BUDGET

2015-16

Budget Strategy and Outlook
Budget Paper No. 1
2015-16

Circulated by

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and

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For the information of honourable members
on the occasion of the Budget 2015-16

12 May 2015

ISSN 0728-7198 (print)

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A copy of this document is available on the central Budget website at:
www.budget.gov.au.

Printed by CanPrint Communications Pty Ltd.

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 2015-16, while the forward years refer to 2016-17, 2017-18 and 2018-19; 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:

-	nil
na	not applicable (unless otherwise specified)
$m	millions of dollars
$b	billions of dollars
nfp	not for publication
(e)	estimates (unless otherwise specified)
(p)	projections (unless otherwise specified)
NEC/nec	not elsewhere classified

(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 2015-16* 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

The 2015-16 Budget is focused on building jobs, growth and opportunity and providing a credible path back to surplus. It is about building on our strong foundations and taking the next steps to set Australia up for a more prosperous future.

The Australian economy is set to strengthen over coming years, as we transition from a mining investment led boom and non-mining sectors step up to drive growth. The global economic outlook is strengthening, and households and businesses are already benefiting from historically low interest rates, a lower exchange rate, and lower petrol and electricity prices.

The Government's historic free trade agreements will help unlock new trade opportunities throughout the region. Australia's biggest-ever infrastructure programme is also being rolled out across the country to improve connectivity and the productive capacity of the economy.

The $5.5 billion Jobs and Small Business Package will provide major incentives for businesses to invest, hire and grow. From Budget night until 30 June 2017, small businesses will be able to immediately deduct each and every asset valued under $20,000. In addition, from 1 July 2015, all small businesses – whether they are incorporated or not – will receive a tax cut. The package includes $375 million aimed particularly at improving opportunities for Australians to get a job and reaching out to disengaged youth.

The $4.4 billion Families Package delivers major structural reform of the child care system to make it simpler, more affordable, accessible and flexible. Better child care will make life easier for families and support parents to get jobs and stay in work.

The Budget also contains a number of measures that will improve the fairness of tax rules and benefit systems. Further strong action will be taken to ensure that companies who earn profits in Australia pay tax in Australia.

The Budget also includes $1.2 billion in new funding for defence, national security and law enforcement to keep Australians safe and secure.

The Government remains committed to returning the budget to surplus as soon as possible. Despite iron ore prices nearly halving since the last Budget and a write-down of $52 billion in tax receipts, the budget position is projected to improve each and every year over the forward estimates. The deficit will narrow from $35.1 billion (2.1 per cent of GDP) in 2015-16 to $6.9 billion in 2018-19 (0.4 per cent of GDP).

More work is required to improve the budget position over the medium term, but the 2015-16 Budget is responsible, measured and fair; and a budget for the current circumstances Australia faces.

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STATEMENT 1: BUDGET OVERVIEW

INTRODUCTION

The Australian economy is entering its 25th year of economic expansion and is forecast to strengthen over the next few years. Real GDP is forecast to grow by 2¾ per cent in 2015-16, before increasing to around trend growth of 3¼ per cent in 2016-17.

The transition from mining-led growth to broader-based growth is underway. While weaker commodity prices are having a significant impact on the nation's income and tax collections, historically low interest rates, lower oil and electricity prices and a lower exchange rate are providing support to households and businesses. The unemployment rate is forecast to peak in 2015-16 at around 6½ per cent and then decline.

The underlying cash deficit is expected to be $35.1 billion in 2015-16 (2.1 per cent of GDP), reducing to $6.9 billion (0.4 per cent of GDP) in 2018-19 (Table 1). Forecast tax receipts have been downgraded by $52 billion over the four years to 2017-18 since the 2014-15 Budget. This has been driven by a near halving of the iron ore price and persistently low wage growth. The fall in commodity prices has contributed to the largest fall in the terms of trade in over 50 years.

Table 1: Budget aggregates

	Actual	Estimates			Projections		
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Total(a)
Underlying cash balance ($b)(b)	**-48.5**	**-41.1**	**-35.1**	**-25.8**	**-14.4**	**-6.9**	**-82.3**
Per cent of GDP	-3.1	-2.6	-2.1	-1.5	-0.8	-0.4	
Fiscal balance ($b)	**-43.7**	**-39.4**	**-33.0**	**-23.4**	**-9.2**	**-3.2**	**-68.9**
Per cent of GDP	-2.8	-2.5	-2.0	-1.3	-0.5	-0.2	

(a) Total is equal to the sum of amounts from 2015-16 to 2018-19.
(b) Excludes net Future Fund earnings.

This year's Budget focuses on building a stronger economy to create jobs, growth and opportunity, while making progress in restoring Australia's fiscal position.

At the core of the Budget are a $5.5 billion Jobs and Small Business Package and a $4.4 billion Families Package, designed to boost business investment, help more Australians participate in the workforce, and drive innovation and productivity. Other priorities include improving tax and benefit system integrity, harnessing future growth through infrastructure investment, unlocking new trade opportunities, strengthening the foreign investment framework, as well as delivering on new national security commitments.

A return to an underlying cash surplus is projected to occur in 2019-20, the same year as projected in the 2014-15 MYEFO, with surpluses over the medium-term projection period. Net debt is projected to peak at 18.0 per cent of GDP in 2016-17, and fall to 7.1 per cent of GDP by 2025-26. Gross debt is projected to reach $573 billion by 2025-26.

ECONOMIC OUTLOOK

The outlook for the Australian economy remains positive. Historically low interest rates, a lower oil price and a lower exchange rate are all working together to support strengthening economic growth.

Global economic conditions are also supporting growth in the Australian economy. The recovery in the US is becoming increasingly broad-based, while lower currencies and commodity prices are supporting growth in the euro area and Japan. China will continue to make a strong contribution to global growth as authorities look to rebalance the economy towards consumption-led growth and away from investment.

The transition to broader growth in the Australian economy is underway. Exports are expanding as resource investment projects reach completion and the lower exchange rate is supporting a pick-up in services exports. Housing construction is responding positively to lower interest rates. While still constrained, household consumption growth is solid, underpinned by rising household wealth and lower petrol prices.

Non-mining business investment grew in 2014, particularly in the services sector. Despite this momentum, and supportive fundamentals, more recent data show firms are not yet committing to significant additional investment in 2015-16. A sustained recovery is now expected to occur a little later than expected in the 2014-15 Budget.

Even in the face of the adjustment underway as the resource investment boom unwinds, real GDP growth is forecast to increase from 2½ per cent in 2014-15 to 2¾ per cent in 2015-16, before increasing further to 3¼ per cent in 2016-17. The unemployment rate is still expected to peak at 6½ per cent in 2015-16 with lower forecast wage growth moderating the impact of lower forecast real GDP growth.

The most significant development since the 2014-15 Budget has been the sharp reduction in the iron ore price, with a substantial increase in global supply coinciding with an easing in steel demand from China.

The forecasts are underpinned by an iron ore price of US$48 per tonne FOB (free on board). By comparison, the spot price forecast in the 2014-15 Budget averaged US$96 per tonne FOB, which itself was well below the peak price of US$185 per tonne FOB in 2011. Inherent uncertainty around both demand and supply factors means that the price outlook is subject to considerable risk.

Lower commodity prices are flowing through to lower income growth throughout the economy, including wages. Lower wage growth is allowing firms to retain staff at a time when profit growth is modest. Lower wage growth is also helping to keep inflation contained despite the fall in the exchange rate.

As a result of the fall in commodity prices as well as subdued growth in wages, nominal GDP is expected to grow by 3¼ per cent in 2015-16 before increasing to 5½ per cent in 2016-17.

As always, forecasts are subject to uncertainty. Sustained momentum in the recoveries in the US and euro area economies could translate into stronger-than-expected growth for major trading partners, which will be a positive for Australia. But there is also the possibility that China's transition to a more sustainable growth model may not be smooth.

Table 2: Major economic parameters(a)

	Outcomes	Forecasts			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Real GDP	2.5	2 1/2	2 3/4	3 1/4	3 1/2	3 1/2
Employment	0.7	1 1/2	1 1/2	2	2	2
Unemployment rate	5.9	6 1/4	6 1/2	6 1/4	6	5 3/4
Consumer price index	3.0	1 3/4	2 1/2	2 1/2	2 1/2	2 1/2
Wage price index	2.5	2 1/2	2 1/2	2 3/4	2 3/4	3 1/4
Nominal GDP	4.0	1 1/2	3 1/4	5 1/2	5 1/4	5 1/2

(a) Year average unless otherwise stated. In 2013-14 to 2016-17, employment, the wage price index and the consumer price index are through the year growth to the June quarter. The unemployment rate is the rate for the June quarter.

Source: ABS Cat. No. 5206.0, 6202.0, 6345.0, 6401.0 and Treasury.

FISCAL STRATEGY AND OUTLOOK

The Government remains committed to the medium-term fiscal strategy of achieving budget surpluses, on average, over the course of the economic cycle — and aims to return the budget to surplus as soon as possible. This Budget continues the deliberate effort to prioritise spending towards areas that will build a stronger economy, recognising the importance of growth in contributing to fiscal sustainability.

Since the 2014-15 Budget, expected total tax receipts have been downgraded by around $14 billion in 2015-16 and $52 billion over the four years to 2017-18. That brings the downgrades in forecast tax receipts since the Pre-Election Economic and Fiscal Outlook 2013 to over $90 billion across the forward years. The rapid fall in the iron ore price has been the largest single contributor to write-downs to Government tax receipts over the past year. Lower forecasts for wage growth have also led to lower income tax collections.

Consistent with the Government's fiscal strategy, these variations in tax receipts have been allowed to flow through to the bottom line. This Budget does not seek to offset the deterioration in receipts by dramatically reducing Government spending or hiking taxes.

While the overall fiscal position is somewhat weaker than expected in last year's Budget, the underlying cash balance is projected to strengthen over the forward estimates period. In addition, the pace of consolidation averages around 0.5 per cent of GDP per annum over the forward estimates – the same pace as forecast in the Budget last year. A return to surplus is projected in 2019-20, the same year as projected in the 2014-15 MYEFO, with surpluses projected over the remainder of the medium term.

Consistent with the Government's fiscal strategy, the size of government (measured by the payments-to-GDP ratio) is set to fall over the forward estimates period from 25.9 per cent to 25.3 per cent. The average annual real growth in payments is expected to be 1.1 per cent in the four years to 2017-18, slightly higher than the comparative rate at the 2014-15 MYEFO (1.0 per cent).

The Government is maintaining a disciplined approach to its decision making. The decision not to proceed with the Paid Parental Leave Scheme, which was fully funded in the budget, has provided room for other priorities. The net impact of not proceeding with the scheme, together with all decisions in the Budget, results in a $1.6 billion improvement to the budget bottom line over the forward estimates.

Commonwealth Government Securities on issue are expected to rise to $573 billion by 2025-26 as a result of the weaker underlying cash balance and associated higher public debt interest expense accumulating over the medium term. Gross debt in 2023-24 is expected to be around $112 billion lower than the $667 billion inherited from the former Government.

Over the next decade, net debt is projected to peak at 18.0 per cent of GDP in 2016-17 before falling to 7.1 per cent of GDP by 2025-26.

The 2015 Intergenerational Report showed that structural savings measures already implemented by the Government are making a significant contribution towards achieving fiscal sustainability over the longer term.

While significant progress has been made, the task of budget repair remains ongoing and more work needs to be done in future budgets to continue to build a sustainable fiscal trajectory.

Table 3: Real growth in portfolio expenses

	Nominal expenses 2015-16 Estimates ($m)	Percentage of total expenses (%)	Real growth 2014-15 to 2018-19 (%)(c)
Agriculture	1,710	0.4	-11.7
Attorney-General's	4,298	1.0	-13.6
Communications	2,164	0.5	-14.1
Defence (a)	32,779	7.5	1.7
Education and Training	28,892	6.6	6.0
Employment	2,916	0.7	5.1
Environment	2,327	0.5	14.8
Finance	10,167	2.3	-6.8
Foreign Affairs and Trade	6,001	1.4	-15.2
Health	48,034	11.1	5.9
Immigration and Border Protection	4,784	1.1	-39.9
Industry and Science	3,473	0.8	-30.5
Infrastructure and Regional Development	4,960	1.1	-11.2
Parliament	232	0.1	-2.3
Prime Minister and Cabinet	2,380	0.5	-13.4
Social Services	144,151	33.2	15.2
Treasury (b)	49,343	11.4	-4.2
Veterans' Affairs	12,178	2.8	-12.0

(a) Excludes Department of Veterans' Affairs.
(b) Excludes General Revenue Assistance to the States and Territories and Commonwealth Debt Management interest payments.
(c) Expense Estimates for some portfolios adjusted for effects of machinery of government changes in 2014-15.

Consistent with the medium-term fiscal strategy, the Government remains fully committed to achieving a return to surplus as soon as possible.

