation — deduction and concessional taxation of certain personal contributions	1,050
F3	Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	1,000
H11	GST — imported services	1,000
H3	GST — financial supplies; reduced input tax credits	990
A33	Senior Australians' Tax Offset	960
D11	Philanthropy — exemption for public and not-for-profit hospitals and public ambulance services	920
D14	Philanthropy — exemption for public benevolent institutions (excluding public and not-for-profit hospitals)	920
B95	Statutory effective life caps	915
B4	Income tax exemption for local government bodies	820
A66	Philanthropy — deduction for gifts to deductible gift recipients	760
A49	Exemption of payments made under the First Home Owners Grant Scheme	760
H6	GST — water, sewerage and drainage	700
B106	Research and development — research and development tax concession	700
Large negative tax expenditures		
F20	Customs duty	-2,740
F7	Higher rate of excise levied on cigarettes not exceeding 0.8 grams of tobacco	-1,530

Statement 6: Expenses and Net Capital Investment

Statement 6 presents estimates of general government sector expenses and net capital investment, allocated according to the various functions of government, on an accrual accounting basis.

General government sector expenses are expected to decline as a share of Gross Domestic Product (GDP) in 2011-12, largely reflecting the continued withdrawal of the Government's stimulus spending initiatives introduced in 2008-09 and 2009-10 in response to the global financial crisis.

In this Budget, the Government has more than offset all new spending proposals. Of the savings in this Budget, $14.8 billion relate to savings in expenses and net capital investment.

The most significant areas of expenses in 2011-12 are for the social security and welfare (33.3 per cent of total expenses), other purposes (19.7 per cent), health (16.4 per cent), education (8.2 per cent), defence (5.8 per cent), and general public services (5.7 per cent) functions.

The strongest real growth in expenses across the Budget and forward estimates period is expected to occur in the other purposes (17.9 per cent) and the social security and welfare (5.5 per cent) functions. These increases are offset by significant declines in real growth in the agriculture, forestry and fishing (-36 per cent), other economic affairs (-19.7 per cent) and transport and communication (-16.3 per cent) functions.

The modification to the financing arrangements under the proposed new National Health Reform Agreement to be agreed with States and Territories by 1 July 2011 has affected functional expenses since the 2010-11 Budget. As a portion of the Goods and Services Tax is no longer to be dedicated to health spending, that amount of funding has been transferred back from the health function to the other purposes function. The changed health funding arrangement is a major factor driving growth in the other purposes function.

In response to the Queensland and Victorian floods and Cyclone Yasi, which occurred over the 2010-11 summer, the Government has provided financial support through the natural disaster recovery packages.

The Government is committed to improved and more accessible reporting of its fiscal activities. As well as providing details of expenses at the functional level in this Statement, the Government has also published a Ministerial Statement entitled *Investing in Regional Australia.* This Ministerial Statement represents an important first step in the roll-out of better reporting of Government expenses in regional Australia.

CONTENTS

STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT[1]

OVERVIEW

The Government is committed to holding real spending growth to 2 per cent a year as part of the fiscal strategy. Consistent with this commitment, real growth in cash payments over the forward estimates is expected to be 0.5 per cent in 2011-12, negative 0.1 per cent in 2012-13, 1.9 per cent in 2013-14 and 1.9 per cent in 2014-15.

Australian Government general government sector accrual expenses are expected to grow by 1.2 per cent in real terms in 2011-12. Total expenses are expected to decrease as a percentage of GDP over the forward estimates. Average real growth in expenses over the forward estimates is 1.5 per cent.

Table 1: Estimates of general government sector expenses

	MYEFO	Revised	Estimate		Projections	
	2010-11	2010-11	2011-12	2012-13	2013-14	2014-15
Total expenses ($b)	**354.3**	**350.8**	**365.8**	**380.5**	**399.0**	**414.1**
Real growth on previous year (%)(a)	1.4	0.4	1.2	1.1	2.2	1.3
Per cent of GDP	25.3	25.3	24.8	24.4	24.3	23.9

(a) Real growth is calculated using the Consumer Price Index.

The historically low rates of real growth reflect a combination of the withdrawal of the Government's stimulus spending and the Government more than offsetting all new spending proposals.

Growth in cash payments can differ from accrual expenses due to the inclusion of capital investment in cash payments, along with timing differences between when expenses and cash payments are recorded.

The difference in real growth in expenses in 2013-14 from the growth in cash payments largely reflects the recognition of the accrual expenses for the Natural Disaster Relief and Recovery Arrangements in 2013-14 consistent with the expected timing of the lodgement of claims by the States and their consideration by the Commonwealth. In contrast, cash payments are being reported in 2010-11 and 2011-12, reflecting the timing of payments to Queensland and Victoria.

1 The figures in this statement are presented on an accrual basis and may differ from cash payments. The difference between the two approaches is because expenses are recorded when they are incurred (for example when the good or service is received) while payments are reported when the cash is exchanged.

General government sector expenses

Reconciliation of expenses since the 2010-11 Budget

Table 2 provides a reconciliation of expense estimates between the 2010-11 Budget, the *Mid-Year Economic and Fiscal Outlook 2010-11* (MYEFO) and the 2011-12 Budget showing the effect of policy decisions, and economic parameter and other variations.

Table 2: Reconciliation of expense estimates

	Estimates			Projections
	2010-11	2011-12	2012-13	2013-14
	$m	$m	$m	$m
2010-11 Budget expenses	**354,644**	**364,573**	**380,997**	**397,981**
Changes from 2010-11 Budget to 2010 PEFO				
Effect of policy decisions(a)	3	-674	-656	-621
Effect of parameter and other variations	-596	-1,160	-1,578	-1,670
Total variations	**-593**	**-1,834**	**-2,234**	**-2,290**
2010 PEFO expenses	**354,051**	**362,739**	**378,763**	**395,690**
Changes from 2010 PEFO to 2010-11 MYEFO				
Effect of policy decisions(a)	217	571	236	448
Effect of parameter and other variations	80	-1,309	-2,211	-3,627
Total variations	**297**	**-738**	**-1,975**	**-3,179**
2010-11 MYEFO expenses	**354,348**	**362,002**	**376,789**	**392,512**
Changes from 2010-11 MYEFO to 2011-12 Budget				
Effect of policy decisions(a)	1,971	1,722	-119	798
Effect of economic parameter variations				
Total economic parameter variations	-1,418	-745	-633	90
Unemployment benefits	*51*	*479*	*-219*	*92*
Prices and wages	*81*	*497*	*907*	*1,504*
Interest and exchange rates	*-34*	*-61*	*-62*	*-45*
GST payments to the States	*-1,515*	*-1,660*	*-1,260*	*-1,460*
Public debt interest	154	1,351	1,955	2,117
Program specific parameter variations	823	1,114	1,639	4,188
Slippage in 2010-11 Budget decisions	-94	-2	-2	99
Other variations	-4,981	375	895	-829
Total variations	**-3,545**	**3,815**	**3,734**	**6,462**
2011-12 Budget expenses	**350,803**	**365,817**	**380,523**	**398,974**

(a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

Economic parameter variations are forecast to reduce expenses in 2011-12 and over the forward estimates. This is mostly due to a reduction in Goods and Services Tax (GST) payments to the States and Territories consistent with a reduction in GST revenue collections. Partly offsetting these reductions, expected increases in prices and wages over the forward estimates will increase expenses, reflecting the indexation of many government payments including social security payments. Similarly, an upwards revision in the estimated number of unemployment benefit recipients is expected to increase expenses in 2011-12 compared to MYEFO, although this is partly unwound by a reduction in the forecast of the number of unemployment benefit recipients in 2012-13.

Program specific parameter variations are expected to increase expenses over the next four years. These variations include adjustments in the timing of infrastructure investment and changes in the number of people who claim government support payments. Other parameter variations are expected to reduce expenses in 2010-11 but increase expenses in 2011-12 and 2012-13.

Estimated expenses by function

Table 3 sets out the estimates of Australian Government general government sector expenses by function for the period 2010-11 to 2014-15.

Table 3: Estimates of expenses by function

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
General public services	21,239	20,887	21,491	22,349	23,129
Defence	20,136	21,277	20,711	21,895	22,771
Public order and safety	3,943	3,969	3,953	3,961	4,026
Education	32,555	29,938	30,314	31,414	32,720
Health	57,240	59,858	61,584	64,711	67,734
Social security and welfare	116,739	121,907	127,711	133,322	139,194
Housing and community amenities	5,741	4,579	4,699	4,579	4,141
Recreation and culture	3,342	3,397	3,449	3,331	3,250
Fuel and energy	6,269	6,302	6,496	6,594	6,622
Agriculture, forestry and fishing	3,067	3,444	2,526	2,245	2,385
Mining, manufacturing and construction	2,039	2,014	2,006	1,965	1,974
Transport and communication	4,748	6,919	7,119	6,748	6,267
Other economic affairs	9,055	9,385	8,664	8,218	8,152
Other purposes	64,692	71,940	79,801	87,642	91,771
Total expenses	**350,803**	**365,817**	**380,523**	**398,974**	**414,137**

Note: The data in this table have been amended from the published Budget Papers to correct for a misallocation of expenses between the education and housing and community amenities functions.

Major expense variations between 2010-11 and 2011-12 and across the forward estimates include movements in the following functions:

- **other purposes** — expenses are expected to increase under the Natural Disaster Relief and Recovery Arrangements and the Disaster Income Recovery Subsidy following the Australian floods and Cyclone Yasi in 2010-11. Since MYEFO, there has also been an increase of $12.2 billion in 2011-12, due to an increase in general revenue assistance to the States and Territories as a result of not proceeding with the proposal to dedicate GST revenue for the purpose of funding public hospital services under the health function;

- **social security and welfare** — an increase of $5.2 billion in 2011-12 is due to the indexation of personal benefits and income support payments, particularly in income support for seniors. Other demographic and social factors, such as the ageing population, will continue to influence growth over the forward estimates;

- **health** — an increase of $2.6 billion in 2011-12 is primarily due to an increase in the Commonwealth's contribution to fund additional health and hospital investment. Health expenses are significantly lower than forecast at MYEFO, reflecting the changed funding arrangements for public hospitals and the resultant reporting of what was dedicated GST under the previous arrangements as general revenue assistance (under the other purposes function rather than under the National healthcare specific purpose payment in the health function);

- **transport and communication** — an increase of $2.2 billion in 2011-12 is primarily due to higher funding for rail and road infrastructure projects;

- **education** — a decrease of $2.7 billion in 2011-12 is due to the conclusion of national partnership payments under the *Building the Education Revolution (BER)* package; and

- **housing and community amenities** — a decrease of $1.1 billion in 2011-12 reflects the conclusion of the housing initiatives introduced as part of the Government's response to the global financial crisis.

The Government is making significant investments in this Budget to improve the skills of the Australian workforce and to encourage, through a combination of incentives and support programs, greater engagement in the workforce by those who face significant barriers to participation.

Investment in skills development will be made to: give industry a more central role in the training system through the establishment of a National Workforce Development Fund; improve the apprenticeship system; ensure the Vocational Education and Training system is more transparent and productive through a new National Partnership with the States and Territories; and build better skills for workforce participation.

In addition, the Government is making changes to the system to improve incentives for people to work and is introducing a range of measures to encourage greater workforce participation by young people, people with a disability, the very long-term unemployed, single parents and jobless families, and will focus on a number of disadvantaged locations.

Government expenses are strongly influenced by underlying trends in spending in the social security and welfare and health functions. Together, these functions account for nearly half of all Government expenses as well as just over half of total expenses growth over the forward estimates. Health spending has grown faster than social security and welfare spending over this period and is expected to increase its share of total expenses from around 14 per cent in 2000-01 to over 16 per cent in 2014-15.

Growth in these functions over the medium-term reflects not only policy decisions (for instance, the increase to age pension benefit levels in 2009-10), but also the impact of total population growth, the increasing share of older age groups in the population, and benefit indexation rates above Consumer Price Index (CPI) and cost growth in services subsidised by the Government.

Based on the arrangements in place in 2010-11, a number of the major programs in these two functions are expected to continue to experience high real growth beyond the forward estimates. The Government's human capital, participation and productivity agendas will all play important roles in moderating growth in the cost of government programs, and improving the economy's capacity to sustain activity and increase growth, and therefore to fund government services.

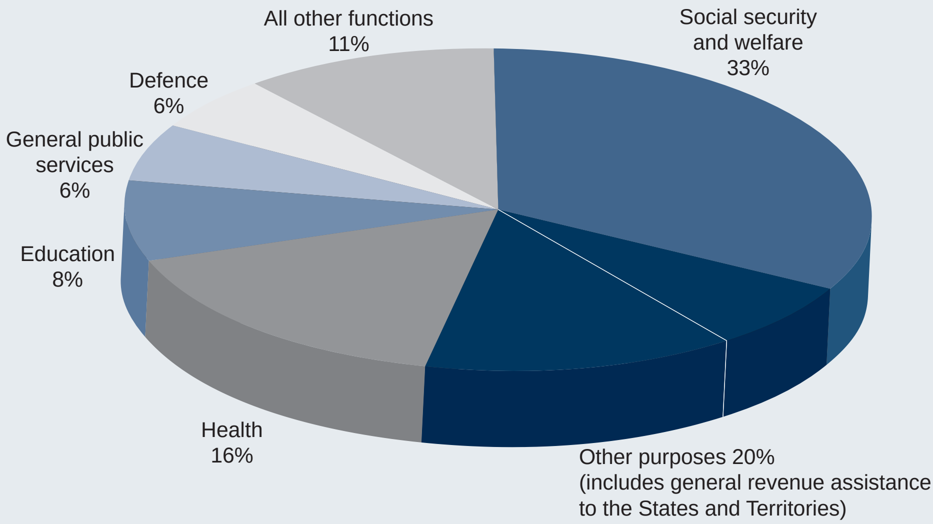
Further details of medium-term pressures under these functions are set out in Boxes 4 and 5.

Box 1: Where does government spending go?

Government spending provides a wide range of services to the community. The most significant component of government spending relates to social security and welfare, with around one third of total expenses providing support to the aged, families with children, the sick and disabled, veterans, carers and income support payments.

Another one sixth of government expenses occur in health services, including the Medicare Benefits Schedule and Pharmaceutical Benefits Scheme payments. A similar amount is also transferred to the States and Territories in general revenue assistance under the other purposes function.

The Government also provides significant investment under the education function, supporting government and non-government schools, as well as higher education and vocational education and training. The remainder is spent on defence and a range of other public services.



The estimates presented in the chart above are explained in greater detail under each individual function in the following pages.

Major savings

As part of the Government's commitment to bring the budget back into surplus by 2012-13, the Government has identified around $22 billion of savings in this Budget over the five years to 2014-15, of which $14.8 billion relates to savings in expenses and net capital investment. These savings reduce expenses and net capital investment across a range of functions.

Significant savings measures totalling $2.7 billion in the **defence** function over the forward estimates will result in a reduction in expenses through improved performance of the initiatives associated with the Strategic Reform Program, the higher efficiency dividend and net capital investment reprogramming to better align capital expenditure with strategic requirements.

In **social security and welfare**, $2.3 billion in savings will also be achieved over the forward estimates. Of this, $1.9 billion is due to extending the temporary pause in the indexation of the Family Tax Benefit (FTB) Part A higher income free area for a further two years and pausing indexation of FTB supplements for three years.

A saving of $1.5 billion in expenses over five years will be made across a range of programs under the **health** function, including from efficiencies agreed with the pathology sector and as a result of the Department of Human Services service delivery reform.

The deferral of Commonwealth funding for road and rail infrastructure investment will reduce expenses by $1.0 billion over three years under the **transport and communication** function. The deferred projects include Victorian regional rail program, the Northern Sydney Freight Corridor rail project and reductions in the cost of major road investment in Queensland.

The Government has also increased the rate of the efficiency dividend that applies to Commonwealth entities. This measure is expected to reduce Commonwealth operating expenses by approximately $1.1 billion over the forward estimates across all functions. Further details of all savings measures are available in Budget Paper No. 2, *Budget Measures 2011-12*.

Program expenses

Table 3.1 reports the top 20 expense programs in the 2011-12 financial year. These programs represent 62.4 per cent of total expenses in that year. The revenue assistance to the States and Territories program comprises 13.5 per cent of total expenses for 2011-12. Of the remaining programs in the top 20, more than half provide financial assistance or services to seniors, families, the sick and disabled, students, carers and the unemployed.

Table 3.1: Top 20 programs by expenses in 2011-12

		Estimates			Projections	
		2010-11	2011-12	2012-13	2013-14	2014-15
Program	**Function**	$m	$m	$m	$m	$m
Revenue assistance to the States and Territories	Other purposes	46,524	49,459	52,853	55,812	58,498
Income support for seniors	SSW	31,852	34,161	36,860	38,891	41,605
Family tax benefit	SSW	17,766	18,156	18,682	19,043	19,499
Medicare services	Health	16,463	16,981	17,693	18,892	20,301
Disability support pension	SSW	13,286	13,836	14,368	14,855	15,460
Assistance to the States for healthcare services	Health	11,988	12,820	13,683	14,598	16,155
Pharmaceuticals and pharmaceutical services	Health	9,235	9,833	10,298	11,089	11,883
Non government schools - national support	Education	7,258	7,749	8,351	9,028	9,733
Job seeker income support	SSW	6,995	7,197	7,342	8,283	8,591
Residential care	SSW	6,822	7,183	7,370	7,846	8,428
Higher education support	Education	6,285	6,851	7,158	7,395	7,645
Public sector superannuation^	Other purposes; General public services	6,367	6,301	6,405	6,502	6,602
Income support for carers	SSW	5,109	5,679	6,343	7,066	7,858
Parents' income support	SSW	5,639	5,621	5,667	5,605	5,554
Fuel tax credits scheme	Fuel and energy	4,996	5,142	5,614	5,715	5,819
Army Capabilities	Defence	4,938	4,943	5,003	5,188	5,454
Department of Human Services*	SSW; Health	4,461	4,339	4,087	4,090	4,085
National partnership payments - road transport	Transport and communication	2,530	4,065	3,922	3,121	270
Air Force Capabilities	Defence	3,824	4,036	4,081	4,161	4,300
Navy Capabilities	Defence	3,779	4,027	4,122	4,092	4,110
Sub-total		**216,117**	**228,379**	**239,902**	**251,272**	**261,850**
Other programs		134,686	137,438	140,621	147,702	152,287
Total expenses		**350,803**	**365,817**	**380,523**	**398,974**	**414,137**

^ This is a combination of public sector superannuation nominal interest and benefits programs.
* Department of Human Services running costs also includes Medicare and Centrelink funding in 2010-11.
SSW — Social Security and Welfare

Box 2: Withdrawal of the Government's economic stimulus measures

The Government responded to the global financial crisis by implementing several fiscal stimulus measures during 2008-09 and 2009-10. The temporary and targeted nature of these measures means that the impact is progressively declining over time.

As of 2011-12, the vast majority of the budget stimulus funding has been paid out by the Commonwealth. The remaining amounts mostly relate to medium-term infrastructure investment projects being funded through the:

- Building the Education Revolution (education function);
- Building Australia Fund (transport and communication function);
- Health and Hospitals Fund (health function);
- Clean Energy Initiative (fuel and energy function); and
- Education Investment Fund (education and general public services functions).

General public services

The general public services function includes expenses relating to the organisation and operation of government such as those related to the Parliament, the Governor-General and conduct of elections; the collection of taxes and management of public funds and debt; assistance to developing countries to reduce poverty and achieve sustainable development, particularly countries in the Pacific region; 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 those associated with overall economic and statistical services as well as 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).

Table 4: Summary of expenses — general public services

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Legislative and executive affairs	1,083	974	948	1,091	949
Financial and fiscal affairs	6,947	7,421	7,566	7,416	7,550
Foreign affairs and economic aid	5,749	5,776	6,412	7,325	8,232
General research	2,804	2,872	2,780	2,684	2,582
General services	1,033	811	789	800	823
Government superannuation benefits	3,623	3,034	2,997	3,033	2,992
Total general public services	**21,239**	**20,887**	**21,491**	**22,349**	**23,129**

Total expenses under the **foreign affairs and economic aid** sub-function are forecast to increase by 31.8 per cent in real terms from 2011-12 to 2014-15. This significant increase is due to the Government's commitment to increase the level of Official Development Assistance (ODA) to 0.5 per cent of Gross National Income by 2015-16. The purpose of ODA is to provide assistance to developing countries to alleviate poverty and assist them in achieving economic stability in line with Australia's national interest.

The uneven profile of expenses under the **legislative and executive affairs** sub-function largely reflects the federal election in 2010-11 and the scheduled election in 2013-14. Similarly, while the underlying level of expenses in the **financial and fiscal affairs** sub-function is broadly stable, the profile reflects the timing of specific events such as the 2011 National Census, which is increasing expenses in 2010-11 and 2011-12.

Expenses under the **government superannuation benefits** sub-function have fallen since the 2010-11 Budget, reflecting revised actuarial estimates of the Government's superannuation liabilities.

Table 4.1 sets out the major components of foreign affairs and economic aid sub-function expenses.

Table 4.1: Trends in the major components of foreign affairs and economic aid sub-function expenses

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Official Development Assistance (a)(b)	4,497	4,151	5,202	6,265	6,837
Africa, South and Central Asia, Middle East and other	923	1,081	1,054	1,165	1,450
East Asia	854	978	1,175	1,314	1,610
PNG and Pacific	882	936	1,042	1,047	1,117
Emergency, humanitarian and refugee programs	298	324	333	339	341
UN, Commonwealth and other international organisations	270	292	570	607	302
NGO, volunteer and community programs	131	171	195	236	269
Multilateral replenishments	820	14	303	448	13
Other (c)	319	355	530	1,109	1,735
International deployments	359	347	268	164	148
Payments to international organisations	245	239	239	241	243
Passport services	197	201	213	219	225
International agricultural research and development	98	96	96	95	93
Consular services	78	75	74	74	78
Finance and insurance services for Australian exporters and investors	57	51	45	40	37
Other	218	616	275	227	571
Total	**5,749**	**5,776**	**6,412**	**7,325**	**8,232**

(a) The difference between these figures and the Government's ODA target is due primarily to the way multilateral replenishments are recorded for ODA purposes. Expenses relating to multilateral replenishments are recognised in accrual terms when initial commitments are made. However, ODA targets are measured in cash terms and reflect the timing of actual cash payments (which, in the case of multilateral replenishments, can be spread over several years).

(b) Some minor ODA delivered by other government departments may be classified to other programs or functions.

(c) Other includes AusAID's departmental expenses and the provision available for future aid spending in the ODA Contingency Reserve (CR) in the Budget and forward estimates. The ODA CR represents the difference between the amount of ODA already committed and the Government's target levels of ODA.

The **general research** sub-function incorporates expenses incurred by the Commonwealth Scientific and Industrial Research Organisation, the Australian Nuclear Science and Technology Organisation, the Australian Institute of Marine Science and the Australian Research Council.

Total expenses in this sub-function and in particular the science and research capacity program are forecast to decrease over the forward estimates, largely due to the completion of a number of projects funded under the Education Investment Fund. Apart from these projects, other research expenses are forecast to increase over the forward estimates, including increases in expenses on national research flagships, and core research and services.

The table below sets out the major components of general research sub-function expenses.

Table 4.2: Trends in the major components of general research sub-function expenses

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Science and research capacity	623	549	360	180	29
National research flagships	534	566	577	613	640
Core research and services	548	562	580	607	635
Discovery - research and research training	446	502	542	556	543
Linkage - cross sector research partnerships	288	327	340	336	346
Science and technology solutions	264	251	251	253	257
Other	101	115	130	139	132
Total	**2,804**	**2,872**	**2,780**	**2,684**	**2,582**

Defence

The defence function includes expenses incurred by the Department of Defence (Defence) and the Defence Materiel Organisation (DMO). Defence expenses support Australian military 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 contributes to the preparedness of the Australian defence organisation through the acquisition and through-life support of military equipment and supplies.

This function records the majority of expenses incurred by the Defence portfolio but does not include the expenses incurred by the Department of Veterans' Affairs, superannuation payments to retired military personnel and housing assistance provided through Defence Housing Australia. These expenses are reported in the social security and welfare, other purposes, and housing and community amenities functions, respectively.

Table 5: Summary of expenses — defence

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Defence	20,136	21,277	20,711	21,895	22,771
Total defence	**20,136**	**21,277**	**20,711**	**21,895**	**22,771**

Total expenses for the defence function are estimated to decrease by 1.1 per cent in real terms from 2011-12 over the forward estimates, or by 0.4 per cent per annum on average in real terms. This largely reflects funding decisions flowing from the 2009 Defence White Paper and funding provided in 2011-12 for Defence operations. The forward estimates of expenses do not provide for extensions of currently approved operations beyond 2011-12. Such funding is considered on a year-by-year basis and is subject to future decisions of the Government.

From 2011-12, additional funding of $1.4 billion is being provided to support Defence overseas operations in the Middle East, East Timor and the Solomon Islands. See Budget Paper No. 2, *Budget Measures 2011-12* for more details.

The Government will realise efficiencies in corporate and support functions in the Defence portfolio, including through reductions in duplication and increased use of shared services. These measures will result in savings of $1.2 billion over the forward estimates. These savings are in addition to savings to be realised as part of the Defence Strategic Reform Program (SRP). In the SRP, $20.6 billion in savings are being identified and reinvested within Defence to 2020. The SRP will drive the reforms needed to deliver and sustain Defence's planned *Force 2030*, as set out in the White Paper.

Further details on the capital reprogramming and additional efficiencies can be found in Budget Paper No. 2, *Budget Measures 2011-12*.

The acquisition of defence capital items is reported in the net capital investment section of this Statement and in Box 3 below.

Box 3: Defence funding

Total Defence expenditure is estimated to increase by $1.4 billion (2.4 per cent in real terms) in 2011-12. This includes both expenses and net capital investment. Expenses for the defence function are those incurred in undertaking its day-to-day activities. Net capital investment represents expenditure to acquire capital items in the form of equipment, buildings and land, less depreciation expenses.

Table 5.1: Trends in the major components of defence function expenses and net capital investment

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Expenses	20,136	21,277	20,711	21,895	22,771
Net capital investment	3,506	3,682	2,513	3,196	3,155
Total defence spending	23,642	24,959	23,224	25,091	25,926
Nominal growth (per cent)	-2.7%	5.6%	-7.0%	8.0%	3.3%
Real growth (per cent)	-5.5%	2.4%	-9.6%	5.3%	0.9%

Investment spending in the defence function is for the acquisition of large and complex platforms and military equipment, and the construction of support facilities linked to capability. Investment spending can experience significant annual fluctuations, including as the result of slippage in expenditure from one year to the next year (or to later years), foreign exchange rate fluctuations, and in response to additional supplementary funding decisions of Government. Further details of defence investment spending are provided in the net capital investment section of this statement at page 6-46.

The expected decrease in defence funding in 2012-13 is due to fluctuations in capital acquisitions, the practice of funding overseas operations on a year-by-year basis and the additional efficiencies in defence which take full effect in that year.

The Government will reprogram $1.3 billion of funding over the forward estimates for the Defence capital investment program to better align it with Defence's strategic requirements. The reprogramming will support the Department of Defence in delivering the military capabilities set out under *Force 2030*, the 2009 Defence White Paper.

Public order and safety

Expenses under 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, and the protection of Australian Government property.

Table 6: Summary of expenses — public order and safety

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Courts and legal services	839	841	845	848	861
Other public order and safety	3,104	3,128	3,108	3,113	3,165
Total public order and safety	**3,943**	**3,969**	**3,953**	**3,961**	**4,026**

Expenses within both the **courts and legal services** and **other public order and safety** sub-functions are expected to remain broadly stable in nominal terms over the forward estimates. Expenses in this function increased significantly in the decade to 2006-07 and have grown at more modest levels since then, reflecting the stabilisation of anti-terrorism and law enforcement activities.

Real funding is expected to decline from 2011-12 over the forward estimates reflecting efficiencies within the federal justice system and in the delivery of law enforcement and intelligence activities.

Education

The education function includes expenses to 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.

Table 7: Summary of expenses — education

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Higher education	7,851	8,534	8,955	9,366	9,691
Vocational and other education	1,900	2,013	1,915	1,954	1,978
Schools	11,218	12,300	12,925	13,563	14,527
Non-government schools	7,255	7,746	8,349	9,028	9,733
Government schools	3,963	4,554	4,576	4,534	4,794
Student assistance	4,737	4,838	4,607	4,574	4,703
General administration	348	306	294	284	281
School education - specific funding	6,501	1,946	1,618	1,672	1,540
Total education	**32,555**	**29,938**	**30,314**	**31,414**	**32,720**

Note: The data in this table have been amended from the published Budget Papers to correct for a misallocation of expenses between the education and housing and community amenities functions.

Total expenses under the education function are estimated to decrease in 2011-12 before increasing slightly in real terms over the forward estimates. The estimated decrease in 2011-12 reflects the completion in 2010-11 of the majority of spending under the *Building the Education Revolution (BER)* package. The estimated increase in expenses from 2011-12 is mostly attributable to growth in funding for higher education and for both government and non-government schools.

Expenses under the **higher education** sub-function are expected to increase by 5.0 per cent in real terms over the forward estimates, or 1.6 per cent per annum on average. This primarily reflects the cost of previous major reforms to higher education, including the introduction of demand driven student enrolment and an increase in higher education research funding.

Demand driven enrolment is the main contributor to a 3.2 per cent real increase in the Higher Education Support program over the forward estimates. As part of the transition to a fully demand driven enrolment system, universities have responded to an increase in the cap on funding for over-enrolment in 2010 and 2011 by expanding enrolments to a level above the original forecasts. The estimated increase in expenses over the forward estimates reflects the updated assessment of growth within the sector following on from increased enrolments in 2010 and 2011.

Investment in higher education research is expected to increase from $1.5 billion in 2010-11 to $2.0 billion in 2014-15. This reflects a 14.4 per cent rise in real terms in expenses from 2011-12 over the forward estimates arising from the 2009-10 measure *Sustainable Research Excellence in Universities*.

Strong growth in expenses is estimated for both **government** and **non-government schools** due to the level of indexation applied to schools funding together with population growth. The indexation of schools funding is calculated based on average government school recurrent costs and is well above the CPI. However, growth in government schools funding is partially offset by the conclusion and winding down of several national partnerships over the forward estimates. Excluding these national partnerships, assistance to states for government schools is estimated to increase from $3.8 billion in 2011-12 to $4.6 billion in 2014-15, which is an average increase of 4.2 per cent per annum in real terms. Real spending on non-government schools is expected to rise by 5.1 per cent per annum over the forward estimates.

The profile of expenses under the **vocational and other education** sub-function reflects a redirection of the Productivity Places Program to support measures in the *Skills for Sustainable Growth* package announced in the 2010-11 Budget and the *Building Australia's Future Workforce* initiatives announced in this year's Budget. The expenses are included in the **vocational and industry training** sub-function within the other economic affairs function (see page 6-42). The profile incorporates a proposed new five-year national partnership for vocational education and training reform, which will provide $1.75 billion in total over five years from 2012-13. See Budget Paper No. 2, *Budget Measures 2011-12* for more details.

Future funding arrangements beyond 1 January 2014 for government and non-government schools are currently subject to review.

The major components of the **vocational and other education** sub-function are set out in Table 7.1.

Table 7.1: Trends in the major components of vocational and other education sub-function expenses

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Assistance to the States for skills and workforce development	1,339	1,363	1,390	1,417	1,446
National Partnership Payments - Vocational and Other Education	356	413	280	288	276
Adult English Migrant Program	205	212	220	226	233
Other	0	26	24	24	23
Total	**1,900**	**2,013**	**1,915**	**1,954**	**1,978**

Note: The data in this table have been amended from the published Budget Papers to correct for a misallocation of expenses between the education and housing and community amenities functions.

Expenses under the **student assistance** sub-function are expected to decrease by 10.1 per cent in real terms from 2011-12 over the forward estimates, or by 3.5 per cent per annum on average in real terms. This profile is underpinned by an estimated 19.0 per cent decrease in tertiary student assistance and an estimated 10.8 per cent increase in expenses under the Higher Education Loan Program (HELP).

The 2010 election commitment, *Supporting Families with Teenagers,* will shift the payment of benefits for dependent 16 to 19 year olds in secondary full-time study from Youth Allowance to Family Tax Benefit Part A, reported under the social security and welfare function. This change reduces expenses reported as tertiary student assistance. The expected increase in HELP expenses reflects the introduction of a demand driven student enrolment system, which will increase the number of students accessing a HELP loan. The expenses for HELP reflect the estimated cost to the Government of providing concessional loans as well as the cost of providing incentives for students to pay university fees up-front and to make early repayments on their HELP debts.

The major components of the **student assistance** sub-function are set out in Table 7.2.

Table 7.2: Trends in the major components of student assistance sub-function expenses

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Tertiary student assistance	3,083	2,898	2,599	2,494	2,537
50 per cent education tax refund	659	888	915	934	956
Higher Education Loan Program	772	837	886	944	1,004
School student assistance	206	199	192	188	192
Other	17	16	15	14	14
Total	**4,737**	**4,838**	**4,607**	**4,574**	**4,703**

The major components of the **school education — specific funding** sub-function are the National Partnership Agreements on the BER; Digital Education Revolution; Early Childhood Education; Trade Training Centres in Schools; Youth Attainment and Transitions; and a number of elements of the *Closing the Gap* package. Variations in expenses between years is predominantly attributed to the terms of these national partnerships. In particular, the reduction in expenses from 2010-11 to 2011-12 is due to the completion of most BER projects by the end of 2010-11.

This sub-function also includes the Schools Support Program (SSP), which is expected to rise from $235 million in 2010-11 to $455 million in 2014-15 due to several new measures. The most significant measures contributing to the increase in the SSP over the forward estimates are election commitments, including the *National School Chaplaincy Program — extension and expansion*, *National Incentives for Great Teachers* and *Reward Payments for School Improvements*. See Budget Paper No. 2, *Budget Measures 2011-12* for more details.

Health

The health function includes expenses relating to: medical services funded through Medicare and the Private Health Insurance Rebate; payments to the States and Territories to deliver essential health services, including public hospitals; the Pharmaceutical Benefits and Repatriation Pharmaceutical Benefits Schemes; blood and blood products; population health initiatives; and health education and training services.

Table 8: Summary of expenses — health

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Medical services and benefits(a)	23,368	22,459	23,275	24,506	25,934
Hospital services	3,262	2,846	2,780	2,966	1,860
National healthcare specific purpose payment	11,988	12,820	13,683	14,598	16,155
Pharmaceutical benefits and services	10,337	10,794	11,245	12,070	12,882
Aboriginal and Torres Strait Islander health	678	768	766	782	796
Health services	5,702	7,114	6,634	6,643	6,866
General administration	1,904	3,057	3,201	3,146	3,242
Total health	**57,240**	**59,858**	**61,584**	**64,711**	**67,734**

(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.

Health expenses are expected to continue to grow over the forward estimates (by 4.6 per cent in real terms from 2011-12) and to make up an increasing share of total government expenses over the medium term. This increase is expected to be driven by the combination of technology, social factors (that result in an increased demand for health services), and the effects of an ageing population. These issues are covered in more detail in the *2010 Intergenerational Report*.

The Commonwealth's contribution to funding under the new proposed National Health Reform Agreement (NHRA) is reported through the **national healthcare specific purpose payment** (to the States) sub-function (previously called the National Health and Hospitals Network sub-function). The increase in expenses over the forward estimates for this sub-function reflects indexation of the Commonwealth's contribution to the provision of hospital services, growth in the volume of services, and changes in the efficient price. In 2014-15, the Commonwealth has undertaken to contribute 45 per cent of the growth in the efficient price, as calculated by the Independent Hospital Pricing Authority.

The expense estimates over the forward years for this sub-function are lower than forecast in the 2010-11 Budget, as a result of changes to the health financing arrangements previously agreed under the National Health and Hospitals Network Agreement. The States and Territories signed a Heads of Agreement with the Commonwealth in February 2011 to form the basis of the new NHRA. Under this agreement, the earlier agreement with all states and territories, other than Western Australia, to dedicate a portion of GST revenue to fund public hospital and primary care services will not proceed. Funding for hospitals will be provided on an activity basis from 1 July 2012. Primary care services will continue to be funded through Medicare, and the States and Territories will continue to provide some primary care services, such as community health centres.

The **medical services and benefits** sub-function, which primarily consists of Medicare and Private Health Insurance Rebate expenses, make up 37.5 per cent of total health expenses for 2011-12. Medicare expenses are the major driver of growth in this sub-function, and are expected to increase over the forward estimates as a direct result of the increase in the Australian population — and in particular, the number of Australians aged over 65 — as well as technology and social factors. The decrease in expenses between 2010-11 and 2011-12 is a result of the Government's policy to introduce means testing for the Private Health Insurance Rebate.

Expenses for pathology service items under the Medicare Benefits Schedule will decline by $550 million over five years ($419 million over the forward estimates) due to reforms the Government has agreed with the pathology sector. Under the new Pathology Funding Agreement, the sector will benefit from predictable growth in Government outlays.

A significant component of the expenses for this sub-function in 2010-11 and 2011-12 is related to the Chronic Disease Dental Scheme ($1.6 billion over two years). It is current Government policy to cease operation of the scheme on 31 December 2011.

The major components of the medical services and benefits sub-function are set out in Table 8.1.

Table 8.1: Trends in the major components of medical services and benefits sub-function expenses

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Medicare services	16,463	16,981	17,693	18,892	20,301
Private health insurance	4,712	3,793	3,858	3,864	3,894
General medical consultations and services	939	983	1,000	1,034	1,044
Primary care practice incentives	301	302	288	244	249
Private health insurance rebate (ATO)	200	207	215	224	233
Medical indemnity	116	121	134	144	143
Other	637	72	87	104	70
Total	**23,368**	**22,459**	**23,275**	**24,506**	**25,934**

The **general administration — health** sub-function includes expenses incurred by the Government to support capital investments and new initiatives in areas such as primary care education and training; policy, innovation and research; and rural health services. The substantial increase in expenses between 2010-11 and 2011-12 is due to the inclusion of operating expenses in this sub-function for the Department of Human Services which, from 2011-12 also incorporates those of Medicare Australia, as well as the implementation of the Practice Nurse Incentives program and the continuation of General Practice (GP) Super Clinics. It is anticipated that efficiencies from the amalgamation of the Department of Human Services and Medicare Australia will result in reductions in expenses from 2012-13 onwards.

Growth in the **pharmaceutical benefits and services** sub-function over the forward estimates is mainly driven by increasing demand for pharmaceutical benefits, and Government decisions on new drug listings. This sub-function makes up 18 per cent of total health expenses for 2011-12.

The major components of the pharmaceutical benefits and services sub-function expenses are set out in Table 8.2.

Table 8.2: Trends in the major components of pharmaceutical benefits and services sub-function expenses

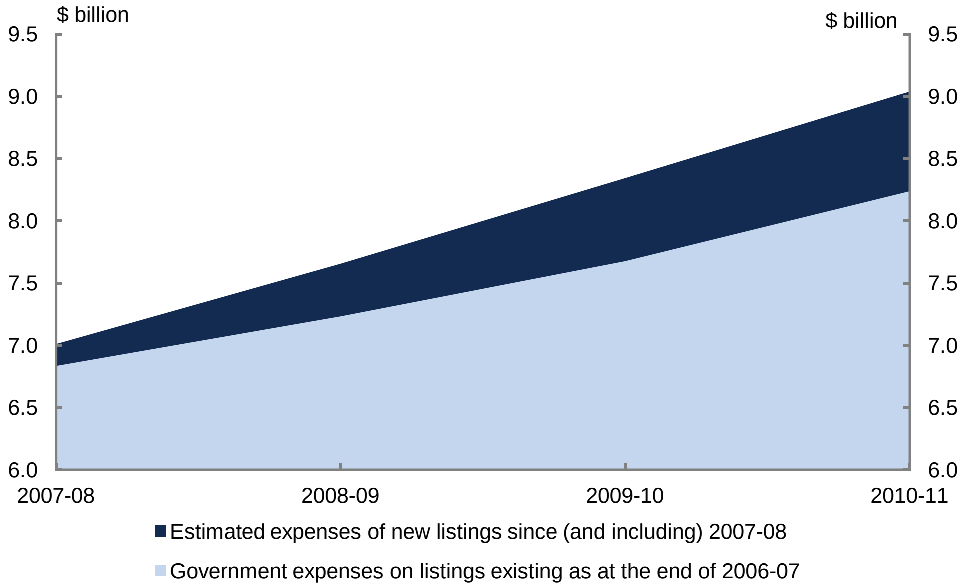
	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Pharmaceutical benefits (concessional)(a)	5,893	6,194	6,406	6,885	7,366
Pharmaceutical benefits (general)(b)	1,800	1,953	2,078	2,269	2,461
Pharmaceutical benefits (highly specialised and other drugs dispensed in hospitals)(c)	1,322	1,473	1,595	1,711	1,829
Payments for wholesalers and pharmacy programs	249	260	266	277	286
Repatriation pharmaceutical benefits scheme	464	458	441	436	422
Other(d)	609	456	459	492	518
Total	**10,337**	**10,794**	**11,245**	**12,070**	**12,882**

(a) Concessional benefits are those provided through community pharmacies for Centrelink concession card holders.
(b) General benefits are those provided through community pharmacies for people without concession cards.
(c) Highly specialised drugs are subsidised by the Commonwealth Government through hospitals.
(d) Includes some essential vaccines. The majority of essential vaccines is included in the health services sub-function.

Government expenditure on the Pharmaceutical Benefits Scheme (PBS) has been increasing since 2007-08, from $7.0 billion to an estimated $9.0 billion in 2010-11. Growth in the Scheme is driven by the demand for previously listed medicines as well as new listings on the PBS agreed by the Government. The estimated financial impact of new PBS listings in the four years from 2007-08 to 2010-11 was $2.1 billion, as illustrated in Chart 8.1.

Each year, in addition to agreeing new listings on the PBS, the Government can make decisions to list new medicines for veterans' pharmaceutical benefits, the Life Saving Drugs Program and the National Immunisation Program, as well as price changes to already listed medicines. The estimated five year impacts of all these changes between 2007-08 and 2011-12 is in the order of $4 billion.

Chart 8.1: Growth trends in PBS expenditure



Expenses in the **health services** sub-function include Commonwealth expenses associated with the delivery of population health, blood and blood products, research and other allied health services, e-Health, and health infrastructure funding through the Health and Hospitals Fund (HHF). The increase in expenses between 2010-11 and 2011-12 reflects the funding of projects through the HHF. Key projects include the Royal Hobart Hospital redevelopment (Tasmania); the Bega Valley Health Service development (New South Wales); the Port Macquarie Base Hospital expansion (New South Wales); the Tamworth Hospital redevelopment stage two (New South Wales); the Palmerston Hospital (Northern Territory); the Albury-Wodonga Regional Cancer Centre (New South Wales/Victoria); and improving Aboriginal access to primary health care in remote areas (Northern Territory). See Budget Paper No. 2, *Budget Measures 2011-12* for more details on the package of measures funded from the HHF.

The other main driver of growth in health services is an increase in funding for mental health from 2011-12 onwards, including the *Taking Action to Tackle Suicide* package in the 2010-11 MYEFO and additional funding for new mental health initiatives in the Budget, with a gross cost of $1.5 billion over five years from 2011-12 (and a net cost of $0.9 billion). See Budget Paper No. 2, *Budget Measures 2011-12* for more details.

The **hospital services** sub-function includes payments to the States and Territories through a range of existing and new national partnership agreements, and support for veterans' hospital services. The initial years of the forward estimates include funding for emergency departments and elective surgery investment as part of national health reform.

Expenses in the **Aboriginal and Torres Strait Islander health** sub-function are expected to remain steady over the forward estimates. Aboriginal and Torres Strait Islander people are able, and encouraged, to access mainstream services as well as Indigenous-specific services. As a result, substantial investment in Indigenous health is also being made through other health sub-functions — in particular, medical services and benefits.

Box 4: Health spending trends

A number of major health programs have seen, and will continue to see, strong expenditure growth, including the Medicare Benefits Schedule (MBS), the Pharmaceutical Benefits Scheme (PBS), and payments to the States and Territories under the Australian Health Care Agreement and the National Health Reform Agreement. Over the period from 2000-01 to 2009-10, average real expenditure growth for the MBS was 5.8 per cent per annum, 5.5 per cent per annum for the PBS, while growth in health payments to the States and Territories have averaged 3.6 per cent per annum. The Private Health Insurance Rebate also experienced strong real growth of 6.3 per cent per annum.

Spending on the MBS and PBS is affected by population growth and, to some extent, by the ageing of the population. However, spending is also influenced by developments in health technology and listings of new products and services. These non-demographic influences are stronger than the demographic impacts, with real growth expected to remain at around 3 to 5 per cent per annum over the medium term. Payments to the States and Territories for healthcare under the National Health Reform Agreement will grow relatively quickly (at around 8 per cent per annum in real terms from 2014-15), in large part due to volume growth and the Commonwealth's commitment to meet 45 per cent of the growth in the efficient price of hospital services, rising to 50 per cent of the growth from 2017-18.

Social security and welfare

The social security and welfare function includes: pensions and services to the aged; assistance to the unemployed, people with disabilities and families with children; and income support and compensation for veterans and their dependants. It also includes advancement programs for Aboriginal and Torres Strait Islander people.

Table 9: Summary of expenses — social security and welfare

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Assistance to the aged	44,302	47,482	50,606	53,412	56,988
Assistance to veterans and dependants	6,976	6,892	6,780	6,681	6,584
Assistance to people with disabilities	20,632	22,222	23,509	24,812	26,266
Assistance to families with children	30,799	32,015	33,852	34,530	35,248
Assistance to the unemployed and the sick	6,995	7,197	7,342	8,283	8,591
Other welfare programs	1,843	980	919	918	899
Aboriginal advancement nec	1,443	1,379	1,119	1,114	1,081
General administration	3,749	3,739	3,583	3,571	3,537
Total social security and welfare	**116,739**	**121,907**	**127,711**	**133,322**	**139,194**

Social security and welfare function expenses are estimated to grow at 5.5 per cent in real terms from 2011-12 over the forward estimates, with an average annual real growth rate of 1.8 per cent over that period. The sub-functions contributing most to the growth are **assistance to the aged**, **assistance to families with children**, and **assistance to people with disabilities**.

The continuing demographic shift to an older population, as outlined in the *2010 Intergenerational Report*, is contributing to increased social security and welfare expenses as more Australians become eligible for the Age Pension and begin to enter residential and community care facilities. The ageing of the population is also leading to an increase in the number of people caring for senior Australians and becoming eligible for carer payments. The *Secure and Sustainable Pensions* package announced in the 2009-10 Budget is also a major contributor to increased expenses across the function as it provides better indexation of, and higher rates for, many pensions and payments.

The *Building Australia's Future Workforce* initiatives announced in this Budget will also have an impact on expenses by enhancing services for disadvantaged groups to improve engagement in the labour market. These groups include people with a disability, single parents, very long-term unemployed, and young people. These measures specifically target those living in areas of concentrated socio-economic disadvantage. See Budget Paper No. 2, *Budget Measures 2011-12* for more details.

The principal driver of growth over the forward estimates for the **assistance to the aged** sub-function is income support for seniors. This program's major component, the Age Pension, contributes significantly to growth in expenses as the ageing of the population will result in more people becoming entitled to receive the Age Pension over this period. This increase in eligible people is partially reduced by the increase in the qualifying age for the Age Pension for females on 1 July 2012.

A secondary contributor to growth is the increased funding required by the community aged care and the residential aged care programs. From 1 July 2012, as part of the national health reform agenda, community aged care will increasingly be funded directly by the Commonwealth Government, with less funding being provided to the States and Territories under the Assistance to the Aged National Partnership agreement. Total expenses for aged care are also estimated to increase due to the same demographic factors driving the increased expenses for the Age Pension. In addition, senior Australians are preferring to remain in their homes for as long as possible, increasing the use of community aged care, and when they do enter residential aged care facilities, they do so at a later age and with more complex health requirements.

The major components of the assistance to the aged sub-function are outlined below in Table 9.1.

Table 9.1: Trends in the major components of assistance to the aged sub-function expenses

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Income support for seniors	31,852	34,161	36,860	38,891	41,605
Residential care	6,822	7,183	7,370	7,846	8,428
National partnership payments – assistance to the aged	1,645	1,873	794	835	890
Veterans' community care and support	1,447	1,532	1,592	1,682	1,792
Community care	879	911	2,077	2,234	2,387
Flexible aged care	661	820	894	929	952
Mature age income support	624	571	480	430	348
Allowances, concessions and services for for seniors	190	199	212	226	242
Ageing information and support	43	101	109	115	116
Aged care workforce	65	87	91	89	76
Culturally appropriate aged care	32	22	22	22	23
Aged care assessment	1	1	95	101	108
Other	41	21	10	12	21
Total	**44,302**	**47,482**	**50,606**	**53,412**	**56,988**

The main components of the **assistance to families with children** sub-function are family tax benefit payments, with the estimated increase in expenses largely due to indexation of the value of these payments. The increase in expenses is also driven by the growing use of child care services, indexation of child care benefit expenses, and additional child care rebate expenses due to the implementation of the National Partnership Agreement on the Quality Agenda for Early Childhood Education and Care. The growth also reflects the introduction of the Paid Paternity Leave scheme from 1 January 2013.

The major components of the assistance to families with children sub-function are set out in Table 9.2.

Table 9.2: Trends in the major components of assistance to families with children sub-function expenses

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Family tax benefit	17,766	18,156	18,682	19,043	19,499
Parents income support	5,639	5,621	5,667	5,605	5,554
Child care fee assistance	3,601	3,778	3,999	4,218	4,449
Parental payments and care incentives	1,793	2,330	2,450	2,579	2,668
Child support	1,155	1,210	1,248	1,280	1,313
Support for the child care system	393	409	390	384	405
Family support	192	216	218	221	223
Family relationship services	167	165	167	170	174
Other(a)	93	130	1,031	1,030	963
Total	**30,799**	**32,015**	**33,852**	**34,530**	**35,248**

(a) The rise in 2012-13 against 'Other' is due to the reclassification of $1 billion for the Low Income Earner's Superannuation Co-Contribution program from revenue to expenses.

Expenses under the **assistance to people with disabilities** sub-function will increase primarily because of strong anticipated growth in people receiving carer payments. It is estimated there will be a significant rise in the number of carers who receive income support, with this steady increase attributable to the increasing number of senior Australians receiving care and assistance.

The main component of this sub-function is the Disability Support Pension, with expenses estimated to grow due to increases in the real value of the pension as a result of the *Secure and Sustainable Pension* package announced in the 2009-10 Budget. This growth in expenses is tempered as the number of Disability Support Pension recipients is expected to remain stable as a result of the 2010-11 Budget measure *Job Capacity Assessment — more efficient and accurate assessments for Disability Support Pension and employment services*.

The major components of the assistance to people with disabilities sub-function are outlined below in Table 9.3.

Table 9.3: Trends in the major components of assistance to people with disabilities sub-function expenses

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Disability support pension	13,286	13,836	14,368	14,855	15,460
Income support for carers	5,109	5,679	6,343	7,066	7,858
Assistance to the states for disability services	1,052	1,208	1,277	1,348	1,432
Disability employment services	865	875	897	909	913
National partnership payments - assistance to people with disabilities	0	224	230	234	238
Other	320	400	394	400	365
Total	**20,632**	**22,222**	**23,509**	**24,812**	**26,266**

The **assistance to the unemployed and sick** sub-function is forecast to increase over the forward estimates. This increase reflects the technical assumption used for medium term projections of unemployment.

Expenses under the **other welfare programs** sub-function were significantly higher than usual in 2010-11 as a result of $1.1 billion in assistance provided to people affected by the 2010-11 summer natural disasters under the Australian Government Disaster Recovery Payment.

The decrease in expenses in the **Aboriginal advancement not elsewhere classified** sub-function is the result of the lapsing of funding for a number of program components as well as funding for the Northern Territory Emergency Response ceasing in June 2012.

Expenses for the **general administration** sub-function are estimated to decrease over the forward estimates due to administrative efficiencies following the integration of Centrelink and Medicare Australia with the Department of Human Services.

Expenses for the **assistance to veterans and dependants** sub-function are estimated to decrease in real terms as a result of the continuing decline in the veteran population.

Box 5: Social security and welfare spending trends

The social security and welfare function includes a number of major programs including the Age Pension, Residential Aged Care, Disability Support Pension (DSP), Family Tax Benefit and Child Care Fee Assistance. From 2000-01 to 2009-10, the Age Pension and DSP had significant real growth of around 4 per cent per annum and 6 per cent per annum respectively, while Residential Aged Care had growth of 3.8 per cent and Family Tax Benefit had growth of 3.5 per cent.

Past growth in these programs reflects increases in the number of beneficiaries arising from population growth and changing composition of the population. It also reflects the indexation of benefit payments and changes in the price of services provided, as well as policy changes such as the increase to the value of age pensions in 2009-10.

Population growth will continue to contribute to sustained real growth in the cost of these major programs. While the number of beneficiaries is determined in part by eligibility criteria, population growth and the ageing of the population have significant impacts. Both the Age Pension and Residential Aged Care are affected by the increasing growth of older age groups: from 2001 to 2009, the population aged 65 years and over grew by 2.3 per cent per annum, while from 2010 to 2020, the growth is projected to be 3.4 per cent per annum.

For a number of significant programs, such as the Age Pension and Disability Support Pension, payment rates are indexed to wages growth, which is expected to average around 4 per cent per annum in nominal terms over the medium term. Further, other programs are linked to growth in service costs, such as Child Care Fee Assistance which provides payments to cover out-of-pocket expenses for approved child care.

Overall, on the basis of arrangements in place in 2010-11, a number of the significant social security and welfare programs are expected to continue to experience strong real growth. Over the medium term, it is likely that the Age Pension, the Disability Support Pension, Residential Aged Care and Child Care Fee Assistance will see real expenditure growth in the range of 3.5 to 4.5 per cent per annum. The Government's participation agenda will have an important role to play in moderating this growth, including for the Disability Support Pension.

Housing and community amenities

The housing and community amenities function includes the Australian Government's contribution to the National Affordable Housing Specific Purpose Payments and related National Partnerships, other Australian Government housing programs, the expenses of Defence Housing Australia (DHA), and various regional development and environmental protection programs.

Table 10: Summary of expenses — housing and community amenities

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Housing	4,409	3,157	3,182	3,102	3,116
Urban and regional development	373	535	731	744	302
Environment protection	958	886	786	733	723
Total housing and community amenities	**5,741**	**4,579**	**4,699**	**4,579**	**4,141**

Note: The data in this table have been amended from the published Budget Papers to correct for a misallocation of expenses between the education and housing and community amenities functions.

Total expenses under the housing and community amenities function are estimated to decrease by 12.4 per cent in real terms from 2011-12 over the forward estimates, or by 4.3 per cent per annum on average. This largely reflects the cessation of a number of initiatives that were introduced as part of the Government's response to the global financial crisis in the Economic Security Strategy and the Nation Building and Jobs Plan.

The **housing** sub-function contains initiatives relating to the Australian Government's contribution to the National Affordable Housing Specific Purpose Payments and related National Partnerships, provision of housing for the general public and people with special needs, and the expenses of the DHA. Expenses for this sub-function decrease significantly from 2010-11 to 2011-12 due to the conclusion of the Social Housing Initiative as part of the Nation Building and Jobs Plan. However, the decline in expenses over the forward estimates is partly offset by increased funding for the Housing Affordability Fund from 2011-12 until its cessation in 2012-13.

The **urban and regional development** sub-function comprises regional development programs and services to territories, including the Regional Development Australia Fund (RDAF). Expenses are expected to fluctuate over the forward estimates, consistent with the varying nature of the projects being undertaken. The increase in forecast expenses in 2012-13 and 2013-14 is primarily due to the funding of $573 million over two years that is being provided under the RDAF which is subject to the passage of the Minerals Resource Rent Tax. Expenses are projected to decrease by $442 million from 2013-14 to 2014-15 due to the cessation of the Community Infrastructure Grants and the *Regional Infrastructure Fund – dedicated stream* element of the RDAF in 2013-14, along with the reallocation of funding from the *Priority Regional Infrastructure Program* (now a part of the RDAF) to support flood recovery efforts in regional Australia.

The **environment protection** sub-function includes expenses for a variety of initiatives, including the protection and conservation of the environment, water and waste management, pollution abatement and environmental research. Estimated expenses for this sub-function are expected to reduce from 2011-12, due to lower administration costs for the Department of Climate Change and Energy Efficiency arising from a number of programs and the cessation of the Raising National Water Standards program administered by the National Water Commission.

Recreation and culture

The recreation and culture function includes support for public broadcasting and cultural institutions, funding for the arts and the film industry, assistance to sport and recreation activities, as well as 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.

Table 11: Summary of expenses — recreation and culture

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Broadcasting	1,542	1,645	1,744	1,655	1,559
Arts and cultural heritage	1,062	1,051	1,054	1,044	1,060
Sport and recreation	412	382	350	330	327
National estate and parks	326	320	301	301	304
Total recreation and culture	**3,342**	**3,397**	**3,449**	**3,331**	**3,250**

Total expenses under the recreation and culture function are forecast to increase slightly in 2011-12 but remain relatively stable over the forward estimates.

Expenses under the **broadcasting** sub-function are expected to increase up to and including 2012-13, before falling in 2013-14, reflecting the roll-out and completion of the Government's national digital television switchover program.

Table 11.1 provides further details of the major components of broadcasting sub-function expenses.

Table 11.1: Trends in the major components of broadcasting sub-function expenses

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
ABC television	600	611	621	633	644
ABC radio	323	329	334	341	347
SBS television	191	195	203	231	223
Broadcasting and digital television	96	163	245	130	44
Access to digital TV services	87	95	97	99	102
ABC analog transmission	96	92	88	80	75
SBS digital transmission and distribution	66	72	68	70	71
Other	83	88	88	71	53
Total	**1,542**	**1,645**	**1,744**	**1,655**	**1,559**

Expenses under the **arts and cultural heritage** sub-function are expected to remain largely stable over the budget and forward estimates.

The **sport and recreation** sub-function includes programs to improve participation in sport and recreational activities, and achieve excellence in high performing athletes. The forecast decrease in expenses from 2012-13 largely reflects completion of the *Active*

After-school Communities program, after it was continued for an extra year to December 2012. See Budget Paper No. 2, *Budget Measures 2011-12* for more details.

Expenses under the **national estate and parks** sub-function are expected to decrease slightly over the forward estimates. This decrease largely reflects the scheduled reductions in supplementary funding for the Director of National Parks from 2011-12 and for the Australian Antarctic Program from 2012-13.

Fuel and energy

The fuel and energy function includes expenses for the Fuel Tax Credits, Cleaner Fuels and Product Stewardship Waste (Oil) schemes, administered by the Australian Taxation Office. It also includes expenses related to improving Australia's energy efficiency, resource related initiatives, and programs to support the production or use of alternative fuels, including ethanol and biodiesel.

Table 12: Summary of expenses — fuel and energy

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Fuel and energy	6,269	6,302	6,496	6,594	6,622
Total fuel and energy	**6,269**	**6,302**	**6,496**	**6,594**	**6,622**

The major component of this function is the Fuel Tax Credits Scheme which is expected to increase across the budget and forward estimates, reflecting an increase in business claims consistent with a growing economy. The estimates also reflect the phasing in of fuel tax credits on fuel used in off-road activities such as construction, manufacturing, wholesale, retail, property management and landscaping.

The increase in Fuel Tax Credits Scheme expenses is partly offset by reductions and deferrals of spending in several environmental programs consistent with the Government's commitment to developing a more unified approach to improving Australia's energy efficiency. The Government will implement a carbon price from 2012, and will be outlining its approach to complementary measures when it announces its detailed policy.

Table 12.1 provides further details of fuel and energy sub-function expenses.

Table 12.1: Trends in the major components of fuel and energy function expenses

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Fuel tax credits scheme	4,996	5,142	5,614	5,715	5,819
Energy related initiatives and management	130	330	326	355	289
Improving Australia's energy efficiency	620	248	72	13	0
Resources related initiatives and management	331	242	201	262	300
Resources, Energy and Tourism departmental funding for fuel and energy	92	103	86	73	74
National Partnership Payments - Climate Change	17	61	18	0	0
Product stewardship waste (oil) scheme	37	40	44	47	48
Cleaner fuels scheme	38	26	0	0	0
Other	8	110	135	129	92
Total	**6,269**	**6,302**	**6,496**	**6,594**	**6,622**

The expected reduction in expenses under the Improving Australia's Energy Efficiency component of this function is largely driven by the winding down of a number of initiatives. The cessation of the Green Loans and Green Start programs and the expected completion of the Home Insulation Safety Program and Foil Insulation Safety Program are forecast to result in reduced expenses in 2011-12 and 2012-13. The redesign of the National Solar Schools Program and the Renewable Energy Bonus Scheme — Solar Hot Water Rebate are expected to further reduce expenses in 2013-14.

The fluctuation in annual expenses for the Energy Related Initiatives and Management component is largely driven by the expected timing of projects funded from the Low Emissions Technology Demonstration Fund, the Australian Centre for Renewable Energy and the Solar Flagships program. Expenses under the Cleaner Fuels Scheme reflect the introduction of the Ethanol Production Grants program and changes to the existing scheme. The scheme is being phased out over the forward estimates.

The reduction in expenses in the Resources Related Initiatives and Management component from 2010-11 to 2012-13 mainly relates to the progressive completion of the majority of projects funded under the National Low Emissions Coal Initiative and the cessation of the Ethanol Production Grants Program in 2011-12 as part of the amended taxation arrangements for alternative fuels.

Agriculture, forestry and fishing

The 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.

Table 13: Summary of expenses — agriculture, forestry and fishing

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Wool industry	51	54	53	53	53
Grains industry	142	136	139	146	153
Dairy industry	52	46	47	49	50
Cattle, sheep and pig industry	191	178	187	191	193
Fishing, horticulture and other agriculture	246	232	225	223	221
General assistance not allocated to specific industries	24	28	26	25	27
Rural assistance	549	149	57	50	49
Natural resources development	1,159	2,004	1,218	932	1,072
General administration	655	618	574	576	567
Total agriculture, forestry and fishing	**3,067**	**3,444**	**2,526**	**2,245**	**2,385**

Total expenses under this function are estimated to decrease by 36.0 per cent in real terms between 2011-12 and 2014-15, or 13.8 per cent per annum on average. The progressive decline primarily reflects reduced expenses within the rural assistance and natural resources development sub-functions.

The forecast decrease in expenses within the **rural assistance** sub-function reflects an expected reduction in spending on drought-related initiatives. This is due to a general return to normal seasonal conditions across Australia which is assumed to be maintained over the forward estimates.

The expected increase in expenses under the **natural resources development** sub-function in 2011-12 and the subsequent decrease is driven by the *Water for the Future* package, which comprises urban and rural programs, including funding for water purchasing, irrigation modernisation, desalination, recycling, and stormwater capture. The increase in expenses in 2011-12 is largely due to the expected achievement of milestones for projects under the Sustainable Rural Water Use and Infrastructure component, which invests in key rural water infrastructure projects that support sustainable irrigation. The expected decrease in expenses in 2012-13 and 2013-14 reflects the completion of a range of initiatives such as the National Water Security Plan for Cities and Towns in 2011-12, the National Urban Water and Desalination Plan in 2012-13, and a reduction in the Sustainable Rural Water Use and Infrastructure component in 2013-14. The subsequent increase in 2014-15 reflects higher expenses under the Sustainable Rural Water Use and Infrastructure component.

The components in the natural resources development sub-function, including major water initiatives, are set out in Table 13.1.

Table 13.1: Trends in the major components of natural resources development sub-function expenses

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Water Reform	514	918	834	650	800
Sustainable Rural Water Use and Infrastructure	210	494	775	646	797
National Urban Water and Desalination Plan	49	254	54	0	0
National Water Security Plan for Cities and Towns	20	113	0	0	0
Water Smart Australia	188	49	0	0	0
Other Water Reform	47	8	5	4	3
National Partnership Payments - Water and Natural Resources	202	643	71	15	0
Sustainable Rural Water Use and Infrastructure	149	336	0	0	0
National Urban Water and Desalination Plan	29	210	56	0	0
National Water Security Plan for Cities and Towns	15	67	0	0	0
Great Artesian Basin Sustainability Initiative	9	30	15	15	0
Modernisation and Extension of Hydrological Monitoring Systems	20	10	0	0	0
Forestry Industry	32	10	10	10	10
Sustainable Management - Natural Resources	38	41	37	37	37
Other	353	382	266	220	225
Total	**1,159**	**2,004**	**1,218**	**932**	**1,072**

Other significant expenses on conservation and the sustainable use and repair of Australia's natural environment are included in the environment protection sub-function (reported as part of the housing and community amenities function) and the national estate and parks sub-function (in the recreation and culture function).

Mining, manufacturing and construction

The mining, manufacturing and construction function includes expenses designed to assist the efficiency and competitiveness of Australian industries. The major components include the research and development tax offset and programs specific to the automotive, textile, clothing and footwear industries.

Table 14: Summary of expenses — mining, manufacturing and construction

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Mining, manufacturing and construction	2,039	2,014	2,006	1,965	1,974
Total mining, manufacturing and construction	**2,039**	**2,014**	**2,006**	**1,965**	**1,974**

Total expenses under this function are expected to decrease by 9.4 per cent in real terms between 2011-12 and 2014-15. This decline is due in part to an expected decrease in spending under the Textiles, Clothing and Footwear Strategic Investment initiative in 2011-12.

The expected fall in expenses for the industry development and investment component of this function is partly offset by small increases in expenses from 2012-13 for the Research and Development Tax Offset administered by the Australian Taxation Office. This is due to the expected increase in claims to be processed in 2012-13 (following falls in recent years reflecting lower levels of activity during the global financial crisis) and an expected return to trend growth over the forward estimates.

Table 14.1: Trends in major components of mining, manufacturing and construction sub-function expenses

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Research and development tax offset	1,149	1,137	1,201	1,268	1,339
Industry development and investment	717	714	640	547	482
Other	173	164	165	150	153
Total	**2,039**	**2,014**	**2,006**	**1,965**	**1,974**

Transport and communication

The transport and communication function supports the infrastructure and regulatory framework for Australia's transport and communication sectors.

Table 15: Summary of expenses — transport and communication

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Communication	463	441	391	367	364
Rail transport(a)	551	1,085	1,233	1,477	650
Air transport	202	263	220	208	210
Road transport(a)	2,999	4,521	4,300	3,552	3,811
Sea transport	301	320	330	337	348
Other transport and communication	230	290	646	807	885
Total transport and communication	**4,748**	**6,919**	**7,119**	**6,748**	**6,267**

(a) Most road and rail funding in 2014-15, which is currently classified under the road transport sub-function, is from the allocation in the Contingency Reserve for the second tranche of the Nation Building program (NB2) and will be reclassified between the road and rail transport sub-functions as programs of work are determined.

Expenses under this function are forecast to increase in 2011-12 particularly with the allocation of $7.6 billion for transport infrastructure from the Building Australia Fund (BAF) as part of the *Nation Building Plan for the Future* package. While spending is reducing over the forward estimates, total expenses remain at an historically high level due to funding being provided for a number of major infrastructure projects with multi-year construction horizons, such as the Hunter Valley Expressway in New South Wales, the Regional Rail Express project in Victoria and the Ipswich Motorway in Queensland.

The expenses under the **road transport** sub-function primarily consist of grants provided under the Nation Building program, including funding provided for projects under the BAF. The decline in estimated expenses from 2012-13 is largely due to the completion of BAF road projects and the deferral of the F3 to Sydney Orbital feasibility study to 2015-16.

The next five year Nation Building program (Nation Building 2) begins in 2014-15. The Government has not yet finalised the details of the program and a provision is recorded against the road transport sub-function. The program will continue road infrastructure projects with funding for the Government's election commitments to Richmond Bridge in New South Wales, Princes Highway West in Victoria, Calliope Crossroads in Queensland, Great Eastern Highway in Western Australia and Tasman Highway in Tasmania.

The increase in estimated expenses in the **rail transport** sub-function to 2013-14 is mainly due to metro rail infrastructure funding provided as part of the *Nation Building Plan for the Future* package in the 2009-10 Budget. This package includes projects funded from the BAF such as a $3.2 billion contribution over six years towards the Regional Rail Express project in Victoria. Nation Building 2 is also expected to continue rail infrastructure investment with funds for preconstruction activities for an inland rail service from Melbourne to Brisbane and continued payments for the Moreton Bay Rail Link project in Queensland.

The estimated expenses for the **air transport** and **sea transport** sub-functions predominantly relate to the activities of the safety regulators — the Civil Aviation Safety Authority, the Australian Maritime Safety Authority (AMSA) and the Australian Transport Safety Bureau (ATSB). The increase in estimated expenses in the sea transport sub-function is due to the National Transport Reforms which seek to establish national transport safety through expanding ATSB's safety investigation responsibilities and AMSA's maritime safety functions. The decline in expenses in the air transport sub-function over the forward estimates is primarily due to the winding down of the regional aviation access program in mid 2013.

The increase in estimated expenses in the **other transport and communication** sub-function, commencing in 2012-13 and rising significantly in 2013-14 and 2014-15, reflects funding for the Regional Infrastructure Fund (RIF). The RIF will be funded from the Minerals Resource Rent Tax, which is scheduled to commence on 1 July 2012.

The decline in estimated expenses in the **communication** sub-function between 2010-11 and 2012-13 is primarily due to a predicted reduction in demand for the Australian Broadband Guarantee (ABG). This reflects greater availability of metro-comparable broadband services in rural and regional locations, and phasing out of funding for the ABG program from 2011-12. It also reflects the planned completion of activities related to the renewal, replanning and sale of radiofrequency spectrum. This sub-function does not reflect the Government's equity investment in the National Broadband Network.

Other economic affairs

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 (nec).

Table 16: Summary of expenses — other economic affairs

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Tourism and area promotion	160	177	179	182	175
Total labour and employment affairs	4,637	4,552	4,335	4,246	4,198
Vocational and industry training	1,805	1,998	1,815	1,821	1,765
Labour market assistance to job seekers and industry	2,192	1,998	1,953	1,874	1,881
Industrial relations	641	556	568	551	552
Immigration	2,041	2,332	1,949	1,653	1,658
Other economic affairs nec	2,216	2,324	2,201	2,137	2,121
Total other economic affairs	**9,055**	**9,385**	**8,664**	**8,218**	**8,152**

Movements in estimated expenses under the other economic affairs function largely reflect changes in the labour market assistance to job seekers and industry and immigration sub-functions.

The improved economic environment and subsequent reduction in labour market assistance are reflected in the reduction in estimated expenses for the **labour market assistance to job seekers and industry** sub-function from a peak of $2.2 billion in 2010-11 to $2.0 billion in 2012-13. This reflects a reduction in expenses of Job Services Australia and the completion of the Jobs Fund initiative on 30 June 2011, the National Green Jobs Corps program on 31 December 2011, and the Innovation Fund on 30 June 2012.

Changes in estimated expenses under the **vocational and industry training** sub-function largely reflect a redirection of funding from the Productivity Places Program to support measures aimed at addressing skills shortages. The expenses in this sub-function reflect the *Building Australia's Future Workforce* initiatives announced in this year's Budget. These initiatives include the establishment of a new National Workforce Development Fund.

The higher expenses under the **industrial relations** sub-function in 2010-11 compared to later years is largely due to the continued high level of claims for the General Employee Entitlements and Redundancy Scheme (GEERS). This Scheme assists employees of bankrupt organisations who are owed certain employee entitlements. Weaker economic conditions in previous years and the recent natural disasters have increased demand for the Scheme. It is expected that the demand for GEERS will return to historic trends in 2011-12.

The expected increase in expenses in 2011-12 under the **immigration** sub-function is largely due to the costs associated with accommodating and processing irregular maritime arrivals and new policies to support the Regional Cooperation Framework agreed under the Bali Process. These costs are expected to decline over the forward estimates as the Government's policies to combat people smuggling take effect including the commitment to enter into a new cooperative transfer agreement with Malaysia.