The medium-term projections of the underlying cash balance show that while budget surpluses are anticipated from 2019-20 to 2025-26, additional policy effort will be required to achieve the Government's target surplus of 1 per cent of GDP.

BUDGET PRIORITIES

Building a Stronger Economy: Jobs, Growth and Opportunity

Jobs and Small Business Package

Small businesses are the engine room of the Australian economy, employing over 4.5 million people and accounting for approximately one-third of Australia's economic output.

Indeed, 96 per cent of Australia's businesses are small businesses. This puts small businesses at the forefront of the transition from resource-led growth toward new and emerging markets.

The Government's Economic Action Plan has focused on delivering the conditions that will support employers to create jobs and ensure that job seekers have access to the opportunities they need. This agenda includes abolishing harmful taxes, cutting red tape and boosting access to markets through free trade agreements.

Cutting red tape is particularly important for small businesses because they experience a proportionately larger regulatory burden than larger businesses. As of March 2015, the Government had announced reforms to generate more than $2.45 billion in red tape savings for businesses, individuals and community organisations.

A $5.5 billion Jobs and Small Business Package will make it easier for Australian small businesses to flourish, and for Australia's unemployed, particularly young people, to move into long term employment. Over 90 per cent or $5.0 billion of the Jobs and Small Business Package is dedicated to tax relief measures, which will encourage small businesses to invest, take on new staff and grow (Box1).

The package will also provide a further series of targeted measures to cut red tape for small businesses, and to encourage start-ups and entrepreneurship. Together, they will support higher levels of investment and employment.

The package also includes $375 million in new measures to help Australia's unemployed find jobs. There will be measures to: help employers take on unemployed job seekers; build employability, particularly for young people transitioning to work; and strengthen job seeker obligations.

Box 1: Relief for small business to drive investment

The centrepiece of the Jobs and Small Business package is a three-part tax relief package, to ensure that all Australian small businesses will be better off.

- All small businesses will receive an immediate deduction on each and every asset costing less than $20,000 bought between Budget night and 30 June 2017 ($1.75 billion).
- Small corporations will benefit from a 1.5 percentage point cut in their company tax rate ($1.45 billion).
- Unincorporated small businesses will receive a 5 per cent tax discount of up to $1,000 per annum ($1.8 billion).

The Government is working with the states and territories to consider ways to reduce the waste, duplication and second guessing between the different levels of government. A green paper with options for reform of the Federation is due to be released in the second half of 2015, ahead of a white paper in 2016.

The Tax White Paper process is also considering opportunities to deliver lower, simpler and fairer taxes and to reduce red tape associated with the tax system with a focus on small businesses.

Expanding our horizons and connectivity

The Government's record level of investment in infrastructure is supporting economic growth and prosperity by increasing productive capacity, generating jobs, and expanding business and labour market opportunities.

The Commonwealth's Infrastructure Growth Package announced in the 2014-15 Budget is rolling out to connect more people to jobs and consumers to businesses, as well as reducing travel times and improving people's quality of life. As part of this, the Government is partnering with the states and territories to unlock major increases in capital to fund infrastructure through the Asset Recycling Initiative. The first agreement under the Initiative was signed with the Australian Capital Territory in February 2015 and the second with New South Wales in March 2015.

Northern Australia is an exciting frontier of economic development and potential. The Government is establishing a new $5 billion Northern Australia Infrastructure Facility to provide concessional loans to catalyse the development of major projects in the North.

The Government is investing $255 million in a digital transformation agenda, to be led by the Digital Transformation Office, to transform the way public services are designed and delivered, making them simpler and easier to use. The *myGov* platform will be expanded to host more online services for individuals and a new online business account will be created for businesses transacting with government.

The trade and investment generated through Australia's recently completed free trade agreements with China, Japan and Korea will help strengthen the overall economy. These agreements boost our competitive position in these important markets and open up new opportunities for Australian exporters and investors.

These countries represent Australia's three largest export markets – accounting for 55 per cent of total goods and services exports in 2013-14. Collectively, the agreements will provide a significant boost to our competitiveness, and drive a new phase in ever-closer economic linkages within our region.

To build on this significant momentum, the Government is also working to conclude other key trade negotiations, such as the Trans-Pacific Partnership and a Comprehensive Economic Cooperation Agreement with India.

Supporting our farmers

The Budget will help farmers in drought by extending the Government's drought relief loan schemes and social and community support measures. It will also help farmers to improve their land by allowing from 1 July 2016 an immediate tax deduction for water facilities and fencing, and three-year depreciation for all capital expenditure on fodder storage assets.

Supporting Australian Families

More affordable, accessible and flexible childcare

The 2015 Budget delivers on the Government's commitment to support families through simpler, more affordable, accessible and flexible child care arrangements. Supporting workforce participation by parents who work, or want to work, complements efforts to improve the nation's productivity and create an even stronger economy.

The Government is responding to long-standing community frustration and simplifying child care assistance. The Government will invest an additional $3.5 billion over five years on child care assistance, including a new Child Care Subsidy (CCS) to be introduced from 1 July 2017 and a nannies trial from 1 January 2016.

Under the CCS, most of the increased fee assistance is provided to low-to-middle income families. There will be no annual cap for families with income below approximately $185,000.

The new CCS will be means-tested and based on actual fees paid. Assistance will be capped per hour to ensure the new system remains affordable and to put downward pressure on fee growth. Eligibility for assistance will be strengthened to more closely align with work, training or study undertaken.

The CCS will be complemented by the Child Care Safety Net. The safety net will provide $869 million over the next four years to better support education and development outcomes for genuinely disadvantaged families and children.

Commencing 1 January 2016, a two-year pilot programme will provide around $250 million for in-home care by approximately 4,000 nannies including for families that find it difficult to access mainstream child care services due to the nature and hours of their work.

Funding certainty for preschool

As part of its commitment to support high-quality early childhood education and care and ensure universal access for all children in the year before school, the Government will provide $843 million to extend payments to the states and territories through the National Partnership for preschool funding for a further two years until December 2017.

'No Jab, No Pay' – Vaccinating our children

From 1 January 2016, a 'No Jab, No Pay' rule will remove all immunisation exemptions, except those for medical reasons, for access to child care payments and Family Tax Benefit Part A end of year supplement. To support the new arrangements, the Government is providing a $26 million boost to the Immunise Australia programme, to encourage doctors and immunisation providers to identify and vaccinate children in their practice who are overdue.

Strengthening the health system

The Government is committed to a strong health system that provides high-quality care and treatment for all Australians.

The Government is committed to maintaining affordable, sustainable access to medicines through the Pharmaceutical Benefits Scheme (PBS) and is in the final stages of negotiations with industry on reforms to pricing and remuneration across the supply chain to underpin the future sustainability of the PBS. This Budget also provides $1.6 billion for new and amended listings on the PBS, including more effective treatments for cancer.

The Government is building on Australia's great research strengths by providing an ongoing and sustainable boost to funding for vital medical research. This Budget delivers the first distributions from the Medical Research Future Fund, with more than $400 million expected to be provided to researchers over the forward estimates, including $10 million in 2015-16.

The Medical Research Future Fund is expected to reach the target capital level of $20 billion in 2019-20.

Improving aged care

The Government is significantly reforming home care services delivered to older Australians. From 1 February 2017, funding will be allocated to the consumer based on their care needs. This will allow consumers greater choice in deciding who provides their care and increase competition among providers.

A Fairer Australia

Strengthening the integrity of the taxation system

The Government recognises the need to take decisive action to protect the fairness and integrity of the Australian tax system and ensure individuals and Australian businesses do not carry the tax burden unfairly.

Australia is continuing its international leadership in tackling multinational tax avoidance by actioning key elements of the G20/OECD Base Erosion and Profit Shifting (BEPS) recommendations: country-by-country reporting by large companies to the ATO, hybrid mismatch arrangements, treaty abuse and compulsory exchange of rulings related to preferential regimes.

In addition, a range of domestic measures will be implemented to further strengthen our defences against multinational tax avoidance. A new Multinational Anti-Avoidance Law will target multinationals that artificially structure to avoid a taxable presence in Australia. This will mean that tax will now be paid on profits from economic activities undertaken in Australia. Approximately 30 large multinational companies are suspected of diverting profits using artificial structures to avoid a taxable presence in Australia and pay little or no tax worldwide.

The Government will also apply the GST to cross-border supplies of digital products and services imported by consumers from 1 July 2017. This will help correct an anomaly in the current system and level the playing field between domestic and international businesses.

The Government is taking steps to enhance public confidence in the integrity and fairness of the domestic tax system. The Government will extend the GST Compliance Programme to support targeted and integrated compliance strategies to detect, deter and deal with unintended errors or deliberate GST fraud and evasion.

Serious financial crimes pose significant risks to Australia's financial markets, regulatory frameworks and our tax revenue base. The Government will respond to this national problem with a coordinated national solution. Relevant law enforcement and regulatory agencies will work together to tackle serious financial crime in a whole-of-Government Serious Financial Crime Taskforce.

The Government is also addressing excessive use of salary packaged 'meal entertainment' benefits in the not-for-profit sector, by introducing a new grossed-up cap of $5,000 to apply from 1 April 2016. Capping these benefits will improve the integrity of this concession for the not-for-profit sector with an estimated revenue gain of $295 million over the forward estimates. Workers in these sectors will still be eligible for generous FBT concessions.

Better targeting of the Zone Tax Offset to exclude 'fly-in-fly-out' and 'drive-in-drive-out' workers will take effect from 1 July 2015 and is estimated to have a gain to revenue of $325 million over the forward estimates period. It is estimated that around 20 per cent of all claimants do not actually live full-time in the zones and do not face the same challenges of remote living that the offset was designed to address.

Strengthening the integrity and sustainability of the welfare system

The Government is also taking steps to strengthen the integrity of the welfare system. These measures will help ensure the welfare system remains sustainable, and enable the Government to continue to provide support to vulnerable Australians.

The Government is taking action to target assistance to those most in need, improve compliance and ensure that social obligations are met. This includes an initial $60.5 million to commence upgrading the Department of Human Services' information and communications technology. The Government will also increase its capability to detect, investigate and deter suspected welfare fraud and non-compliance which will return around $1.5 billion to the budget.

The Government will also remove double dipping in the Parental Leave Pay (PLP) scheme from 1 July 2016.

To ensure a fair pension system, where assistance is directed to those most in need, the Government will increase the assets test thresholds and taper rate for pensions from 1 January 2017. The Government will not proceed with the 2014-15 Budget measure to index pensions by consumer price index only.

Strengthening Australia's foreign investment framework

Foreign investment is integral to Australia's economy and the Government welcomes all investment that is not contrary to our national interest. Following extensive public consultation, on 2 May 2015, the Government announced a package of measures to strengthen the foreign investment framework to make sure the rules are enforced.

The reform package will ensure stronger compliance with the longstanding foreign investment rules and impose stricter penalties on those breaking the rules. There will be increased scrutiny around foreign investment in agriculture and increased transparency on the levels of foreign ownership through a comprehensive land register. The enhanced system will be funded by application fees on all foreign investment applications.

In total, these measures constitute the most significant reform to the framework in 40 years. The bulk of the reforms will commence on 1 December 2015.

Higher Education Loan Programme (HELP) debts from Australians residing overseas

The Government is making the HELP scheme fairer by recovering HELP debts from Australians residing overseas. The new arrangements will impose an obligation on Australians residing overseas to repay their HELP debt on an income-contingent basis on the same terms that apply to those residing in Australia.

Protecting Australia

The Government is investing $1.2 billion in new funding for national security in this Budget. This funding will aid our multi-pronged strategy to counter threats to Australia and Australians.

Australian military personnel are part of the international coalition leading the fight against terrorism overseas. $750 million of the new funding in the Budget is for operations in Afghanistan, Iraq and the Middle East to combat terrorism at its source and contribute to global security.

The Budget will continue to strengthen Australia's border protection. The implementation of initiatives to streamline border protection activities will be accompanied by the establishment of the Australian Border Force to keep Australians safe from terrorism and transnational organised crime.

In this Budget, there will be additional investment in information technology to enhance our intelligence agencies' capabilities and we will act to reduce the impact of extremist narratives on Australians.

The Government's improvements to Australia's national security legislation give our law enforcement and security agencies the tools they need to more effectively deter and disrupt those who wish to participate in terrorist activity.

STATEMENT 2: ECONOMIC OUTLOOK

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

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STATEMENT 2: ECONOMIC OUTLOOK

OVERVIEW

The Australian economy is entering its 25th consecutive year of growth and is forecast to strengthen further over the next few years. This is the second longest continuous period of growth of any advanced economy in the world.

Conditions globally are expected to improve somewhat over the forecast period. Growth in Australia's major trading partners is expected to outpace world GDP growth, as activity in major advanced economies rises and growth remains strong in our faster growing Asian trading partners.