Under the **other economic affairs nec** sub-function, the small increase in expenses in 2011-12, followed by an expected decrease in expenses over the forward estimates, is primarily driven by changes in Commercialisation Australia and the Green Car Innovation Fund (GCIF) within the innovative industry program. Demand for Commercialisation Australia support is expected to increase in 2011-12 and remain constant over the forward estimates, while the Government's decision to close the GCIF to new applicants has resulted in most of the funding being concentrated in 2011-12, with funding decreasing substantially over the forward estimates. Further information can be found in Budget Paper No. 2, *Budget Measures 2011-12*.

Table 16.1 provides further details of trends in major components of the other economic affairs nec sub-function expenses.

Table 16.1: Trends in major components of the other economic affairs nec sub-function expenses

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Innovative industry	315	399	314	266	233
Trade and investment development	208	202	198	194	198
Export market development grants scheme	150	150	150	150	150
Operating costs for:					
Department of Innovation, Industry, Science and Research	400	411	409	390	384
Australian Securities and Investments Commission	401	391	371	358	353
Bureau of Meteorology	301	311	315	316	317
IP Australia	147	153	158	159	164
Australian Competition and Consumer Commission	145	153	149	146	147
Other	149	154	137	158	175
Total	**2,216**	**2,324**	**2,201**	**2,137**	**2,121**

Tourism and area promotion sub-function expenses are expected to be broadly stable over the forward estimates. The estimated increase in expenses from 2011-12 is driven by a combination of increased funding announced in the 2010-11 MYEFO associated with the Government's election commitments and the assistance provided in response to the impact of recent natural disasters — for example through the provision of funding for the Queensland tourism industry as part of the Government's assistance package to businesses affected by the Queensland floods.

Other purposes

The other purposes function includes expenses incurred in the servicing of public debt interest, and assistance to state, territory and local governments. This function also includes items classified to natural disaster relief, the Contingency Reserve (see Appendix B for a detailed description), and expenses related to the nominal interest on unfunded liabilities for government superannuation benefits.

Table 17: Summary of expenses — other purposes

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Public debt interest	9,286	11,632	12,615	12,854	12,602
Interest on Commonwealth Government's behalf	9,286	11,632	12,615	12,854	12,602
Nominal superannuation interest	6,958	7,575	7,826	8,083	8,338
General purpose inter-government transactions	48,919	51,152	55,133	58,179	60,942
General revenue assistance - States and Territories	46,540	49,475	52,870	55,828	58,515
Local government assistance	2,379	1,676	2,263	2,351	2,428
Natural disaster relief	997	479	1,650	3,955	1,416
Contingency reserve	-1,468	1,103	2,576	4,571	8,472
Total other purposes	**64,692**	**71,940**	**79,801**	**87,642**	**91,771**

The increase in expenses under the other purposes function is primarily driven by general revenue assistance paid to state and territory governments, nearly all of which comprise payments of GST revenue grants which are provided on an 'untied' basis. Payments to state and territory governments tied to specific purposes are reported under their relevant functions in this Statement. Since the 2010-11 Budget, general revenue assistance under this function has increased significantly, reflecting the decision not to proceed with the proposal for the Australian Government to dedicate a proportion of GST revenue for the purpose of funding certain health services. This increase is matched by a reduction in expenses under the health function (see page 6-21).

The increase in expenses under the **public debt interest** sub-function to 2013-14 is due to the increased issuance of Commonwealth Government Securities. Expenses under the **nominal superannuation interest** sub-function are projected to increase over time, reflecting the growth in the Government's superannuation liability. The Future Fund was established to assist in meeting the cost of this liability. Further information on the Future Fund can be found in Statement 7.

Expenses in the **local government assistance** sub-function are predominantly related to the financial assistance grants made to the States and Territories and consist of a general purpose component and an identified local road component, both of which are untied in the hands of local government, allowing councils to spend the grants according to local priorities. Expenses are higher in 2010-11 but then lower in 2011-12 as a result of the Government's decision to pay the first instalment of the expected

2011-12 local government financial assistance grants of $536.6 million to local councils in 2010-11. Expenses are expected to increase from 2012-13 across the forward estimates 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). Also included within this sub-function are expenses under the Regional and Local Community Infrastructure initiative which is being provided over the period 2010-11 to 2011-12. Further information on Commonwealth Government assistance to local governments can be found in Budget Paper No. 3, *Federal Financial Relations 2011-12.*

The increase in expenses under the **natural disaster relief** sub-function from 2010-11 to 2014-15 is mainly due to the recent major natural disasters. Commonwealth payments provide financial support for the affected States and Territories under the Natural Disaster Relief and Recovery Arrangements.

The increase in expenses in the contingency reserve sub-function from 2011-12 is largely due to the conservative bias allowance (CBA) which compensates for the tendency for estimates of expenses for existing Government programs to be revised upwards in the forward estimates.

The CBA is a mechanism used to improve the accuracy of the forward estimates by anticipating the trend for the estimates of existing policy to be revised upwards through time. The allowance is progressively unwound at each MYEFO and budget until it is completely removed for the budget year. This regular drawing down of the CBA reflects the fact that the tendency for underestimating payments diminishes as the forecast year gets closer. The contingency reserve is discussed in more detail at Appendix B.

General government net capital investment

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.

Australian Government general government net capital investment is expected to be $4.4 billion in 2011-12, $1.3 billion lower than in 2010-11. This is predominantly due to a reduction in the acquisition of Defence assets, lower planned investments in water, and a number of items in the Contingency Reserve.

Table 18: Estimates of total net capital investment

	MYEFO	Revised	Estimates		Projections	
	2010-11	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m	$m
Total net capital investment ($m)	**7,254**	**5,713**	**4,405**	**-1,367**	**3,034**	**3,160**
Real growth on previous year (%)(a)	9.5	-13.8	-25.2	-130.2	-316.2	1.6
Per cent of GDP	0.5	0.4	0.3	-0.1	0.2	0.2

(a) Real growth is calculated using the Consumer Price Index. Real net capital investment is rising in 2013-14. The negative real growth rate shown in that year is a function of the negative net investment in 2012-13.

Reconciliation of net capital investment since the 2010-11 Budget

A reconciliation of the net capital investment estimates, showing the effect of policy decisions and parameter and other variations since the 2010-11 Budget, is provided in Table 19.

Table 19: Reconciliation of net capital investment estimates

	Estimates			Projections
	2010-11	2011-12	2012-13	2013-14
	$m	$m	$m	$m
2010-11 Budget net capital investment	**6,775**	**3,917**	**-1,036**	**2,902**
Changes from 2010-11 Budget to 2010 PEFO				
Effect of policy decisions(a)	100	0	0	0
Effect of parameter and other variations	261	175	182	182
Total variations	**361**	**175**	**182**	**182**
2010 PEFO net capital investment	**7,136**	**4,093**	**-855**	**3,084**
Changes from 2010 PEFO to 2010-11 MYEFO				
Effect of policy decisions(a)	164	-17	-308	-176
Effect of parameter and other variations	-46	242	483	752
Total variations	**118**	**225**	**176**	**576**
2010-11 MYEFO net capital investment	**7,254**	**4,318**	**-679**	**3,659**
Changes from 2010-11 MYEFO to 2011-12 Budget				
Effect of policy decisions(a)	33	379	54	-358
Effect of parameter and other variations	-1,574	-291	-742	-267
Total variations	**-1,541**	**88**	**-688**	**-625**
2011-12 Budget net capital investment	**5,713**	**4,405**	**-1,367**	**3,034**

(a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the contingency reserve for decisions taken.

The forecast net capital investment for 2011-12 is largely unchanged since MYEFO. Major parameter and other variations over the forward estimates include the re-profiling of capital acquisitions by Defence to better align with strategic requirements. The significant reduction in net capital investment in 2012-13 is due to a number of items in the Contingency Reserve.

A discussion of changes between 2010-11 MYEFO and the 2011-12 Budget, shown in the table above, can be found in Statement 3 (in the section titled 'Net capital investment estimates'). Further information on the capital measures since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2011-12*.

Net capital investment estimates by function

Estimates for Australian Government general government sector net capital investment by function for the period 2010-11 to 2014-15 are provided in Table 20.

Table 20: Estimates of net capital investment by function

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
General public services	498	310	220	197	-41
Defence	3,506	3,682	2,513	3,196	3,155
Public order and safety	181	191	143	-45	-28
Education	-6	1	-5	-7	-7
Health	127	139	51	-40	-28
Social security and welfare	70	47	-89	-95	-26
Housing and community amenities	277	-46	15	-31	-47
Recreation and culture	105	25	3	2	9
Fuel and energy	5	9	-3	-4	-3
Agriculture, forestry and fishing	461	483	357	148	447
Mining, manufacturing and construction	18	19	21	11	0
Transport and communication	195	12	3	-16	-27
Other economic affairs	297	403	-46	-44	-42
Other purposes	-21	-870	-4,549	-240	-204
Total net capital investment	**5,713**	**4,405**	**-1,367**	**3,034**	**3,160**

As in previous years, the most significant component of the Government's net capital investment in 2011-12 occurs in the defence function. These investments reflect the acquisition of military equipment and the construction of support facilities. Such investments can experience uneven expenditure throughout their development and life cycle extending over long periods of time, and can contribute to fluctuations in levels of net capital investment from year to year.

Major factors contributing to changes in net capital investment, expected to occur in the following functions, include:

- **Defence** — investment by the Department of Defence (Defence) on various capital projects including facility and base infrastructure upgrades at: HMAS Creswell (Australian Capital Territory), Robertson Barracks (Northern Territory), and the Royal Australian Air Force Bases at Amberley (Queensland), Edinburgh (South Australia), Pearce (Western Australia) and Tindal (Northern Territory).
  - There are also a number of construction projects related to the introduction of Defence capabilities including Enhanced Land Force Facilities Stage 1 and Stage 2, Hardened and Networked Army Facilities and Airborne Early Warning and Control Facilities. Construction will occur at various Defence sites and locations across Australia.
  - Major capital equipment expected to be delivered in the forward estimates period includes the remaining Super Hornets, Bushmaster protected mobility

vehicles, Airborne Early Warning and Control aircraft, an additional strategic airlift aircraft, armed reconnaissance and multi-role helicopters, upgraded armoured personnel carriers, air-to-air refuelling aircraft, upgraded F/A-18 'Classic' Hornets, purchase of the United Kingdom's Bay Class amphibious ship '*Largs Bay*', the first of the new Air Warfare Destroyers, a new class of Landing Helicopter Dock amphibious ships, upgraded anti-ship missile defence for Anzac class frigates, tactical unmanned aerial vehicles, new light vehicles, new towed Howitzers, enhanced command and control battle management and communication systems for land forces, including enhanced satellite communications.

– The Government will reprogram $1.3 billion of funding over the forward estimates for the Defence capital investment program to better align it with Defence's strategic requirements. The reprogramming will support the Department of Defence in delivering the military capabilities set out under *Force 2030* in the 2009 Defence White Paper.

- **public order and safety** — the fit out of the central office accommodation for the Australian Security Intelligence Organisation and the fit out of Australian Federal Police accommodation at Australian airports;

- **general public services** — investment in major property projects managed by the Department of Finance and Deregulation (including construction of new accommodation for the Australian Security Intelligence Organisation), refurbishment and relocation of various overseas missions by the Department of Foreign Affairs and Trade, replacement of a research vessel for the Commonwealth Scientific and Industrial Research Organisation financed through the Education Investment Fund, and investment by several agencies in information technology including the ATO and the Department of Finance and Deregulation;

- **agriculture, forestry and fishing** — investment in water entitlements under the *Water for the Future* package to address water over-allocation in the Murray-Darling Basin, which is expected to peak in 2011-12;

- **housing and community amenities** — investment by the DHA in defence housing which has returned to business as usual following completion of its Nation Building Economic Stimulus funded new housing in 2010-11;

- **health** — write-downs in the National Medical Stockpile and delays in information and communications technology investment associated with the Government's Health Reform agenda; and

- **other economic affairs** — increased investment in immigration detention facilities in 2010-11 and 2011-12. The high level of investment in 2011-12 is a result of delays in the construction of a detention centre at Northam, Western Australia, which commenced in 2010-11.

Table 21 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	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
General public services	897	986	1,164	935	947
Defence	6,688	6,770	5,753	6,478	6,549
Public order and safety	473	517	501	327	364
Education	15	28	23	21	21
Health	167	225	136	69	85
Social security and welfare	337	318	205	198	265
Housing and community amenities	203	131	110	91	121
Recreation and culture	376	304	282	278	285
Fuel and energy	7	14	1	1	1
Agriculture, forestry and fishing	485	508	384	174	474
Mining, manufacturing and construction	26	26	28	18	6
Transport and communication	249	77	72	53	40
Other economic affairs	653	776	337	343	340
Other purposes	-21	-120	171	-90	-204
General government purchases of non-financial assets	**10,555**	**10,561**	**9,167**	**8,897**	**9,294**

Trends in Australian Government staffing

Trends in the estimated annual average staffing level (ASL[2]) for all agencies in the General Government Sector are reported in Table 22 below. The data provides a summary 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 2001-02 Budget papers. Since 2001-02 there has been an increase of 50,211 ASL (or approximately 24 per cent).

Table 22: Estimates of Average Staff Levels (ASL)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
212,784	217,284	223,134	225,914	227,013	238,623	248,217	250,566	258,321	261,891	262,995

The 2010-11 Budget Papers estimated 258,704 ASL in 2010-11. The current estimate is 261,891 ASL in 2010-11. The 2011-12 Budget is expected to result in a modest net increase of 1,104 ASL (0.4 per cent) in 2011-12 to 262,995 ASL across the General Government Sector. On 21 April 2011 the Government announced an enhanced approach to managing Australian Public Service (APS) staffing levels, including strengthening and updating APS redeployment arrangements and establishing an on-line register in the Australian Public Service Commission for excess employees seeking redeployment.

Appendix C provides details of ASL at the portfolio and agency level.

2 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.

APPENDIX A: EXPENSE BY FUNCTION AND SUB-FUNCTION

Table A1: Estimates of expenses by function and sub-function

	Actuals	Estimates			Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m	$m
General public services						
Legislative and executive affairs	840	1,083	974	948	1,091	949
Financial and fiscal affairs	6,845	6,947	7,421	7,566	7,416	7,550
Foreign affairs and economic aid	4,869	5,749	5,776	6,412	7,325	8,232
General research	2,358	2,804	2,872	2,780	2,684	2,582
General services	818	1,033	811	789	800	823
Government superannuation benefits	3,472	3,623	3,034	2,997	3,033	2,992
Total general public services	**19,203**	**21,239**	**20,887**	**21,491**	**22,349**	**23,129**
Defence	**20,150**	**20,136**	**21,277**	**20,711**	**21,895**	**22,771**
Public order and safety						
Courts and legal services	826	839	841	845	848	861
Other public order and safety	2,767	3,104	3,128	3,108	3,113	3,165
Total public order and safety	**3,593**	**3,943**	**3,969**	**3,953**	**3,961**	**4,026**
Education						
Higher education	7,750	7,851	8,534	8,955	9,366	9,691
Vocational and other education	2,017	1,900	2,013	1,915	1,954	1,978
Schools	19,550	11,218	12,300	12,925	13,563	14,527
Non-government schools	*9,575*	*7,255*	*7,746*	*8,349*	*9,028*	*9,733*
Government schools	*9,974*	*3,963*	*4,554*	*4,576*	*4,534*	*4,794*
Student assistance	3,954	4,737	4,838	4,607	4,574	4,703
General administration	343	348	306	294	284	281
School education - specific funding	1,276	6,501	1,946	1,618	1,672	1,540
Total education	**34,889**	**32,555**	**29,938**	**30,314**	**31,414**	**32,720**
Health						
Medical services and benefits(a)	21,878	23,368	22,459	23,275	24,506	25,934
Hospital services	1,817	3,262	2,846	2,780	2,966	1,860
National healthcare specific purpose payment	11,303	11,988	12,820	13,683	14,598	16,155
Pharmaceutical benefits and services	9,653	10,337	10,794	11,245	12,070	12,882
Aboriginal and Torres Strait Islander health	623	678	768	766	782	796
Health services	4,608	5,702	7,114	6,634	6,643	6,866
General administration	1,544	1,904	3,057	3,201	3,146	3,242
Total health	**51,426**	**57,240**	**59,858**	**61,584**	**64,711**	**67,734**
Social security and welfare						
Assistance to the aged	40,776	44,302	47,482	50,606	53,412	56,988
Assistance to veterans and dependants	6,851	6,976	6,892	6,780	6,681	6,584
Assistance to people with disabilities	18,041	20,632	22,222	23,509	24,812	26,266
Assistance to families with children	30,063	30,799	32,015	33,852	34,530	35,248

Table A1: Estimates of expenses by function and sub-function (continued)

	Actuals	Estimates			Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m	$m
Social security and welfare (continued)						
Assistance to the unemployed and the sick	6,965	6,995	7,197	7,342	8,283	8,591
Other welfare programs	1,950	1,843	980	919	918	899
Aboriginal advancement nec	1,317	1,443	1,379	1,119	1,114	1,081
General administration	3,234	3,749	3,739	3,583	3,571	3,537
Total social security and welfare	**109,197**	**116,739**	**121,907**	**127,711**	**133,322**	**139,194**
Housing and community amenities						
Housing	7,944	4,409	3,157	3,182	3,102	3,116
Urban and regional development	263	373	535	731	744	302
Environment protection	822	958	886	786	733	723
Total housing and community amenities	**9,029**	**5,741**	**4,579**	**4,699**	**4,579**	**4,141**
Recreation and culture						
Broadcasting	1,464	1,542	1,645	1,744	1,655	1,559
Arts and cultural heritage	1,037	1,062	1,051	1,054	1,044	1,060
Sport and recreation	351	412	382	350	330	327
National estate and parks	428	326	320	301	301	304
Total recreation and culture	**3,280**	**3,342**	**3,397**	**3,449**	**3,331**	**3,250**
Fuel and energy	**8,473**	**6,269**	**6,302**	**6,496**	**6,594**	**6,622**
Agriculture, forestry and fishing						
Wool industry	46	51	54	53	53	53
Grains industry	132	142	136	139	146	153
Dairy industry	48	52	46	47	49	50
Cattle, sheep and pig industry	171	191	178	187	191	193
Fishing, horticulture and other agriculture	230	246	232	225	223	221
General assistance not allocated to specific industries	19	24	28	26	25	27
Rural assistance	684	549	149	57	50	49
Natural resources development	941	1,159	2,004	1,218	932	1,072
General administration	546	655	618	574	576	567
Total agriculture, forestry and fishing	**2,816**	**3,067**	**3,444**	**2,526**	**2,245**	**2,385**
Mining, manufacturing and construction	**1,630**	**2,039**	**2,014**	**2,006**	**1,965**	**1,974**
Transport and communication						
Communication	478	463	441	391	367	364
Rail transport(b)	587	551	1,085	1,233	1,477	650
Air transport	155	202	263	220	208	210
Road transport(b)	4,939	2,999	4,521	4,300	3,552	3,811
Sea transport	276	301	320	330	337	348
Other transport and communication	207	230	290	646	807	885
Total transport and communication	**6,641**	**4,748**	**6,919**	**7,119**	**6,748**	**6,267**

Table A1: Estimates of expenses by function and sub-function (continued)

	Actuals	Estimates			Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m	$m
Other economic affairs						
Tourism and area promotion	162	160	177	179	182	175
Total labour and employment affairs	4,694	4,637	4,552	4,335	4,246	4,198
Vocational and industry training	*1,854*	*1,805*	*1,998*	*1,815*	*1,821*	*1,765*
Labour market assistance to job seekers and industry	*2,241*	*2,192*	*1,998*	*1,953*	*1,874*	*1,881*
Industrial relations	*600*	*641*	*556*	*568*	*551*	*552*
Immigration	1,571	2,041	2,332	1,949	1,653	1,658
Other economic affairs nec	2,200	2,216	2,324	2,201	2,137	2,121
Total other economic affairs	**8,628**	**9,055**	**9,385**	**8,664**	**8,218**	**8,152**
Other purposes						
Public debt interest	6,303	9,286	11,632	12,615	12,854	12,602
Interest on Commonwealth Government's behalf	*6,303*	*9,286*	*11,632*	*12,615*	*12,854*	*12,602*
Nominal superannuation interest	6,687	6,958	7,575	7,826	8,083	8,338
General purpose inter-government transactions	47,157	48,919	51,152	55,133	58,179	60,942
General revenue assistance - States and Territories	*44,830*	*46,540*	*49,475*	*52,870*	*55,828*	*58,515*
Local government assistance	*2,327*	*2,379*	*1,676*	*2,263*	*2,351*	*2,428*
Natural disaster relief	136	997	479	1,650	3,955	1,416
Contingency reserve	0	-1,468	1,103	2,576	4,571	8,472
Total other purposes	**60,283**	**64,692**	**71,940**	**79,801**	**87,642**	**91,771**
Total expenses	**339,239**	**350,803**	**365,817**	**380,523**	**398,974**	**414,137**

Note: The data in this table have been amended from the published Budget Papers to correct for a misallocation of expenses between the education and housing and community amenities functions.

(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) Most road and rail funding in 2014-15, which is currently classified under the road transport sub-function, is from the allocation in the Contingency Reserve for the second tranche of the Nation Building program (NB2) and will be reclassified between the road and rail transport sub-functions as programs of work are determined.

APPENDIX B: THE CONTINGENCY RESERVE

The Contingency Reserve (other purposes function) is an allowance, included in aggregate expenses, principally to reflect anticipated events that cannot be assigned to individual programs in the preparation of the Australian Government budget estimates. The Contingency Reserve is used to ensure 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 Contingency Reserve is designed to ensure that aggregate estimates are as close as possible to expected outcomes, it is not appropriated. Allowances that are included in the Contingency Reserve can only be drawn upon once they have been appropriated by Parliament. These allowances are removed from the Contingency Reserve and allocated to specific agencies for appropriation and for outcome reporting closer to the time when the associated events eventuate.

The Contingency Reserve contains an allowance for the tendency for estimates of expenses for existing Government policy to be revised upwards in the forward estimates, known as the conservative bias allowance. Since the 2010-11 MYEFO, the allowance has been drawn down to zero in the Budget year (2011-12), to ½ of a percentage point of total general government sector expenses (excluding GST payments to the States) in the first forward year (2012-13), to 1 per cent of expenses in the second forward year (2013-14), and a 2 per cent provision has been included in the third forward year (2014-15). The drawdown of the allowance reduced expenses by $778 million in 2011-12, $786 million in 2012-13 and $1.6 billion in 2013-14. The drawdown of the conservative bias allowance is consistent with long standing practice and does not represent a saving or offset to Government spending measures.

The Contingency Reserve also makes allowance in 2011-12 and the forward estimates for anticipated events, including the following:

- a provision for underspends in the current financial year reflecting the tendency for budgeted expenses for some agencies or functions not to be 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
- a provision for events and pressures that are reasonably expected to affect the budget estimates.

The Contingency Reserve also makes provision for future increases in Australia's Official Development Assistance yet to be allocated to specific aid programs. However, in this budget statement, those expenses are allocated to the foreign affairs and economic aid sub-function (see page 6-12 for further information). This provision is currently set at $61 million in 2010-11, $71 million in 2011-12, $247 million in 2012-13, $828 million in 2013-14 and $1.5 billion in 2014-15. The provision is increased or decreased in line with the forecasts for the national accounts and when new aid proposals are funded.

The Contingency Reserve previously included provisions for future equity investments in the National Broadband Network (NBN). This provision has been removed from the Contingency Reserve and placed in the agency's forward estimates.

A provision made for election commitments at the time of the 2010-11 MYEFO has been removed, as decisions regarding these election commitments are included as part of the 2011-12 Budget.

No provision has been included for the Government's proposed carbon price mechanism as details of the proposal, and the related financial implications, are yet to be determined. The proposal will be developed consistent with the principle that the overall package of a carbon price mechanism and associated assistance measures should be budget neutral.

APPENDIX C: ADDITIONAL AGENCY STATISTICS

Table C1: General government expenses by agency

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Agriculture, Fisheries and Forestry					
Department of Agriculture, Fisheries and Forestry	1,704	1,439	1,313	1,311	1,305
Grains Research and Development Corporation	157	165	143	131	129
Total	**1,861**	**1,603**	**1,456**	**1,442**	**1,434**
Attorney-General's					
Attorney-General's Department(a)	1,782	745	695	703	703
Australian Customs and Border Protection Service	1,097	1,106	1,124	1,087	1,110
Australian Federal Police	1,415	1,412	1,357	1,245	1,243
Australian Security Intelligence Organisation	391	407	454	471	483
Family Court of Australia	164	140	134	134	133
High Court of Australia	19	20	20	21	21
Total	**4,869**	**3,830**	**3,784**	**3,661**	**3,693**
Broadband, Communications and the Digital Economy					
Australian Broadcasting Corporation	1,133	1,156	1,169	1,182	1,197
Australian Communications and Media Authority	274	277	273	263	258
Department of Broadband, Communications and the Digital Economy	1,483	1,573	1,637	1,522	1,442
Special Broadcasting Service Corporation	311	319	317	340	334
Total	**3,201**	**3,325**	**3,396**	**3,306**	**3,231**
Climate Change and Energy Efficiency					
Department of Climate Change and Energy Efficiency	905	435	187	116	95
Total	**905**	**435**	**187**	**116**	**95**
Defence					
Australian War Memorial	50	57	56	56	57
Defence Housing Australia	778	789	964	988	1,036
Defence Materiel Organisation	9,918	11,127	9,978	11,292	12,654
Department of Defence	26,730	28,125	27,576	29,035	30,007
Department of Veterans' Affairs	12,262	12,352	12,321	12,338	12,323
Total	**49,738**	**52,450**	**50,894**	**53,709**	**56,077**
Education, Employment and Workplace Relations					
Comcare	545	401	412	423	432
Department of Education, Employment and Workplace Relations	43,787	43,467	44,233	46,154	47,544
Total	**44,332**	**43,868**	**44,645**	**46,577**	**47,976**

Table C1: General government expenses by agency (continued)

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Families, Housing, Community Services and Indigenous Affairs					
Department of Families, Housing, Community Services and Indigenous Affairs	72,612	76,983	81,367	85,166	89,781
Indigenous Business Australia	175	165	158	163	169
Total	**72,787**	**77,148**	**81,525**	**85,330**	**89,950**
Finance and Deregulation					
Australian Electoral Commission	279	130	126	271	122
Department of Finance and Deregulation	9,777	11,051	10,274	9,112	8,538
Future Fund Management Agency	273	316	361	382	402
Total	**10,328**	**11,496**	**10,760**	**9,764**	**9,062**
Foreign Affairs and Trade					
AusAID	4,436	4,080	4,955	5,437	5,384
Australian Trade Commission	372	366	361	357	361
Department of Foreign Affairs and Trade	1,268	1,235	1,190	1,197	1,228
Export Finance and Insurance Corporation (National Interest component)	57	51	45	40	37
Total	**6,134**	**5,732**	**6,550**	**7,031**	**7,010**
Health and Ageing					
Department of Health and Ageing	46,168	48,555	50,773	53,307	56,502
National Blood Authority	965	1,035	1,110	1,201	1,302
National Health and Medical Research Council	812	850	877	890	894
Total	**47,945**	**50,441**	**52,760**	**55,398**	**58,698**
Human Services(b)					
Centrelink	2,910	0	0	0	0
Department of Human Services	2,090	5,677	5,474	5,510	5,539
Medicare Australia	752	0	0	0	0
Total	**5,752**	**5,677**	**5,474**	**5,510**	**5,539**
Immigration and Citizenship					
Department of Immigration and Citizenship	2,304	2,605	2,231	1,994	2,006
Total	**2,304**	**2,605**	**2,231**	**1,994**	**2,006**
Infrastructure and Transport					
Civil Aviation Safety Authority	167	180	180	188	195
Department of Infrastructure and Transport	2,229	3,048	2,872	2,332	1,334
Total	**2,396**	**3,229**	**3,052**	**2,521**	**1,529**
Innovation, Industry, Science and Research					
Australian Nuclear Science and Technology Organisation	264	251	251	253	257
Australian Research Council	761	853	904	916	913
Commonwealth Scientific and Industrial Research Organisation	1,254	1,299	1,342	1,416	1,479
Department of Innovation, Industry, Science and Research	4,475	4,592	4,388	4,241	4,072
Total	**6,754**	**6,994**	**6,885**	**6,825**	**6,721**

Table C1: General government expenses by agency (continued)

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Parliament					
Department of Parliamentary Services	154	156	157	158	160
Total	**154**	**156**	**157**	**158**	**160**
Prime Minister and Cabinet					
Australian Sports Commission	308	306	283	263	257
Department of Regional Australia, Regional Development and Local Government	2,578	2,056	2,614	2,735	2,678
Department of the Prime Minister and Cabinet(c)	609	1,141	1,075	1,062	1,071
National Archives of Australia	78	76	76	76	76
National Capital Authority	34	35	35	35	36
National Gallery of Australia	40	41	41	41	42
National Library of Australia	76	76	76	76	75
National Museum of Australia	48	47	46	46	47
Total	**3,772**	**3,778**	**4,246**	**4,334**	**4,281**
Resources, Energy and Tourism					
Department of Resources, Energy and Tourism	711	845	783	861	829
Tourism Australia	149	157	158	160	160
Total	**860**	**1,002**	**941**	**1,020**	**989**
Sustainability, Environment, Water, Population and Communities					
Bureau of Meteorology	321	321	315	316	317
Department of Sustainability, Environment, Water, Population and Communities	1,822	1,952	1,871	1,702	1,811
Total	**2,143**	**2,273**	**2,186**	**2,018**	**2,128**
Treasury					
Australian Bureau of Statistics	435	627	384	365	376
Australian Office of Financial Management	9,301	11,646	12,629	12,864	12,612
Australian Securities and Investment Commission	473	465	449	441	440
Australian Taxation Office	18,570	18,648	20,681	21,263	21,807
Department of the Treasury	82,283	85,013	88,571	93,733	90,909
Total	**111,062**	**116,400**	**122,714**	**128,667**	**126,146**
Small agencies	**5,649**	**5,853**	**5,597**	**5,579**	**5,679**
Whole of government and inter-agency amounts(d)	**-24,839**	**-26,006**	**-22,075**	**-18,710**	**-11,007**
AEIFRS expenses considered other economic flows(e)	**-7,304**	**-6,472**	**-6,845**	**-7,277**	**-7,260**
Total expenses	**350,803**	**365,817**	**380,523**	**398,974**	**414,137**

(a) Expenses in 2010-11 include Australian Government Disaster Recovery Payments following the 2010-11 summer floods and Tropical Cyclone Yasi.
(b) Estimates against Centrelink and Medicare Australia reflect their integration with the Department of Human Services from 2011-12.
(c) Increased expenses in 2011-12 reflect transfers of cultural heritage, arts and sports functions to the Department of the Prime Minister and Cabinet.
(d) 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.
(e) Agency 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	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Agriculture, Fisheries and Forestry					
Department of Agriculture, Fisheries and Forestry	683	656	611	614	605
Grains Research and Development Corporation	157	165	143	131	129
Total	**840**	**821**	**754**	**745**	**735**
Attorney-General's					
Attorney-General's Department	264	249	243	248	244
Australian Customs and Border Protection Service	1,093	1,099	1,118	1,081	1,104
Australian Federal Police	1,363	1,365	1,339	1,242	1,242
Australian Security Intelligence Organisation	391	407	454	471	483
Family Court of Australia	164	140	134	134	133
High Court of Australia	19	20	20	21	21
Total	**3,294**	**3,279**	**3,309**	**3,197**	**3,228**
Broadband, Communications and the Digital Economy					
Australian Broadcasting Corporation	1,133	1,156	1,169	1,182	1,197
Australian Communications and Media Authority	111	114	110	100	95
Department of Broadband, Communications and the Digital Economy	132	130	116	109	94
Special Broadcasting Service Corporation	311	319	317	340	334
Total	**1,688**	**1,719**	**1,712**	**1,730**	**1,720**
Climate Change and Energy Efficiency					
Department of Climate Change and Energy Efficiency	221	145	104	92	85
Total	**221**	**145**	**104**	**92**	**85**
Defence					
Australian War Memorial	50	57	56	56	57
Defence Housing Australia	778	789	964	988	1,036
Defence Materiel Organisation	9,918	11,127	9,978	11,292	12,654
Department of Defence	22,974	24,196	23,470	24,740	25,514
Department of Veterans' Affairs	361	352	347	347	351
Total	**34,081**	**36,522**	**34,815**	**37,423**	**39,611**
Education, Employment and Workplace Relations					
Comcare	545	401	412	423	432
Department of Education, Employment and Workplace Relations	900	866	855	844	843
Total	**1,445**	**1,268**	**1,267**	**1,267**	**1,275**

Table C2: Departmental expenses by agency (continued)

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Families, Housing, Community Services and Indigenous Affairs					
Department of Families, Housing, Community Services and Indigenous Affairs	602	602	555	555	523
Indigenous Business Australia	175	165	158	163	169
Total	**777**	**767**	**713**	**719**	**692**
Finance and Deregulation					
Australian Electoral Commission	226	130	126	203	122
Department of Finance and Deregulation	591	523	497	500	514
Future Fund Management Agency	32	39	42	44	46
Total	**849**	**691**	**665**	**747**	**683**
Foreign Affairs and Trade					
AusAID	259	284	283	281	283
Australian Trade Commission	222	215	211	207	211
Department of Foreign Affairs and Trade	981	961	917	922	952
Total	**1,461**	**1,460**	**1,411**	**1,410**	**1,445**
Health and Ageing					
Department of Health and Ageing	760	759	758	757	738
National Blood Authority	11	11	9	9	9
National Health and Medical Research Council	46	48	48	48	48
Total	**817**	**818**	**815**	**814**	**796**
Human Services(a)					
Centrelink	2,910	0	0	0	0
Department of Human Services	805	4,344	4,092	4,094	4,089
Medicare Australia	752	0	0	0	0
Total	**4,467**	**4,344**	**4,092**	**4,094**	**4,089**
Immigration and Citizenship					
Department of Immigration and Citizenship	1,269	1,326	1,256	1,219	1,242
Total	**1,269**	**1,326**	**1,256**	**1,219**	**1,242**
Infrastructure and Transport					
Civil Aviation Safety Authority	167	180	180	188	195
Department of Infrastructure and Transport	215	232	208	215	204
Total	**382**	**412**	**388**	**404**	**399**
Innovation, Industry, Science and Research					
Australian Nuclear Science and Technology Organisation	264	251	251	253	257
Australian Research Council	23	21	21	21	21
Commonwealth Scientific and Industrial Research Organisation	1,254	1,299	1,342	1,416	1,479
Department of Innovation, Industry, Science and Research	400	411	409	390	384
Total	**1,941**	**1,982**	**2,024**	**2,078**	**2,140**

Table C2: Departmental expenses by agency (continued)

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Parliament					
Department of Parliamentary Services	129	131	131	132	134
Total	**129**	**131**	**131**	**132**	**134**
Prime Minister and Cabinet					
Australian Sports Commission	308	306	283	263	257
Department of Regional Australia, Regional Development and Local Government	38	68	54	49	49
Department of the Prime Minister and Cabinet	193	230	186	184	187
National Archives of Australia	78	76	76	76	76
National Capital Authority	16	16	17	17	17
National Gallery of Australia	40	41	41	41	42
National Library of Australia	76	76	76	76	75
National Museum of Australia	48	47	46	46	47
Total	**798**	**860**	**778**	**752**	**749**
Resources, Energy and Tourism					
Department of Resources, Energy and Tourism	102	114	95	82	77
Tourism Australia	149	157	158	160	160
Total	**251**	**270**	**253**	**242**	**237**
Sustainability, Environment, Water, Population and Communities					
Bureau of Meteorology	301	311	315	316	317
Department of Sustainability, Environment, Water, Population and Communities	524	508	492	479	447
Total	**825**	**819**	**808**	**795**	**764**
Treasury					
Australian Bureau of Statistics	435	627	384	365	376
Australian Office of Financial Management	14	14	14	10	10
Australian Securities and Investment Commission	401	391	371	358	353
Australian Taxation Office	3,191	3,293	3,368	3,281	3,220
Department of the Treasury	180	175	169	161	162
Total	**4,221**	**4,501**	**4,306**	**4,175**	**4,121**
Small agencies	**4,630**	**4,745**	**4,549**	**4,473**	**4,516**
Whole of government and inter-agency amounts(b)	**-10,802**	**-11,882**	**-10,702**	**-12,010**	**-13,308**
AEIFRS expenses considered other economic flows(c)	**-1,090**	**-1,245**	**-1,149**	**-1,174**	**-1,167**
Total departmental expenses	**52,494**	**53,753**	**52,300**	**53,323**	**54,185**

(a) Estimates against Centrelink and Medicare Australia reflect their integration with the Department of Human Services from 2011-12.