The recovery in the United States is becoming increasingly broad-based and will provide support for world growth more broadly. Growth in China will continue to make a strong contribution to global output as authorities look to rebalance the economy towards consumption-led drivers of growth. In India, growth has accelerated and is expected to exceed growth in all other major economies.

The lower exchange rate, lower oil and electricity prices and macroeconomic policy settings are all working together to underpin stronger growth in Australia.

Dwelling investment continues to grow strongly and household consumption grew at its fastest rate in almost three years in the December quarter 2014. Exports are also expanding rapidly as resource production ramps up and the lower exchange rate supports services sectors, such as tourism.

The outlook for growth remains positive even in the face of the adjustment underway as the resources investment boom unwinds. Mining investment is expected to fall by around 25 per cent in 2015-16 and 30 per cent in 2016-17. [1]

Real GDP is expected to grow by 2¾ per cent in 2015-16. This is one quarter of a percentage point slower than expected 12 months ago in the 2014-15 Budget, as a sustained recovery in non-mining business investment is taking longer than expected. However, stronger non-mining business investment is expected to drive an increase in growth to 3¼ per cent in 2016-17.

The labour market has proven more resilient than expected in recent months. Employment growth has picked up, supported by wage restraint across the economy. This has led to a downward revision to the forecast for the unemployment rate for the

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1 All data are in chain volume measures and percentage change on previous year unless otherwise stated.

June quarter 2015 to 6¼ per cent. This is in the face of an improvement in the participation rate which is now expected to be 64¾ per cent in the June quarter 2015.

Going forward, the unemployment rate is expected to edge a little higher in 2015-16 before falling in 2016-17. The participation rate is forecast to be slightly higher than it was in the 2014-15 Budget as improved job prospects encourage additional people back into the workforce.

Iron ore and metallurgical coal prices have fallen sharply as a substantial increase in global supply coincides with some easing in steel demand from China. The forecasts are underpinned by an iron ore price of US$48 per tonne FOB (free on board). By comparison, the spot price forecast in the 2014-15 Budget averaged US$96 per tonne FOB, which itself was well below the peak price of US$185 per tonne FOB in 2011.

The fall in commodity prices has had a significant impact on both business profits and wages with material implications for nominal GDP.

As a result, nominal GDP is now expected to grow by 3¼ per cent in 2015-16 before picking-up to 5½ per cent in 2016-17. This has driven a substantial downgrade to government taxation receipts of $52 billion since the 2014-15 Budget (see Budget Statement 4).

Momentum in the recovery in the US, Japan and euro area and stronger growth in India will support stronger global growth. While risks have somewhat abated for the global economic outlook, risks remain, notably with China's transition to a more sustainable growth model.

In Australia, the pace and timing of the pick-up in economic growth is subject to some uncertainty. A lower exchange rate, historically low interest rates and lower oil prices should stimulate faster growth in household spending and business investment than forecast. However, there remain some risks. The headwinds from the reduction in mining investment are significant and it is also possible that the pick-up in non-mining investment may not be as strong as expected. There is also a risk that momentum in consumer spending could dissipate.

Table 1: Domestic economy forecasts[(a)]

	Outcomes(b)	Forecasts		
	2013-14	2014-15	2015-16	2016-17
Real gross domestic product	**2.5**	**2 1/2**	**2 3/4**	**3 1/4**
Household consumption	2.2	2 3/4	3	3 1/4
Dwelling investment	5.1	6 1/2	6 1/2	4 1/2
Total business investment(c)	-5.1	-5 1/2	-7	-3 1/2
By industry				
Mining investment	-7.0	-15 1/2	-25 1/2	-30 1/2
Non-mining investment	-3.7	2	4	7 1/2
Private final demand(c)	0.9	1 1/4	1 1/4	2 1/4
Public final demand(c)	1.6	1 1/4	1 1/2	1 1/2
Change in inventories(d)	-0.3	0	0	0
Gross national expenditure	0.7	1 1/4	1 1/2	2 1/4
Exports of goods and services	5.8	6 1/2	5	6 1/2
Imports of goods and services	-1.9	-3	-1 1/2	2 1/2
Net exports(d)	1.6	2	1 1/4	1
Nominal gross domestic product	4.0	1 1/2	3 1/4	5 1/2
Prices and wages				
Consumer price index(e)	3.0	1 3/4	2 1/2	2 1/2
Wage price index(f)	2.5	2 1/2	2 1/2	2 3/4
GDP deflator	1.5	-1	1/2	2 1/4
Labour market				
Participation rate (per cent)(g)	64.6	64 3/4	64 3/4	64 3/4
Employment(f)	0.7	1 1/2	1 1/2	2
Unemployment rate (per cent)(g)	5.9	6 1/4	6 1/2	6 1/4
Balance of payments				
Terms of trade(h)	-3.7	-12 1/4	-8 1/2	3/4
Current account balance (per cent of GDP)	-3.1	-3	-3 1/2	-2 3/4

(a) Percentage change on preceding year unless otherwise indicated.
(b) Calculated using original data unless otherwise indicated.
(c) Excluding second-hand asset sales from the public sector to the private sector.
(d) Percentage point contribution to growth in GDP.
(e) Through-the-year growth rate to the June quarter.
(f) Seasonally adjusted, through-the-year growth rate to the June quarter.
(g) Seasonally adjusted rate for the June quarter.
(h) The forecasts are underpinned by spot prices of $48 ($US/t, FOB) for iron ore; $90 ($US/t, FOB) for metallurgical coal and $60 ($US/t, FOB) for thermal coal.

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 64 and a $US exchange rate of around 77 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$64 per barrel.
Source: ABS cat. no. 5204.0, 5206.0, 5302.0, 6202.0, 6345.0, 6401.0, unpublished ABS data and Treasury.

OUTLOOK FOR THE INTERNATIONAL ECONOMY

Global economic conditions have continued to improve and are expected to strengthen somewhat over the forecast period. Australia's major trading partner growth is expected to outpace world growth. This reflects both the improved outlook in advanced economies and the increasing importance of our faster growing Asian partners. It also highlights the opportunity available to Australian businesses and consumers with the world's engine room of growth being in Asia.

Lower oil prices are a net positive for global growth, while central banks in the major advanced economies maintain supportive monetary policy settings. Compared with a year ago, a number of downside risks have abated.

Australia's major trading partners are expected to grow by 4½ per cent in 2015 and 2016. Reflecting the ongoing move to a more sustainable growth rate within the Chinese economy, major trading partner growth is expected to ease a little to 4¼ per cent in 2017.

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

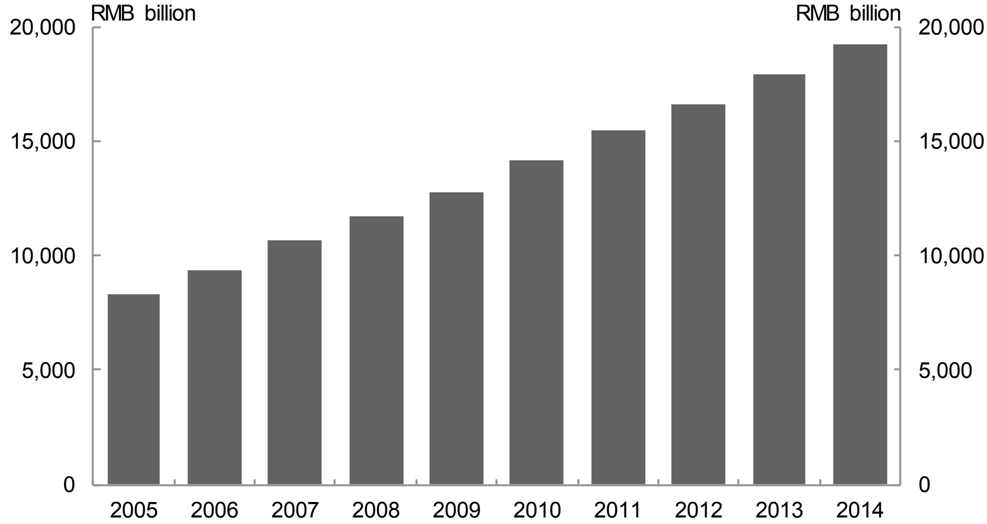
	Actuals	Forecasts		
	2014	2015	2016	2017
China	7.4	6 3/4	6 1/2	6 1/4
India	7.2	7 1/2	7 1/2	7 1/2
Japan	0.0	1	1	1/2
United States	2.4	3 1/4	3 1/4	3
Euro area	0.9	1 3/4	1 3/4	1 3/4
Other East Asia(b)	4.1	4 3/4	4 3/4	5
Major trading partners	4.2	4 1/2	4 1/2	4 1/4
World	3.4	3 1/2	3 3/4	3 3/4

(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) 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 2015, Thomson Reuters and Treasury.

A period of extraordinary growth rates has made **China** one of the largest economies in the world. The Chinese economy is now more than double the size that it was a decade ago (Chart 1).

The growth rate is now moderating to a more sustainable pace. Authorities are navigating the dual challenges of transitioning the economy to a more balanced growth model and managing a significant downturn in the property sector. In response to concerns about the pace of the slowdown, monetary policy has been eased and other pro-growth measures have been introduced in China. Alongside increased infrastructure investment, these measures are expected to support growth.

Chart 1: Chinese real GDP



Note: 1990 prices.
Source: IMF April 2015 World Economic Outlook.

Looking forward, solid and sustained growth in China will be underpinned by the transition to a pattern of growth that is more reliant on consumption. A broader-based model of growth will enhance the resilience of the Chinese economy as the market plays a more decisive role and institutional settings are reformed. This will also strengthen the economy as it faces long-term challenges, including an ageing population. A key risk, however, is that China's transition to a more sustainable growth model may not be smooth, presenting changing demand patterns for Australian exports.

Despite the recent impact on commodity prices, China's transition provides opportunities for Australia's economy. China's middle class is projected to increase from around 12 per cent of the population in 2009 to around 70 per cent by 2030.[2] Combined with the economy's shift towards consumption-led growth this will provide significant new markets for our services exports. In 2009, there were 356,400 Chinese visitor arrivals into Australia. By 2013-14 there were over 760,000 Chinese visitor arrivals to Australia, spending around $6.5 billion or $8,600 per visitor.

India is expected to be the fastest growing major economy in the world in 2015. Growth is forecast to be 7½ per cent in 2015, 2016 and 2017. India's improved prospects reflect the Indian Government's economic reform agenda (Box 1). In addition, ongoing low energy prices have reduced businesses' operating costs and

2 Kharas and Gertz (2010).

Box 1: India's growing potential as a trading partner

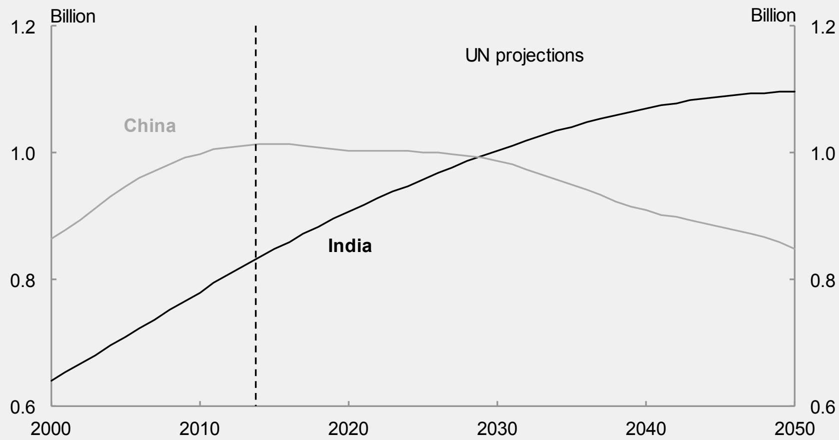
India has the potential to become a major trading partner for Australia. At more than 1.2 billion people, it is the second most populous country, with the third largest economy on a PPP basis. India is expected to overtake China as the world's most populous country by 2030, with the working age population expected to reach around 1 billion by 2030 (Chart A).

Following moderate economic activity in recent years, Indian growth has accelerated and is expected to outpace all other major economies in 2015, exceeding that of China for the first time in over a decade. Growth is being led by strong gains in the manufacturing, service and utilities sectors.

The economic outlook for India has been bolstered by policy reforms including a proposed staged reduction in the rate of company tax, measures to make doing business easier and more predictable, and a commitment to stable macroeconomic policy settings. Increased infrastructure expenditure (including the equivalent of $4 billion for a new National Infrastructure and Investment Fund) and lower energy prices have also enhanced India's growth prospects.

Australian exports to India were worth $10.5 billion in 2013-14, with commodities (primarily energy) and education services contributing a large share. India and Australia are currently negotiating a Comprehensive Economic Cooperation Agreement, with India being only our twelfth largest trading partner. With trade worth only one-tenth of our trade with China there is scope to further broaden trade and investment linkages with India.

Chart A: India and China working age population (15-64)



Source: UN Population Statistics.

benefited private consumers. They have also contributed to lower-than-expected inflation, enabling authorities to ease monetary policy to support growth. If stronger growth is sustained, India could become a much more important trading partner for Australia and the region, which is why the Government is prioritising the negotiation of a Comprehensive Economic Cooperation Agreement with India.

The **United States** economy is poised to strengthen over the forecast period and provide an impetus to world growth. Low oil prices are contributing to increased household disposable income and, coupled with a strengthening labour market, are supporting private consumption. Along with the pick-up in domestic demand, business investment is also robust. The recent loss of momentum reflects temporary weather-related factors, which are now dissipating, and the strength of the US dollar weighing on exports.

The United States is expected to grow at 3¼ per cent in 2015 and 2016 — above its trend growth. Consistent with the strengthening outlook, the US Federal Reserve expects to start normalising monetary policy settings and raising interest rates in the second half of 2015. The pace and timing of rate increases may result in bouts of financial market volatility. Growth is expected to moderate a little to 3 per cent in 2017.

On the back of the stronger outlook, the US dollar continues to appreciate. This strengthening of the US dollar has contributed to a depreciation of the Australian dollar, having positive flow-on impacts for our economy.

Expectations of a **euro area** recovery are stronger than they were at 2014-15 Budget, reflecting a weaker euro and lower commodity prices providing a much needed boost to growth. Given the significant policy impulse to growth, we expect euro area growth to strengthen to 1¾ per cent over the forecast horizon. The recent decline in the euro is expected to raise inflation via higher import prices and support growth by boosting exports.

Nevertheless, recent developments with regard to Greece highlight the continued structural challenges faced by the euro area. Fiscal and structural reforms remain crucial to ensure a sustained recovery.

Economic growth in **Japan** is also expected to strengthen to 1 per cent in both 2015 and 2016. While activity has been weaker than expected following the increase of the consumption tax rate in April 2014, December quarter 2014 GDP suggests that activity has turned the corner. This improved outlook is underpinned by accommodative monetary and fiscal policy settings, coupled with the depreciation of the yen and lower oil prices. Over the medium to longer term Japan continues to face structural challenges and the ongoing success of the 'Abenomics' reform package will be critical in boosting growth.

Economic growth for the **ASEAN 5 economies** is expected to accelerate, reflecting falls in commodity prices and improved growth prospects of their trading partners.

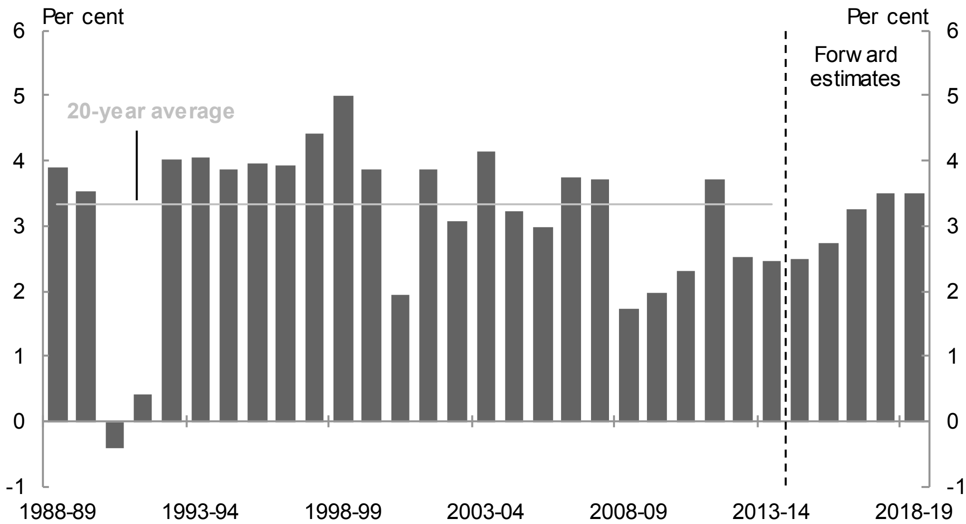
OUTLOOK FOR THE DOMESTIC ECONOMY

Outlook for Real GDP growth

The outlook for the Australian economy remains positive. It is one of the fastest growing economies in the advanced world. The fundamentals are solid with a lower exchange rate, lower petrol and electricity prices, rising household wealth and macroeconomic policy settings working together.

The Australian economy is weathering one of the largest falls in commodity prices in its history, and is still expected to grow by 2¾ per cent in 2015-16 before increasing further to 3¼ per cent in 2016-17 (Chart 2). The transition to broader-based growth is well underway. Household consumption, dwelling investment and exports are all lifting. On the other hand, a sustained recovery in non-mining business investment is taking longer than expected.

Chart 2: Real GDP growth



Source: ABS cat. no. 5206.0 and Treasury.

Fundamentals are underpinning this transition to broader-based growth. Interest rates are at historic lows with the official cash rate reduced by 275 basis points since the peak in the terms of trade in the September quarter 2011. However, they remain above near zero interest rates in most of the major advanced economies, consistent with the relative strength of the Australian economy (Table 3). This is in contrast to the Reserve Bank of Australia's emergency response to the global financial crisis, when Australia's official cash rate was reduced by 425 basis points over a period of 8 months to avoid Australia following other major advanced economies into recession.

Table 3: Global interest rates

	Policy rate
Australia	2.00
United States	0.13
Canada	0.75
Switzerland	-0.75
United Kingdom	0.50
Sweden	-0.25
Euro area	0.05
Japan	0.10

Note: Switzerland policy rate is the midpoint of the 3-month LIBOR target band.
Source: Central Banks and Bloomberg.

The Australian dollar has declined since September last year, providing support for export-oriented and import-competing firms. Oil prices have also fallen since the 2014-15 Budget, boosting households' spending power and reducing costs for businesses. Electricity prices are down on average 3.9 per cent compared with one year ago, after a record fall of 5.1 per cent in the September quarter 2014 following the abolition of the carbon tax.

Low interest rates are supporting households

Low interest rates are supporting the Australian economy's transition to broader-based growth at a time when household demand is strengthening. The dwellings sector has contributed strongly to recent growth. Housing construction is responding positively to accommodative monetary policy, strong growth in house prices as well as solid population growth. A significant pipeline of approvals suggests that the upswing in **dwelling investment** still has some way to run and growth is forecast to be 6½ per cent in 2015-16 and 4½ per cent in 2016-17.

Buoyant conditions in the housing market are also supporting **household consumption,** increasing both household wealth and spending on household furnishings. Weaker oil prices have also improved household budgets with recent retail fuel prices down by over 14 per cent or 22 cents per litre since the 2014-15 Budget. These factors, along with rising equity prices and lower electricity prices, helped household consumption to grow at its fastest rate in nearly three years in the December quarter 2014.

Household consumption has also been supported by a modest fall in the household saving ratio. Savings rose strongly during the period of rapid household income growth that accompanied the terms of trade boom and following the financial crisis. There are signs that households are now smoothing their consumption as the terms of trade decline. The household saving ratio is forecast to continue to fall but only by a modest amount, and is expected to remain well above pre-crisis lows.

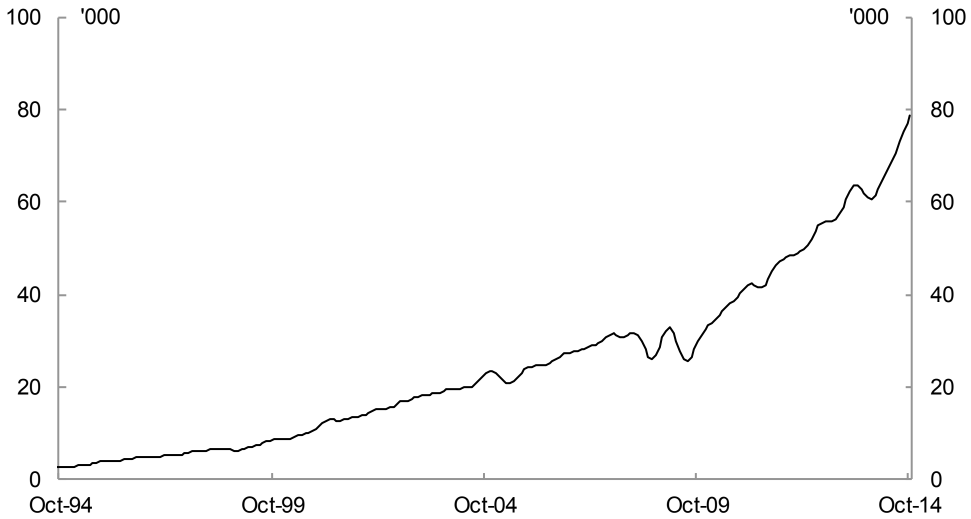
Household consumption is forecast to rise by 3 per cent in 2015-16 and 3¼ per cent in 2016-17. The extent to which the household saving ratio will fall to support consumption growth is a key risk surrounding this outlook.

A lower exchange rate is making Australian businesses more competitive

As commodity prices have fallen sharply, the exchange rate has also started to fall (see Box 2). The fall in the exchange rate combined with subdued wage growth will facilitate the economy's adjustment to the fall in commodity prices and is encouraging export growth in sectors such as tourism and education.

Growth in our region is also expected to support tourism. Tourists from China accounted for over one quarter of the growth in travel services spending in 2013-14. There were over 760,000 Chinese visitor arrivals in that year alone spending around $6.5 billion or $8,600 per visitor, providing support for businesses in sectors such as retail and accommodation and food services (Chart 3).

Chart 3: China overseas visitor arrivals (persons monthly)



Source: ABS cat no. 3401.0.

Total **exports** are expected to increase by 5 per cent in 2015-16 and 6½ per cent in 2016-17. Exports of non-rural commodities continue to grow strongly as the investment phase of the mining boom nears completion and production increases. The volume of iron ore exports has doubled over the past 5 years and is expected to increase by a further 8 per cent by the end of 2016-17 as mine expansions already underway are completed (Chart 4).

Significant investments in LNG are still under development and will make a strong contribution to export growth in coming years. Exports of LNG are set to nearly double over the forecast period as major projects in Western Australia, Queensland and the Northern Territory enter into their production phases. By the end of the decade, Australia is set to overtake Qatar as the largest exporter of LNG in the world.

Box 2: The export benefits of a lower exchange rate

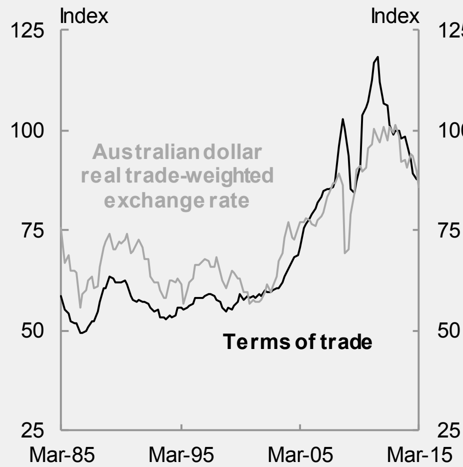
The exchange rate depreciation is providing opportunities for export growth in industries that struggled under the weight of the high Australian dollar during the resources boom. Services and manufacturing exports are, in particular, forecast to increase at a solid rate over the next couple of years (Chart A).

Chart A: Service and Manufactured Export Volumes

Note: 2012-13 prices; forecast period is from March 2015 to June 2017.
Source: ABS cat. no. 5302.0 and Treasury.

Australia's real exchange rate appreciated by around 30 per cent during the terms of trade boom, and has subsequently depreciated by 13 per cent since the peak in the terms of trade in September quarter 2011 (Chart B).[3] The exchange rate has played an important role in smoothing the adjustment of the real economy to the terms of trade shock and keeping inflation contained.

Chart B: Exchange Rate and Terms of Trade



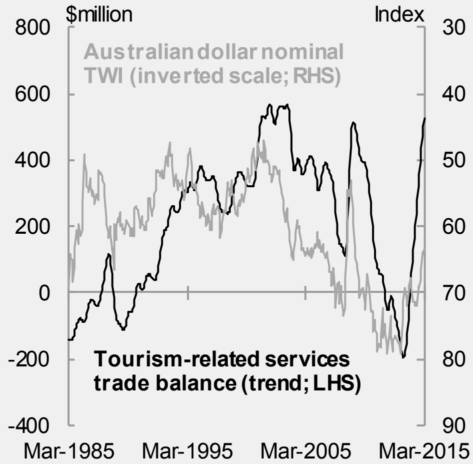
Note: Index 2012-13 average = 100.
Source: ABS cat. no. 5206.0 and RBA.

One industry that is already benefiting from a lower dollar is tourism. Real travel expenditure by international visitors to Australia has increased by 11 per cent since the start of 2012, whereas real travel expenditure by Australian residents travelling abroad has decreased by 11 per cent. Overall, this has contributed to a sharp improvement in the trade balance of tourism-related services (Chart C). The recent strength in travel service exports has been broad-based across all states and territories.