(b) 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.

(c) Agency 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	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Agriculture, Fisheries and Forestry					
Department of Agriculture, Fisheries and Forestry	8	16	-3	-3	-5
Total	**8**	**16**	**-3**	**-3**	**-5**
Attorney-General's					
Attorney-General's Department(a)	-614	-15	-6	-10	-5
Australian Customs and Border Protection Service	12	4	-11	-10	-8
Australian Federal Police	96	93	6	-13	-18
Australian Security Intelligence Organisation	-20	45	138	14	22
Family Court of Australia	1	1	-1	-1	0
High Court of Australia	1	3	0	2	0
Total	**-522**	**131**	**127**	**-18**	**-9**
Broadband, Communications and the Digital Economy					
Australian Broadcasting Corporation	14	0	0	0	0
Australian Communications and Media Authority	5	3	5	4	1
Department of Broadband, Communications and the Digital Economy(b)	197	15	-15	-15	-16
Special Broadcasting Service Corporation	28	2	2	-7	-2
Total	**245**	**21**	**-7**	**-17**	**-17**
Climate Change and Energy Efficiency					
Department of Climate Change and Energy Efficiency	43	9	2	0	6
Total	**43**	**9**	**2**	**0**	**6**
Defence					
Australian War Memorial	4	-5	-3	-2	-5
Defence Housing Australia(c)	216	-61	1	-18	-30
Department of Defence	2,900	2,920	1,840	2,499	2,458
Department of Veterans' Affairs	21	5	-4	-5	-9
Total	**3,140**	**2,860**	**1,835**	**2,475**	**2,415**
Education, Employment and Workplace Relations					
Comcare	1	17	13	2	1
Department of Education, Employment and Workplace Relations	14	-7	-13	-12	-14
Total	**14**	**10**	**0**	**-10**	**-13**
Families, Housing, Community Services and Indigenous Affairs					
Department of Families, Housing, Community Services and Indigenous Affairs	169	-21	-9	-20	-13
Indigenous Business Australia	7	-4	0	0	0
Total	**177**	**-24**	**-9**	**-20**	**-13**

Table C3: Net capital investment by agency (continued)

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
Finance and Deregulation	$m	$m	$m	$m	$m
Australian Electoral Commission	-2	-1	10	-4	1
Department of Finance and Deregulation	291	316	114	-85	52
Future Fund Management Agency	0	-254	0	0	0
Total	**289**	**61**	**123**	**-90**	**53**
Foreign Affairs and Trade					
AusAID	8	10	-2	2	2
Australian Trade Commission	-2	-3	4	-5	-1
Department of Foreign Affairs and Trade	17	224	221	250	95
Total	**22**	**231**	**223**	**246**	**97**
Health and Ageing					
Department of Health and Ageing	-40	-24	42	-65	-48
National Health and Medical Research Council	0	-2	-2	-2	-2
Total	**-40**	**-25**	**40**	**-67**	**-49**
Human Services(d)					
Centrelink	20	-657	0	0	0
Department of Human Services	11	920	-70	-75	-14
Medicare Australia	36	-191	0	0	0
Total	**67**	**73**	**-70**	**-75**	**-14**
Immigration and Citizenship					
Department of Immigration and Citizenship	233	172	-6	169	-3
Total	**233**	**172**	**-6**	**169**	**-3**
Infrastructure and Transport					
Civil Aviation Safety Authority	-1	2	2	-4	1
Department of Infrastructure and Transport	-27	-20	-4	-5	-9
Total	**-28**	**-18**	**-1**	**-8**	**-8**
Innovation, Industry, Science and Research					
Australian Nuclear Science and Technology Organisation	-8	0	-1	12	-11
Australian Research Council	0	0	0	-2	-1
Commonwealth Scientific and Industrial Research Organisation	79	57	-2	-37	-49
Department of Innovation, Industry, Science and Research	71	15	-11	-13	-14
Total	**143**	**72**	**-15**	**-40**	**-76**
Parliament					
Department of Parliamentary Services	31	-2	-22	-21	-7
Total	**31**	**-2**	**-22**	**-21**	**-7**
Prime Minister and Cabinet					
Australian Sports Commission	-1	-8	-8	-10	-8
Department of Regional Australia, Regional Development and Local Government(a)	673	29	22	-4	-10
Department of the Prime Minister and Cabinet(e)	141	-3	-1	2	-5
National Archives of Australia	-3	-5	-7	-5	-5
National Capital Authority	17	-1	-8	-8	-4
National Gallery of Australia	20	12	13	17	17
National Library of Australia	7	4	3	0	0
National Museum of Australia	20	13	13	11	17
Total	**875**	**42**	**27**	**2**	**2**

Table C3: Net capital investment by agency (continued)

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Resources, Energy and Tourism					
Department of Resources, Energy and Tourism	2	9	-1	-1	-1
Tourism Australia	-1	0	0	-1	0
Total	**1**	**9**	**-2**	**-2**	**-1**
Sustainability, Environment, Water, Population and Communities					
Bureau of Meteorology	24	12	9	4	3
Department of Sustainability, Environment, Water, Population and Communities	265	461	356	151	452
Total	**288**	**473**	**365**	**155**	**456**
Treasury					
Australian Bureau of Statistics	-5	-5	-9	-11	-9
Australian Office of Financial Management	0	2	0	0	0
Australian Securities and Investment Commission	30	6	-26	-19	-24
Australian Taxation Office	43	60	59	-5	-12
Department of the Treasury(f)	2,008	489	-656	-2,048	-358
Total	**2,077**	**552**	**-632**	**-2,083**	**-403**
Small agencies	**150**	**147**	**10**	**-27**	**-20**
Whole of government and inter-agency amounts(g)	**-65**	**-107**	**16**	**-246**	**-361**
Adjustments to AEIFRS movements in non-financial assets(h)	**-1,435**	**-297**	**-3,368**	**2,714**	**1,132**
Total net capital investment	**5,713**	**4,405**	**-1,367**	**3,034**	**3,160**

(a) Amounts in 2010-11 reflect the movement of the territories function between agencies, with an accompanying transfer of physical assets. While this transfer affected the capital accounts of each agency, this transfer had no effect on the Commonwealth's overall asset position.
(b) The amount in 2010-11 includes the construction and purchase of assets as part of the Regional Backbone Blackspots program.
(c) The amount in 2010-11 includes new housing funded under the Nation Building program.
(d) Estimates against Centrelink and Medicare Australia in 2011-12 represent the write down of assets and integration of the agencies into the Department of Human Services.
(e) Increased net capital investment in 2010-11 reflects a movement of assets following the transfer of the cultural heritage, arts and sports functions to the Department of the Prime Minister and Cabinet.
(f) These amounts represent the effects of infrequently made pre-payments to the States (for example. pre-payments for flood assistance to the Queensland Government in 2010-11 which will be unwound in 2013-14).
(g) 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.
(h) Agency 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. They also include Contingency Reserve movements in non-financial assets.

Table C4: Capital appropriations by portfolio

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Agriculture, Fisheries and Forestry					
Department of Agriculture, Fisheries and Forestry	13	26	14	14	13
Total	**13**	**26**	**14**	**14**	**13**
Attorney-General's					
Attorney-General's Department	116	91	16	16	25
Australian Customs and Border Protection Service	107	85	81	83	86
Australian Federal Police	67	62	74	90	85
Australian Security Intelligence Organisation	66	61	81	60	43
Family Court of Australia	9	10	8	8	9
High Court of Australia	9	4	4	6	5
Total	**374**	**312**	**265**	**261**	**252**
Broadband, Communications and the Digital Economy					
Australian Broadcasting Corporation	17	0	0	0	0
Australian Communications and Media Authority	17	9	10	11	9
Department of Broadband, Communications and the Digital Economy(a)	306	2,354	4,406	6,606	4,106
Special Broadcasting Service Corporation	6	5	0	0	0
Total	**345**	**2,368**	**4,416**	**6,617**	**4,114**
Climate Change and Energy Efficiency					
Department of Climate Change and Energy Efficiency	7	3	10	9	7
Total	**7**	**3**	**10**	**9**	**7**
Defence					
Australian War Memorial	7	8	7	7	7
Defence Housing Australia	44	0	0	0	0
Department of Defence	2,756	2,909	1,950	2,439	2,492
Department of Veterans' Affairs	44	20	18	18	18
Total	**2,851**	**2,937**	**1,976**	**2,465**	**2,517**
Education, Employment and Workplace Relations					
Comcare	0	7	0	0	0
Department of Education, Employment and Workplace Relations	84	80	78	78	78
Total	**84**	**87**	**78**	**78**	**78**

Table C4: Capital appropriations by portfolio (continued)

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Families, Housing, Community Services and Indigenous Affairs					
Department of Families, Housing, Community Services and Indigenous Affairs	36	30	40	25	29
Indigenous Business Australia	33	33	33	33	33
Total	**69**	**63**	**73**	**58**	**62**
Finance and Deregulation					
Australian Electoral Commission	8	8	14	5	7
Department of Finance and Deregulation	1,512	1,540	1,425	1,416	1,380
Total	**1,520**	**1,548**	**1,439**	**1,421**	**1,387**
Foreign Affairs and Trade					
AusAID	570	70	256	337	15
Australian Trade Commission	14	15	23	14	18
Department of Foreign Affairs and Trade	130	145	129	167	114
Total	**715**	**230**	**408**	**518**	**146**
Health and Ageing					
Department of Health and Ageing	145	35	66	15	33
National Blood Authority	0	1	0	0	1
Total	**146**	**36**	**66**	**16**	**34**
Human Services(b)					
Centrelink	206	0	0	0	0
Department of Human Services	40	310	161	125	240
Medicare Australia	53	0	0	0	0
Total	**299**	**310**	**161**	**125**	**240**
Immigration and Citizenship					
Department of Immigration and Citizenship	456	150	111	112	118
Total	**456**	**150**	**111**	**112**	**118**
Infrastructure and Transport					
Department of Infrastructure and Transport(c)	1,189	4	12	11	6
Total	**1,189**	**4**	**12**	**11**	**6**
Innovation, Industry, Science and Research					
Australian Nuclear Science and Technology Organisation	4	1	4	16	0
Australian Research Council	4	3	3	1	2
Commonwealth Scientific and Industrial Research Organisation	10	0	0	0	0
Department of Innovation, Industry, Science and Research	75	65	50	44	38
Total	**93**	**70**	**56**	**61**	**39**

Table C4: Capital appropriations by portfolio (continued)

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Parliament					
Department of Parliamentary Services	77	32	25	25	40
Total	**77**	**32**	**25**	**25**	**40**
Prime Minister and Cabinet					
Department of Regional Australia, Regional Development and Local Government	17	46	44	19	13
Department of the Prime Minister and Cabinet	5	10	8	9	9
National Archives of Australia	7	7	7	7	8
National Capital Authority	13	15	10	11	15
National Gallery of Australia	18	16	16	17	17
National Library of Australia	10	10	10	10	10
National Museum of Australia	2	2	2	2	2
Total	**72**	**106**	**98**	**74**	**74**
Resources, Energy and Tourism					
Department of Resources, Energy and Tourism	8	5	0	0	0
Tourism Australia	13	0	0	0	0
Total	**21**	**5**	**0**	**0**	**0**
Sustainability, Environment, Water, Population and Communities					
Bureau of Meteorology	73	64	62	58	57
Department of Sustainability, Environment, Water, Population and Communities	499	372	430	45	587
Total	**572**	**436**	**493**	**103**	**644**
Treasury					
Australian Bureau of Statistics	45	19	23	25	26
Australian Office of Financial Management(d)	357,952	349,481	322,397	337,245	270,509
Australian Securities and Investment Commission	57	65	20	24	13
Australian Taxation Office	166	156	185	144	143
Department of the Treasury	555	2,442	746	80	33
Total	**358,775**	**352,163**	**323,371**	**337,519**	**270,725**
Small agencies	**138**	**108**	**80**	**72**	**83**
Total capital appropriations	**367,816**	**360,997**	**333,152**	**349,561**	**280,579**

(a) Sharp rises in capital appropriations from 2011-12 onward are due to capital injections for the National Broadband Network.

(b) Estimates against Centrelink and Medicare Australia reflect their integration with the Department of Human Services from 2011-12.

(c) The amount in 2010-11 reflects an equity injection into the Australian Rail Track Corporation.

(d) The AOFM manages the overall level of cash in the Official Public Account (OPA). It makes short-term borrowings by issuing Treasury Notes and invests in short-term deposits and securities to manage daily variations in the OPA balance. The capital appropriations include this short-term investment and borrowing activity to manage the estimated within-year profile of the OPA balance. As the within-year profile of the OPA balance may differ from one year to the next, the estimates will reflect the size and timing of short term investment and borrowing activity.

Table C5: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector[(a)]

	Average staffing levels *		
	2010-11	2011-12	Change
Agriculture, Fisheries and Forestry			
Department of Agriculture, Fisheries and Forestry	4,524	4,570	46
Australian Fisheries Management Authority	213	198	-15
Australian Pesticides and Veterinary Medicines Authority	154	173	19
Cotton Research and Development Corporation	8	8	0
Fisheries Research and Development Corporation	12	11	-1
Grains Research and Development Corporation	51	52	1
Grape and Wine Research and Development Corporation	12	12	0
Rural Industries Research and Development Corporation	27	27	0
Sugar Research and Development Corporation	7	7	0
Wheat Exports Australia	11	14	3
Wine Australia Corporation (Wine Australia)	44	42	-2
Total	**5,063**	**5,114**	**51**
Attorney-General's			
Attorney-General’s Department	1,434	1,395	-39
Administrative Appeals Tribunal	165	165	0
Australian Commission for Law Enforcement Integrity	24	24	0
Australian Crime Commission	570	547	-23
Australian Customs and Border Protection Service	5,320	5,230	-90
Australian Federal Police	6,713	6,696	-17
Australian Human Rights Commission	115	118	3
Australian Institute of Criminology **(b)**	56	39	-17
Australian Law Reform Commission	16	16	0
Australian Security Intelligence Organisation	1,724	1,769	45
Australian Transaction Reports and Analysis Centre (AUSTRAC)	311	290	-22
CrimTrac Agency	190	204	14
Family Court of Australia	597	572	-25
Federal Court of Australia	316	316	0
Federal Magistrates Court of Australia	228	234	6
High Court of Australia	85	83	-2
Insolvency and Trustee Service Australia	301	370	69
National Native Title Tribunal	181	154	-27
Office of Parliamentary Counsel	49	52	3
Office of the Director of Public Prosecutions	539	513	-25
Total	**18,933**	**18,787**	**-147**
Broadband, Communications and the Digital Economy			
Department of Broadband, Communications and the Digital Economy	661	700	39
Australian Broadcasting Corporation	4,562	4,592	30
Australian Communications and Media Authority	597	625	28
Special Broadcasting Service Corporation	825	831	6
Total	**6,645**	**6,748**	**103**
Climate Change and Energy Efficiency			
Department of Climate Change and Energy Efficiency	905	856	-49
Low Carbon Australia Limited	16	27	11
Office of the Renewable Energy Regulator	38	51	13
Total	**959**	**934**	**-25**

Table C5: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector[(a)] (continued)

Defence			
Department of Defence – Civilian (including Defence Materiel Organisation) **(c)**	21,331	22,292	961
Department of Defence – Military	59,023	59,053	30
Department of Defence – Reserves	21,850	22,350	500
Department of Veterans' Affairs	1,971	1,950	-21
Australian War Memorial	272	292	20
Defence Housing Australia	573	580	7
Total	**105,020**	**106,517**	**1,497**
Departments of the Parliament			
Department of Parliamentary Services	730	724	-6
Department of the House of Representatives	158	164	6
Department of the Senate	159	161	2
Total	**1,047**	**1,049**	**2**
Education, Employment and Workplace Relations			
Department of Education, Employment and Workplace Relations	5,070	4,800	-270
Australian Curriculum Assessment and Reporting Authority	106	108	2
Australian Institute for Teaching and School Leadership Limited	21	34	13
Australian Learning and Teaching Council Limited	31	8	-23
Comcare	637	642	5
Fair Work Australia	329	332	3
National Vocational Education and Training Regulator **(d)**	0	155	155
Office of the Australian Building and Construction Commissioner	155	155	0
Office of the Fair Work Ombudsman	868	855	-13
Safe Work Australia	107	110	3
Total	**7,324**	**7,199**	**-125**
Families, Housing, Community Services and Indigenous Affairs			
Department of Families, Housing, Community Services and Indigenous Affairs	2,686	2,711	25
Aboriginal Hostels Limited	442	472	30
Anindilyakwa Land Council	20	24	4
Central Land Council	187	210	23
Equal Opportunity for Women in the Workplace Agency	21	26	5
Indigenous Business Australia	234	231	-3
Indigenous Land Corporation	213	215	2
Northern Land Council	450	470	20
Outback Stores Pty Ltd	120	120	0
Tiwi Land Council	12	12	0
Torres Strait Regional Authority	86	107	21
Wreck Bay Aboriginal Community Council	15	32	17
Total	**4,486**	**4,630**	**144**
Finance and Deregulation			
Department of Finance and Deregulation	1,559	1,595	36
Australian Electoral Commission	869	830	-39
Australian Rewards Investment Alliance	57	62	5
ComSuper	520	440	-80
Future Fund Management Agency	78	88	10
Total	**3,083**	**3,015**	**-68**

Table C5: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector[(a)] (continued)

Foreign Affairs and Trade			
Department of Foreign Affairs and Trade	3,807	3,817	11
AusAID (Australian Agency for International Development)	1,018	1,073	55
Australian Centre for International Agricultural Research	64	66	2
Australian Secret Intelligence Service	-	-	-
Australian Trade Commission (Austrade)	1,078	1,048	-30
Export Finance Insurance Corporation - National Interest Account	6	6	0
Total	**5,972**	**6,010**	**38**
Health and Ageing			
Department of Health and Ageing **(e)**	4,753	4,668	-85
Aged Care Standards and Accreditation Agency	220	225	5
Australian Commission on Safety and Quality in Health Care **(f)**	33	39	6
Australian Institute of Health and Welfare	372	337	-35
Australian National Preventive Health Agency	7	34	27
Australian Organ and Tissue Donation and Transplantation Authority	36	36	0
Australian Radiation Protection and Nuclear Safety Agency	146	149	3
Cancer Australia **(g)**	23	84	61
Food Standards Australia and New Zealand	134	139	5
General Practice Education and Training Limited	42	45	3
Health Workforce Australia	58	120	62
National Blood Authority	43	46	2
National Breast and Ovarian Cancer Centre **(g)**	33	-	-33
National Health and Medical Research Council	220	220	0
Private Health Insurance Administration Council	27	29	1
Private Health Insurance Ombudsman	11	13	1
Professional Services Review Scheme	30	30	0
Total	**6,189**	**6,212**	**23**
Human Services			
Department of Human Services **(h)**	5,625	33,583	-1,256
Centrelink (Commonwealth Services Delivery Agency)	24,030	-	-
Medicare Australia	5,184	-	-
Total	**34,839**	**33,583**	**-1,256**
Immigration and Citizenship			
Department of Immigration and Citizenship	7,906	8,191	285
Migration Review Tribunal and Refugee Review Tribunal	320	325	5
Total	**8,226**	**8,516**	**290**
Infrastructure and Transport			
Department of Infrastructure and Transport	953	971	18
Australian Maritime Safety Authority	306	313	7
Australian Transport Safety Bureau	112	116	4
Civil Aviation Safety Authority	745	809	64
National Transport Commission **(i)**	-	47	47
Total	**2,116**	**2,256**	**140**

Table C5: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector[(a)] (continued)

Innovation, Industry, Science and Research			
Department of Innovation, Industry, Science and Research	2,276	2,311	35
Australian Institute of Aboriginal and Torres Strait Islander Studies	115	115	0
Australian Institute of Marine Science	205	187	-18
Australian Nuclear Science and Technology Organisation	1,052	1,107	55
Australian Research Council	107	107	0
Commonwealth Scientific and Industrial Research Organisation	5,826	5,826	0
IP Australia	992	1,018	26
Total	**10,573**	**10,671**	**98**
Prime Minister and Cabinet			
Department of the Prime Minister and Cabinet **(e)**	780	980	200
Department of Regional Australia, Regional Development and Local Government	311	405	94
Australia Business Arts Foundation Limited	24	24	0
Australia Council	122	122	0
Australian Film, Television and Radio School	140	140	0
Australian Institute of Family Studies	64	64	0
Australian National Audit Office	365	364	-1
Australian National Maritime Museum	125	125	0
Australian Public Service Commission	247	278	31
Australian Sports Anti-Doping Authority	65	65	0
Australian Sports Commission	735	735	0
Bundanon Trust	17	17	0
National Archives of Australia	418	429	11
National Australia Day Council Limited	12	12	0
National Capital Authority	52	52	0
National Film & Sound Archive	205	215	10
National Gallery of Australia	242	242	0
National Library of Australia	439	427	-12
National Museum of Australia	259	251	-8
Office of National Assessments	145	148	3
Office of the Australian Information Commissioner	76	81	5
Office of the Commonwealth Ombudsman	148	149	1
Office of the Inspector-General of Intelligence and Security	13	14	1
Office of the Official Secretary to the Governor-General	88	86	-2
Old Parliament House	77	76	-1
Screen Australia	135	120	-15
Total	**5,305**	**5,622**	**317**
Resources, Energy and Tourism			
Department of Resources, Energy and Tourism	471	523	52
Australian Solar Institute Limited	5	7	2
Geoscience Australia	678	666	-12
National Offshore Petroleum Safety Authority	62	76	14
Tourism Australia	205	206	1
Total	**1,421**	**1,478**	**57**

Table C5: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector[(a)] (continued)

Sustainability, Environment, Water, Population and Communities			
Department of Sustainability, Environment, Water, Population and Communities **(e)**	2,406	2,309	-97
Bureau of Meteorology	1,456	1,445	-11
Director of National Parks	288	288	0
Great Barrier Reef Marine Park Authority	220	215	-5
Murray-Darling Basin Authority	295	295	0
National Water Commission	59	63	4
Sydney Harbour Federation Trust	51	55	4
Total	**4,775**	**4,670**	**-105**
Treasury			
Department of the Treasury	1,010	960	-50
Australian Bureau of Statistics	3,030	3,230	200
Australian Competition and Consumer Commission	778	812	34
Australian Office of Financial Management	42	46	4
Australian Prudential Regulation Authority	619	607	-12
Australian Securities and Investments Commission	2,040	1,885	-155
Australian Taxation Office	21,908	21,963	55
Commonwealth Grants Commission	47	47	0
Corporations and Markets Advisory Committee	3	3	0
Inspector General of Taxation	7	11	4
National Competition Council	12	12	0
Office of the Auditing and Assurance Standards Board	8	8	0
Office of the Australian Accounting Standards Board	22	23	1
Productivity Commission	194	183	-11
Royal Australian Mint	195	195	0
Total	**29,915**	**29,985**	**70**
TOTAL (for all general government sector agencies)	**261,891**	**262,995**	**1,104**

**Any discrepancies in totals are due to rounding of partial ASL*

(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) All administrative functions for the Criminology Research Council are undertaken by the Australian Institute of Criminology.

(c) The Department of Defence – Civilian includes the ASL for the Defence Materiel Organisation.

(d) The National Vocational Education and Training Regulator will commence on 1 July 2011.

(e) The increase in ASL for the Department of the Prime Minister and Cabinet (PM&C) between 2010-11 and 2011-12 largely reflects the arts and sports functions being in PM&C for only part of 2010-11, but having a full-year impact in 2011-12. Corresponding reductions in ASL have occurred in the Department of Sustainability, Environment, Water, Population and Communities (for the arts function) and the Department of Health and Ageing (for the sports function) over the same period.

(f) The Australian Commission on Safety and Quality in Health Care will commence operations as a separate legal entity from 1 July 2011. The 2010-11 comparative ASL relates to the estimated ASL for its current operation as a special account within the Department of Health and Ageing.

(g) Due to the merger of Cancer Australia and the National Breast and Ovarian Cancer Centre in 2011-12, the ASL count is shown against Cancer Australia.

(h) As of the 2011-12 financial year, Centrelink and Medicare Australia will cease to be independent agencies and instead will join the Department of Human Services. The projected difference between 2010-11 and 2011-12 ASL estimates for the Centrelink component of DHS is -1,016 ASL. The projected change for the Medicare Australia component of DHS is -102 ASL. The projected change for DHS excluding the former Centrelink and Medicare Australia components is -138 ASL.

(i) The National Transport Commission will be reported as a General Government Sector agency for the first time in 2011-12, therefore previous years ASL figures have not been reported in this table. For comparative purposes, the Commission had the equivalent of 48 ASL in 2010-11.

STATEMENT 7: ASSET AND LIABILITY MANAGEMENT

The Australian Government's balance sheet remains amongst the strongest in the developed world. This is a key reason behind the retention of the Australian Government's AAA credit rating.

The strong balance sheet position continues to provide the Government with the capacity and flexibility to respond to changes in economic circumstances.

Net debt will peak at 7.2 per cent of GDP in 2011-12, higher than previously anticipated, owing to the immediate economic and fiscal impacts of recent natural disasters and the downward revision to expected tax receipts in 2010-11 and 2011-12.

Despite this, the strength of the balance sheet and the projected return to surplus in 2012-13 means that the Government will begin to reduce net debt as a share of GDP from 2012-13.

The Australian Government's net debt position remains extremely low by international standards. The expected peak in Australia's net debt is at a level less than one tenth of the average of the major advanced economies in 2011.

In this Budget, the Government is clarifying its objectives with regard to the future of the Commonwealth Government Securities (CGS) market. It is timely to review the CGS market following the global financial crisis, and in light of the changing nature of the CGS investor base, new global bank liquidity rules and the anticipated return to surplus.

A detailed balance sheet for the Australian Government general government sector is provided in Statement 9: Budget Financial Statements.

Statement 7: Asset and Liability Management

Overview of the Australian Government's balance sheet

The Government's balance sheet shows the stocks of all government assets and liabilities. Measures such as net debt, net financial worth and net worth are aggregates drawn from the balance sheet that provide an indication of the Government's financial strength at a point in time (see Box 1).

The outlook for the Government's stocks of assets and liabilities — or the Government's balance sheet — over the forward estimates is based on a range of estimates and assumptions about those assets and liabilities. If the estimates or assumptions change, this is likely to impact on the projected value of assets and liabilities, and hence change the projected path of the balance sheet measures outlined above.

The outlook for the Government's stocks of assets across the forward estimates is broadly similar to the 2010-11 Budget. However, the downward revision to expected tax receipts in 2010-11 and 2011-12 and the impact of the natural disasters on the fiscal outlook have driven an increase in expected liabilities, predominantly in Commonwealth Government Securities. These changes have contributed to higher estimates for net debt, and lower estimated net financial worth and net worth than was expected at the 2010-11 Budget.

However, the outlook for net debt, net financial worth and net worth remains significantly better than during the height of the global financial crisis, and the Australian Government's finances remain amongst the strongest in the developed world.

Statement 3: Fiscal Strategy and Outlook examines the impact of altering key economic assumptions on payments and receipts. Since the Budget position 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 the Government's financial stocks.

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 or revenue and, as a result, may contribute to variability in the Government's projected net debt, net financial worth and net worth position.

Measurement of the Government's financial position

Box 1: Net debt, net financial worth and net worth

Net debt is a commonly quoted measure of a government's financial strength. Historically, this was the only available stock measure for governments that were recording financial information in a cash-based accounting system. Net debt provides the most useful measure for international comparisons, given most OECD countries report on it.

Net financial worth is used by the Government as the primary indicator of balance sheet sustainability because it provides a more effective and intuitive indicator of the sustainability of the Government's finances. It 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 to excluding non-financial assets since they are often illiquid and cannot easily be drawn upon to meet the Government's financing needs.

Net worth is the broadest measure of the Government's financial position. It is the net position of total assets and liabilities recorded on the balance sheet.

Net debt, net financial worth and net worth

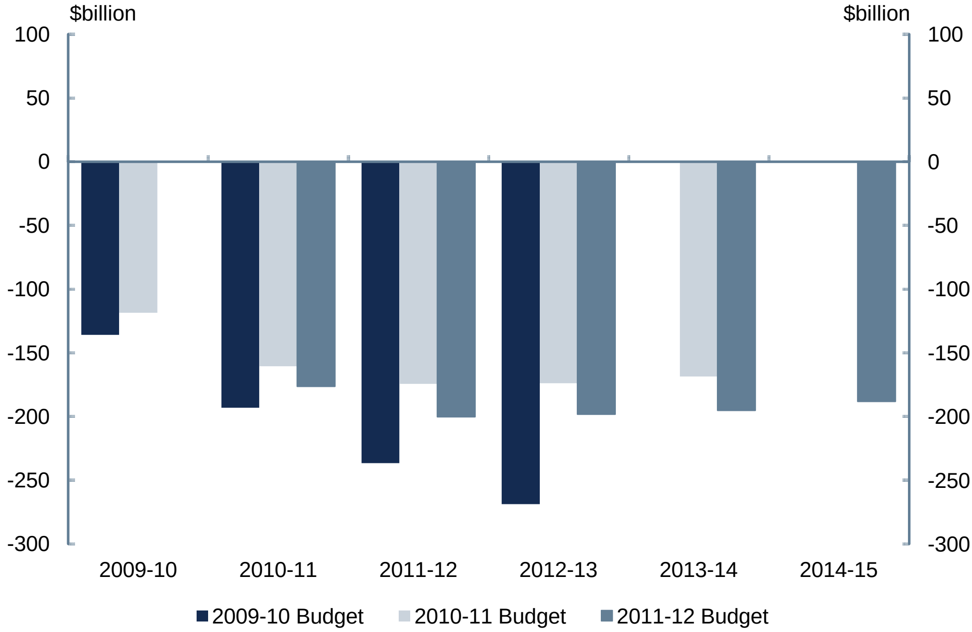
The economic and fiscal impacts of recent natural disasters at home and overseas and the weaker outlook for tax receipts have contributed to a higher expected level of net debt, and lower expected net financial worth and net worth, than was forecast in the 2010-11 Budget. However, these estimates are significantly better than those expected during the global financial crisis — net debt, for example, was expected to peak at 13.8 per cent of GDP in 2013-14 in the 2009-10 Budget.

Net debt is now expected to peak at $106.6 billion in 2011-12 (7.2 per cent of GDP), falling to 5.8 per cent of GDP by the end of the forward estimates.

In 2011-12, net financial worth is estimated to be -$200.6 billion, compared to the 2010-11 Budget estimate of -$174.3 billion. Net financial worth is estimated to be -$188.5 billion by the end of the forward estimates.

Chart 1 shows the projected movements in net financial worth since the 2009-10 Budget.

Chart 1: Net financial worth comparison



Note: Net financial worth for 2013-14 was not projected in the 2009-10 Budget; net financial worth for 2014-15 was not projected in the 2010-11 Budget.

Net worth is currently estimated at -$87.5 billion for 2011-12, compared with -$66.4 billion estimated at the time of the 2010-11 Budget.

The Australian Government's financial position remains amongst the strongest in the developed world (Box 2) and is a key reason behind the retention of the Australian Government's AAA credit rating. Other key factors underpinning Australia's credit rating are the strength and resilience of the economy, stability of the financial system and the quality of policy and institutional arrangements, including independent monetary policy, strong financial regulation and the Government's adherence to a credible medium-term fiscal framework.

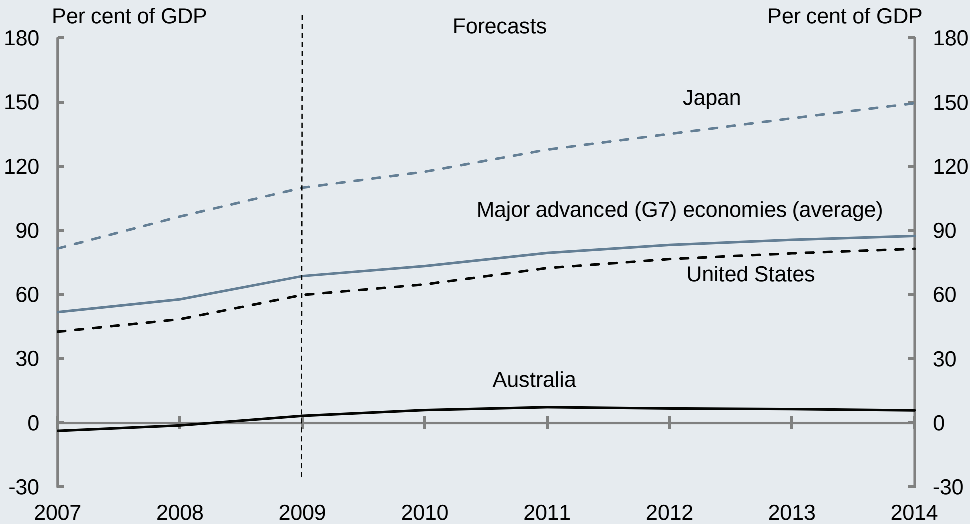
Box 2: The strength of the Australian Government's financial position

During 2010-11, many countries have faced profound financial challenges as a result of the accumulation of large budget deficits and high levels of sovereign debt. Several governments have had to implement severe austerity measures in order to support more sustainable trajectories for government debt.

This stands in sharp contrast to the strength and resilience of the Australian Government's financial position.

Australia's level of net debt remains extremely low by international standards (Chart A). Australian Government net debt is expected to peak at 7.2 per cent of GDP in 2011-12, which is less than one tenth of the average net debt position of the major advanced economies in 2011. The peak in Australia's net debt compares with the net debt position of the United States, which the IMF projects will continue to increase until at least the end of 2016.

Chart A: Government net debt for Australia and selected economies

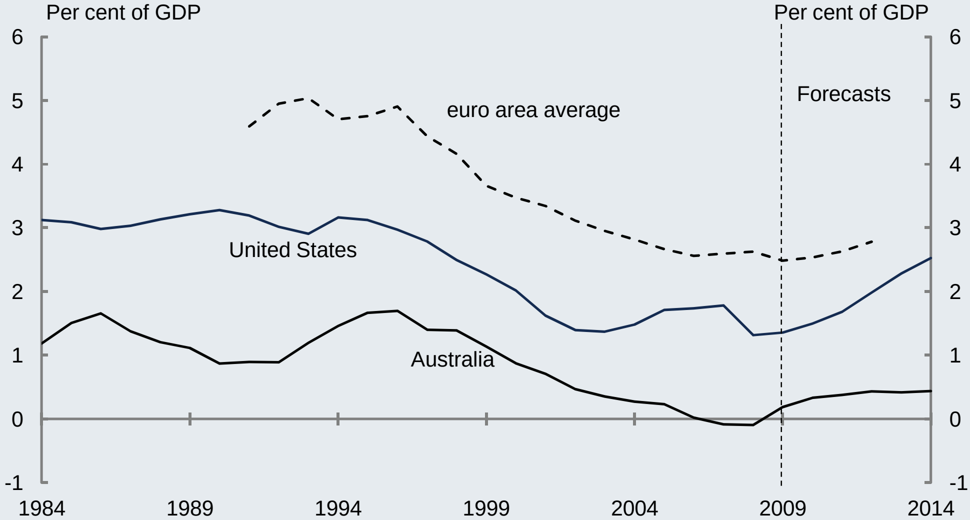


Note: Australian data are for the Australian Government general government sector and refer to financial years beginning 2007-08. Data for all other economies are total government and refer to calendar years beginning 2007.
Source: IMF *Fiscal Monitor* April 2011 and Treasury.

Box 2: The strength of the Australian Government's financial position (continued)

Similarly, Australia's net interest payments are low by international comparison (Chart B).

Chart B: Net interest payments for Australia, the US and the euro area



Note: Net interest payments are equal to the difference between interest paid and interest receipts on government assets and liabilities. Australian and US data are federal government data. Australian data refer to financial years beginning 1984-85. US data refer to US fiscal years beginning October 1984. Euro area data are total government and refer to calendar years beginning 1991.
Source: United States Congressional Budget Office *Budget and Economic Outlook* January 2011, OECD *Economic Outlook 88* November 2010, Thomson Reuters and Treasury.

Not only are the Government's debt levels extremely low by international comparison, the expected return to budget surplus in 2012-13 means that the Government is well placed to reduce net debt.

A return to budget surpluses will strengthen the balance sheet further, thereby ensuring Australia continues to have the flexibility to respond to any unanticipated future events that have a fiscal impact.

THE AUSTRALIAN GOVERNMENT'S MAJOR ASSETS AND LIABILITIES

Assets

The Government's financial assets are estimated to be $214.6 billion at 30 June 2011, increasing to $232.1 billion in 2011-12 and $263.9 billion by the end of the forward estimates.

The Government's total stock of assets is estimated to be around $323.0 billion at 30 June 2011, increasing to $345.2 billion in 2011-12 and $381.3 billion by the end of the forward estimates.

Future Fund

The Future Fund was established in 2006 to accumulate financial assets and invest them on behalf of the Australian Government to address the Government's unfunded superannuation liability.

The Treasurer and the Minister for Finance and Deregulation set the Investment Mandate for the Future Fund, which, since the Fund's establishment, has set a benchmark return of at least the CPI plus 4.5 per cent to 5.5 per cent per annum over the long term. The Investment Mandate gives guidance to the Future Fund Board of Guardians in relation to its investment strategy. The Board is independently responsible for the investment decisions of the Fund. The Investment Mandate also requires the Board to take an acceptable but not excessive level of risk for the Fund, measured in terms such as the probability of losses in a particular year.

During the initial transition period of the Future Fund, it was envisaged that returns would be lower while investments were built in line with the long-term strategic asset allocation. Since inception, returns have reflected this situation. Returns have also been affected by the difficult investment climate associated with the global financial crisis, although the Fund's performance compared favourably with institutional investors generally during this period.

Since the effective start of the investment program on 1 July 2007, the Future Fund has generated a nominal return of 5.0 per cent (excluding its Telstra holdings). Since the first contribution to the Future Fund on 5 May 2006, the return has been 5.3 per cent per annum.

At 31 March 2011 the Future Fund's return for the financial year to date was 11.7 per cent (excluding its Telstra holdings). The Future Fund's Telstra portfolio returned 8.2 per cent for the March 2011 quarter and 0.2 per cent for the year to 31 March 2011.

On 24 March 2011, consistent with its strategic asset allocation, the Board announced that it had reduced the Future Fund portfolio's holding in Telstra to 620.4 million shares or 4.99 per cent of the company. As a result of owning less than 5 per cent of the company, the Future Fund has ceased to be a substantial shareholder in Telstra. Substantial shareholders of companies listed on stock exchanges in Australia have various requirements and disclosure obligations under the *Corporations Act 2001*.

The Future Fund was valued at $74.6 billion at 31 March 2011. Table 1 shows changes in the asset allocation of the Future Fund over 2010-11.

Table 1: Asset allocation of the Future Fund

Asset class	30 June 2010	31 March 2011
	$m	$m
Australian equities	7,465	8,478
Global equities	15,764	19,905
Private equity	1,895	2,487
Property	3,125	4,451
Infrastructure	2,865	3,508
Debt securities	13,822	14,269
Alternative assets	9,871	11,868
Cash	8,266	8,025
Total (excluding Telstra holdings)	63,074	72,990
Telstra holdings	4,272	1,629
Total Future Fund assets	67,346	74,619

Nation-building Funds

The Building Australia Fund (BAF), the Education Investment Fund (EIF) and the Health and Hospitals Fund (HHF) were established on 1 January 2009. These Nation-building Funds were established to finance investment in transport, communications, broadband, energy, water, higher education, research, vocational education and training, and health infrastructure.

The Investment Mandates for the Nation-building Funds, which are set by the Treasurer and the Minister for Finance and Deregulation, give guidance to the Future Fund Board of Guardians, which has responsibility for managing the investments of the BAF, EIF and HHF. The Board is responsible for the investment decisions of the funds.

The Investment Mandates set a benchmark return on the Nation-building Funds of the Australian three-month bank bill swap rate plus 0.3 per cent per annum calculated on a rolling 12 month basis (5.2 per cent for the year to 31 March 2011). The Investment Mandates require that investments minimise the probability of capital losses over a 12 month horizon. Consistent with these requirements, the assets of the three funds are invested in combinations of short-term and medium-term debt instruments.

The March quarter 2011 return for the BAF was 1.4 per cent, while the EIF and the HHF each returned 1.5 per cent. Over the 12 months to 31 March 2011, each of the Nation-building Funds has returned 5.4 per cent, exceeding the mandated benchmark return of 5.2 per cent.

At the end of the March quarter 2011, the value of the BAF was $8.6 billion, the EIF was $5.2 billion and the HHF stood at $4.7 billion.

The estimated uncommitted balance of funds at 31 March 2011 was $1.5 billion for the BAF, $2.5 billion for the EIF and $0.5 billion for the HHF. These figures include net investment earnings up to 31 March 2011.

The Nation-building Funds are financial asset funds, consisting of cash and investments in debt instruments. When cash is drawn down from the Funds to fund projects, this reduces the size of the Funds on the balance sheet. In addition, decisions which commit to future spending from the uncommitted balances of the Funds will impact on the underlying cash balance estimates at the time those decisions are taken.

Residential mortgage-backed securities

The global financial crisis led to the profound dislocation of the Australian residential mortgage-backed securities (RMBS) market. In view of these developments, in October 2008 the Government directed the Australian Office of Financial Management (AOFM) to invest $8 billion in high-quality AAA-rated Australian securities to support competition in residential mortgage lending from smaller lenders.

In October 2009, the Treasurer announced that the Government would extend the program to invest an additional $8 billion to support competition in the mortgage market. The objectives of the program were extended to also include support for lending to small business. The AOFM estimates that close to 10 per cent of funds already invested from the Government's second $8 billion support tranche have been lent to Australian small businesses.

In December 2010, as part of its *Competitive and Sustainable Banking System* package, the Government announced a further $4 billion of investment in the RMBS market, with an additional objective of transitioning to a sustainable market. The AOFM will also continue to support innovative structures such as ‘bullet’ securities. This brings the Government’s total investment commitment to $20 billion.

As at 30 April 2011, the AOFM had invested $12.8 billion of these funds, taking an average 13 per cent interest in RMBS deals with AOFM support since 1 January 2011, down from around 80 per cent for transactions undertaken in the corresponding period in 2009.

The securitisation market has recently shown signs of improvement, with spreads in deals narrowing and some recent deals going ahead without Government support. In one case, the AOFM was completely scaled out of a transaction it was prepared to support.

The AOFM and the Treasury will continue to monitor conditions in the RMBS market closely.

National Broadband Network

NBN Co Limited (NBN Co) was created in April 2009 to build and operate the National Broadband Network (NBN). NBN Co is a Government Business Enterprise.

NBN Co's Corporate Plan for the three years from 1 July 2010 to 30 June 2013 was released in December 2010. The Corporate Plan outlines NBN Co's intended approach to delivering the NBN and details the assumptions and cost estimates underpinning that approach; it incorporates decisions made by the Government on issues such as network design and uniform national wholesale pricing. A key assumption of the Corporate Plan is the finalisation of the Definitive Agreements between NBN Co and Telstra.

The Corporate Plan confirms that the NBN is a financially viable project which will provide a return on the Government's investment over time. The Corporate Plan shows that Australian taxpayers will get their investment back, with interest, as well as a state-of-the-art high-speed broadband network.

Following the release of the Corporate Plan, the Government asked corporate advisory firm Greenhill Caliburn Pty Ltd to review the Plan and provide an independent assessment of the Plan's key assumptions and potential risks. The Greenhill Caliburn report confirms the key assumptions underlying the revenue and cost projections contained in the Corporate Plan.

As outlined in the Corporate Plan, total capital expenditure for the project is estimated to be $35.9 billion. This is lower than the $42.8 billion estimated in the NBN Implementation Study undertaken by McKinsey/KPMG.

Provisioning in the Budget for the Government's investment in the NBN has been updated to reflect a level of funding that is consistent with the estimates outlined in the Corporate Plan and the operational needs of NBN Co. The Government expects to contribute $27.5 billion in equity for the roll-out of the NBN, including $3.1 billion in 2011-12 and $18.2 billion from 2011-12 to 2014-15.

NBN Co will be funded with Government equity until NBN Co has sufficient cash flows to support private sector debt without explicit Government support. The Government expects that during the NBN roll-out period, private sector debt raised by NBN Co will complement Government equity to fund roll-out activities. The Government will retain full ownership of NBN Co during the roll-out in order to achieve its policy objectives, including its commitment to prioritise the roll-out of the NBN in regional areas.

The Government has endorsed the Corporate Plan as being compliant with the Statement of Expectations for NBN Co, which constitutes the Government's final response to the NBN Implementation Study.

Higher Education Loan Program

The Higher Education Loan Program (HELP) comprises concessional loans to students that enable them to meet their education costs prior to earning an income above a certain level. The value of HELP is estimated to be around $15.3 billion at 30 June 2011, which is $1.7 billion higher than projected in the 2010-11 Budget. The value of HELP is projected to grow to around $17.2 billion over 2011-12 and $24.5 billion by the end of the forward estimates.

This growth is largely due to the estimated increase in university commencements over the forward estimates, principally the result of the Government's Bradley reforms which lifted the over-enrolment cap from 5 per cent to 10 per cent in 2010 and 2011 and will uncap Commonwealth supported places from 2012. In addition, as announced in this Budget, from 1 January 2012 the Government will reduce the discount available to students electing to pay their student contribution up-front from 20 per cent to 10 per cent.

Liabilities

The Government's total liabilities are estimated to be $391.3 billion at 30 June 2011, increasing to $432.7 billion in 2011-12 and $452.3 billion by the end of the forward estimates.

Public sector employee superannuation liabilities

Public sector employee superannuation entitlements relating to past and present civilian employees and military personnel are a financial liability on the Government's balance sheet. The Government's superannuation liability is estimated to be around $129.5 billion at 30 June 2011.

The Australian Government has never fully funded its superannuation liabilities. The Commonwealth Sector Superannuation (CSS) Scheme and the Public Sector Superannuation (PSS) Scheme were closed to new members in 1990 and 2005 respectively. The Public Sector Superannuation Accumulation Plan was introduced from 1 July 2005 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 $147.8 billion by the end of the forward estimates. This is the result of growth in the membership of the Military Superannuation and Benefits Scheme (MSBS), which remains open to new military personnel, and continued growth of entitlements accruing to existing members of the closed civilian and military schemes.

An actuarially determined discount rate is used to estimate the present value of future unfunded superannuation benefits. Consistent with the latest Long Term Cost Reports for the civilian and military schemes, the discount rate currently applied is 6.0 per cent per annum. Owing to the long term nature of the unfunded superannuation liability, the value recorded on the balance sheet is highly sensitive to the discount rate used.

As the superannuation liability is included in the Government's net worth and net financial worth aggregates, revaluations of the liability have an impact on these aggregates (see Note 1 in Budget Statement 9).

Commonwealth Government Securities

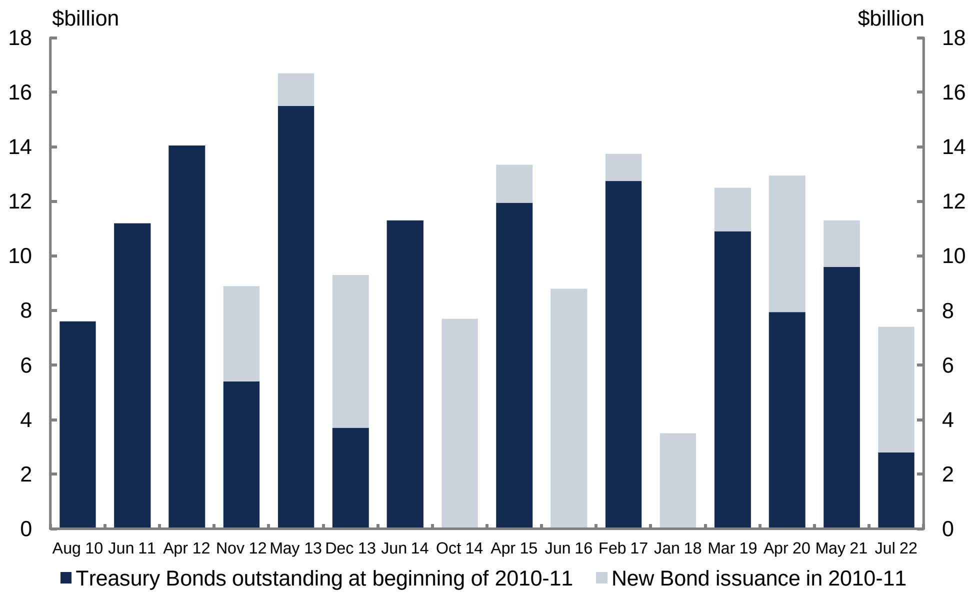
The face value of the total stock of Commonwealth Government Securities (CGS) on issue at 30 June 2011 is expected to be $192 billion. CGS is reported in the balance sheet in market value terms, consistent with relevant accounting standards.

Net issuance of CGS in 2011-12 is expected to be around $33 billion, which takes into account $53 billion in gross bond issuance, $14 billion in bond maturities and a $6 billion run down in the volume of Treasury Notes on issue.

Treasury Bonds

Chart 2 shows Treasury Bonds outstanding at 30 June 2010 and new issuance in 2010-11. Three new Treasury Bond lines were issued in 2010-11.

Chart 2: Treasury Bonds on issue



Note: New issuance in 2010-11 is to 10 May 2011.

The face value of Treasury Bonds on issue at 30 June 2011 is projected to be around $161 billion. Treasury Bond issuance in 2011-12 is expected to be around $51 billion.

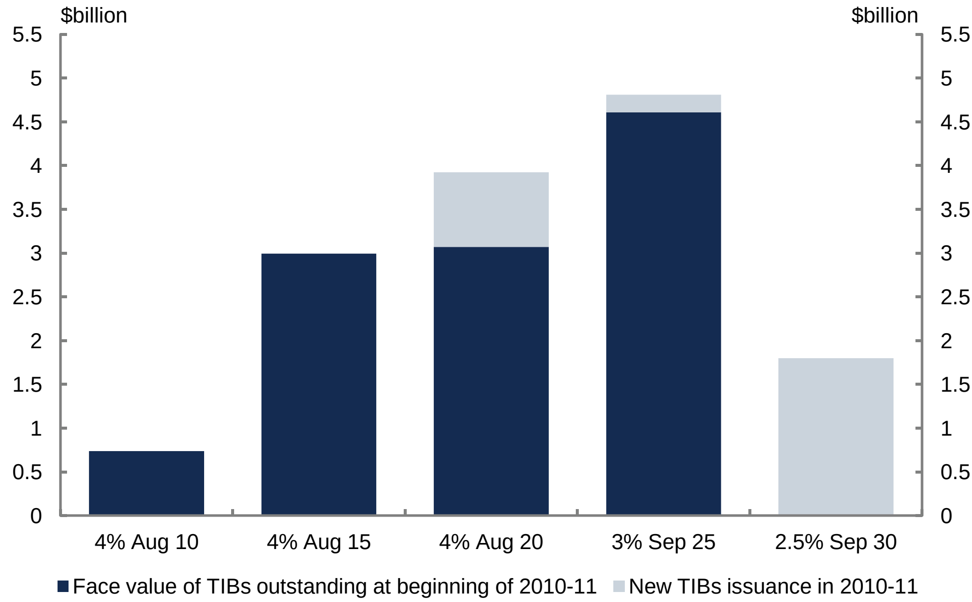
Treasury Indexed Bonds

Treasury Indexed Bonds are medium-term to long-term securities that have a capital value which is adjusted for movements in the CPI. Interest is paid quarterly, at a fixed rate, on the adjusted capital value. At maturity, investors receive the adjusted capital value of the security. The Australian Government recommenced the issuance of Treasury Indexed Bonds in 2009-10.

Treasury Indexed Bonds contribute to the management of Australian Government debt by widening the range of available debt instruments, diversifying risk and tapping additional sources of investor demand.

Chart 3 shows Treasury Indexed Bonds outstanding at 30 June 2010 and new issuance in 2010-11.

Chart 3: Treasury Indexed Bonds on issue



Note: New issuance in 2010-11 is to 10 May 2011.

The face value of Treasury Indexed Bonds on issue at 30 June 2011 is projected to be around $14 billion. Treasury Indexed Bonds issuance in 2011-12 is expected to be around $2 billion.

Treasury Notes

Treasury Notes are short-term debt securities used primarily to meet within-year financing requirements resulting from differences in the timing of receipts and payments. The volume of Treasury Notes on issue will vary over the course of the year, depending on the size and profile of the within-year funding flows. It is anticipated that at least $10 billion of Treasury Notes will be kept on issue at all times to maintain a liquid market in Treasury Notes.

The face value of Treasury Notes on issue at 30 June 2011 is projected to be around $17 billion.

Aussie Infrastructure Bonds

On 7 April 2009, the Government announced that its investment in NBN Co would be partly funded through the issuance of Aussie Infrastructure Bonds (AIBs).

AIBs will not be required until 2011-12, as the revised Government equity requirement for NBN Co in 2010-11 will be met in full with funds from the Building Australia Fund. In 2011-12, it is expected that $2.7 billion of the Government's equity investment in the National Broadband Network will be financed by AIBs, through wholesale issuance of CGS as part of the AOFM's overall debt program.

AIBs will not be separately identifiable from CGS, but will be reported as AIBs in the Budget statements. In addition, from 1 July 2011 the AOFM's weekly CGS tender notices will indicate that some of the proceeds of tenders may be used to finance the Government's investment in NBN Co.

On 12 December 2010, the Government announced that it would facilitate the trading of CGS on a retail exchange platform in Australia, as part of its *Competitive and Sustainable Banking System* reforms, to foster a deep and liquid corporate bond market. This commitment will provide the opportunity for retail investors to invest in Australian Government bonds through a mainstream and visible exchange platform, helping to finance the NBN in the same way as wholesale investors.

FUTURE OF THE COMMONWEALTH GOVERNMENT SECURITIES MARKET

During the global financial crisis, the stresses confronting financial markets around the world were unprecedented. The crisis led to significant disruption to capital flows, difficulties in pricing and hedging risk, and a general flight of investors to high-quality, safe-haven assets.

The repercussions of the crisis continue to play out in many ways, including through a heightened focus on the sustainability of other developed countries' sovereign debt positions and the introduction of new regulatory regimes for financial institutions.

In Australia, the continued functioning of a liquid, AAA-rated Commonwealth Government Securities (CGS) market through this period was critical to managing risk and retaining confidence in Australian financial markets.

In light of the crisis, the anticipated return to surplus, the new global bank liquidity requirements and the changing nature of the CGS investor base, it is timely that the Government consider the future of the CGS market.

Context

In 2002-03, the *Review of the Commonwealth Government Securities Market* was undertaken in response to concerns about the future viability of the declining CGS market. Since this review, successive governments have committed to retaining a liquid and efficient CGS market to support the three- and ten-year Treasury Bond futures market, even in the absence of a budget financing requirement.

During the global financial crisis, liquidity became severely constrained in key financial markets that had previously been considered alternatives to the CGS market for managing financial risk, such as the interest rate swaps market. In the absence of a fully functional interest rate swaps market, the continued functioning of a liquid, AAA-rated CGS market, and its associated futures market, was at times the only option available for managing interest rate risk and supporting the pricing and hedging of other financial instruments. The capacity of financial market participants to price and manage interest rate risk contributes to a lower cost of capital in Australia.

The presence of a liquid, AAA-rated fixed income market also provided a safe investment vehicle for investors and supported confidence in Australian financial markets more generally.

As investors around the world moved to safe haven assets, such as sovereign bonds, markets came under increasing pressure and liquidity became constrained. In Australia, the existence of an active, albeit small, government bond market, with an investor pool familiar with the government's debt instruments and well-established infrastructure and procedures, enabled the AOFM to increase the volume of issuance quickly as the need arose in the context of dramatically reduced government revenues.

The crisis affirmed the value in maintaining a CGS market of sufficient size to support the long-term stability of the financial markets and to ensure the Government is well placed, in a practical sense, to respond to sudden events with large fiscal impacts.

Recent developments impacting on the CGS market

The CGS investor base has changed significantly in recent years, with a number of new passive investors entering the CGS market. Passive investors form a stable and important investor base for CGS. However, they do not tend to trade their CGS holdings actively and therefore do not contribute to liquidity in secondary markets.

There has also been an increased allocation into Australian denominated securities in the foreign exchange portfolios of some investors, because of the strength of the Australian economy.

The new global capital and liquidity standards for banks, agreed by the Basel Committee for Banking Supervision in December 2010, will impact further on the investor base for CGS. The standards are expected to mean that Australian banks will generally hold larger amounts of government bonds on their balance sheets than has previously been the case.

The CGS holdings of passive investors and Australian banks in coming years will have important implications for liquidity in the CGS market.

In light of the changing CGS investor base, the fiscal outlook for a return to surplus and the peak in CGS, the Government considered it timely to review the future of the CGS market.

As part of these deliberations, and in addition to the ongoing dialogue between the AOFM and the financial markets, the Government consulted a panel of financial market participants and financial regulators on the future of the CGS market.[1]

The panel underlined the crucial role of a liquid, AAA-rated CGS market and associated futures market during the crisis and supported retaining liquidity in these markets as the primary objective for the CGS market in the future. The panel considered there was also significant value in maintaining a diversified investor base, including passive investors, to absorb any unexpected increase in issuance.

To maintain a liquid and efficient bond market that supports the three- and ten-year futures market and the requirements of the new global bank liquidity standards, the panel agreed that the CGS market should be maintained around its current size — that is, around 12 to 14 per cent of GDP over time.

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1 The panel consisted of representatives from the Treasury, the AOFM, the Reserve Bank of Australia, the Australian Prudential Regulation Authority, the NSW Treasury Corporation, the Treasury Corporation of Victoria, and a number of private sector market participants.

CGS market

Drawing on this advice, the Government is clarifying its objectives with regard to the future of the CGS market.

Maintaining liquidity in the CGS market to support the three- and ten-year bond futures market will continue to be the Government's primary objective, in particular as Australian banks prepare for the 2015 commencement of the Basel III liquidity requirements.

In addition, the Government will: support liquidity in the Treasury Indexed Bond market by maintaining around 10 to 15 per cent of the size of the total CGS market in indexed securities; and continue to lengthen the CGS yield curve incrementally, in a manner consistent with prudent sovereign debt management and market demand.

The Government will continue to monitor the CGS market, and consider the advice of the panel, to ensure the market remains of a sufficient size to support these objectives as the budget returns to surplus and headline cash surpluses are used to reduce the level of gross CGS on issue.

These objectives will mean that at some stage after the budget has returned to surplus, the Government will need to transition from reducing the level of CGS on issue to maintaining an appropriately sized CGS market, while continuing to reduce the level of net debt outstanding.

This will see the Government once again begin to accumulate financial assets. These assets will initially be held as highly liquid assets to provide the Commonwealth with flexibility in managing its financing requirements in the short term. The Government will consider the use of accumulated financial assets in conjunction with future consideration of the size of the CGS market.

To ensure flexibility in implementing the Government's objectives for maintaining a deep and liquid CGS market, and to meet the Government's financing needs over the forward estimates, the Government will seek an amendment to the *Commonwealth Inscribed Stock Act 1911* to increase the legislative limit on CGS issuance.

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 Economic and Fiscal Outlook. This statement outlines general fiscal risks and specific contingent liabilities that may affect the budget balances.

STATEMENT 8: STATEMENT OF RISKS

The forward estimates of revenue and expenses in the 2011-12 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 or likelihood; and
- the realisation of contingent liabilities or assets.

RISKS TO THE BUDGET — OVERVIEW

The revenue and expense estimates and projections published in the 2011-12 Budget Papers 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. The sensitivity of Budget estimates to changes in economic assumptions is discussed in Appendix A of Statement 3.

The global financial crisis led to a period of heightened financial and economic volatility which impacted significantly on the preparation of the budget revenue forecasts. Despite some improvement in economic prospects since then, a degree of uncertainty continues in global financial markets and will continue to present risks to the revenue forecasts. Moreover, the effects of the earlier economic downturn continue to weigh on tax collections.

To the extent that unanticipated changes in economic circumstances occur, their impact will flow through to revenue forecasts. In 2010-11 for example, natural disasters have significantly affected the economic outlook and consequently the outlook for tax receipts. Similarly, the strong Australian dollar has also had a significant impact on tax receipts.

Revenue forecasting also relies heavily on the historical relationships between the economy, tax bases and tax revenues. Such relationships may continue to shift as economic conditions change, requiring a greater degree of caution in their use in predicting future revenues. For example, the real and financial dimensions of the recent global financial crisis have posed particular challenges in estimating both the quantum and timing of loss utilisation. Any losses incurred during the downturn can be carried forward to offset gains or profits as the economy recovers, such that to the extent tax revenue improves it does so with some lag.

As in previous years, the fiscal outlook is subject to a number of contingent liabilities. A large number of these contingent liabilities reflect indemnities, including those relating to the Department of Defence, the Defence Materiel Organisation, Air Security Officers, the Future Fund Board of Guardians and the Reserve Bank.

The Government has also issued a number of guarantees, such as those relating to guarantee schemes for the banking and financial sector, payments by the Export Finance and Insurance Corporation and the superannuation liabilities of the Commonwealth Bank prior to its sale to the private sector.

Other significant contingent liabilities relate to uncalled capital subscriptions and credit facilities to international financial institutions and legal cases concerning the Australian Government. The Government continues to have robust and conservative strategies in place to reduce its potential exposure to these contingent liabilities.

There have been several changes to both the quantifiable and unquantifiable risks since the *Mid-Year Economic and Fiscal Outlook 2010-11* (MYEFO). The recent natural disasters have increased the number of Comcover claims associated with damage to Commonwealth owned property and business interruption. In addition, general revaluations of securities and deposits have led to certain risks such as the Guarantee of State and Territory Borrowings, and the Financial Claims Scheme, being modified.

Several new items have arisen since the MYEFO, including the Government's commitments to provide financial assistance for victims of overseas terrorist acts and to support the Queensland Government's bid for the 2018 Commonwealth Games.

Several risks have been removed since the MYEFO. The removal of these risks reflects the passing of specific events and decisions such as the conclusion of legal cases, and the expiry of certain agreements such as Australia's standby loan facility for the Government of Indonesia.

The contingent liability for potential damages caused by Kistler space activities has also been removed as Kistler Woomera Pty Ltd and Spaceport Woomera Pty Ltd have ceased operating after the parent company Rocketplane Kistler Inc filed for bankruptcy in the United States in June 2010.

The Commonwealth's commitment to offer assistance to drought-affected farmers under exceptional circumstances no longer represents a contingent liability due to improved conditions and the removal of regions in Eastern Australia from an exceptional circumstances declaration. While this contingent liability has been removed, the potential for the re-emergence of drought conditions in the future continues to represent a fiscal risk for the Government. In addition, adverse seasonal conditions continue to exist in Western Australia.

ECONOMIC AND OTHER PARAMETERS

Changes in economic parameters represent a risk to the expenses and revenue estimates included in the Budget. As noted earlier, the uncertainty currently surrounding the global economic outlook implies that the degree of risk to the fiscal outlook remains elevated. Appendix A of Statement 3 examines the impact on revenue and expenses of altering some of the key economic assumptions underlying the Budget estimates.

FISCAL RISKS

Fiscal risks comprise general developments or specific events that may affect the fiscal outlook. Some developments or events raise the possibility of a fiscal impact. In other cases, the likelihood of a fiscal impact may be reasonably certain, but will not be included in the forward estimates because the timing or magnitude is not known.

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.

Major taxes such as company and personal tax fluctuate significantly with economic activity. Capital gains tax is particularly volatile and is affected by both the level of gains in asset markets and the timing of when those gains are realised. The Petroleum Resource Rent Tax and Minerals Resource Rent Tax may vary quite significantly with commodity prices, output, and the level of the Australian dollar.

There are also a number of fiscal risks that may affect the expense estimates and projections. For example, major technological advances in medicines and medical practices may lead to changes to both the Medicare Benefits Schedule and the Pharmaceutical Benefits Scheme. Such changes have in the past resulted in unexpected increases in expenses and may do so again.

The Government has proposed that a carbon price mechanism commence on 1 July 2012. The proposal involves a two-stage process starting with a fixed price period for three to five years before transitioning to an emissions trading scheme. As details of the carbon price mechanism are yet to be determined, no financial implications associated with the introduction of a carbon price have been included in the forward estimates. This is consistent with past practice. The proposal will be developed consistent with the principle that the overall package of a carbon price mechanism and associated assistance measures should be budget-neutral.

The Australian Government has established NBN Co Limited (NBN Co) to build and operate the National Broadband Network (NBN). The 2011-12 Budget includes equity of $18.2 billion from 2011-12 to 2014-15, for the roll-out of the NBN, based on NBN Co's Corporate Plan 2011-2013.

On 20 June 2010, NBN Co and Telstra announced that they had entered into a Financial Heads of Agreement and that they would enter into negotiations on the Definitive Agreements (the agreements). A further announcement was made on 10 February 2011 that Telstra and NBN Co had finalised key commercial terms of the agreement and were proceeding to finalise documented agreements. In support, the Government and Telstra had reached in-principle agreement for a package of measures to facilitate the transition to the NBN. These measures include, amongst other things, the establishment of a new Government entity to assume responsibility for the provision of components of the universal service obligation.

The transactions contemplated by the non-binding Financial Heads of Agreement involving Telstra and NBN Co will involve substantial expenditure and obligations over extended timeframes. NBN Co will need continuing equity injections over time to meet these obligations as they fall due. Accordingly, the Government is considering the provision of financial support arrangements to facilitate the finalisation of the agreements. The Government has committed to providing to Telstra, in conjunction with the agreements, a guarantee for the financial obligations of NBN Co until NBN Co is fully capitalised to provide certainty to Telstra's commercial position should they agree to undertake those transactions. The Government is also examining the provision of equity funding undertakings to NBN Co and the provision of additional limited indemnities to the directors of NBN Co.

The estimates for the Department of Defence include the cost of major overseas operations of the Australian Defence Force in Afghanistan and the Middle East, Timor-Leste and the Solomon Islands for 2011-12. The forward estimates of expenses do not provide for extensions of currently approved operations beyond 2011-12. Such funding is considered on a year-by-year basis and is subject to future decisions of the Government. This is consistent with past practice.

Other fiscal risks that may affect expenditure include potential natural disasters in the future, emergency foreign aid and contingent liabilities and contingent assets.

CONTINGENT LIABILITIES AND ASSETS

Contingent liabilities and contingent assets of the Australian Government are listed below by portfolio. These contingent liabilities and assets are a specific category of fiscal risks. Broadly, they represent possible costs or gains to the Australian Government arising from past events or decisions which will be confirmed or otherwise by the outcome of future events that are not within the Government's 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.

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 $50 million over the forward estimates period, are listed in this statement. Information on contingent liabilities and contingent assets is also provided in the annual financial statements of departments and non-budget entities.

In general, information on contingent liabilities and assets is based on information provided by Australian Government departments and entities and is current to 31 March 2011. In some cases, other dates are used and those are noted in the relevant section.

Table 1: Summary of material changes to contingent liabilities and contingent assets in the Statement of Risks since the 2010-11 Budget and the 2010-11 MYEFO[(a)]

Contingent liabilities — quantifiable	
Defence and Defence Materiel Organisation	
Indemnities and remote contingencies	Modified
Finance and Deregulation	
Sale of Sydney Airports Corporation Limited	Modified
Foreign Affairs and Trade	
Export Finance and Insurance Corporation	Modified
Treasury	
Guarantees under the *Commonwealth Bank Sale Act 1995*	Modified
International financial institutions — uncalled capital subscriptions	Modified
International Monetary Fund	Modified
Reserve Bank of Australia — guarantee	Modified
Standby loan facility for the Government of Indonesia[(b)]	Removed
Contingent liabilities — unquantifiable	
Agriculture, Fisheries and Forestry	
Emergency animal disease response agreement and emergency plant pest response deed	New
Exceptional circumstances assistance for drought-affected farmers[(c)]	Removed
Litigation[(c)]	Removed
National environmental biosecurity response agreement	New
Attorney-General’s	
Financial assistance for victims of overseas terrorist acts	New
Native Title costs	Modified
Broadband, Communications and the Digital Economy	
Extended zones[(d)]	Removed
Termination of the Funding Agreement with OPEL	New

Table 1: Summary of material changes to contingent liabilities and contingent assets in the Statement of Risks since the 2010-11 Budget and the 2010-11 MYEFO[(a)] (continued)

Contingent liabilities — unquantifiable (continued)	
Defence and Defence Materiel Organisation	
Indemnities and remote contingencies	Modified
Litigation cases	Modified
Finance and Deregulation	
Australian Reward Investment Alliance — immunity and indemnity	Modified
Comcover — insurance claims	Modified
Health and Ageing	
Guarantee Scheme for aged care accommodation bonds	Modified
Immigration and Citizenship	
Immigration detention services — liability limits	Modified
Innovation, Industry, Science and Research	
Liability for damages caused by Kistler space activities[(e)]	Removed
Prime Minister and Cabinet	
National Aboriginal Islander Skills Dance College (NAISDA) — construction works	Modified
Whole-of-Government — 2015 Asian Football Confederation (AFC) Asian Cup — Government Guarantees	Modified
Whole-of-Government — Australia's bids for the Federation Internationale de Football Association (FIFA) World Cup in 2018 or 2022 — Government Guarantees[(f)]	Removed
Whole-of-Government — Australian Government support for the Queensland Government bid to host the 2018 Commonwealth Games on the Gold Coast — Government Guarantees	New
Sustainability, Environment, Water, Population and Communities	
Murray-Darling Basin Reform — risk assignment	Modified
Treasury	
Financial Claims Scheme	Modified
Guarantee of State and Territory borrowing	Modified
Guarantee scheme for Large Deposits and Wholesale Funding	Modified

(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 2010-11*, Statement 8 or in the *Mid-Year Economic and Fiscal Outlook 2010-11*, Appendix C.
(b) The facility reached its conclusion on 31 December 2010.
(c) These items have fallen below the reporting threshold for the 2011-12 Budget.
(d) The Government has made a decision in relation to this item and it is no longer classified as a contingent liability.
(e) The relevant entity has ceased operations.
(f) Australia's bid was unsuccessful.

CONTINGENT LIABILITIES — QUANTIFIABLE

Defence and Defence Materiel Organisation

Indemnities and remote contingencies

Defence carries 312 (up from 129) instances of quantifiable remote contingent liabilities, to the value of $3.6 billion, an increase on the $2.9 billion reported in the MYEFO. The DMO carries 108 contingencies that are quantifiable (up from 78), to the value of $4.7 billion, an increase on the $4.4 billion reported in the MYEFO. While these contingencies are considered remote, they have been reported in aggregate for completeness.

Education, Employment and Workplace Relations

Comcare liability for additional workers' compensation payments

Comcare has a quantifiable contingency in respect of future statutory workers' compensation claims for asbestos related diseases amounting to $45.6 million. This contingency relates to a decision in the Federal Court, *Comcare v Etheridge* [2006] Federal Court of Australia Full Court decision number 27.

Finance and Deregulation

Litigation

The Department of Finance and Deregulation (Finance) is involved in litigation in which a counter-claim for damages has been lodged against the Australian Government. The litigation relates to the Davis Samuel case where Finance is engaged in legal action seeking recovery of funds misappropriated during 1998. The counter-claim, which is being vigorously defended by the Government, seeks damages of $4.3 billion. Hearing of the Government's claim, and the counter-claim, concluded in the ACT Supreme Court in September 2008. Recent advice suggests judgment is expected to be delivered during 2011.

Sale of Sydney Airports Corporation Limited

An indemnity was provided to the Southern Cross Airports Corporation as the purchaser of the Sydney Airports Corporation Limited in the event of a liability arising under Chapter 3 of the *Duties Act 1997* (NSW) by reason of the sale of shares in Sydney Airports Corporation Limited 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. The Australian Government maintains that there are no grounds for the assessment. Action has been initiated in the NSW Supreme Court to overturn the assessment. The amount disputed is estimated at $556.9 million as at 31 March 2011.