The depreciation of the exchange rate is also expected to boost manufactured exports. Australia's manufacturing sector has been facing increased competition from lower cost producers in Asia for some time now.

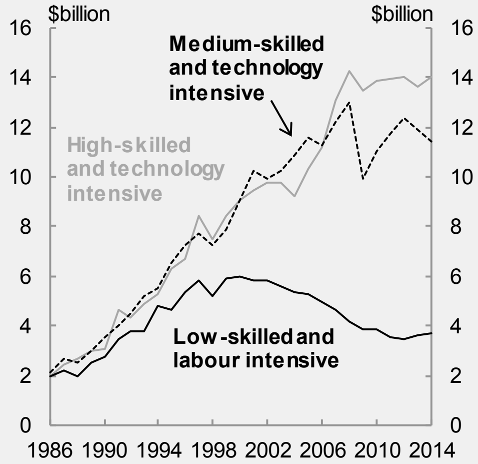
3 The real exchange rate adjusts nominal exchange rates for differences in relative price levels across countries.

Chart C: Tourism-related services trade balance



Note: Tourism-related services include travel services and passenger transportation services; exchange rate index March 1970 = 100.
Sources: ABS cat. no. 5368.0 and RBA.

Chart D: Manufacturing export volumes



Note: 2012-13 prices; manufacturing classifications are based on UNCTADstat definitions; excludes food, beverage, iron and steel manufacturing exports.
Sources: ABS cat. no. 5302.0, Treasury and UNCTADstat.

Even during this period of strong competition and the high Australian dollar, some manufacturing industry sectors performed relatively well, namely producers of medium-to-high skilled and technology-intensive goods such as pharmaceuticals, professional and scientific equipment, and machinery and transport equipment (Chart D). The depreciation of the exchange rate and a recovery in global demand should support growth in these industries.

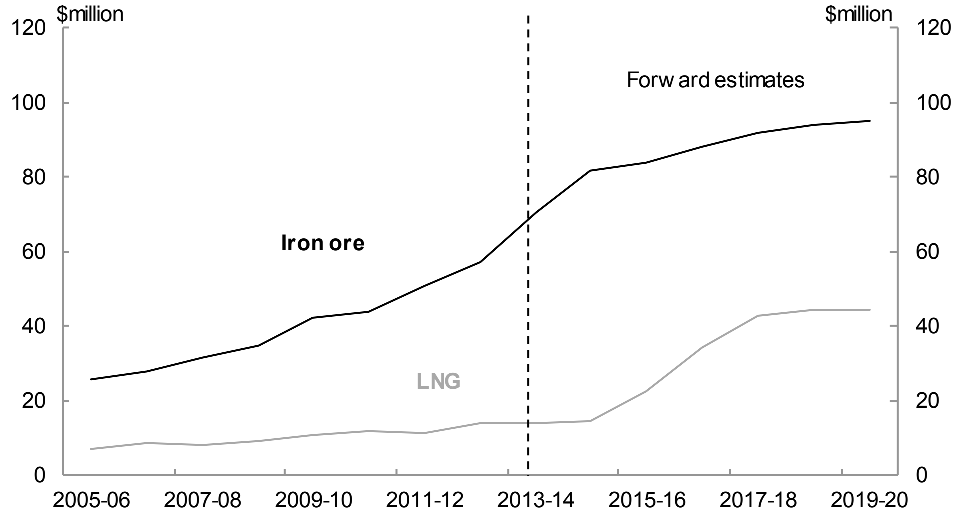
Recent domestic policy changes and the expanding middle class in Asia will also reinforce the benefit of the lower Australian dollar for other exports such as rural goods and education services.

Education exports will be boosted by changes to student visa policy arrangements. The Department of Immigration and Border Protection is forecasting net international student migration to increase from 88,200 in 2014 to 139,300 in 2017-18, following the introduction of new visa streamlining measures and post-study work arrangements.

Free Trade Agreements with Korea, Japan and China will also improve Australia's competitiveness across a range of agricultural exports. Australian services exporters will also gain improved access to Chinese markets, for example, for financial, legal, education and tourism services.

Following strong growth in recent years, rural exports are expected to moderate in 2015-16. Wheat exports are expected to fall after record highs in crop production over the past two years which were underpinned by favourable weather conditions. Beef exports are also expected to be lower, in part due to farmers rebuilding their herds following past drought conditions.

Chart 4: Export volumes



Note: 2012-13 prices.
Source: Department of Industry.

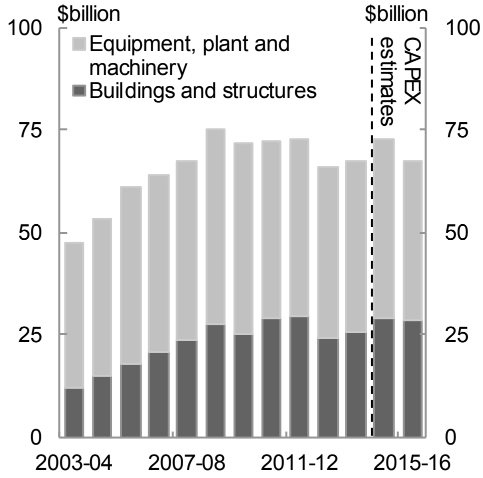
The transition underway in the economy is also having an impact on **imports**. The fall in the Australian dollar is expected to encourage consumers and businesses to switch from imported goods and services to domestically produced ones. The end of the investment phase of the resources boom will also lead to a reduction in capital imports in coming years. Imports are forecast to fall by 1½ per cent in 2015-16 but grow by 2½ per cent in 2016-17 as GDP growth returns to trend.

Investment is still rebalancing from mining to non-mining

The most significant revision to real GDP growth in 2015-16 since the 2014-15 Budget is **business investment**. Non-mining business investment grew solidly in 2014, particularly in the services sector. Despite this, business liaison, the latest ABS Private New Capital Expenditure and Expected Expenditure (CAPEX) and non-residential building approvals data all suggest that firms in the non-mining sectors of the economy are yet to commit to significant additional investment in 2015-16 (Chart 5).

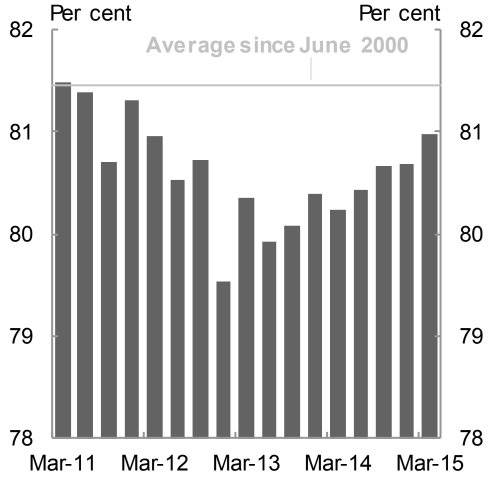
However, conditions are expected to support a lift in non-mining business investment. Healthy corporate balance sheets along with the lower interest rates, the lower Australian dollar and lower fuel costs should encourage investment plans going forward as firms rebuild and modernise their capital stocks. Reflecting this, real non-mining business investment is expected to grow by 4 per cent in 2015-16 and strengthen further to 7½ per cent in 2016-17.

Chart 5: Nominal non-mining CAPEX



Note: Estimates for 2014-15 and 2015-16 are based on survey respondents' expectations and have been adjusted using long-run realisation ratios.
Source: ABS cat. no. 5625.0 and Treasury.

Chart 6: Non-mining capacity utilisation



Source: NAB.

The pace and timing of the recovery in non-mining business investment remains a major source of uncertainty. Bearing that in mind, the Budget forecasts suggest that household and overseas demand will encourage a lift in business confidence and investment, and recognise that the CAPEX survey is a less reliable guide of investment in the non-mining economy.

It is possible that conditions could improve more rapidly than expected if households increase their spending more rapidly, with businesses responding by ramping up investment. With interest rates at historic lows and rising capacity utilisation, there is some upside risk to the forecasts, particularly in 2016-17, if a stronger bounce-back were to materialise (Chart 6). However, if demand and confidence fail to lift, there is a risk that the recovery in non-mining business investment could be further delayed.

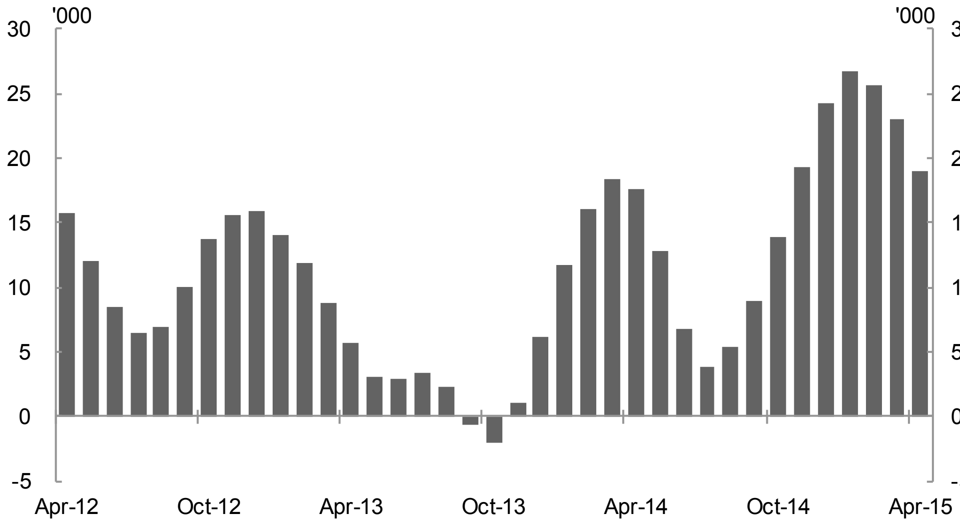
Mining investment is expected to decline further as current projects are completed and few new projects are commissioned. Resources companies are also continuing with their productivity drives to use their capital more efficiently which along with a decline in exploration expenditure is expected to weigh further on mining investment. Mining investment is forecast to fall by 25½ per cent in 2015-16 and 30½ per cent in 2016-17, detracting around 4 percentage points from GDP growth over the three years to 2016-17.

Public final demand, which captures the direct economic impact of consumption and investment across all levels of government, is forecast to grow modestly as governments remain focused on budget consolidation. As a result, public final demand is forecast to rise by 1½ per cent in both 2015-16 and 2016-17.

Employment is growing steadily

As the economy has continued to transition to broader-based growth, the **labour market** has been resilient. Since the 2014-15 Budget, employment growth has picked up to 1.5 per cent. The unemployment rate has remained steady at around 6.2 per cent since the middle of last year. The sectors experiencing the largest employment growth over the past year include professional, scientific and technical services, construction and accommodation and food services.

Chart 7: Trend employment growth



Source: ABS cat. no. 6202.0 and Treasury.

Looking forward, indicators such as job advertisements, vacancies and business survey measures of hiring intentions suggest continued growth in employment. The forecast below-trend GDP growth means that the **unemployment rate** is still expected to drift up to 6½ per cent in 2015-16. With the economy forecast to strengthen further in 2016-17, the unemployment rate is expected to fall to 6¼ per cent.

The **participation rate** is expected to remain close to recent levels over the forecast period and the outlook has improved compared with the 2014-15 Budget. The improvement in labour market conditions should encourage some job seekers back to the labour force to resume their search for work but this will be somewhat offset by the ongoing effect of population ageing.

Wage flexibility has been key to supporting employment during a period where the economy has been growing a little below trend. Wage growth has been constrained by spare capacity in the labour market as the economy transitions to the less labour intensive production phase of the resources boom.

The Wage Price Index (WPI) grew by 2.5 per cent over 2014. Wage growth has been subdued in both the public and private sectors as governments across the country focus on expenditure restraint and businesses look to reduce costs. Within the private sector, wage growth has contracted most markedly in mining, retail trade and administrative services.

Income growth is expected to remain modest, consistent with falls in the terms of trade. Accordingly, the WPI is forecast to remain constrained, growing by 2½ per cent through-the-year to the June quarter 2015 and 2¾ per cent through-the-year to the June quarter 2016.

Consumer prices have grown by 1.3 per cent over the past year, as the removal of the carbon tax, low oil prices and modest domestic activity have kept price growth well contained. In the forecast period, forces are pulling the consumer price index (CPI) in two directions. While wage growth is moderate, the fall in the exchange rate and the increase in the tobacco excise are forecast to contribute to the CPI. Overall, CPI inflation is expected to remain around the middle of the Reserve Bank of Australia's target band at 2½ per cent through the year to the June quarter 2015 and 2016.

Outlook for nominal GDP

While real GDP has been downgraded only modestly compared with the 2014-15 Budget, there has been a more substantial downgrade to **nominal GDP** in line with weakening commodity prices and subdued growth in wages. Since the 2014-15 Budget, nominal GDP growth has been revised down by one and a half percentage points in 2015-16 to 3¼ per cent before increasing to 5½ per cent in 2016-17. This will weigh significantly on government taxation receipts with a $52 billion downgrade compared with the 2014-15 Budget (see Budget Statement 4).