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 Government. The 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 2011, the Government's total contingent liability was $3.0 billion, up from $2.7 billion in the MYEFO. This comprises EFIC's liabilities to third parties ($2.5 billion) and EFIC's overseas investment insurance, contracts of insurance and guarantees ($0.5 billion). Of the total contingent liability, $2.3 billion is held on EFIC's Commercial Account and $0.7 billion is held on the National Interest Account.

Treasury

Australian Taxation Office — tax disputes

At any point in time, the ATO is involved in litigation relating to tax disputes. The outcome of these disputes is uncertain and will be confirmed at a future date through a court ruling or when an agreement is reached.

As at 30 June 2010, the estimated aggregate value of tax in dispute was $6.2 billion. This estimate will be updated as part of ATO's 2010-11 financial statement process.

The decisions in relation to the cases may, in some instances, set precedents creating an additional unquantifiable contingent liability.

Guarantees under the *Commonwealth Bank Sale Act 1995*

Under the terms of the *Commonwealth Bank Sale Act 1995*, the Australian Government guaranteed various superannuation and other liabilities amounting to $4.5 billion as at 31 December 2010. Of this amount, $0.8 billion is attributable to liabilities of the Commonwealth Bank of Australia and $3.7 billion is attributable to liabilities of the Commonwealth Bank Officers' Superannuation Corporation.

International financial institutions — uncalled capital subscriptions

The Australian Government has had uncalled capital subscriptions in the International Bank for Reconstruction and Development (IBRD) since 1947. The Government will contribute additional resources to the IBRD as part of its general capital increase agreed during 2010. The paid-in component of the Australian Government's contribution was a measure in the 2010-11 Budget. As part of this process, the Australian Government will increase its uncalled capital subscription so that it totals US$3.6 billion (an estimated value of A$3.5 billion as at 30 March 2011).

Australia has also had uncalled capital subscriptions in the European Bank for Reconstruction and Development (EBRD) since 1991. The Government increased its uncalled capital subscription (effective 20 April 2011) to the EBRD as part of its 2010 general capital increase so that it totals EUR237.5 million (an estimated value of A$323.1 million as at 20 April 2011). The financial implications of the paid-in component were reported as a measure in the MYEFO.

The Australian Government also had uncalled capital subscriptions in the Asian Development Bank of SDR5.8 billion (an estimated value of A$8.9 billion), and the Multilateral Investment Guarantee Agency of US$26.5 million (an estimated value of A$25.6 million) as at 30 March 2011.

None of these international financial institutions has ever drawn on Australia's uncalled capital subscriptions.

International Monetary Fund

Australia has made a line of credit available to the International Monetary Fund (IMF) under its New Arrangements to Borrow (NAB) since 1998. In line with G20 Leaders' commitments, Australia has joined with other countries to increase its credit line under an expanded NAB. When the expanded NAB came into effect on 11 March 2011, Australia's NAB credit arrangement increased from SDR801.3 million (an estimated value of A$1.2 billion as at 30 March 2011) to SDR4.4 billion (an estimated value of A$6.7 billion). This is a contingent loan to help ensure that the IMF has the resources available to maintain stability and support recovery in the global economy. The funds will be drawn upon by the IMF as needed to supplement the IMF's usual quota resources and will be repaid in full with interest.

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 is notes (that is, currency) on issue. Notes on issue amount to $49.7 billion as at 21 March 2011, and the total guarantee is $58.7 billion, up from $58.1 billion at the MYEFO.

CONTINGENT LIABILITIES — UNQUANTIFIABLE

Agriculture, Fisheries and Forestry

Compensation claims arising from equine influenza outbreak

The Australian Government may become liable for compensation should it be found negligent in relation to the outbreak of equine influenza in 2007.

On 12 June 2008, the Minister for Agriculture, Fisheries and Forestry released the Equine Influenza Inquiry report. Subsequently, a significant number of organisations have indicated their intention to proceed with legal action against the Government. To date, 18 claims have been received. Court proceedings have commenced for two of these. The Department of Finance and Deregulation assumed responsibility for claims under its insurance arrangements with the Department of Agriculture, Fisheries and Forestry.

Emergency Animal Disease Response Agreement and Emergency Plant Pest Response Deed

The Australian, State and Territory governments and some peak agricultural industry bodies are parties to cost sharing agreements that specify how responses to emergency animal diseases and plant pest outbreaks will be funded. Under the terms of the agreements, the Commonwealth is typically liable for 50 per cent of total government funding to respond to a disease or plant pest outbreak and may also provide financial assistance to industry by funding its share of the response. Any funding of industry contributions would subsequently be recovered through a levy on the industry. Potential costs vary based on circumstances and are dependent on outbreaks of animal diseases or plant pests, the extent of outbreaks, frequency and location.

National Environmental Biosecurity Response Agreement

The Australian Government and each of the State and Territory governments have negotiated an agreement to manage pest or disease incursions that impact on the environment and how they should be funded. Once the agreement is endorsed by jurisdictions, the Commonwealth is typically liable for 50 per cent of the funding for any response. Potential costs vary, and are dependent on outbreaks of pests or disease, the extent of outbreaks, frequency and location. The initial commitment under the agreement is capped at $5.0 million in aggregate (of which the Commonwealth is liable for $2.5 million).

Attorney-General's

Financial assistance for victims of overseas terrorist acts

The Social Security Amendment (Supporting Australian Victims of Terrorism Overseas) Bill 2011 was introduced into Parliament on 24 March 2011. If passed, this legislation would establish a framework for the provision of financial assistance for Australians who are injured overseas as a result of terrorist acts and for close family members of Australians who are killed overseas as a result of terrorist acts. The legislation would enable the Prime Minister to declare that a relevant overseas terrorist incident is one to which the scheme applies. As acts of terrorism are unpredictable, the cost of the scheme is unquantifiable.

Indemnities relating to the Air Security Officer program

The Australian Government has entered into indemnity agreements with Australian airlines that agree to allow Air Security Officers on board their aircraft. The indemnity agreements limit the 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 land tenure data, which 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 previously offered to assist the States and Territories in meeting certain Native Title costs pursuant to the *Native Title Act 1993* (the NTA), including compensation costs. Consistent with the policy of considering this issue on a case by case basis, a National Partnership Agreement was executed in 2010 between the Commonwealth and Victoria, under which the Commonwealth will provide a contribution towards the settlement of two native title claims. No other agreements under this offer have been entered into to date.

The Australian Government will also be liable for any compensation found to be payable under the NTA in respect of compensable acts for which the Commonwealth is responsible.

The Australian Government's liability in both scenarios cannot be quantified due to uncertainty about the number and effect of compensable acts and the value of Native Title affected by those acts.

Northern Patrol and Response — Ashmore Guardian and Triton

The Australian Government has entered into contractual arrangements with Gardline Australia Pty Ltd for the provision of two vessels to strengthen enforcement activities in Australia's northern waters and to patrol and respond to incursions in the Ashmore Reef National Nature Reserve and the Cartier Island Marine Reserve. The contracts with Gardline Australia contain unquantifiable indemnities relating to the use or other operations of armaments and the presence of armaments on the vessel. They also contain unquantifiable indemnities relating to damage to any property or injury to any person caused by the apprehended or escorted persons or their vessels.

Southern Ocean Maritime Patrol and Response Program

The Australian Government has entered into a contract to provide a Civil Charter Vessel to conduct patrols in the Southern Ocean and northern waters to undertake law enforcement activities in relation to illegal, unregulated and unreported fishing as well as people smuggling activities. This agreement will remain in force until 30 June 2014. The Australian Government's contract contains unquantifiable indemnities relating to the use or other operations of armaments and ammunition and the presence of armaments and ammunition on the vessel. It also contains unquantifiable indemnities relating to damage to any property or injury to any person caused by the apprehended or escorted persons or their vessels.

Broadband, Communications and the Digital Economy

NBN Co Limited — Board members' indemnities

The Australian Government has indemnified the directors of NBN Co Limited in relation to claims arising out of the directors' involvement in the negotiation and entry by NBN Co into the Financial Heads of Agreement with Telstra.

Termination of the funding agreement with OPEL

Following the termination of its funding agreement with OPEL Network Pty Ltd (OPEL) under the Broadband Connect Infrastructure program, the Commonwealth made provision towards costs incurred by OPEL in producing its Implementation Plan. OPEL was wound up on 13 March 2009. The liquidators of OPEL have indicated that they consider the Australian Government to have a liability with regard to the termination of the funding agreement. As at 11 April 2011, no legal proceedings have been filed; however, liquidators have indicated that they are prepared to commence legal proceedings with respect to this issue.

Climate Change and Energy Efficiency

Kyoto Protocol — emissions target

As a party to the Kyoto Protocol, Australia is required to meet its target level for emissions over the first Commitment Period, 2008-2012. According to the latest projections of emissions over the Commitment Period, Australia is on track to exceed its 2008-2012 target. Estimates of the likely net balance and value of these permits will be determined closer to the end of the entire Commitment Period.

Defence and Defence Materiel Organisation

Indemnities and remote contingencies

Defence carries 9,306 instances of unquantifiable remote contingent liabilities, an increase on the 8,758 reported in the MYEFO. The DMO carries 568 instances of contingencies (including Foreign Military Sales) that are unquantifiable, an increase on the 525 reported in the MYEFO. While these contingencies are considered remote, they have been reported in aggregate for completeness.

ADI Limited — Officers' and Directors' indemnities

Under the sale agreements for ADI Limited, 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 Limited for uninsured losses relating to specific heads of claims.

Decontamination of Defence sites

Defence has made financial provision for the possible costs involved in restoring, decontaminating and decommissioning Defence sites in Australia where a legal or constructive obligation has arisen. The potential costs of these liabilities are unquantifiable.

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 are not able to be finalised by use of negotiation. The litigation includes common law liability claims, including for injury alleged to have resulted from the F-111 Deseal/Reseal programmes. A number of claims have also been received for damage caused by the use of a Defence Practice Area. There is also the potential for a number of claims to arise out of reviews into ADF and Defence culture.

Finance and Deregulation

ASC Pty Ltd — Directors' indemnities

The Australian Government has provided former and two current directors of the ASC Pty Ltd (ASC) with indemnities in relation to three matters: for any claim against them as a result of complying with the ASC's obligations under the Process Agreement between the Electric Boat Corporation (EBC), the Australian Government and the ASC; for any claim against them as a result of complying with the ASC's obligations under the Service Level Agreement between the ASC, the Department of Defence, EBC and Electric Boat Australia; and for any claims and legal costs arising from the directors acting in accordance with the Board's Tasks and Responsibilities, as defined under the indemnity.

Australian Government domestic property

The Australian Government's domestic property portfolio managed by the Department of Finance and Deregulation has approximately 90 properties. A small number of these have had potential remediation issues identified which are currently the subject of further investigation. None of these properties has had a provision recognised as the conditions for neither legal nor constructive obligations have been met, nor is a reliable estimate of the obligation currently possible.

Australian Reward Investment Alliance — immunity and indemnity

The *Superannuation Act 1976*, the *Superannuation Act 1990* and the *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 his/her staff, delegates of the trustee Board, and members of the 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 superannuation fund from the Consolidated Revenue Fund.

Comcover — insurance claims

Comcover provides general insurance services and promotes risk management across the Australian Government. Comcover provides for outstanding claims based on current information as disclosed in Comcover's financial statements. The nature of some claims means there is significant uncertainty around these estimates. Current claims that hold a high degree of uncertainty include those arising from the flood events in 2010-11, cyclone losses, equine influenza and claims against ASIC made by three directors and 31 Westpoint Group companies following regulatory action by ASIC in 2005.

In addition, Comcover has exposure to claims from other Australian Government agencies associated with property damage and business interruption arising from the flood events and cyclone disasters which occurred early in 2010-11.

Following from the settlement of claims associated with Pan Pharmaceuticals, Comcover is now in dispute with its reinsurers regarding the amount recoverable through reinsurance. Comcover has sought legal advice and is pursuing the amount that is considered recoverable.

Future Fund Board of Guardians — indemnity

The Australian Government has provided the members of the Future Fund Board of Guardians with a Deed of Indemnity. The indemnity is intended to cover liabilities in excess of the Future Fund 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*. Also similar to members of CAC Act 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 has breached a civil penalty provision of the Future Fund Act. The indemnity is financially limited, in broad terms, to the value of the funds under management by the Future Fund Board.

Googong Dam

On 4 September 2008, a 150-year lease for Googong Dam was signed between the Australian Government and the Australian Capital Territory Government. The Australian Government is liable to pay just terms compensation if the terms of the lease are breached by introducing new legislation or changing the *Canberra Water Supply (Googong Dam) Act 1974* in a way that impacts on the rights of the Australian Capital Territory. The lease includes a requirement for the Australian Government to undertake rectification of easements or any defects in title in relation to Googong Dam, and remediation of any contamination it may have caused to the site. It also gives an indemnity in relation to acts or omissions by the Australian Government.

Indemnities for the Reserve Bank of Australia and private sector banks

In accordance with Government entities' contracts for transactional banking services, the Australian Government has indemnified the Reserve Bank of Australia and contracted private sector banks against loss and damage arising from error or fraud by the entity, or transactions made by the bank with the authority of the entity.

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 the MYEFO papers, and previous annual reports of 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 Pty Ltd (2000), ComLand Ltd (2004), Bankstown Airport Limited (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), Housing Loans Insurance Corporation Ltd (1996), Health Insurance Commission (2000), Hoxton Park Airport Limited (2002), National Transmission Network (1999), Sydney Airports Corporation Ltd (2001), Telstra (1996, 1999 and 2006), and Wool International (1999). Apart from instances noted elsewhere, Finance does not currently expect any other action to be taken in respect of these indemnities.

Superannuation

On 20 April 2007, the High Court of Australia found against the Australian Government on a claim for negligent misstatement relating to superannuation benefits for a former employee of the Department of the Interior. There is potential for more claims to arise from other former temporary employees who upon their retirement can demonstrate negligent misstatement over their eligibility to join an Australian Government superannuation scheme. The Department of Finance and Deregulation has assumed responsibility for the claims under its insurance arrangements with the relevant agencies or their predecessors.

Foreign Affairs and Trade

Export Finance Insurance Corporation — board member and senior management indemnities

The Australian Government has provided certain indemnities to Export Finance and Insurance Corporation (EFIC) board members and senior management to protect them 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 Medical Association

An agreement is held between the Australian Medical Association, the Australian Government, the Australian Private Hospitals Association Ltd, the Australian Health Insurance Association and Beyond Blue Ltd for participation in, and support of, the Private Mental Health Alliance and for the collection and analysis of a national minimum data set from private, hospital-based psychiatric services. Each party to the agreement has agreed to indemnify each other in respect of any loss, liability, cost, claim or expense, misuse of confidential information, or breach of the *Privacy Act 1988*. Each party's liability to indemnify the other parties will be reduced proportionally to the extent that any unlawful or negligent act or omission of the other parties or their employees or agents contributed to the loss or damage. The indemnity survives the expiration or termination of the agreement.

Australian Red Cross Society — indemnities

Deeds of Agreement between the Australian Red Cross Society (the Red Cross) and the National Blood Authority in relation to the operation of the Australian Red Cross Blood Service (the Blood Service) and the development of principal manufacturing sites in Sydney and Melbourne include certain indemnities and a limitation of liability in favour of the Red Cross. These cover defined sets of potential business, product and employee risks and liabilities. 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 relating to the operation of the Red Cross or the cessation of funding for the principal sites, 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 between the Australian Government, the Australian Red Cross Blood Service (the Blood Service) and the State and Territory governments which spreads the liability risks associated with the supply of blood and blood products by the Blood Service. The NMF provides for liabilities incurred by the Blood Service where other available mitigation or cover is not available. Under certain conditions, the Australian Government and the State and

Territory governments jointly provide indemnity for the Blood Service through a cost sharing arrangement for claims, both current and potential, regarding personal injury and loss or damage suffered by a recipient of certain blood products. If there are insufficient funds in the NMF to cover claim costs, the Jurisdictional Blood Committee will consider a report provided by the National Funds Manager to determine the level of additional funds required. The Australian Government's share of any additional liability is limited to 63 per cent of any agreed net cost.

CSL Ltd

CSL Ltd (CSL) is indemnified against claims made by individuals who contract specified infections from specified products and against employees contracting asbestos-related injuries. CSL has unlimited cover for most events that occurred before the sale of CSL 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, the Australian Government may have a contingent liability.

The Australian Fractionation Agreement with CSL, which has operated since 1 January 2010, includes a requirement that the National Blood Authority make a defined payment to CSL, in certain circumstances only, in the event that the volume of plasma supplied annually to CSL is less than a specified amount.

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 repay the bond balances owing to each resident. In return, the resident's rights to pursue the defaulting provider to recover the accommodation bond money transfers to the Government. In the event the 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. On 30 June 2010, the maximum contingent liability, in the unlikely event that all providers defaulted, was $10.6 billion.

Indemnities relating to vaccines

The Australian Government has provided an indemnity to the manufacturer of smallpox vaccine held by the Australian Government, covering possible adverse events that could result from the use of the vaccine in an emergency situation. Further, under certain conditions, certain indemnities have been provided to particular manufacturers of pandemic and pre-pandemic influenza vaccines for the supply or future supply of influenza vaccines (including H1N1 and H5N1).

Medical Indemnity Exceptional Claims Scheme

In May 2003, the Australian Government announced that 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 would apply to payouts either related to a single large claim or to multiple claims that in aggregate exceed the cover provided by the doctor's medical indemnity insurer, and would apply to claims notified under contracts-based cover since 1 January 2003.

Immigration and Citizenship

Immigration detention services — liability limits

The Department of Immigration and Citizenship (DIAC) has entered into a contract with International Health and Medical Services Pty Ltd (IHMS), which commenced on 14 January 2009, to deliver health services to people in detention in Australia on behalf of the Australian Government. Under this contract, DIAC has agreed to limit IHMS's liability to DIAC to a maximum of $20.5 million; however, IHMS's liability is unlimited for specific events defined under the contract.

DIAC has also entered into a contract with Serco Pty Ltd (Serco), which commenced on 29 June 2009, to deliver immigration detention services in Australia on behalf of the Australian Government at immigration detention centres. Under this contract, DIAC has agreed to limit Serco's liability to DIAC to a maximum of any insurance proceeds recovered by Serco and $75 million. Serco's liability is unlimited for specific events defined under the contract. DIAC has initiated a review of these liability limits, and this is expected to be completed by the end of the 2011-12 financial year.

DIAC also entered into a separate contract with Serco, which commenced on 11 December 2009, to deliver immigration detention services in Australia on behalf of the Australian Government at immigration residential housing, immigration transit accommodation and alternative places of detention. Under this contract, DIAC has agreed to limit Serco's liability to DIAC to a maximum of any insurance proceeds recovered by Serco and $17 million. Serco's liability is unlimited for specific events defined under the contract. DIAC has initiated a review of these liability limits. This review is expected to be completed by the end of the 2011-12 financial year.

Infrastructure and Transport

Airservices Australia

On 31 August 2004, the then Minister for Transport and Regional Services, pursuant to section 16 of the *Airservices Act 1995* (the Act), gave a direction to Airservices Australia to provide an operating control tower and approach radar control services in certain volumes of airspace. Sub-section 16(4) of the Act provides that Airservices Australia may seek reimbursement from the Australian Government for any financial detriment it suffers as a result of complying with a direction. At this time, the quantum or nature of any financial detriment is uncertain, as is the nature of any consequent fiscal risk to the budget.

Australian Maritime Safety Authority incident costs

In the normal course of operations, the Australian Maritime Safety Authority is responsible for meeting clean-up costs arising from ship-sourced marine pollution and, in all circumstances, is responsible for making appropriate efforts to recover the costs of any such incidents. The Australian Government provides supplementary funds for those costs that cannot be recovered from such incidents. It is not possible to estimate the amounts of any eventual payments that may be required in relation to these incident costs.

Maritime Industry Finance Company Limited — board members' indemnities

Indemnities for Maritime Industry Finance Company Limited (MIFCO) board members were provided to protect them against civil claims relating to their employment and conduct as directors. MIFCO was placed into voluntary liquidation on November 2006 and was deregistered on 24 April 2008. The indemnity is not time limited and continues even though the company has been liquidated. Until the indemnity agreements are varied or brought to an end, they will remain as contingent and unquantifiable liabilities.

Tripartite deeds relating to the sale of federal leased airports

Tripartite deeds apply to 12 federal leased airports (Adelaide, Alice Springs, Bankstown, Brisbane, Canberra, Gold Coast, Darwin, Launceston, Melbourne, Perth, Sydney and Townsville). The tripartite deeds between the Australian Government, the airport lessee company (ALC) and financiers amend the airport (head) leases to provide for limited step-in-rights for financiers in circumstances where the Commonwealth terminates the head lease to enable the financiers to correct the circumstances that triggered such a termination event. The tripartite deeds may require the Commonwealth to pay the ALC and financiers compensation as a result of its termination of the (head) lease. The Commonwealth's 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 any liability that might be incurred from the conduct of activities authorised under the *Australian Nuclear Science and Technology Organisation Act 1987*. This indemnity is in addition to commercial insurance cover 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 Government requires the responsible party for a space activity approved under the *Space Activities Act 1998* (the Act) 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 indexed for inflation. Under the Act, the Government also accepts liability for damage suffered by Australian nationals, to a maximum value of $3.0 billion above the insured level.

Prime Minister and Cabinet

National Aboriginal Islander Skills Dance College (NAISDA) — construction works

The Australian Government has provided an indemnity from 1 June 2010 to 31 December 2012 in favour of the Central Coast Regional Development Corporation (formerly the Festival Development Corporation), a New South Wales Government statutory authority and landlord of the Mt Penang Parklands in Gosford. The indemnity relates to construction works being carried out by the Australian Government on behalf of NAISDA Dance College at Mt Penang Parklands. The maximum potential liability is $20.0 million.

Whole-of-Government — 2015 Asian Football Confederation (AFC) Asian Cup — Government Guarantees

The Australian Government has committed to guarantees including requirements on immigration, work permits, customs, taxation, security and the protection of commercial rights, and to provide broad indemnities for the conduct of the 2015 Asian Cup. The guarantees commenced in 2011 and will conclude in 2015.

The total cost associated with the guarantees is unquantifiable at this stage.

Whole-of-Government — Australian Government support for the Queensland Government bid to host the 2018 Commonwealth Games on the Gold Coast — Government Guarantees

The Australian Government has committed to support the Queensland Government's bid for the 2018 Commonwealth Games. For the bid to be compliant, the Australian Government must provide guarantees which will come into effect if the bid is won. These guarantees include requirements on immigration, customs, work permits, taxation, security, protection of commercial rights, and communications and information technology. Details of the costs associated with the guarantees are not available at this time.

If the 2018 Queensland Government's bid is successful, it is expected that some of the Commonwealth Government guarantees will commence following the announcement of the successful host country in November 2011 and will conclude in 2018. The guarantees will not come into effect if the bid is unsuccessful.

Resources, Energy and Tourism

British atomic test site at Maralinga

The Australian Government is responsible for 14 unlimited indemnities relating to the Maralinga Rehabilitation Project (1995-2000). In November 2009, the Australian Government agreed to the handback of the former nuclear test sites at Maralinga to the Maralinga Tjarutja people. Under the terms of the handback, the Australian Government has indemnified the Maralinga Tjarutja people and the South Australian Government in respect of claims arising from test site contamination.

Gorgon liquefied natural gas and carbon dioxide storage project — long-term liability

The Australian and Western Australian governments have agreed to provide an indemnity to the Gorgon Joint Venture Partners (GJV) to indemnify the GJV against independent third-party claims (relating to stored carbon dioxide) under common law following closure of the carbon dioxide sequestration project, and subject to conditions equivalent to those set out in the *Offshore Petroleum and Greenhouse Gas Storage Act 2006*. It is proposed that the Western Australian Government will indemnify the GJV, and that the Australian Government will indemnify the Western Australian Government for 80 per cent of any amount determined to be payable under that indemnity. The formal agreement between the Australian and Western Australian governments in relation to the indemnity is expected to be signed in 2011.

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 and Energy. In addition, the 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 of the Australian Government reimbursing the State and Territory governments for costs arising from their responses, and potential compensation for industry arising from Australian Government directions under the Act.

Snowy Hydro Limited — directors' indemnities

The Australian Government, together with the co-shareholder governments of New South Wales and Victoria, has indemnified the members of the Board of Snowy Hydro Limited for liabilities arising from entering into agreements to implement corporatisation of the Snowy Mountains Hydro Electric Scheme, and from liabilities to Snowy Hydro Limited at corporatisation. The indemnity applies to liabilities arising within five 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 Limited — water releases

The Australian, New South Wales and Victorian governments have indemnified Snowy Hydro Limited for liabilities arising from water releases in the Snowy River below Jindabyne Dam, where these releases are in accordance with the water licence and related regulatory arrangements agreed between the three governments. The indemnity applies to liabilities for which a claim is notified within 20 years from 28 June 2002.

Sustainability, Environment, Water, Population and Communities

Murray-Darling Basin Reform — additional net costs

Under the 3 July 2008 *Intergovernmental Agreement on Murray-Darling Basin Reform* (Reform IGA), the Australian Government agreed that the governments of New South Wales, Victoria, Queensland, South Australia and the Australian Capital Territory (Basin States) will not bear additional net costs as a consequence of the reforms agreed between the parties and the implementation of the *Water Act 2007* (the Act). This undertaking ceases on 30 June 2015.

A methodology has been developed for agreement with the Basin States that enables the State and Australian governments to agree on the activities undertaken by a State that are relevant to the implementation of the reforms agreed under the Reform IGA and the implementation of the Act, and to monitor increased or decreased costs and/or revenues.

Murray-Darling Basin Reform — risk assignment

The *Water Act 2007* (the Act) provides the mechanism for defining liabilities and making payments to affected entitlement holders for the Australian Government's share of reductions in water allocations, or in the reliability of water allocations, in the Murray-Darling Basin arising from the Basin Plan prepared under the Act.

The Government will provide funding of $310 million per annum from 2014-15 to bridge any remaining gap between the level of water returned to the Murray-Darling Basin under existing Water for the Future initiatives and the level required to be returned under the final Basin Plan. The additional funding will be used to continue buying back water entitlements each year beyond 2014, subject to the availability of water for purchase from willing sellers.

The independent Murray-Darling Basin Authority will release the proposed Basin Plan later in 2011, which will be followed by a 16 week consultation process. The Final Basin Plan requires Ministerial approval and is subject to the scrutiny of both houses of Parliament.

The total cost of this commitment is not able to be quantified until the Basin Plan is finalised.

Treasury

Financial Claims Scheme

The Australian Government established a Financial Claims Scheme to provide depositors of authorised deposit taking institutions and general insurance policyholders with timely access to their funds in the very unlikely event of a financial institution failure.

The Australian Prudential Regulation Authority (APRA) is responsible for the administration of the Financial Claims Scheme. Under the Financial Claims Scheme, any payments to eligible depositors or general insurance policyholders will be made out of APRA's Financial Claims Scheme Special Account.

The Early Access Facility for Depositors established under the *Banking Act 1959* provides a mechanism for making payments to depositors under the Government's guarantee of deposits in authorised deposit taking institutions.

The Government announced that, from 12 October 2008, deposits up to $1.0 million at eligible authorised deposit taking institutions would be eligible for coverage under the Financial Claims Scheme. The Government confirmed in December 2010 that the Financial Claims Scheme will be a permanent feature of the Australian financial system with the current $1.0 million cap to be adjusted to a new appropriate post-crisis level from October 2011.

As at 31 January 2011, deposits eligible for coverage under the Financial Claims Scheme were estimated to be approximately $731.8 billion, compared to $721.3 billion at 31 October 2010.

The Policyholder Compensation Facility established under the *Insurance Act 1973* provides a mechanism for making payments to eligible beneficiaries with a valid claim against a failed general insurer. Amounts available to meet payments and administer this facility, in the event of activation, are capped initially at $20.1 billion under the legislation.

In the very unlikely event of a failure, any payments made under the Financial Claims Scheme would be recovered through the liquidation of the failed institution. In the even more unlikely event there were a shortfall, a levy would be applied to industry to recover the difference between the amount expended and the amount recovered in the liquidation.

Guarantee of State and Territory Borrowing

The Australian Government announced on 25 March 2009 that a voluntary, temporary guarantee would be put in place over state and territory borrowing. The Guarantee of State and Territory Borrowing commenced on 24 July 2009 and closed on 31 December 2010.

Securities covered by the guarantee will continue to be guaranteed until they either mature or are bought back and extinguished by the issuer.

The expected liability under the guarantee is remote and unquantifiable. Australian Government expenditure would arise under the guarantee only in the very unlikely event that a state or territory failed to meet its obligations with respect to a commitment that was subject to the guarantee and the guarantee was called upon. In such a case, the Government would likely be able to recover any such expenditure through a claim on the relevant state or territory at a future date. The impact on the Government's budget would depend upon the extent of the default and the state or territory's ability to meet the Government's claim.

As at 31 March 2011, the face value of state and territory borrowings covered by the guarantee was $50.8 billion, down from $62.0 billion at 30 September 2010.

Guarantee Scheme for Large Deposits and Wholesale Funding

The Australian Government announced the guarantee of eligible deposits and wholesale funding for authorised deposit taking institutions from 12 October 2008 under the Guarantee Scheme for Large Deposits and Wholesale Funding (the Guarantee Scheme).

On 7 February 2010, the Government announced the closure of the Guarantee Scheme from 31 March 2010. Since 31 March 2010, Australian authorised deposit taking institutions have been prohibited from issuing any new guaranteed wholesale funding or accepting new guaranteed deposits above $1.0 million. Existing guaranteed wholesale funding is guaranteed to maturity. Depositors who covered their balances above $1.0 million under the Guarantee Scheme can have those funds covered to maturity for term deposits up to five years, or until October 2015 for at call deposits.

The expected liability for deposits under the Guarantee Scheme is remote and unquantifiable. Government expenditure would arise under the guarantee only in the very unlikely event that an institution failed to meet its obligations with respect to a commitment that was subject to the guarantee and the guarantee was called upon. In such a case, the Government would likely be able to recover any such expenditure through a claim on the relevant institution.

As at 25 March 2011, total liabilities covered by the Guarantee Scheme were estimated at $129.0 billion, down from $148.7 billion at 15 October 2010. This is made up of $3.9 billion (down from $6.6 billion) in large deposits and $125.1 billion (down from

$155.1 billion) in long-term wholesale funding. All short-term wholesale funding matured in March 2011.

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 Australian Government guarantees to pay any liabilities of the ARPC, but the Treasurer must declare a reduced payout rate to insured entities if the Government's liability would otherwise exceed $10.0 billion.

CONTINGENT ASSETS — UNQUANTIFIABLE

Innovation, Industry, Science and Research

Wireless Local Area Network

The Commonwealth Scientific and Industrial Research Organisation (CSIRO) is currently involved in legal proceedings in the United States related to a wireless local area network (WLAN) patent which CSIRO owns and wishes to license broadly. The proceedings are additional to proceedings settled by agreement in 2009 and are at various phases. If successful, CSIRO expects to receive significant revenue which would exceed the associated legal costs. At this stage, the revenue and costs are unquantifiable.

STATEMENT 9: BUDGET FINANCIAL STATEMENTS

The budget financial statements consist of an 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 sector (PNFC) 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. The Government has produced budget financial statements that comply with both Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) and Australian Accounting Standards (AAS), meeting the requirement of the Charter, with departures disclosed. The statements reflect the Government's accounting policy that ABS GFS remains the basis of budget accounting policy, except where the Government applies AAS because it provides a better conceptual basis for presenting information of relevance to users of public sector financial reports.

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	
		2010-11	2011-12	2012-13	2013-14	2014-15
	Note	$m	$m	$m	$m	$m
Revenue						
Taxation revenue	3	290,298	329,247	362,095	383,937	404,869
Sales of goods and services	4	8,058	8,050	8,225	8,247	7,930
Interest income	5	5,277	5,735	5,763	5,792	5,477
Dividend income	5	1,839	1,328	1,402	1,429	1,531
Other	6	5,307	5,601	5,636	5,769	6,029
Total revenue		**310,779**	**349,961**	**383,121**	**405,174**	**425,836**
Expenses						
Gross operating expenses						
Wages and salaries(a)	7	18,705	19,232	18,770	19,021	19,335
Superannuation	7	4,016	3,508	3,430	3,464	3,434
Depreciation and amortisation	8	5,621	5,636	5,896	6,079	6,238
Supply of goods and services	9	66,116	69,993	70,093	73,841	78,406
Other operating expenses(a)	7	4,682	4,498	4,644	4,765	4,757
Total gross operating expenses		*99,141*	*102,866*	*102,832*	*107,170*	*112,171*
Superannuation interest expense	7	6,958	7,575	7,826	8,083	8,338
Interest expenses	10	10,845	13,095	14,039	14,337	14,150
Current transfers						
Current grants	11	103,893	112,995	119,850	127,152	133,328
Subsidy expenses		8,876	9,300	9,956	10,167	10,160
Personal benefits	12	105,371	107,931	114,844	121,171	129,726
Total current transfers		*218,140*	*230,226*	*244,650*	*258,490*	*273,214*
Capital transfers	11					
Mutually agreed write-downs		2,043	2,197	2,363	2,529	2,705
Other capital grants		13,676	9,858	8,812	8,365	3,558
Total capital transfers		*15,719*	*12,055*	*11,175*	*10,894*	*6,264*
Total expenses		**350,803**	**365,817**	**380,523**	**398,974**	**414,137**
Net operating balance		**-40,024**	**-15,857**	**2,599**	**6,200**	**11,699**
Other economic flows						
Gain/loss on equity and on sale of assets(b)		4,439	2,897	7,954	3,666	3,796
Net write-downs of assets (including bad and doubtful debts)		-6,928	-6,567	-6,704	-7,111	-7,429
Assets recognised for the first time		555	583	610	637	666
Net foreign exchange gains		-28	2	13	73	75
Market valuation of debt		2,280	-266	-182	-100	-25
Other economic revaluations(c)		93	-56	-129	32	162
Total other economic flows		**411**	**-3,406**	**1,562**	**-2,803**	**-2,755**
Comprehensive result - Total change in net worth	13	**-39,613**	**-19,263**	**4,161**	**3,397**	**8,944**
Net operating balance		**-40,024**	**-15,857**	**2,599**	**6,200**	**11,699**
Net acquisition of non-financial assets						
Purchases of non-financial assets		10,555	10,561	9,167	8,897	9,294
less Sales of non-financial assets		383	1,361	4,937	352	179
less Depreciation		5,621	5,636	5,896	6,079	6,238
plus Change in inventories		850	579	545	550	496
plus Other movements in non-financial assets		311	264	-246	18	-214
Total net acquisition of non-financial assets		**5,713**	**4,405**	**-1,367**	**3,034**	**3,160**
Fiscal balance (Net lending/borrowing)(d)		**-45,737**	**-20,262**	**3,966**	**3,166**	**8,539**

(a) Consistent with ABS GFS classification, other employee related expenses are reported under other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.
(b) Reflects changes in the market valuation of investments and any 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	
		2010-11	2011-12	2012-13	2013-14	2014-15
	Note	$m	$m	$m	$m	$m
Assets						
Financial assets						
Cash and deposits	20(a)	1,998	2,000	1,936	1,965	1,996
Advances paid	14	27,184	29,501	31,885	34,491	36,894
Investments, loans and placements	15	99,661	110,443	110,878	110,049	111,151
Other receivables	14	34,404	34,847	35,705	36,615	38,423
Equity investments						
Investments in other public sector entities		23,551	26,277	30,819	37,434	41,523
Equity accounted investments		278	279	280	281	283
Investments - shares		27,573	28,746	29,496	31,372	33,586
Total financial assets		*214,649*	*232,092*	*240,998*	*252,208*	*263,856*
Non-financial assets	16					
Land		8,471	8,438	8,399	8,369	8,396
Buildings		22,182	23,127	24,335	25,097	25,184
Plant, equipment and infrastructure		50,730	53,379	54,772	56,483	58,728
Inventories		6,900	6,978	7,146	7,283	7,355
Intangibles		4,630	5,330	5,642	5,568	5,878
Investment property		507	349	349	349	349
Biological assets		120	35	35	35	35
Heritage and cultural assets		9,423	9,435	9,447	9,458	9,471
Assets held for sale		97	91	91	91	91
Other non-financial assets		5,319	5,920	4,865	2,667	1,942
Total non-financial assets		*108,378*	*113,080*	*115,081*	*115,400*	*117,428*
Total assets		**323,027**	**345,173**	**356,079**	**367,608**	**381,284**
Liabilities						
Interest bearing liabilities						
Deposits held		232	232	232	232	232
Government securities		200,569	234,885	236,515	239,147	238,351
Loans	17	9,633	12,694	11,926	11,879	11,934
Other borrowing		791	780	667	561	431
Total interest bearing liabilities		*211,224*	*248,590*	*249,340*	*251,819*	*250,948*
Provisions and payables						
Superannuation liability	18	129,491	133,965	138,512	143,104	147,760
Other employee liabilities	18	10,959	11,209	11,512	11,829	12,027
Suppliers payable	19	4,229	4,352	4,308	4,344	4,343
Personal benefits provisions and payable	19	12,317	12,420	13,714	14,127	14,769
Subsidies provisions and payable	19	2,307	2,385	2,518	2,653	2,734
Grants provisions and payable	19	8,218	8,063	8,263	8,644	8,572
Other provisions and payables	19	12,551	11,722	11,282	11,061	11,163
Total provisions and payables		*180,072*	*184,115*	*190,110*	*195,764*	*201,367*
Total liabilities		**391,297**	**432,705**	**439,450**	**447,583**	**452,315**
Net worth(a)		**-68,270**	**-87,532**	**-83,372**	**-79,975**	**-71,031**
Net financial worth(b)		*-176,648*	*-200,613*	*-198,452*	*-195,375*	*-188,459*
Net financial liabilities(c)		*200,199*	*226,889*	*229,271*	*232,809*	*229,982*
Net debt(d)		*82,381*	*106,646*	*104,642*	*105,313*	*100,907*

(a) Net worth is calculated as total assets minus total liabilities.
(b) Net financial worth equals total financial assets minus total liabilities.
(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, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table 3: Australian Government general government sector cash flow statement[(a)]

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Cash receipts from operating activities					
Taxes received	282,515	321,103	353,426	375,298	395,366
Receipts from sales of goods and services	7,901	7,996	8,157	8,211	7,866
Interest receipts	4,954	5,297	5,272	5,255	4,882
Dividends and income tax equivalents	2,984	1,422	1,428	1,453	1,536
Other receipts	4,952	5,211	5,300	5,366	5,625
Total operating receipts	**303,307**	**341,029**	**373,583**	**395,583**	**415,274**
Cash payments for operating activities					
Payments for employees	-24,944	-25,786	-25,441	-25,924	-26,393
Payments for goods and services	-66,702	-70,308	-70,386	-74,023	-78,587
Grants and subsidies paid	-127,616	-132,428	-137,660	-143,219	-146,493
Interest paid	-9,522	-10,833	-12,014	-12,062	-12,380
Personal benefit payments	-106,005	-107,848	-113,583	-120,812	-129,102
Other payments	-4,109	-4,272	-4,332	-4,519	-4,656
Total operating payments	**-338,898**	**-351,474**	**-363,417**	**-380,559**	**-397,610**
Net cash flows from operating activities	**-35,590**	**-10,445**	**10,166**	**15,025**	**17,664**
Cash flows from investments in non-financial assets					
Sales of non-financial assets	383	1,361	4,937	352	179
Purchases of non-financial assets	-10,785	-10,487	-8,708	-8,690	-8,854
Net cash flows from investments in non-financial assets	**-10,403**	**-9,126**	**-3,771**	**-8,339**	**-8,675**
Net cash flows from investments in financial assets for policy purposes	**-8,096**	**-12,216**	**-5,629**	**-6,416**	**-5,205**
Cash flows from investments in financial assets for liquidity purposes					
Increase in investments	9,410	-4,012	-317	-1,299	-2,058
Net cash flows from investments in financial assets for liquidity purposes	**9,410**	**-4,012**	**-317**	**-1,299**	**-2,058**
Cash receipts from financing activities					
Borrowing	45,621	36,693	419	1,766	0
Total cash receipts from financing activities	**45,621**	**36,693**	**419**	**1,766**	**0**
Cash payments for financing activities					
Borrowing	0	0	0	0	-1,471
Other financing	-808	-893	-934	-708	-225
Total cash payments for financing activities	**-808**	**-893**	**-934**	**-708**	**-1,696**
Net cash flows from financing activities	**44,812**	**35,800**	**-515**	**1,058**	**-1,696**
Net increase/(decrease) in cash held	**133**	**2**	**-65**	**30**	**30**

Table 3: Australian Government general government sector cash flow statement (continued)(a)

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Net cash flows from operating activities and investments in non-financial assets (Surplus(+)/deficit(-))	**-45,993**	**-19,571**	**6,396**	**6,686**	**8,989**
Finance leases and similar arrangements(b)	-2	-117	0	0	0
GFS cash surplus(+)/deficit(-)	**-45,995**	**-19,687**	**6,396**	**6,686**	**8,989**
less Future Fund earnings	3,374	2,931	2,898	3,014	3,193
Equals underlying cash balance(c)	**-49,369**	**-22,618**	**3,498**	**3,672**	**5,795**
plus Net cash flows from investments in financial assets for policy purposes	-8,096	-12,216	-5,629	-6,416	-5,205
plus Future Fund earnings	3,374	2,931	2,898	3,014	3,193
Equals headline cash balance	**-54,092**	**-31,903**	**766**	**271**	**3,784**

(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	
	2010-11	2011-12
	$m	$m
Revenue		
Current grants and subsidies	27	17
Sales of goods and services	7,421	7,853
Interest income	66	45
Other	1	4
Total revenue	**7,516**	**7,920**
Expenses		
Gross operating expenses		
Wages and salaries(a)	2,765	2,953
Superannuation	228	261
Depreciation and amortisation	489	733
Supply of goods and services	3,403	3,489
Other operating expenses(a)	386	469
Total gross operating expenses	*7,271*	*7,905*
Interest expenses	49	86
Other property expenses	138	211
Current transfers		
Tax expenses	81	91
Total current transfers	*81*	*91*
Total expenses	**7,539**	**8,293**
Net operating balance	**-23**	**-373**
Other economic flows	**-597**	**-334**
Comprehensive result - Total change in net worth excluding contribution from owners	**-621**	**-707**
Net acquisition of non-financial assets		
Purchases of non-financial assets	2,930	4,692
less Sales of non-financial assets	94	24
less Depreciation	489	733
plus Change in inventories	8	22
plus Other movements in non-financial assets	58	58
Total net acquisition of non-financial assets	**2,414**	**4,015**
Fiscal balance (Net lending/borrowing)(b)	**-2,437**	**-4,388**

(a) Consistent with ABS GFS classification, other employee related expenses are reported under other operating expenses. Total employee expenses equal wages and salaries plus 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	
	2010-11	2011-12
	$m	$m
Assets		
Financial assets		
Cash and deposits	873	773
Investments, loans and placements	286	230
Other receivables	962	1,011
Equity investments	320	321
Total financial assets	*2,441*	*2,334*
Non-financial assets		
Land and fixed assets	8,541	12,210
Other non-financial assets(a)	591	636
Total non-financial assets	*9,132*	*12,846*
Total assets	**11,573**	**15,180**
Liabilities		
Interest bearing liabilities		
Borrowing	1,482	2,250
Total interest bearing liabilities	*1,482*	*2,250*
Provisions and payables		
Other employee liabilities	1,261	1,225
Other provisions and payables(a)	1,837	1,923
Total provisions and payables	*3,098*	*3,148*
Total liabilities	**4,580**	**5,397**
Shares and other contributed capital	**6,993**	**9,783**
Net worth(b)	**6,993**	**9,783**
Net financial worth(c)	*-2,139*	*-3,063*
Net debt(d)	*322*	*1,247*

(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. The AASB 1049 method is used in this table.
(c) Under AASB 1049, net financial worth equals total financial assets minus total liabilities. Under ABS GFS, net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.
(d) Net debt equals the sum of interest bearing liabilities (deposits held, advances received and borrowing), minus the sum of cash and deposits and investments, loans and placements.

Table 6: Australian Government public non-financial corporations sector cash flow statement[a]

	Estimates	
	2010-11	2011-12
	$m	$m
Cash receipts from operating activities		
Receipts from sales of goods and services	8,064	8,520
GST input credit receipts	307	324
Other receipts	89	72
Total operating receipts	**8,460**	**8,915**
Cash payments for operating activities		
Payments to employees	-3,459	-3,566
Payment for goods and services	-3,568	-4,030
Interest paid	-57	-92
GST payments to taxation authority	-603	-634
Other payments	-133	-170
Total operating payments	**-7,820**	**-8,492**
Net cash flows from operating activities	**640**	**423**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	95	24
Purchases of non-financial assets	-2,995	-4,751
Net cash flows from investments in non-financial assets	**-2,901**	**-4,727**
Cash flows from investments in financial assets for liquidity purposes		
Increase in investments	19	128
Net cash flows from investments in financial assets for liquidity purposes	**19**	**128**
Net cash flows from financing activities		
Borrowing (net)	155	730
Other financing (net)	2,072	3,558
Distributions paid (net)	-135	-212
Net cash flows from financing activities	**2,093**	**4,075**
Net increase/(decrease) in cash held	**-148**	**-101**
Cash at the beginning of the year	**1,022**	**873**
Cash at the end of the year	**873**	**773**
Net cash from operating activities and investments in non-financial assets	**-2,260**	**-4,304**
Distributions paid	-135	-212
Equals surplus(+)/deficit(-)	**-2,395**	**-4,516**
Finance leases and similar arrangements(b)	0	0
GFS cash surplus(+)/deficit(-)	**-2,395**	**-4,516**

(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 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	
	2010-11	2011-12
	$m	$m
Revenue		
Taxation revenue	290,218	329,156
Sales of goods and services	14,440	14,378
Interest income	5,343	5,750
Dividend income	1,700	1,117
Other	5,308	5,606
Total revenue	**317,010**	**356,006**
Expenses		
Gross operating expenses		
Wages and salaries(a)	21,470	22,185
Superannuation	4,243	3,769
Depreciation and amortisation	6,110	6,369
Supply of goods and services	68,481	71,956
Other operating expenses(a)	5,069	4,967
Total gross operating expenses	*105,373*	*109,246*
Superannuation interest expense	6,958	7,575
Interest expenses	10,894	13,151
Current transfers		
Current grants	103,893	112,995
Subsidy expenses	8,849	9,283
Personal benefits	105,371	107,931
Total current transfers	*218,113*	*230,209*
Capital transfers	15,719	12,055
Total expenses	**357,057**	**372,236**
Net operating balance	**-40,048**	**-16,230**
Other economic flows	**261**	**-2,950**
Comprehensive result - Total change in net worth	**-39,786**	**-19,180**
Net acquisition of non-financial assets		
Purchases of non-financial assets	13,486	15,252
less Sales of non-financial assets	477	1,385
less Depreciation	6,110	6,369
plus Change in inventories	859	601
plus Other movements in non-financial assets	369	322
Total net acquisition of non-financial assets	**8,127**	**8,420**
Fiscal balance (Net lending/borrowing)(b)	**-48,174**	**-24,650**

(a) Consistent with ABS GFS classification, other employee related expenses are reported under other operating expenses. Total employee expenses equal wages and salaries plus 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	
	2010-11	2011-12
	$m	$m
Assets		
Financial assets		
Cash and deposits	2,872	2,773
Advances paid	27,184	29,501
Investments, loans and placements	99,649	110,390
Other receivables	35,259	35,742
Equity investments	44,195	45,390
Total financial assets	*209,159*	*223,796*
Non-financial assets		
Land and fixed assets	106,247	113,566
Other non-financial assets	11,263	12,361
Total non-financial assets	*117,510*	*125,927*
Total assets	**326,670**	**349,723**
Liabilities		
Interest bearing liabilities		
Deposits held	232	232
Government securities	200,569	234,885
Loans	9,335	12,412
Other borrowing	2,273	3,029
Total interest bearing liabilities	*212,408*	*250,558*
Provisions and payables		
Superannuation liability	129,491	133,965
Other employee liabilities	12,220	12,433
Other provisions and payables	41,353	40,749
Total provisions and payables	*183,063*	*187,147*
Total liabilities	**395,471**	**437,705**
Shares and other contributed capital	**6,993**	**9,783**
Net worth(a)	**-68,802**	**-87,982**
Net financial worth(b)	*-186,312*	*-213,908*
Net debt(c)	*82,704*	*107,894*

(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. The AASB 1049 method is used in this table.

(b) Under AASB1049, net financial worth equals total financial assets minus total liabilities. Under ABS GFS, net financial worth equals total financial assets minus total liabilities, minus shares and other contributed capital. The AASB 1049 method is used in this table.

(c) Net debt equals the sum of deposits held, government securities, loans and other 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	
	2010-11	2011-12
	$m	$m
Cash receipts from operating activities		
Taxes received	282,397	320,979
Receipts from sales of goods and services	14,759	14,812
Interest receipts	5,018	5,310
Dividends and income tax equivalents	2,863	1,230
Other receipts	4,965	5,220
Total operating receipts	**310,001**	**347,551**
Cash payments for operating activities		
Payments to employees	-28,403	-29,352
Payments for goods and services	-69,360	-72,944
Grants and subsidies paid	-127,616	-132,428
Interest paid	-9,578	-10,895
Personal benefit payments	-106,005	-107,848
Other payments	-4,124	-4,318
Total operating payments	**-345,086**	**-357,785**
Net cash flows from operating activities	**-35,085**	**-10,234**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	477	1,385
Purchases of non-financial assets	-13,781	-15,238
Net cash flows from investments in non-financial assets	**-13,303**	**-13,853**
Net cash flows from investments in financial assets for policy purposes	**-8,096**	**-12,216**
Cash flows from investments in financial assets for liquidity purposes		
Increase in investments	11,388	-387
Net cash flows from investments in financial assets for liquidity purposes	**11,388**	**-387**
Net cash flows from financing activities		
Borrowing (net)	45,776	37,423
Other financing (net)	-694	-832
Net cash flows from financing activities	**45,082**	**36,591**
Net increase/(decrease) in cash held	**-15**	**-99**
Cash at the beginning of the year	**2,887**	**2,872**
Cash at the end of the year	**2,872**	**2,773**
Net cash from operating activities and investments in non-financial assets	**-48,388**	**-24,087**
Distributions paid	0	0
Equals surplus(+)/deficit(-)	**-48,388**	**-24,087**
Finance leases and similar arrangements(b)	-2	-117
GFS cash surplus(+)/deficit(-)	**-48,390**	**-24,204**

(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 AASB 1049 *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 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 A2 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 corporations (PNFC) sector and public financial corporations (PFC) sector, 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 Accrual Uniform Presentation Framework (UPF) requires disclosure of net debt, net financial worth and net financial liabilities.

Explanations of variations in fiscal balance, revenue, expenses, net capital investment, cash flows, net debt, net financial worth and net worth since the *Mid-Year Economic and Fiscal Outlook 2010-11* (MYEFO) 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

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 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 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 records defence weapons platforms (DWP) as a non-financial asset on a market value basis (fair value), rather than expensing at time of acquisition. The value used by ABS is consistent with the National Accounts statistical methodology, and represents an early adoption of changes to the *System of National Accounts 2008*. ABS GFS treatment of DWP is consistent with AAS, as non-financial assets can be valued at fair value as long as they can be reliably measured, otherwise cost is permissible. DWP will be valued at cost in the budget financial statements, as they have in previous budgets, while the Australian Government ascertains if a relevant and reliable fair value can be sourced.

Under ABS GFS, concessional loans are recognised at their nominal value, that is, they are not discounted to fair (market) value as there is not considered to be a secondary market. This treatment has not been adopted for the financial statements. Consistent with AAS, loans issued at below market interest rates or with long repayment periods are recorded at fair value (by discounting them by market interest rates). The difference between the nominal value and the fair value of the loan is recorded as an expense. Over the life of the loan the interest earned is recognised at market rates.

ABS GFS requires investments in unlisted public sector entities to be valued based on their net assets. Under AAS, investments in public sector entities can be valued at fair value as long as a fair value can be reliably measured, otherwise net assets is permissible. The AAS treatment has been adopted in the financial statements.

Movements in the provision for restoration, decommissioning and make-good of assets have been included in the calculation of the fiscal balance capital adjustment because in many cases they involve legal obligations to expend resources. ABS GFS does not recognise adjustments for such provisions because they are considered a constructive obligation that may not materialise for many years.

Departures from AASB 1049

AAS requires the advances paid to the International Development Association and Asian Development Fund to be recognised at fair value. Under ABS GFS these advances are recorded at nominal value. ABS GFS treatment is adopted in the 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 13 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. ABS GFS does not require total assets attributed to functions. In accordance with ABS GFS, disaggregated information for expenses and net acquisition of non-financial assets by function is disclosed in Statement 6. In accordance with the UPF, purchases of non-financial assets by function are 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 would effectively create two measures of the same aggregate.

AASB 1049 requires major variances between original budget estimates and outcomes to be explained in the financial statements. Explanations of major variances for the 2010-11 year from the 2010-11 Budget to the 2010-11 MYEFO are discussed in Part 3 of the MYEFO. All policy decisions taken between the 2010-11 Budget and the

2010-11 MYEFO are disclosed in Appendix A of MYEFO. Explanations of variations since the 2010-11 MYEFO are disclosed in Statement 3 of this document, with all decisions taken since the MYEFO disclosed in Budget Paper No. 2.

Public non-financial corporations (PNFC) sector and total non-financial public sector (NFPS)

Departures from ABS GFS

AASB 1049 defines net worth for the PNFC sector and NFPS 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 sector). Similarly, AASB1049 defines net financial worth for these sectors as financial assets less total liabilities, whereas under ABS GFS it is equal to 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.

Departures from AASB 1049

The financial statements for the PNFC sector and NFPS comply with the UPF but do not include all the line item disclosures required by AASB 1049. Disaggregated outcome notes for the PNFC sector will be disclosed in the consolidated financial statements.

AAS requires dividends paid to be classified as a distribution of equity. Under ABS GFS, dividends paid are classified as an expense. ABS GFS treatment has been adopted for use in the financial statements.

Note 3: Taxation revenue by type

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Income taxation					
Individuals and other withholding taxes					
Gross income tax withholding	131,320	144,930	156,920	168,960	181,150
Gross other individuals	29,860	33,360	38,680	41,890	45,710
less Refunds	24,850	27,400	28,000	30,900	33,750
Total individuals and other withholding taxation	136,330	150,890	167,600	179,950	193,110
Fringe benefits tax	3,670	3,760	4,220	4,770	5,230
Company tax	57,880	74,600	78,140	80,300	83,470
Superannuation funds	7,220	9,330	10,490	11,800	12,810
Resource rent taxes(a)	940	2,050	8,090	8,870	7,310
Total income taxation revenue	**206,040**	**240,630**	**268,540**	**285,690**	**301,930**
Indirect taxation					
Sales taxes					
Goods and services tax	48,180	50,630	54,230	57,320	60,150
Wine equalisation tax	720	760	810	840	890
Luxury car tax	500	510	530	560	590
Total sales taxes	49,400	51,900	55,570	58,720	61,630
Excise duty					
Petrol	5,910	5,870	5,680	5,230	5,380
Diesel	7,300	7,610	7,850	8,290	8,530
Beer	1,950	2,070	2,210	2,350	2,450
Tobacco	6,720	5,830	5,780	6,120	6,490
Other excisable products	4,180	4,950	5,390	5,870	6,330
Of which: Other excisable beverages(b)	900	960	1,030	1,090	1,140
Total excise duty revenue	26,060	26,330	26,910	27,860	29,180
Customs duty					
Textiles, clothing and footwear	610	620	670	710	600
Passenger motor vehicles	780	780	790	830	880
Excise-like goods	3,530	4,830	5,160	5,400	5,630
Other imports	1,240	1,410	1,610	1,720	1,920
less Refunds and drawbacks	120	120	120	120	120
Total customs duty revenue	6,040	7,520	8,110	8,540	8,910
Other indirect taxation					
Agricultural levies	404	414	413	414	415
Other taxes	2,355	2,453	2,552	2,713	2,804
Total other indirect taxation revenue	2,758	2,867	2,965	3,127	3,219
Mirror taxes	424	451	479	510	521
less Transfers to States in relation to mirror tax revenue	424	451	479	510	521
Mirror tax revenue	0	0	0	0	0
Total indirect taxation revenue	**84,258**	**88,617**	**93,555**	**98,247**	**102,939**
Total taxation revenue	**290,298**	**329,247**	**362,095**	**383,937**	**404,869**
Memorandum:					
Capital gains tax	*5,500*	*8,300*	*12,600*	*16,300*	*18,800*
Medicare levy revenue	*8,330*	*8,940*	*9,670*	*10,370*	*11,080*

(a) Resource rent taxes include the Petroleum Resource Rent Tax (PRRT) and gross revenue from the Minerals Resource Rent Tax (MRRT). The net revenue from the MRRT is $3.7 billion in 2012-13, $4.0 billion in 2013-14 and $3.4 billion in 2014-15, which represents the net impact on revenue across several different revenue heads. This includes the offsetting reductions in company tax (through deductibility) and interactions with other taxes.

(b) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol.

Note 3(a): Taxation revenue by source

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Taxes on income, profits and capital gains					
Income and capital gains levied on individuals	140,020	154,670	171,850	184,750	198,370
Income and capital gains levied on enterprises	66,020	85,960	96,690	100,940	103,560
Total taxes on income, profits and capital gains	**206,040**	**240,630**	**268,540**	**285,690**	**301,930**
Taxes on employers' payroll and labour force	473	497	517	538	559
Taxes on the provision of goods and services					
Sales/goods and services tax	49,400	51,900	55,570	58,720	61,630
Excises and levies	26,626	26,906	27,485	28,436	29,758
Taxes on international trade	6,040	7,520	8,110	8,540	8,910
Total taxes on the provision of goods and services	**82,066**	**86,326**	**91,165**	**95,696**	**100,298**
Other sale of goods and services	1,719	1,793	1,873	2,013	2,082
Total taxation revenue	**290,298**	**329,247**	**362,095**	**383,937**	**404,869**
Memorandum:					
Medicare levy revenue	*8,330*	*8,940*	*9,670*	*10,370*	*11,080*

Note 4: Sales of goods and services revenue

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Sales of goods	1,236	1,281	1,494	1,523	1,599
Rendering of services	4,561	4,242	4,048	3,929	3,460
Operating lease rental	38	40	41	41	40
Fees from regulatory services	2,223	2,487	2,642	2,754	2,831
Total sales of goods and services revenue	**8,058**	**8,050**	**8,225**	**8,247**	**7,930**

Note 5: Interest and dividend income

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Interest from other governments					
State and Territory debt	15	18	22	23	23
Housing agreements	170	165	160	155	150
Total interest from other governments	**185**	**183**	**182**	**179**	**173**
Interest from other sources					
Advances	38	40	43	45	48
Deposits	96	100	104	102	102
Bank deposits	183	176	171	168	122
Indexation of HELP receivable and other student loans	362	402	450	505	564
Other	4,415	4,834	4,813	4,793	4,468
Total interest from other sources	**5,092**	**5,552**	**5,581**	**5,613**	**5,304**
Total interest	**5,277**	**5,735**	**5,763**	**5,792**	**5,477**
Dividends					
Dividends from other public sector entities	627	380	457	492	544
Other dividends	1,212	949	945	937	987
Total dividends	**1,839**	**1,328**	**1,402**	**1,429**	**1,531**
Total interest and dividend revenue	**7,116**	**7,063**	**7,165**	**7,221**	**7,008**

Note 6: Other sources of non-taxation revenue

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Industry contributions	47	56	58	42	42
Royalties	1,694	1,779	1,741	1,728	1,674
Seigniorage	122	122	118	119	119
Other	3,444	3,644	3,719	3,880	4,193
Total other sources of non-taxation revenue	**5,307**	**5,601**	**5,636**	**5,769**	**6,029**

Note 7: Employee and superannuation expense

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Wages and salaries expenses	**18,705**	**19,232**	**18,770**	**19,021**	**19,335**
Other operating expenses					
Leave and other entitlements	2,208	2,145	2,191	2,192	2,167
Separations and redundancies	96	57	44	46	41
Workers compensation premiums and claims	759	605	634	658	666
Other	1,619	1,691	1,775	1,869	1,883
Total other operating expenses	**4,682**	**4,498**	**4,644**	**4,765**	**4,757**
Superannuation expenses					
Superannuation	4,016	3,508	3,430	3,464	3,434
Superannuation interest cost	6,958	7,575	7,826	8,083	8,338
Total superannuation expenses	**10,974**	**11,082**	**11,256**	**11,547**	**11,772**
Total employee and superannuation expense	**34,362**	**34,812**	**34,670**	**35,333**	**35,864**

Note 8: Depreciation and amortisation expense

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Depreciation					
Specialist military equipment	2,516	2,407	2,529	2,630	2,737
Buildings	1,148	1,177	1,223	1,267	1,289
Other infrastructure, plant and equipment	1,214	1,251	1,316	1,386	1,426
Heritage and cultural assets	40	41	41	41	41
Total depreciation	**4,918**	**4,876**	**5,109**	**5,323**	**5,493**
Total amortisation	**703**	**760**	**787**	**757**	**745**
Total depreciation and amortisation expense	**5,621**	**5,636**	**5,896**	**6,079**	**6,238**

Note 9: Supply of goods and services expense

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Supply of goods and services	19,639	21,656	19,756	19,941	20,323
Operating lease rental expenses	2,564	2,531	2,498	2,535	2,587
Personal benefits – indirect	36,943	38,738	40,362	43,144	46,471
Health care payments	5,171	5,348	5,425	5,550	5,610
Other	1,799	1,719	2,051	2,670	3,416
Total supply of goods and services expense	**66,116**	**69,993**	**70,093**	**73,841**	**78,406**

Note 10: Interest expense

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Interest on debt					
Government securities(a)	9,286	11,632	12,612	12,851	12,599
Loans	9	19	15	14	14
Other	75	75	70	65	62
Total interest on debt	**9,370**	**11,726**	**12,696**	**12,930**	**12,675**
Other financing costs	**1,474**	**1,370**	**1,343**	**1,407**	**1,475**
Total interest expense	**10,845**	**13,095**	**14,039**	**14,337**	**14,150**

(a) Public debt interest estimates are calculated using the contract interest rates incurred on existing Commonwealth Government Securities (CGS) when issued and technical assumptions, based on prevailing market interest rates across the yield curve, for yields on future CGS issuance.

Note 11: Current and capital grants expense

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Current grants expense					
State and Territory governments	81,026	85,706	91,167	97,494	99,997
Local governments	19	73	32	0	0
Private sector	1,331	1,872	1,783	1,891	1,574
Overseas	3,951	4,026	4,685	5,123	5,338
Non-profit organisations	2,135	1,914	1,681	1,800	1,701
Multi-jurisdictional sector	8,380	9,164	9,640	10,051	10,343
Other	7,051	10,239	10,862	10,795	14,375
Total current grants expense	**103,893**	**112,995**	**119,850**	**127,152**	**133,328**
Capital grants expense					
Mutually agreed write-downs	2,043	2,197	2,363	2,529	2,705
Other capital grants					
State and Territory governments	12,118	8,666	7,878	7,430	2,848
Local governments	717	529	388	387	10
Private sector	466	147	0	0	0
Multi-jurisdictional sector	85	93	97	102	104
Other	291	424	450	447	596
Total capital grants expense	**15,719**	**12,055**	**11,175**	**10,894**	**6,264**
Total grants expense	**119,612**	**125,049**	**131,025**	**138,047**	**139,592**

Note 12: Personal benefits expense

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Social welfare - assistance to the aged	32,661	34,928	37,548	39,545	42,192
Assistance to veterans and dependants	6,358	6,267	6,131	6,013	5,945
Assistance to people with disabilities	18,525	19,652	20,851	22,065	23,466
Assistance to families with children	29,995	31,149	33,032	33,726	34,468
Assistance to the unemployed	6,995	7,197	7,342	8,283	8,591
Student assistance	4,117	4,103	3,767	3,678	3,749
Other welfare programmes	1,710	803	754	750	740
Financial and fiscal affairs	258	271	282	293	305
Vocational and industry training	270	303	339	359	329
Other	4,482	3,258	4,798	6,456	9,941
Total personal benefits expense	**105,371**	**107,931**	**114,844**	**121,171**	**129,726**

Note 13: Operating result and comprehensive result (total change in net worth)

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Opening net worth	**-44,848**	**-68,270**	**-87,532**	**-83,372**	**-79,975**
Opening net worth adjustments(a)	16,192	0	0	0	0
Adjusted opening net worth	**-28,657**	**-68,270**	**-87,532**	**-83,372**	**-79,975**
Net operating balance	-40,024	-15,857	2,599	6,200	11,699
Other economic flows – included in operating result					
Foreign exchange gains	0	2	13	73	75
Gains from sale of assets	244	748	4,721	142	-52
Other gains	9,781	4,121	4,339	4,254	4,465
Net write-down and impairment of assets and fair value losses	-6,928	-6,567	-6,704	-7,111	-7,429
Foreign exchange losses	-29	0	0	0	0
Losses from sale of assets	34	28	17	43	104
Total other economic flows	**3,104**	**-1,667**	**2,386**	**-2,599**	**-2,838**
Operating result(b)	**-36,920**	**-17,524**	**4,985**	**3,601**	**8,862**
Other economic flows – other movements in equity(c)	-2,693	-1,739	-824	-204	82
Comprehensive result	**-39,613**	**-19,263**	**4,161**	**3,397**	**8,944**

(a) Reflects a decrease in the superannuation liability mainly due to a difference in the estimated and actual discount rate at 30 June 2010. Refer to Note 18 for further details.
(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 other receivables

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Advances paid					
Loans to State and Territory governments	3,025	3,036	3,005	2,979	2,903
Higher Education Loan Program	15,271	17,242	19,579	22,007	24,500
Student Financial Supplement Scheme	707	650	591	526	457
Other	8,496	8,877	8,968	9,211	9,253
less Provision for doubtful debts	316	303	259	232	219
Total advances paid	**27,184**	**29,501**	**31,885**	**34,491**	**36,894**
Other receivables					
Goods and services receivable	927	942	965	960	984
Recoveries of benefit payments	3,058	3,059	3,072	3,089	3,129
Taxes receivable	16,249	17,212	18,229	19,343	20,599
Other	17,501	17,094	17,029	16,965	17,615
less Provision for doubtful debts	3,330	3,459	3,590	3,742	3,904
Total other receivables	**34,404**	**34,847**	**35,705**	**36,615**	**38,423**

Note 15: Investments, loans and placements

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Investments - deposits	27,260	31,749	29,707	25,602	22,694
IMF quota	5,099	10,319	10,319	10,412	10,506
Other	67,302	68,375	70,852	74,035	77,951
Total investments, loans and placements	**99,661**	**110,443**	**110,878**	**110,049**	**111,151**

Note 16: Total non-financial assets

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Land and buildings					
Land	8,471	8,438	8,399	8,369	8,396
Buildings	22,182	23,127	24,335	25,097	25,184
Total land and buildings	**30,652**	**31,565**	**32,734**	**33,466**	**33,580**
Plant, equipment and infrastructure					
Specialist military equipment	38,897	41,149	42,424	44,256	46,756
Other	11,833	12,230	12,349	12,227	11,972
Total plant, equipment and infrastructure	**50,730**	**53,379**	**54,772**	**56,483**	**58,728**
Inventories					
Inventories held for sale	983	1,031	1,062	1,108	1,076
Inventories not held for sale	5,917	5,947	6,084	6,175	6,278
Total inventories	**6,900**	**6,978**	**7,146**	**7,283**	**7,355**
Intangibles					
Computer software	2,882	3,118	3,077	2,873	2,743
Other	1,747	2,212	2,565	2,695	3,134
Total intangibles	**4,630**	**5,330**	**5,642**	**5,568**	**5,878**
Total investment properties	**507**	**349**	**349**	**349**	**349**
Total biological assets	**120**	**35**	**35**	**35**	**35**
Total heritage and cultural assets	**9,423**	**9,435**	**9,447**	**9,458**	**9,471**
Total assets held for sale	**97**	**91**	**91**	**91**	**91**
Other non-financial assets					
Prepayments	4,859	5,197	4,388	2,172	1,660
Other	460	723	477	495	282
Total other non-financial assets	**5,319**	**5,920**	**4,865**	**2,667**	**1,942**
Total non-financial assets	**108,378**	**113,080**	**115,081**	**115,400**	**117,428**

Note 17: Loans

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Promissory notes	3,755	7,091	6,455	6,480	6,504
Special drawing rights	4,976	4,924	4,924	4,968	5,012
Other	902	679	546	431	418
Total loans	**9,633**	**12,694**	**11,926**	**11,879**	**11,934**

Note 18: Employee and superannuation liabilities

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Total superannuation liability(a)	**129,491**	**133,965**	**138,512**	**143,104**	**147,760**
Other employee liabilities					
Leave and other entitlements	6,474	6,575	6,729	6,875	7,031
Accrued salaries and wages	267	283	279	286	295
Workers compensation claims	1,851	1,864	1,895	1,934	1,966
Separations and redundancies	60	62	61	61	61
Other	2,307	2,424	2,549	2,674	2,674
Total other employee liabilities	**10,959**	**11,209**	**11,512**	**11,829**	**12,027**
Total employee and superannuation liabilities	**140,449**	**145,173**	**150,024**	**154,934**	**159,787**

(a) For budget reporting purposes, a discount rate applied by actuaries in preparing Long-Term Cost Reports is used to value the superannuation liability. This reduces the volatility in reported liabilities that would occur from year to year if the long-term government bond rate were used. Consistent with Australian Accounting Standards, the long-term government bond rate as at 30 June is used to calculate the superannuation liability for the purpose of actuals reporting.

Note 19: Provisions and payables

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Suppliers payable					
Trade creditors	3,596	3,710	3,666	3,705	3,703
Operating lease rental payable	176	177	178	177	178
Other creditors	458	465	463	463	462
Total suppliers payable	**4,229**	**4,352**	**4,308**	**4,344**	**4,343**
Total personal benefits provisions and payable	**12,317**	**12,420**	**13,714**	**14,127**	**14,769**
Total subsidies provisions and payable	**2,307**	**2,385**	**2,518**	**2,653**	**2,734**
Grants provisions and payable					
State and Territory governments	150	147	146	146	145
Non-profit organisations	139	140	140	140	140
Private sector	317	301	294	293	282
Overseas	1,431	1,148	1,147	1,302	1,030
Local governments	5	5	5	5	5
Other	6,175	6,321	6,532	6,757	6,970
Total grants provisions and payable	**8,218**	**8,063**	**8,263**	**8,644**	**8,572**
Other provisions and payables					
Provisions for tax refunds	2,752	2,751	2,746	2,781	2,780
Other	9,800	8,971	8,537	8,280	8,382
Total other provisions and payables	**12,551**	**11,722**	**11,282**	**11,061**	**11,163**

Note 20: Reconciliation of cash

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Operating balance (revenues less expenses)	**-40,024**	**-15,857**	**2,599**	**6,200**	**11,699**
less **Revenues not providing cash**					
Other	893	1,043	1,161	1,299	1,456
Total revenues not providing cash	**893**	**1,043**	**1,161**	**1,299**	**1,456**
plus **Expenses not requiring cash**					
Increase/(decrease) in employee entitlements	5,198	4,724	4,851	4,910	4,853
Depreciation/amortisation expense	5,621	5,636	5,896	6,079	6,238
Mutually agreed write-downs	2,043	2,197	2,363	2,529	2,705
Other	511	1,000	761	768	1,111
Total expenses not requiring cash	**13,373**	**13,557**	**13,870**	**14,286**	**14,908**
plus **Cash provided/(used) by working capital items**					
Decrease/(increase) in inventories	-718	-444	-406	-407	-348
Decrease/(increase) in receivables	-4,657	-6,379	-7,237	-7,702	-8,374
Decrease/(increase) in other financial assets	-55	274	327	377	-522
Decrease/(increase) in other non-financial assets	-2,222	-501	660	2,066	361
Increase/(decrease) in benefits, subsidies and grants payable	408	219	1,828	1,114	844
Increase/(decrease) in suppliers' liabilities	201	108	-34	49	-42
Increase/(decrease) in other provisions and payables	-1,004	-379	-278	340	595
Net cash provided/(used) by working capital	**-8,046**	**-7,101**	**-5,141**	**-4,163**	**-7,486**
equals (Net cash from/(to) operating activities)	-35,590	-10,445	10,166	15,025	17,664
plus (Net cash from/(to) investing activities)	-9,089	-25,353	-9,716	-16,053	-15,938
Net cash from operating activities and investment	**-44,679**	**-35,798**	**450**	**-1,028**	**1,726**
plus (Net cash from/(to) financing activities)	44,812	35,800	-515	1,058	-1,696
equals **Net increase/(decrease) in cash**	**133**	**2**	**-65**	**30**	**30**
Cash at the beginning of the year	**1,865**	**1,998**	**2,000**	**1,936**	**1,965**
Net increase/(decrease) in cash	133	2	-65	30	30
Cash at the end of the year	**1,998**	**2,000**	**1,936**	**1,965**	**1,996**

Note 20(a): Consolidated Revenue Fund

	Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
	$m	$m	$m	$m	$m
Total general government sector cash	1,998	2,000	1,936	1,965	1,996
less CAC Agency cash balances	1,335	1,301	1,272	1,264	1,278
plus Special public monies	271	271	271	271	271
Balance of Consolidated Revenue Fund at 30 June	**934**	**970**	**935**	**972**	**989**

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 above.