Bulk commodity prices have continued to fall sharply in US dollar terms. Iron ore prices have nearly halved since the 2014-15 Budget and metallurgical coal prices have fallen by nearly a third. The lower Australian dollar has cushioned some of the fall but even in Australian dollar terms, the decline is still significant.

In part, these falls reflect a fall in costs of commodity producers expressed in US dollar terms as their currencies have fallen against the US dollar. But there are also fundamental factors at play with the global supply of major commodities accelerating at a brisk pace at the same time as resource demand in China has been weakening.

The inherent uncertainty around both supply and demand factors means the iron ore price outlook, particularly over the short run, is subject to considerable risk (Box 3).

Experience shows that prices can move sharply in short periods of time, often at odds with broader market expectations. Recognising the significant recent volatility, the bulk commodity prices used to underpin the forecasts have been based on a recent average. The prices used are US$48 per tonne FOB for iron ore (equivalent to US$53 per tonne cost and freight (CFR)), US$90 per tonne FOB for metallurgical coal and US$60 per tonne FOB for thermal coal.

The impact of iron ore prices being US$10 per tonne lower/higher, based on the sensitivity analysis presented in Budget Statement 7, is set out in Table 4. A US$10 per tonne reduction/increase in the iron ore price results in just over a 3 per cent fall/rise in the terms of trade and a 0.8 per cent reduction in nominal GDP in 2015-16. These illustrative impacts differ from the ones presented in the Mid-Year Economic and Fiscal Outlook due to movements in the exchange rate and timing issues.

Table 4: Sensitivity Analysis of Iron Price Movements[(a)]

	US$38/tonne FOB[(b)] spot price		US$58/tonne FOB spot price	
	2015-16	2016-17	2015-16	2016-17
Nominal GDP ($billion)	-9.8	-13.4	9.8	13.4
Tax Receipts ($billion)	-2.1	-4.4	2.1	4.4

(a) Key aggregates are shown relative to the 2015-16 Budget iron ore spot price forecast of US$48/tonne and based on an exchange rate assumption of 77 US cents.
(b) FOB is the free-on-board price which excludes freight costs.
Source: Treasury.

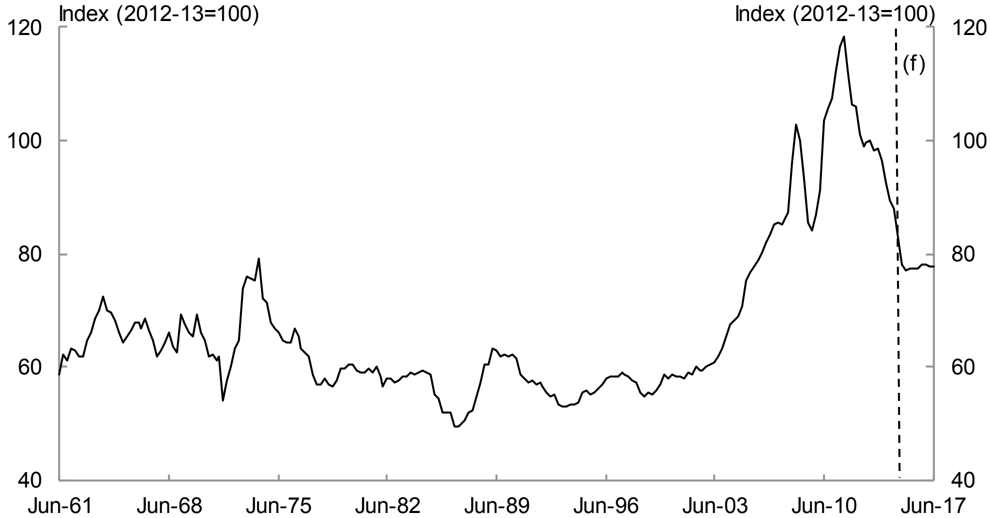
The actual impact of different assumptions about iron ore prices on nominal GDP will depend on movements in the exchange rate, changes in the Australian dollar price actually received by exporters, production decisions by companies and responses in other parts of the economy.

The prices outlook for rural goods is mixed although the depreciation in the Australian dollar will support rural producers. World wheat prices are expected to fall in 2015-16 as production recovers in the US and other wheat producing regions. Beef prices are forecast to increase in 2015-16 as strong export demand continues and herds rebuild along with improved seasonal conditions.

Overall, commodity prices are weighing on the **terms of trade** which are forecast to fall by 8½ per cent in 2015-16. A modest recovery in some commodity prices and the waning impact of the depreciation of the dollar on imports is forecast to see the terms of trade remain broadly flat in 2016-17 (Chart 8).

Lower commodity prices reduce nominal GDP through more than just weaker export prices and mining profits. Miners have responded to the new price environment by cutting costs and wage and profit growth has also softened in sectors such as construction and business services that support mining activity.

Chart 8: Terms of trade



Source: ABS cat no. 5206.0 and Treasury.

More broadly, wage flexibility is playing an important role in facilitating adjustments in the labour market. Slower wage growth is allowing firms to retain staff at a time when profit growth is modest and will encourage them to employ additional workers as demand increases, but is dragging on nominal GDP growth.

Box 3: Iron ore market developments

The iron ore spot price has nearly halved over the past year (Chart A).

The price fell as low as US$43 per tonne FOB at the start of April, but has partially recovered in recent weeks with signs that some major iron ore producers may delay elements of their expansion plans.

Chart A: Recent spot price developments

Source: Platts.

The Chinese economy now consumes about 80 per cent of Australia's iron ore exports and the cut in production by Chinese steelmakers in early 2015 was a key factor behind the price declines.

China's construction sector, which accounts for two-thirds of China's steel usage, has remained weak in early 2015, curbing steelmakers' production plans.

Further growth in low-cost supply has also continued to weigh on prices. In 2014, increased Chinese iron ore imports from Australia and Brazil (worth a combined 150 million tonnes) more than offset falls in Chinese domestic production and imports from non-major suppliers.

Despite the fall in prices over the past year, expansion of low-cost supply is set to continue for some time.

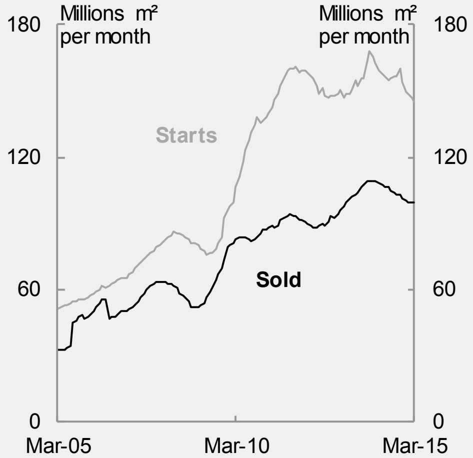
In 2015, Australia is expected to lead the way, adding another 50 million tonnes of exports.

The continued ramp-up in 2015 will see Australia confirm its position as the single largest supplier globally, with the 770 million tonnes of Australian exports accounting for around a third of global production.

Brazil is still expected to add up to 90 million tonnes of new low-cost capacity, although most of this is not expected to begin to come on line until the middle of 2016.

On the demand side, the continued weakness in China's housing sector is expected to weigh on China's demand for iron ore in the near term. This reflects the substantial stock of unsold housing that has built up over recent years, as housing starts have consistently outstripped sales (Chart B).

Chart B: Chinese property supply



Note: 12 month moving average reported.
Source: CEIC China Database and Treasury.

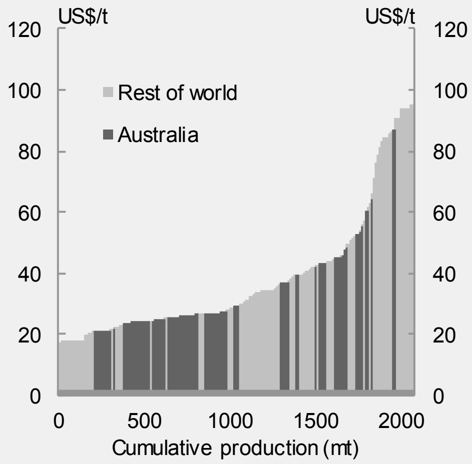
That said, macroeconomic policy easing such as the recent 100 basis point cut to the reserve ratio requirement could help support demand for steel in other parts of the Chinese economy, such as infrastructure, as could other potential policy measures targeted at supporting the steel industry.

Meanwhile, demand from other economies including Japan (which accounts for 11 per cent of Australian exports) and Korea (which accounts for 7 per cent) will also help to underpin Australian exports going forward.

As its economy continues to industrialise, India also has the potential to become a major destination for Australian iron ore and coal exports.

While iron ore prices are not expected to rise to levels that were seen during the peak of the commodities cycle, Australia's iron ore industry is generally well positioned as one of the low cost global producers (Chart C).

Chart C: 2015 Iron ore cost curve



Note: Estimated 2015 iron ore cost curves FOB basis.
Source: AME Group.

There are a number of key uncertainties. These include the future path of Chinese steel output, the potential for further reductions in mine operating costs and the possibility that companies may alter production plans.

Medium–term projections

The fiscal aggregates in the Budget are underpinned by economic forecasts for the budget year and the subsequent financial year, and by projections for the following two financial years. These projections are not forecasts, but rather are based on a set of medium-term assumptions.

The medium-term projection methodology assumes that spare capacity in the economy is absorbed over five years following the two year forecast period. As this occurs, labour market variables, including employment and the participation rate, converge to their long-run trend levels. To absorb the spare capacity in the economy, from 2017-18, real GDP is projected to grow above trend, at 3½ per cent, over the five years from 2017-18 to 2021-22. By then, spare capacity is absorbed and real GDP grows at trend thereafter.

Trend GDP is estimated based on analysis of underlying trends for population, productivity and participation. The unemployment rate is projected to converge back to 5 per cent over the medium term consistent with Treasury's estimate of the non-accelerating inflation rate of unemployment (NAIRU). Inflation is projected to be 2½ per cent, consistent with the Reserve Bank of Australia's medium-term target band. The terms of trade is projected to remain flat at around its 2005-06 level from 2019-20.

STATEMENT 3: FISCAL STRATEGY AND OUTLOOK

This Budget is focused on building jobs, growth and opportunity, while making progress in restoring Australia to a sustainable fiscal position.

The Government is committed to its medium-term fiscal strategy of returning the budget to surplus, maintaining strong fiscal discipline, strengthening the Government's balance sheet and redirecting government spending to boost productivity and workforce participation.

Significant progress on the task of budget repair has already been made. The 2015 Intergenerational Report (IGR) shows that structural savings measures already implemented are projected to make a significant contribution towards achieving fiscal sustainability over the longer term.

Despite the iron ore price nearly halving and $52 billion in tax receipts write-downs to 2017-18 since the last Budget, the Government continues to progress budget repair in a way that is responsible, measured and fair.

The underlying cash balance is expected to improve in each and every year of the forward estimates, with a deficit of $35.1 billion (2.1 per cent of GDP) in 2015-16 improving to $6.9 billion (0.4 per cent of GDP) in 2018-19.

The average annual pace of fiscal consolidation until 2018-19 is a responsible 0.5 per cent of GDP. This is broadly consistent with the average pace of consolidation in the 2014-15 Budget.

The payments-to-GDP ratio is expected to fall from 25.9 per cent in 2015-16 to 25.3 per cent in 2018-19. Net debt as a share of GDP is expected to peak in 2016-17 and then decline over the remainder of the forward estimates.

The budget is projected to return to surplus in 2019-20 — the same year as projected in the 2014-15 MYEFO.

Analysis of the medium-term shows that while modest surpluses are anticipated over much of the projection period, there is more work to do in order to achieve the Government's target surplus of 1 per cent of GDP.

CONTENTS

OVERVIEW

The 2015-16 Budget focuses on building jobs, growth and opportunity. It carefully balances the need for investment to enhance Australia's prosperity, with the need to repair the budget in a responsible and fair way.

This Budget redirects spending towards investments that boost productivity and workforce participation. The 2015-16 Budget priorities, including the Jobs and Small Business Package, support for Australian families, promoting infrastructure investment, and unlocking the region's potential through free trade agreements, all contribute to building a stronger economy. The Budget also contains a number of measures that improve the fairness of the tax and benefits systems.

Downgrades in forecast tax receipts since the 2014-15 Budget are estimated to have totalled $52 billion over the four years to 2017-18 and over $90 billion across the forward years since the 2013 Pre-Election Economic and Fiscal Outlook. These write-downs have been driven by a rapid fall in some commodity prices, particularly iron ore, and lower-than-expected wages growth.