Further information on the Consolidated Revenue Fund is included in Budget Paper No. 4, A*gency Resourcing 2011-12*.

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. The Government has produced budget financial statements that comply with both ABS GFS and AAS, meeting the requirement of the Charter, with departures disclosed. The statements reflect the Government's accounting policy that ABS GFS remains the basis of budget accounting policy, except where the Government applies AAS because it provides a better conceptual basis for presenting information of relevance to users of public sector financial reports.

AASB 1049 and the Accrual Uniform Presentation Framework (UPF) also provide a basis for reporting of the public non-financial corporations (PNFC) and public financial corporations (PFC) sectors and the total non-financial public sector (NFPS).

General Government Sector Financial Reporting (AASB 1049)

The budget primarily focuses 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. AASB 1049 recognises the GGS as a reporting entity.

AASB 1049 history and conceptual framework

The Australian Accounting Standards Board (AASB) released AASB 1049 for application from the 2008-09 financial year. 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 government assets, liabilities, revenue, expenses and cash flows. GGS reporting under AASB 1049 aims to provide users with information about the stewardship of each government in relation to its GGS and accountability for the resources entrusted to it; information about the financial position, performance and cash flows of each government's GGS; and information that facilitates assessments of the macroeconomic impact. While AASB 1049 provides a basis for whole-of-government and GGS outcome reporting (including the PNFC and PFC sectors), budget reporting focuses on the GGS.

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 also shows net worth, net financial worth, net financial liabilities and net debt; and
- a cash flow statement, which includes the calculation of the underlying cash balance.

In addition to these general purpose statements, notes to the financial statements are required. These notes include a summary of accounting policies, disaggregated information and other disclosures required by AAS. A full set of notes and other disclosures required by AAS are included in the annual consolidated financial statements.

All financial data presented in the financial statements are 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 less 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 in the operating statement.

Consistent with the ABS GFS framework, and in general AAS, the financial statements record 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).

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.

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1 Not all transactions impact on net worth. For example, transactions in financial assets and liabilities do not impact on net worth as they represent the swapping of assets and liabilities on the balance sheet.

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 owing 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 its 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.

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 are also reported in the balance sheet.

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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.

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 minus 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, less 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 is 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 borrowings) less the sum of selected financial assets[3] (cash and deposits, advances paid, and investments, loans and placements). This includes financial assets held by the Future Fund which are invested in these asset classes, including term deposits and investments in collective investment vehicles. Net 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.

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3 Financial assets are defined as cash, an equity instrument of another entity, a contractual right to receive cash or financial asset, and a contract that will or may be settled in the entity's own equity instruments.

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 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.

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 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.

Expected Future Fund earnings are separately identified in the Australian Government GGS cash flow statement in Table 3 of this statement and related tables in Statement 3 and Statement 10.

Headline cash balance

The headline cash balance is calculated by adding net 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, and contributions to international organisations that increase the Australian Government's financial assets.

Sectoral classifications

To assist in analysing the public sector, data is presented by institutional sector as shown in Figure 1. ABS GFS defines the GGS and the PNFC and PFC sectors. 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

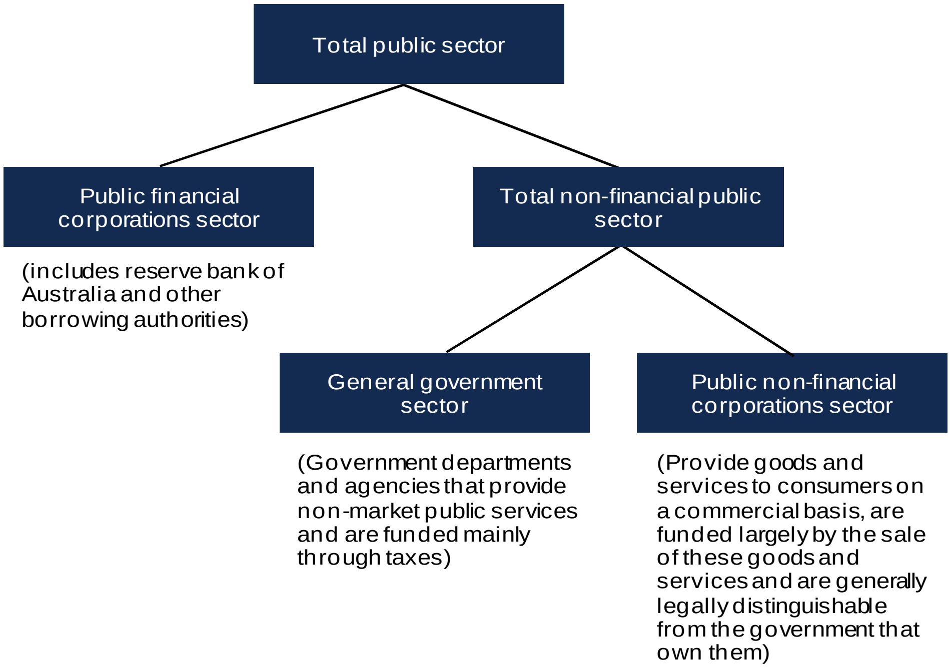

Table A1: Entities within the sectoral classifications

General government sector entities
Agriculture, Fisheries and Forestry Portfolio
Australian Fisheries Management Authority, Australian Pesticides and Veterinary Medicines Authority, Cotton Research and Development Corporation, Department of Agriculture, Fisheries and Forestry, Fisheries Research and Development Corporation, Grains Research and Development Corporation, Grape and Wine Research and Development Corporation, Rural Industries Research and Development Corporation, Sugar Research and Development Corporation, Wheat Exports Australia, Wine Australia Corporation
Attorney-General's Portfolio
Administrative Appeals Tribunal, Attorney-General's Department, Australian Commission for Law Enforcement Integrity, Australian Crime Commission, Australian Customs and Border Protection Service, Australian Federal Police, Australian Human Rights Commission, Australian Institute of Criminology, Australian Law Reform Commission, Australian Security Intelligence Organisation, Australian Transaction Reports and Analysis Centre (AUSTRAC), CrimTrac Agency, Family Court of Australia, Federal Court of Australia, Federal Magistrates Court of Australia, High Court of Australia, Insolvency and Trustee Service Australia, 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 the Digital Economy, Special Broadcasting Service Corporation
Climate Change and Energy Efficiency Portfolio
Australian Carbon Trust Limited, Department of Climate Change and Energy Efficiency, Office of the Renewable Energy Regulator
Defence Portfolio
AAF Company, Army and Air Force Canteen Service, Australian Military Forces Relief Trust Fund, Australian Strategic Policy Institute Limited, Australian War Memorial, Defence Housing Australia, Defence Materiel Organisation, Department of Defence, Department of Veterans' Affairs, RAAF Welfare Recreational Company, 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

Table A1: Entities within the sectoral classifications (continued)

General government sector entities (continued)
Education, Employment and Workplace Relations Portfolio
Australian Curriculum, Assessment and Reporting Authority, Australian Institute for Teaching and School Leadership Limited, Australian Learning and Teaching Council Limited, Comcare, Department of Education, Employment and Workplace Relations, Fair Work Australia, National Vocational Education and Training Regulator, Office of the Australian Building and Construction Commissioner, Office of Fair Work Ombudsman, Safe Work Australia, Seafarers Safety, Rehabilitation and Compensation Authority (Seacare Authority)
Family, Housing, Community Services and Indigenous Affairs Portfolio
Aboriginal Hostels Limited, Anindilyakwa Land Council, Central Land Council, Department of Families, Housing, Community Services and Indigenous Affairs, Equal Opportunity for Women in the Workplace Agency, Indigenous Business Australia, Indigenous Land Corporation, Northern Land Council, Outback Stores Pty Ltd, 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
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 Commission on Safety and Quality in Health Care, Australian Institute of Health and Welfare, Australian National Preventative Health Agency, Australian Organ and Tissue Donation and Transplantation Authority, Australian Radiation Protection and Nuclear Safety Agency, Cancer Australia, Department of Health and Ageing, Food Standards Australia New Zealand, General Practice Education and Training Limited, Health Workforce Australia, National Blood Authority, National Breast and Ovarian Cancer Centre, National Health and Medical Research Council, Private Health Insurance Administration Council, Private Health Insurance Ombudsman, Professional Services Review Scheme

Table A1: Entities within the sectoral classifications (continued)

General government sector entities (continued)
Human Services Portfolio Centrelink (Commonwealth Service Delivery Agency), Department of Human Services, Medicare Australia
Immigration and Citizenship Portfolio Department of Immigration and Citizenship, Migration Review Tribunal and Refugee Review Tribunal
Infrastructure and Transport Portfolio Australian Maritime Safety Authority, Australian Transport Safety Bureau, Civil Aviation Safety Authority, Department of Infrastructure and Transport, National Transport Commission
Innovation, Industry, Science and Research Portfolio Australian Institute of Aboriginal and Torres Strait Islander Studies, Australian Institute of Marine Science, Australian Nuclear Science and Technology Organisation, Australian Research Council, Commonwealth Scientific and Industrial Research Organisation, Department of Innovation, Industry, Science and Research, IIF Foundation Pty Limited, IIF Investments Pty Limited, IP Australia
Prime Minister and Cabinet Portfolio Australia Business Arts Foundation Ltd, Australia Council, Australian Film, Television and Radio School, Australian Institute of Family Studies, Australian National Audit Office, Australian National Maritime Museum, Australian Public Service Commission, Australian Sports Anti-Doping Authority, Australian Sports Commission, Australian Sports Foundation Limited, Bundanon Trust, Department of the Prime Minister and Cabinet, Department of Regional Australia, Regional Development and Local Government, National Archives of Australia, National Australia Day Council Limited, National Capital Authority, National Film and Sound Archive, National Gallery of Australia, National Library of Australia, National Museum of Australia, Office of the Australian Information Commissioner, 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, Old Parliament House, Screen Australia
Resources, Energy and Tourism Portfolio Australian Solar Institute Limited, Department of Resources, Energy and Tourism, Geoscience Australia, National Offshore Petroleum Safety Authority, Tourism Australia

Table A1: Entities within the sectoral classifications (continued)

General government sector entities (continued)

Sustainability, Environment, Water, Population and Communities Portfolio

Bureau of Meteorology, Department of Sustainability, Environment, Water, Population and Communities, Director of National Parks, Great Barrier Reef Marine Park Authority, Murray-Darling Basin Authority, National Water Commission, Sydney Harbour Federation Trust

Treasury Portfolio

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, Office of the Auditing and Assurance Standards Board, Office of the Australian Accounting Standards Board, Productivity Commission, Royal Australian Mint

Parliamentary Departments

Department of Parliamentary Services, Department of the House of Representatives, Department of the Senate

Public financial corporations

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 Reinsurance Pool Corporation, Reserve Bank of Australia

Table A1: Entities within the sectoral classifications (continued)

Public non-financial corporations
Attorney General's Portfolio
Australian Government Solicitor
Broadband, Communications and the Digital Economy Portfolio
Australian Postal Corporation, NBN Co Ltd
Family, Housing, Community Services and Indigenous Affairs Portfolio
ILC Tourism Pty Ltd
Finance and Deregulation Portfolio
Albury-Wodonga Development Corporation, Australian River Co. Ltd, ASC Pty Ltd
Human Services Portfolio
Australian Hearing Services
Infrastructure and Transport 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 and 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 transactions 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 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).

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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

Issue	AAS treatment	ABS GFS treatment	Treatment adopted
Acquisition of defence weapons platforms (DWP)	Treated as capital expenditure. DWP appear as a non-financial asset on the balance sheet. Depreciation expense on assets is recorded in the operating statement. AASB 1049 requires cost to be used where fair value of the assets cannot be reliably measured.	ABS has updated its treatment in its GFS reports to record DWP as a non-financial asset on a market value basis. This represents an early adoption of changes to the System of National Accounts.	AAS
Circulating coins — seigniorage	The profit between the cost and sale of circulating coins (seigniorage) is treated as revenue.	Circulating coins (seigniorage) is treated as a liability, and the cost of producing the coins is treated as an expense.	AAS
Provision 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 is therefore not considered to be an expense or reflected in the balance sheet.	AAS
Advances to the International Development Association and Asian Development Fund	Recorded at fair value in the balance sheet.	Recorded at nominal value in balance sheet.	ABS GFS
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.	AAS
Investment in Other Public Sector Entities	Valued at fair value in the balance sheet as long as it can be reliably measured, otherwise net assets is permissible.	Unlisted entities valued based on their net assets in the balance sheet.	AAS valuation
Provision for restoration, decommis-sioning and make-good	Included in the Fiscal Balance capital adjustment	Excluded from the calculation of net lending capital adjustment	AAS
Dividends paid by public corporations	Treated as an equity distribution. Equity distributions are treated as a distribution of profits, as opposed to an expense.	Dividends are treated as an expense.	ABS GFS

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 (LCA). A jurisdiction's LCA incorporates:

- the estimated non-financial public sector ABS GFS cash surplus/deficit (made up from the balances of the general government and public non-financial corporations sectors and total non-financial public sector 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.

LCA nominations are considered by the Loan Council, having regard to each jurisdiction's fiscal position and infrastructure requirements, as well as the macroeconomic implications of the aggregate figure.

As set out in Table B1, the Commonwealth's 2011-12 Loan Council Allocation budget update is a $35.7 billion deficit. This compares with its Loan Council Allocation nomination of a $14.2 billion deficit endorsed by Loan Council on 7 April 2011.

The Loan Council Allocation budget update falls outside the tolerance limit set at nomination. This change primarily reflects the near term impacts of natural disaster spending and the weaker outlook for tax receipts.

Table B1: Commonwealth's Loan Council Allocation budget update for 2011-12

		2011-12 Nomination $m	2011-12 Budget estimate $m
	GG sector cash surplus(-)/deficit(+)	9,501	19,571
	PNFC sector cash surplus(-)/deficit(+)	-101	4,516
	NFPS cash surplus(-)/deficit(+)(a)	9,400	24,087
	Acquisitions under finance leases and similar arrangements	17	117
equals	ABS GFS cash surplus(-)/deficit(+)	9,417	24,204
minus	Net cash flows from investments in financial assets for policy purposes(b)	-5,577	-12,216
plus	Memorandum items(c)	-761	-705
	Loan Council Allocation	**14,233**	**35,714**

(b) May not directly equate to the sum of the GG sector and the PNFC sector cash surplus/deficit due to intersectoral transfers which are netted out.

(c) Net cash flow from investments in financial assets for policy purposes are displayed with the same sign as they are reported in cash flow statements. Such transactions involve the transfer or exchange of a financial asset and are not included within the 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.

(d) 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.

STATEMENT 10: HISTORICAL AUSTRALIAN GOVERNMENT DATA

Statement 10 reports historical data for the Australian Government fiscal aggregates across the general government, public non-financial corporations and non-financial public sectors.

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, net financial worth 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 1998-1999 onwards where applicable.

- Cash data prior to 1999-2000 are sourced from ABS data, which have been calculated using methodology consistent with that used for later years in ABS cat. no. 5512.0 *Government Finance Statistics*.

- Net debt data prior to 1999-2000 are 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. These breaks 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 are provided by agencies in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to 2005-06, underlying GFS data are based on data provided by agencies in accordance with Australian Accounting Standards (AAS);

- most recent accounting classification changes that require revisions to the historic series have been back-cast (where applicable) to 1998-1999, ensuring that data is consistent across the accrual period from 1998-1999 onwards. However, because of 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 are 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 have been 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).

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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 2011-12 Budget, cash data prior to 1998-99 has been replaced by ABS data derived from the accrual framework.

DEFLATING REAL SPENDING GROWTH BY THE CONSUMER PRICE INDEX

The 2011-12 Budget, including the historical series, calculates real spending growth using the Consumer Price Index (CPI) as the deflator. This is also the benchmark against which the Government's fiscal strategy is based. Prior to the 2008-09 Budget the non-farm GDP deflator (NFGDP) was used and has therefore been shown in this statement for comparative purposes.

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 non-farm GDP deflator incorporates fluctuations in global commodity prices through the terms of trade, which are not relevant for Government expenditures. Therefore, deflating government spending by the non-farm GDP deflator distorts trends in real spending growth.

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)(f)	Per cent of GDP	$m	$m	Per cent of GDP
1970-71	8,290	20.3	7,389	na	na	18.1	-	901	2.2
1971-72	9,135	20.3	8,249	4.1	4.6	18.4	-	886	2.0
1972-73	9,735	19.4	9,388	7.7	7.8	18.7	-	348	0.7
1973-74	12,228	20.1	11,078	4.2	3.6	18.2	-	1,150	1.9
1974-75	15,643	21.8	15,463	19.9	14.5	21.5	-	181	0.3
1975-76	18,727	22.3	20,225	15.7	13.6	24.1	-	-1,499	-1.8
1976-77	21,890	22.6	23,157	0.6	2.0	23.9	-	-1,266	-1.3
1977-78	24,019	22.7	26,057	2.7	3.3	24.6	-	-2,037	-1.9
1978-79	26,129	21.8	28,272	0.3	2.8	23.6	-	-2,142	-1.8
1979-80	30,321	22.3	31,642	1.5	2.1	23.3	-	-1,322	-1.0
1980-81	35,993	23.4	36,176	4.6	3.6	23.5	-	-184	-0.1
1981-82	41,499	23.4	41,151	2.9	0.6	23.2	-	348	0.2
1982-83	45,463	23.8	48,810	6.3	6.3	25.6	-	-3,348	-1.8
1983-84	49,981	23.2	56,990	9.4	9.7	26.5	-	-7,008	-3.3
1984-85	58,817	24.8	64,853	9.1	8.3	27.3	-	-6,037	-2.5
1985-86	66,206	25.2	71,328	1.5	3.4	27.2	-	-5,122	-2.0
1986-87	74,724	26.0	77,158	-1.1	0.8	26.8	-	-2,434	-0.8
1987-88	83,491	25.5	82,039	-0.9	-0.3	25.0	-	1,452	0.4
1988-89	90,748	24.4	85,326	-3.1	-4.2	23.0	-	5,421	1.5
1989-90	98,625	24.2	92,684	0.6	1.7	22.7	-	5,942	1.5
1990-91	100,227	23.9	100,665	3.1	3.9	24.0	-	-438	-0.1
1991-92	95,840	22.4	108,472	5.7	6.1	25.4	-	-12,631	-3.0
1992-93	97,633	21.8	115,751	5.6	6.0	25.8	-	-18,118	-4.0
1993-94	103,824	22.0	122,009	3.5	4.3	25.9	-	-18,185	-3.9
1994-95	113,458	22.7	127,619	1.4	2.7	25.5	-	-14,160	-2.8
1995-96	124,429	23.4	135,538	1.9	3.6	25.5	-	-11,109	-2.1
1996-97	133,592	23.9	139,689	1.7	1.5	25.0	-	-6,099	-1.1
1997-98	140,736	23.8	140,587	0.6	-0.2	23.8	-	149	0.0
1998-99	152,063	24.4	148,175	4.1	4.9	23.8	-	3,889	0.6
1999-00	166,199	25.0	153,192	1.0	1.0	23.1	-	13,007	2.0
2000-01	182,996	25.8	177,123	9.1	10.9	25.0	-	5,872	0.8
2001-02	187,588	24.7	188,655	3.5	4.0	24.9	-	-1,067	-0.1
2002-03	204,613	25.4	197,243	1.4	1.8	24.5	-	7,370	0.9
2003-04	217,775	25.2	209,785	3.9	2.6	24.2	-	7,990	0.9
2004-05	235,984	25.5	222,407	3.5	1.7	24.0	-	13,577	1.5
2005-06	255,943	25.6	240,136	4.6	2.8	24.0	51	15,756	1.6
2006-07	272,637	25.0	253,321	2.5	0.2	23.2	2,135	17,182	1.6
2007-08	294,917	24.9	271,843	3.8	2.6	22.9	3,370	19,704	1.7
2008-09	292,600	23.3	316,046	12.7	11.0	25.2	3,633	-27,079	-2.2
2009-10	284,662	22.2	336,900	4.2	6.4	26.2	2,512	-54,750	-4.3
2010-11(e)	303,690	21.9	349,685	0.7	-2.1	25.2	3,374	-49,369	-3.6
2011-12(e)	**342,390**	**23.2**	**362,078**	**0.5**	**1.2**	**24.5**	**2,931**	**-22,618**	**-1.5**
2012-13(e)	378,520	24.3	372,125	-0.1	0.8	23.9	2,898	3,498	0.2
2013-14(p)	395,935	24.1	389,249	1.9	2.3	23.7	3,014	3,672	0.2
2014-15(p)	415,453	24.0	406,464	1.9	2.2	23.5	3,193	5,795	0.3

(a) Data has been revised in the 2011-12 Budget to improve accuracy and comparability through time.
(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.
(f) Real spending growth using Non-Farm GDP as the deflator has not been used as a basis for calculating real spending growth in the Budget since 2007-08, and is included for comparative purposes only. Real spending growth, using the Consumer Price Index as the deflator, is the benchmark against which the Government's fiscal strategy has been based since it was introduced.
(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	17.7	1,097	2.7	8,290	20.3
1971-72	7,895	17.6	1,240	2.8	9,135	20.3
1972-73	8,411	16.7	1,324	2.6	9,735	19.4
1973-74	10,832	17.8	1,396	2.3	12,228	20.1
1974-75	14,141	19.7	1,502	2.1	15,643	21.8
1975-76	16,920	20.1	1,807	2.1	18,727	22.3
1976-77	19,714	20.3	2,176	2.2	21,890	22.6
1977-78	21,428	20.2	2,591	2.4	24,019	22.7
1978-79	23,409	19.6	2,720	2.3	26,129	21.8
1979-80	27,473	20.2	2,848	2.1	30,321	22.3
1980-81	32,641	21.2	3,352	2.2	35,993	23.4
1981-82	37,880	21.4	3,619	2.0	41,499	23.4
1982-83	41,025	21.5	4,438	2.3	45,463	23.8
1983-84	44,849	20.8	5,132	2.4	49,981	23.2
1984-85	52,970	22.3	5,847	2.5	58,817	24.8
1985-86	58,841	22.4	7,365	2.8	66,206	25.2
1986-87	66,467	23.1	8,257	2.9	74,724	26.0
1987-88	75,076	22.9	8,415	2.6	83,491	25.5
1988-89	83,452	22.5	7,296	2.0	90,748	24.4
1989-90	90,773	22.2	7,852	1.9	98,625	24.2
1990-91	92,739	22.1	7,488	1.8	100,227	23.9
1991-92	87,364	20.4	8,476	2.0	95,840	22.4
1992-93	88,760	19.8	8,873	2.0	97,633	21.8
1993-94	93,362	19.8	10,462	2.2	103,824	22.0
1994-95	104,921	21.0	8,537	1.7	113,458	22.7
1995-96	115,700	21.7	8,729	1.6	124,429	23.4
1996-97	124,559	22.3	9,033	1.6	133,592	23.9
1997-98	130,984	22.1	9,752	1.6	140,736	23.8
1998-99	138,420	22.2	13,643	2.2	152,063	24.4
1999-00	151,313	22.8	14,887	2.2	166,199	25.0
2000-01	170,354	24.0	12,641	1.8	182,996	25.8
2001-02	175,108	23.1	12,481	1.6	187,588	24.7
2002-03	192,131	23.9	12,482	1.6	204,613	25.4
2003-04	206,091	23.8	11,683	1.4	217,775	25.2
2004-05	223,314	24.1	12,669	1.4	235,984	25.5
2005-06	241,215	24.1	14,728	1.5	255,943	25.6
2006-07	257,392	23.6	15,245	1.4	272,637	25.0
2007-08	278,376	23.5	16,540	1.4	294,917	24.9
2008-09	272,627	21.7	19,973	1.6	292,600	23.3
2009-10	260,973	20.3	23,689	1.8	284,662	22.2
2010-11(e)	282,515	20.3	21,175	1.5	303,690	21.9
2011-12(e)	**321,103**	**21.8**	**21,288**	**1.4**	**342,390**	**23.2**
2012-13(e)	353,426	22.7	25,094	1.6	378,520	24.3
2013-14(p)	375,298	22.9	20,637	1.3	395,935	24.1
2014-15(p)	395,366	22.9	20,087	1.2	415,453	24.0

(a) Data has been revised in the 2011-12 Budget to improve accuracy and comparability through time.
(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	0.8	-189	-0.5
1971-72	-496	-1.1	-245	-0.5
1972-73	-790	-1.6	-252	-0.5
1973-74	-1,851	-3.0	-286	-0.5
1974-75	-1,901	-2.6	-242	-0.3
1975-76	-341	-0.4	-330	-0.4
1976-77	898	0.9	-62	-0.1
1977-78	2,896	2.7	4	0.0
1978-79	4,983	4.2	254	0.2
1979-80	6,244	4.6	440	0.3
1980-81	6,356	4.1	620	0.4
1981-82	5,919	3.3	680	0.4
1982-83	9,151	4.8	896	0.5
1983-84	16,015	7.4	1,621	0.8
1984-85	21,896	9.2	2,813	1.2
1985-86	26,889	10.3	3,952	1.5
1986-87	29,136	10.1	4,762	1.7
1987-88	27,344	8.3	4,503	1.4
1988-89	21,981	5.9	4,475	1.2
1989-90	16,123	4.0	4,549	1.1
1990-91	16,915	4.0	3,636	0.9
1991-92	31,041	7.3	3,810	0.9
1992-93	55,218	12.3	3,986	0.9
1993-94	70,223	14.9	5,628	1.2
1994-95	83,492	16.7	7,292	1.5
1995-96	95,831	18.0	8,861	1.7
1996-97	96,281	17.2	9,489	1.7
1997-98	82,935	14.0	8,279	1.4
1998-99	72,065	11.6	8,649	1.4
1999-00	53,869	8.1	7,514	1.1
2000-01	42,719	6.0	6,195	0.9
2001-02	38,180	5.0	5,352	0.7
2002-03	29,047	3.6	3,758	0.5
2003-04	22,639	2.6	3,040	0.4
2004-05	10,741	1.2	2,502	0.3
2005-06	-4,531	-0.5	2,303	0.2
2006-07	-29,150	-2.7	228	0.0
2007-08	-44,820	-3.8	-1,015	-0.1
2008-09	-16,148	-1.3	-1,196	-0.1
2009-10	42,283	3.3	2,386	0.2
2010-11(e)	82,381	5.9	4,567	0.3
2011-12(e)	**106,646**	**7.2**	**5,536**	**0.4**
2012-13(e)	104,642	6.7	6,741	0.4
2013-14(p)	105,313	6.4	6,808	0.4
2014-15(p)	100,907	5.8	7,498	0.4

(a) Data has been revised in the 2011-12 Budget to improve accuracy and comparability through time.
(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.
(d) Net debt for the period 1999-00 to 2005-06 has been revised due to a reclassification of liabilities to the International Development Agency and Asian Development Fund from loans to grants payable.
(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	25.3	145,809	26.1	90	0.0	-4,211	-0.8
1997-98	146,820	24.8	148,646	25.1	147	0.0	-1,973	-0.3
1998-99	152,106	24.4	146,777	23.6	1,433	0.2	3,896	0.6
1999-00	167,304	25.2	155,452	23.4	-69	0.0	11,922	1.8
2000-01	186,110	26.3	180,028	25.4	8	0.0	6,074	0.9
2001-02	190,488	25.1	192,959	25.4	382	0.1	-2,854	-0.4
2002-03	206,923	25.7	201,298	25.0	287	0.0	5,338	0.7
2003-04	222,168	25.7	215,377	24.9	660	0.1	6,131	0.7
2004-05	242,507	26.2	229,243	24.7	1,034	0.1	12,230	1.3
2005-06	261,238	26.1	242,177	24.2	2,498	0.2	16,563	1.7
2006-07	278,411	25.5	259,161	23.7	2,333	0.2	16,917	1.5
2007-08	303,729	25.6	280,109	23.6	2,593	0.2	21,027	1.8
2008-09	298,933	23.8	324,569	25.9	4,064	0.3	-29,700	-2.4
2009-10	292,767	22.8	339,239	26.4	6,433	0.5	-52,906	-4.1
2010-11(e)	310,779	22.4	350,803	25.3	5,713	0.4	-45,737	-3.3
2011-12(e)	**349,961**	**23.7**	**365,817**	**24.8**	**4,405**	**0.3**	**-20,262**	**-1.4**
2012-13 (e)	383,121	24.6	380,523	24.4	-1,367	-0.1	3,966	0.3
2013-14 (p)	405,174	24.7	398,974	24.3	3,034	0.2	3,166	0.2
2014-15 (p)	425,836	24.6	414,137	23.9	3,160	0.2	8,539	0.5

(a) Data has been revised in the 2011-12 Budget to improve accuracy and comparability through time.
(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	-6,824	-1.0	-67,956	-10.2
2000-01	-6,330	-0.9	-72,808	-10.3
2001-02	-11,285	-1.5	-78,642	-10.4
2002-03	-15,000	-1.9	-84,314	-10.5
2003-04	-839	-0.1	-73,845	-8.5
2004-05	14,873	1.6	-59,941	-6.5
2005-06	18,283	1.8	-63,129	-6.3
2006-07	46,659	4.3	-39,668	-3.6
2007-08	71,165	6.0	-17,765	-1.5
2008-09	19,721	1.6	-73,800	-5.9
2009-10	-44,848	-3.5	-146,079	-11.4
2010-11(e)	-68,270	-4.9	-176,648	-12.7
2011-12(e)	**-87,532**	**-5.9**	**-200,613**	**-13.6**
2012-13(e)	-83,372	-5.3	-198,452	-12.7
2013-14(p)	-79,975	-4.9	-195,375	-11.9
2014-15(p)	-71,031	-4.1	-188,459	-10.9

(a) Data has been revised in the 2011-12 Budget to improve accuracy and comparability through time.
(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	153,408	23.1	13,896	2.1	167,304	25.2
2000-01	175,881	24.8	10,228	1.4	186,110	26.3
2001-02	178,210	23.5	12,278	1.6	190,488	25.1
2002-03	195,203	24.3	11,720	1.5	206,923	25.7
2003-04	209,959	24.3	12,209	1.4	222,168	25.7
2004-05	229,943	24.8	12,564	1.4	242,507	26.2
2005-06	245,716	24.5	15,522	1.5	261,238	26.1
2006-07	262,511	24.0	15,900	1.5	278,411	25.5
2007-08	286,229	24.1	17,500	1.5	303,729	25.6
2008-09	278,653	22.2	20,280	1.6	298,933	23.8
2009-10	268,000	20.9	24,767	1.9	292,767	22.8
2010-11(e)	290,298	20.9	20,480	1.5	310,779	22.4
2011-12(e)	**329,247**	**22.3**	**20,714**	**1.4**	**349,961**	**23.7**
2012-13(e)	362,095	23.2	21,026	1.3	383,121	24.6
2013-14(p)	383,937	23.4	21,238	1.3	405,174	24.7
2014-15(p)	404,869	23.4	20,967	1.2	425,836	24.6

(a) Data has been revised in the 2011-12 Budget to improve accuracy and comparability through time.
(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(b)	Payments(c)	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	152,063	148,175	3,889	na	na	-353	na	na	3,536
1999-00	166,199	153,192	13,007	na	na	-2,594	na	na	10,413
2000-01	182,996	177,123	5,872	na	na	391	na	na	6,264
2001-02	187,588	188,655	-1,067	na	na	1,210	na	na	143
2002-03	204,613	197,243	7,370	27,386	26,105	1,280	na	na	8,650
2003-04	217,775	209,785	7,990	27,718	26,142	1,575	238,236	227,099	9,564
2004-05	235,984	222,407	13,577	29,621	28,071	1,550	257,946	241,577	15,128
2005-06	255,943	240,136	15,756	30,875	31,874	-999	278,254	263,445	14,758
2006-07	272,637	253,321	17,182	16,882	18,641	-1,759	285,336	267,778	15,423
2007-08	294,917	271,843	19,704	7,758	8,232	-473	300,503	277,903	19,231
2008-09	292,600	316,046	-27,079	7,987	8,960	-973	297,421	321,841	-28,052
2009-10	284,662	336,900	-54,750	8,419	9,341	-922	290,681	343,841	-55,672
2010-11(e)	303,690	349,685	-49,369	8,554	10,949	-2,395	310,478	358,869	-51,764
2011-12(e)	**342,390**	**362,078**	**-22,618**	**8,939**	**13,455**	**-4,516**	**348,936**	**373,140**	**-27,134**
2012-13(e)	378,520	372,125	3,498	na	na	na	na	na	na
2013-14(p)	395,935	389,249	3,672	na	na	na	na	na	na
2014-15(p)	415,453	406,464	5,795	na	na	na	na	na	na

(a) Data has been revised in the 2011-12 Budget to improve accuracy and comparability through time.
(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.
na Data not available.

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	152,106	146,777	3,896	27,687	26,088	-816	175,891	168,963	3,080
1999-00	167,304	155,452	11,922	25,485	23,542	1,062	188,841	173,889	12,983
2000-01	186,110	180,028	6,074	25,869	24,762	-826	207,372	200,184	5,248
2001-02	190,488	192,959	-2,854	26,638	25,341	793	212,518	213,693	-2,060
2002-03	206,923	201,298	5,338	24,339	22,916	1,975	226,135	219,129	7,314
2003-04	222,168	215,377	6,131	25,449	23,444	2,143	241,873	233,077	8,275
2004-05	242,507	229,243	12,230	26,965	25,191	1,473	263,587	248,549	13,703
2005-06	261,238	242,177	16,563	28,143	29,531	-2,442	282,597	264,923	14,121
2006-07	278,411	259,161	16,917	15,443	16,360	-1,763	290,067	271,735	15,153
2007-08	303,729	280,109	21,027	6,854	6,686	-584	309,215	285,426	20,443
2008-09	298,933	324,569	-29,700	6,998	7,576	-1,495	303,733	329,948	-31,195
2009-10	292,767	339,239	-52,906	7,288	7,297	-1,079	298,412	344,893	-53,985
2010-11(e)	310,779	350,803	-45,737	7,516	7,539	-2,437	317,010	357,057	-48,174
2011-12(e)	**349,961**	**365,817**	**-20,262**	**7,920**	**8,293**	**-4,388**	**356,006**	**372,236**	**-24,650**
2012-13(e)	383,121	380,523	3,966	na	na	na	na	na	na
2013-14(p)	405,174	398,974	3,166	na	na	na	na	na	na
2014-15(p)	425,836	414,137	8,539	na	na	na	na	na	na

(a) Data has been revised in the 2011-12 Budget to improve accuracy and comparability through time.
(b) Fiscal balance is equal to revenue less expenses less net capital investment. Net capital investment is not shown in this table.
(c) Estimates.
(p) Projections.
na Data not available.