Despite these headwinds, the 2015-16 Budget maintains a steady and credible trajectory towards surplus. The underlying cash balance is expected to improve each and every year over the forward estimates. The deficit is expected to fall from $35.1 billion (2.1 per cent of GDP) in 2015-16 to $6.9 billion (0.4 per cent of GDP) in 2018-19, as shown in Table 1.

Table 1: Budget aggregates

	Actual	Estimates			Projections		
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Total(a)
Underlying cash balance ($b)(b)	**-48.5**	**-41.1**	**-35.1**	**-25.8**	**-14.4**	**-6.9**	**-82.3**
Per cent of GDP	-3.1	-2.6	-2.1	-1.5	-0.8	-0.4	
Fiscal balance ($b)	**-43.7**	**-39.4**	**-33.0**	**-23.4**	**-9.2**	**-3.2**	**-68.9**
Per cent of GDP	-2.8	-2.5	-2.0	-1.3	-0.5	-0.2	

(a) Total is equal to the sum of amounts from 2015-16 to 2018-19.
(b) Excludes net Future Fund earnings.

The average annual pace of fiscal consolidation across the forward estimates is a responsible 0.5 per cent of GDP. This is broadly consistent with the average pace of consolidation in the 2014-15 Budget.

The underlying cash balance is expected to continue to improve into the medium-term. Current projections indicate a surplus being reached by 2019-20, the same year as projected at the 2014-15 MYEFO. By the end of the medium-term, the underlying cash balance is projected to have been in a modest surplus for 6 years, even after assuming additional tax relief is provided to taxpayers from 2020-21.

FISCAL STRATEGY

The Government's fiscal strategy, consistent with the requirements of the *Charter of Budget Honesty Act 1998*, is outlined in Box 1.

Box 1: The Government's fiscal strategy

Medium-term fiscal strategy

The Government's medium-term fiscal strategy is to achieve budget surpluses, on average, over the course of the economic cycle.

Our strategy is underpinned by the following three policy elements:

- investing in a stronger economy by redirecting Government spending to quality investment to boost productivity and workforce participation;
- maintaining strong fiscal discipline to reduce the Government's share of the economy over time in order to free up resources for private investment to drive jobs and economic growth, with:
  - the payments-to-GDP ratio falling;
  - paying down debt by stabilising and then reducing Commonwealth Government Securities on issue over time; and
- strengthening the Government's balance sheet by improving net financial worth over time.

Budget repair strategy

The budget repair strategy is designed to deliver budget surpluses building to at least 1 per cent of GDP by 2023-24 consistent with the medium-term fiscal strategy.

Our strategy sets out that:

- new spending measures will be more than offset by reductions in spending elsewhere within the budget;
- the overall impact of shifts in receipts and payments due to changes in the economy will be banked as an improvement to the budget bottom line, if this impact is positive; and
- a clear path back to surplus is underpinned by decisions that build over time.

The budget repair strategy will stay in place until a strong surplus is achieved and so long as economic growth prospects are sound and unemployment remains low.

Delivering on the medium-term fiscal strategy

The fiscal strategy aims to guide the budget back to a sustainable surplus at a responsible pace, while redirecting spending towards investment to promote jobs, growth and opportunity.

Budget surpluses over the course of the economic cycle

The Government remains strongly committed to returning the budget to surplus as soon as possible.

This Budget maintains a steady and credible trajectory towards surplus. The underlying cash deficit is expected to improve in each and every year over the forward estimates, from $35.1 billion in 2015-16 (2.1 per cent of GDP) to $6.9 billion in 2018-19 (0.4 per cent of GDP).

Compared with the 2014-15 MYEFO, the underlying cash balance has deteriorated by $3.9 billion in 2015-16 and $12.5 billion in the four years to 2017-18. However, the downgrade to total tax receipts is significantly larger than the size of this deterioration. Expected tax receipts have been written-down by around $5.9 billion in 2015-16 and $20.1 billion over the four years to 2017-18 since the 2014-15 MYEFO. Since the 2014-15 Budget, this brings the total write-down in tax receipts over the four years to 2017-18 to $52 billion.

The rapid fall in the iron ore price has been the largest single contributor to write-downs to Government tax receipts over the past year, contributing around $20 billion of the total $52 billion. Weaker expected wage growth since the 2014-15 MYEFO has also significantly downgraded expected tax receipts.

This Budget does not seek to offset the deterioration in receipts by dramatically reducing Government spending or hiking taxes. Nevertheless, the average annual pace of consolidation until 2018-19 is 0.5 per cent of GDP, broadly consistent with the average pace of consolidation in the 2014-15 Budget.

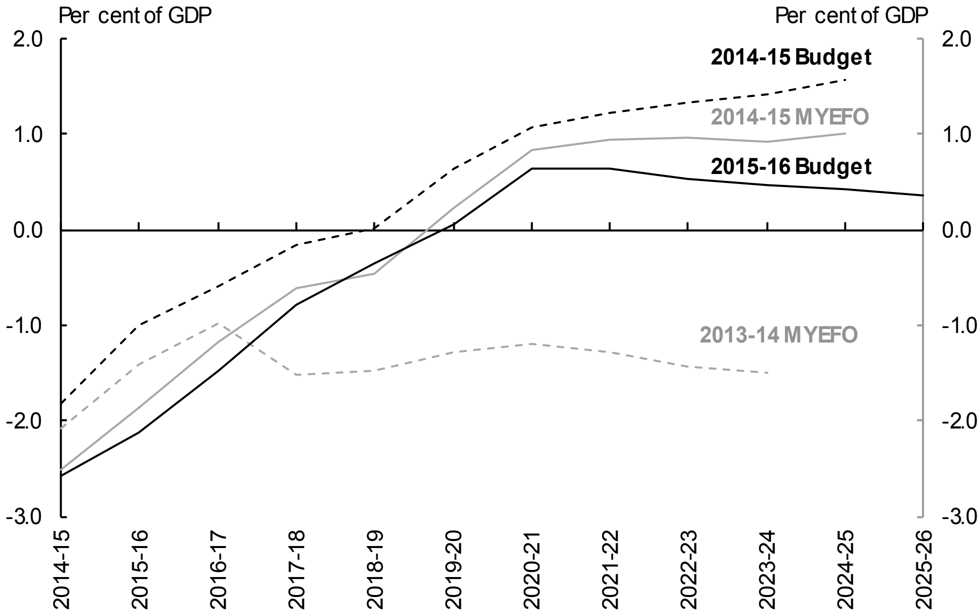
The Government has set itself a target of reaching a surplus of 1 per cent of GDP by 2023-24, consistent with the medium-term fiscal strategy of running surpluses on average over the course of the economic cycle.

The surpluses currently projected over the medium-term do not yet meet this target, which means that although significant progress has already been made, there is more work required in the future to deliver on the task of budget repair.

The underlying cash balance is projected to return to surplus in 2019-20, the same year as projected at the 2014-15 MYEFO. Modest surpluses, of up to 0.7 per cent of GDP, are expected over the remainder of the medium-term with a surplus of 0.4 per cent of GDP by the end of the projection period.

Chart 1 shows the projection of the underlying cash balance to 2025-26.

Chart 1: Underlying cash balance projected to 2025-26



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2020-21, except for the 2013-14 MYEFO where the tax cap applies from 2019-20. 2013-14 MYEFO projections were not originally published with a tax cap. Net Future Fund earnings are included in projections of the underlying cash balance from 2020-21 when drawdowns from the Future Fund commence. The projections of the underlying cash balance originally published in the 2013-14 MYEFO, the 2014-15 Budget, and the 2014-15 MYEFO did not include net Future Fund earnings.
Source: Treasury projections.

Investing in a stronger economy by redirecting government spending

The Australian economy is adjusting to the end of the resource investment boom and is currently going through a period of below-trend economic growth, which has affected fiscal settings. This Budget deliberately redirects spending towards areas that will build a stronger economy, recognising the importance of growth to fiscal sustainability.

The $5.5 billion **Jobs and Small Business Package** will make it easier for Australian small businesses to invest, hire and grow; and for Australia's unemployed, particularly young people, to move into long-term employment.

This Budget also includes a $4.5 billion **Families Package**. It recognises that workforce participation can be assisted if Australian families have simpler, more affordable, accessible and flexible child care arrangements.

The Budget responds to emerging **infrastructure** opportunities as the economy transitions away from resources-led growth. The Northern Australia Infrastructure

Facility will help promote private sector participation in major infrastructure necessary for economic development in the north. The National Stronger Regions Fund is also being targeted toward areas of particular economic stress and community need.

The **trade and investment** generated through Australia's recently completed free trade agreements with China, Japan and Korea will help to strengthen the overall economy. These agreements help shore up Australia's competitive position in these important markets and open up new opportunities for Australian exporters and investors.

The budget position is also being strengthened with a package of measures that improve the **fairness of the tax and benefits systems**.

Together these packages deliver on the Government's medium-term fiscal strategy of redirecting spending to quality investment that will boost productivity and workforce participation.

Maintaining strong fiscal discipline

Strong fiscal discipline will reduce the Government's share of the economy over time in order to free up resources for private investment to drive jobs and economic growth.

The Government's fiscal strategy aims to have the payments-to-GDP ratio and Commonwealth Government Securities (CGS) on issue reducing over time.

The payments-to-GDP ratio falls from 25.9 per cent to 25.3 per cent over the forward estimates period. The ratio is projected to stabilise over the medium-term and be 25.4 per cent of GDP in 2025-26, highlighting the need to do more to bring spending down over the medium-term.

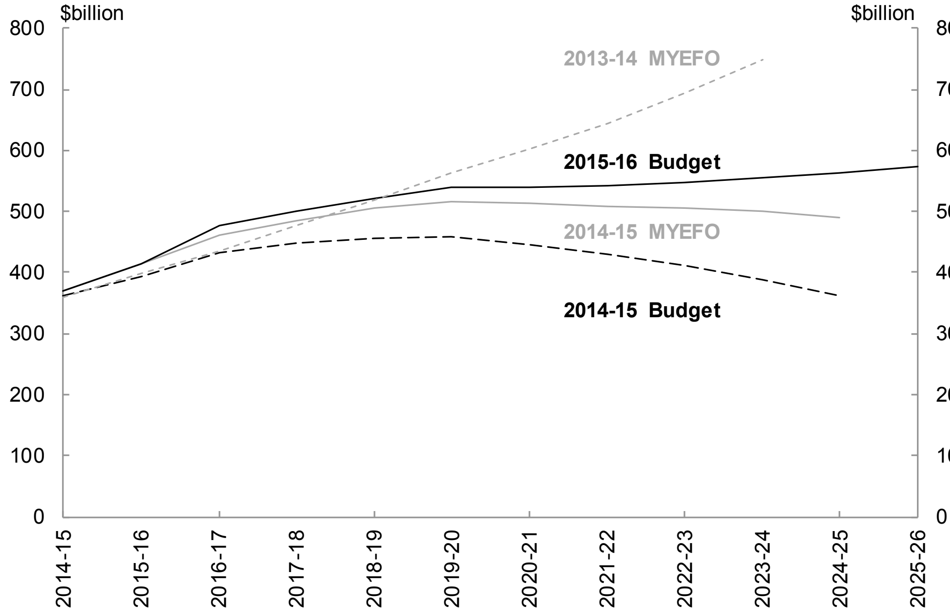
Since the 2014-15 MYEFO, the payments-to-GDP ratio has been affected by slower-than-anticipated nominal GDP growth over the forecast period. In the forward estimates the value of payments is forecast to be lower in each and every year compared with the 2014-15 MYEFO.

Real payments growth until 2017-18 is expected to be 1.1 per cent per annum on average. Over the medium-term (the period from 2019-20 to 2025-26) it is projected to be 3.1 per cent per annum. This indicates that further budget repair is necessary over the medium-term.

The face value of CGS on issue is projected to rise to $573 billion by 2025-26, reflecting a modestly weaker underlying cash balance, and its associated higher public debt interest expense, accumulating over the medium-term. In 2023-24 the face value of CGS on issue is projected to reach $555 billion, some $112 billion less than the $667 billion projected at the 2013-14 MYEFO. This improvement would be even greater compared with the 2013-14 MYEFO, if the original scenario had assumed taxes were capped at 23.9 per cent of GDP (that is, assuming future tax relief).

The projected face value of Commonwealth Government Securities on issue is shown in Chart 2.

Chart 2: Face value of Commonwealth Government Securities on issue projected to 2025-26



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2020-21, except for the 2013-14 MYEFO where the tax cap applies from 2019-20. 2013-14 MYEFO projections were not originally published with a tax cap.
Source: Australian Office of Financial Management and Treasury projections.

Further details on debt and the Government's balance sheet can be found in *Statement 6: Debt Statement, Assets and Liabilities*.

Strengthening the Government's balance sheet over time

A strong balance sheet provides the Government the flexibility to respond to unanticipated events during times of financial crises or economic shocks.

Key aggregates of fiscal sustainability are set out in Table 2.

Net financial worth is the primary indicator of fiscal sustainability articulated in the medium-term fiscal strategy. It provides a broader measure of the Government's assets and liabilities as it includes both the full assets of the Future Fund and the superannuation liability that the Future Fund is intended to offset.

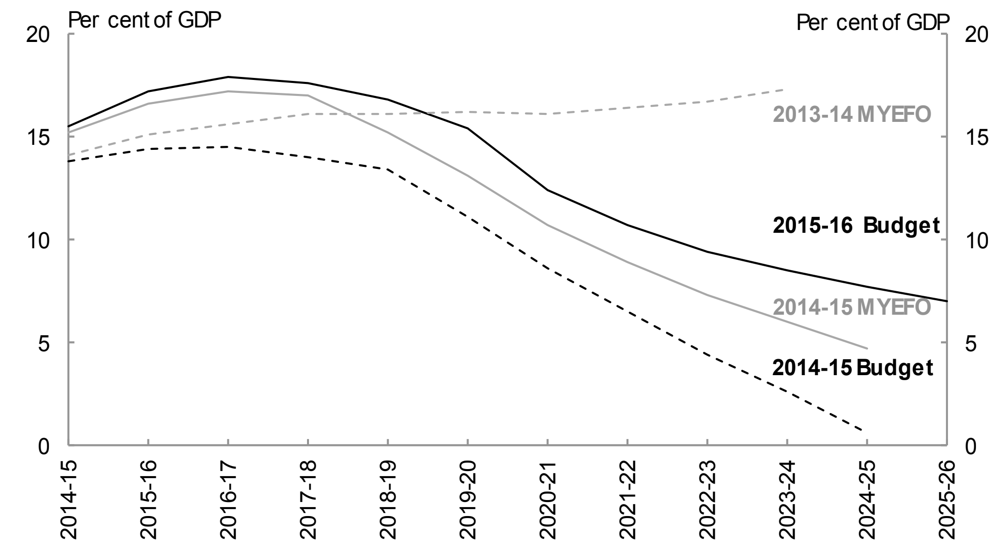
Table 2: Net worth, net financial worth, net debt and net interest payments

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$b	$b	$b	$b	$b
Financial assets	309.9	332.6	380.5	398.2	422.0
Non-financial assets	118.8	122.1	125.6	129.9	135.0
Total assets	**428.7**	**454.7**	**506.1**	**528.1**	**557.0**
Total liabilities	**660.0**	**716.1**	**786.5**	**813.4**	**839.8**
Net worth	**-231.3**	**-261.4**	**-280.4**	**-285.3**	**-282.8**
Net financial worth(a)	**-350.1**	**-383.5**	**-406.0**	**-415.2**	**-417.8**
Per cent of GDP	-21.8	-23.2	-23.3	-22.6	-21.6
Net debt(b)	**250.2**	**285.8**	**313.4**	**323.7**	**325.4**
Per cent of GDP	15.6	17.3	18.0	17.6	16.8
Net interest payments	**10.9**	**11.6**	**11.9**	**12.3**	**13.0**
Per cent of GDP	0.7	0.7	0.7	0.7	0.7

(a) Net financial worth equals total financial assets minus total liabilities.
(b) 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.

Net debt is estimated to be $285.8 billion in 2015-16 (17.3 per cent of GDP) and to peak as a share of GDP at $313.4 billion (18.0 per cent of GDP) in 2016-17, slightly above the peak of $304.4 billion (17.2 per cent of GDP) expected at MYEFO. Net debt then declines as a share of GDP to 16.8 per cent by 2018-19. In the medium-term, there will be a substantial improvement in projected net debt with it falling to $201 billion (7.1 per cent of GDP) in 2025-26 (Chart 3).

Chart 3: Net debt projected to 2025-26

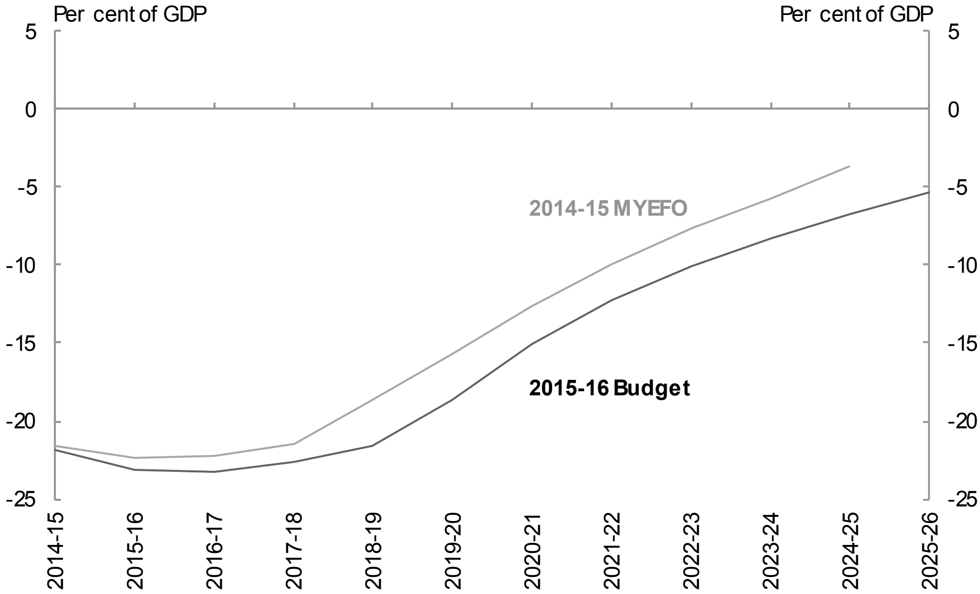


Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2020-21, except for the 2013-14 MYEFO where the tax cap applies from 2019-20. 2013-14 MYEFO projections were not originally published with a tax cap.
Source: Treasury projections.

Net worth is expected to be -$261.4 billion (-15.8 per cent of GDP) in 2015-16, $7.9 billion less than estimated at the 2014-15 MYEFO. Net worth is expected to be -$282.8 billion (-14.6 per cent of GDP) by the end of the forward estimates.

Net financial worth is estimated to be -$383.5 billion (-23.2 per cent of GDP) in 2015-16, $8.7 billion lower than estimated at the 2014-15 MYEFO. This reflects higher CGS issuance and growing superannuation liabilities, partially offset by the higher value of investments held by the Government, including the Future Fund. Net financial worth improves significantly as a share of GDP over the medium term, rising to -$150 billion (-5.3 per cent of GDP) by 2025-26 (Chart 4).

Chart 4: Net financial worth projected to 2025-26



Source: Treasury projections.

Delivering on the budget repair strategy

The 2015 IGR shows that structural savings measures already implemented by the Government are projected to make a significant contribution towards achieving fiscal sustainability over the longer term. More than 80 per cent of all the 2014-15 Budget measures have been implemented, enabling a $15.6 billion improvement in the budget bottom line in the five years to 2017-18 and growing beyond then.

While significant progress has been made, the task of budget repair remains ongoing and more work needs to be done to achieve a sustainable fiscal trajectory.

Offsetting our decisions

The Government remains committed to offsetting all new policy decisions. After taking into account the provisions the Government has previously made relating to the

Paid Parental Leave Scheme, as well as the associated Levy and Company Tax cut, the overall impact of policy decisions on the bottom line at this Budget is an improvement to the budget position of $1.6 billion over the five years to 2018-19 (Table 3).

Table 3: Offsetting new decisions

	Estimates		Projections			
	2014-15	2015-16	2016-17	2017-18	2018-19	Total
	$m	$m	$m	$m	$m	$m
Total effect of policy decisions since MYEFO	**-578**	**-4,525**	**-2,547**	**-1,665**	**494**	**-8,821**
Add: Provisions made for the Paid Parental Leave Scheme, Levy and Company Tax cut	*156*	*2,373*	*2,840*	*2,467*	*2,591*	*10,426*
Net budget impact of new policy decisions	**-422**	**-2,153**	**293**	**802**	**3,085**	**1,605**

The 2014-15 Budget included a number of savings measures that have been delayed by the actions of the Senate, causing a negative impact on the bottom line.

The Government has also taken decisions not to proceed with certain measures from the 2014-15 Budget where the prospect of legislation passing seemed remote. The total impact of not proceeding with, and delays in passing, measures associated with the 2014-15 Budget is $5.2 billion over the five years to 2018-19 (Table 4).

Table 4: Impact of non-passage of 2014-15 Budget savings measures

	Estimates		Projections			
	2014-15	2015-16	2016-17	2017-18	2018-19	Total
	$m	$m	$m	$m	$m	$m
Significant decisions not to proceed with prior Budget proposals						
Medicare Benefits Schedule - changes to GP rebates – reversal	-161	-628	-691	-716	-752	-2,948
Reversal of Stronger Participation Incentives for Job Seekers under 30	4	-461	-498	-507	-563	-2,025
Total impact of significant decisions not to proceed with prior Budget proposals	**-157**	**-1,089**	**-1,189**	**-1,223**	**-1,315**	**-4,973**
Impact of delays in passing legislation (a)						
Social Services	-62	0	0	0	na	-62
Employment	-9	0	0	0	na	-9
Health	-73	-80	5	0	na	-149
Industry and Science	-4	-9	0	0	na	-13
Impact of delays in passing legislation	**-148**	**-89**	**5**	**0**	**na**	**-233**
Total impact of not proceeding with, and delays in passing legislation for proposals	**-305**	**-1,178**	**-1,184**	**-1,223**	**-1,315**	**-5,205**

(a) Since 2014-15 MYEFO

Impact of the economy

The budget repair strategy commits the Government to bank any positive overall shift in receipts and payments due to changes in the economy. In this Budget, the net impact of parameter and other variations has reduced the underlying cash balance by $3.2 billion in the four years to 2017-18.

As economic recovery gathers momentum, improvements from favourable parameter variations will be allowed to flow through to the bottom line in future budgets.

A clear path back to surplus

The underlying cash balance is projected to return to surplus in 2019-20, the same year as projected at the 2014-15 MYEFO. Modest surpluses, of up to 0.7 per cent of GDP, are expected over the remainder of the medium term with a surplus of 0.4 per cent of GDP by the end of the projection period.

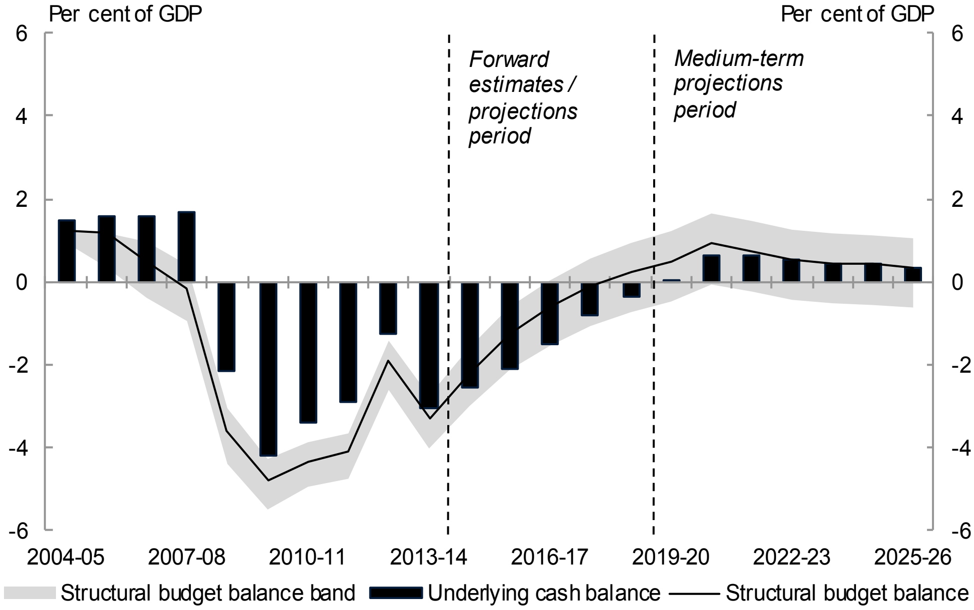
Structural budget balance estimates

Restoring the structural integrity of the budget is crucial for achieving surpluses on average over the economic cycle and paying down government debt, consistent with the medium-term fiscal strategy.

The structural budget balance is estimated to improve from a deficit of around 1¼ per cent of GDP in 2015-16 to modest surpluses from 2018-19 through to the end of the projections period (Chart 5), largely unchanged from the 2014−15 MYEFO.

The structural budget balance estimates remove factors that have a temporary impact on revenues and expenditures, such as fluctuations in commodity prices and the extent to which economic output deviates from its potential level. Considered in conjunction with other measures, estimates of the structural budget balance can provide insight into the sustainability of current fiscal settings.

Chart 5: Structural budget balance estimates



Note: The methodology for producing structural budget balance estimates was detailed in Treasury Working Paper 2013-01 and incorporates the medium-term projection methodology detailed in Treasury Working Paper 2014-02.
Source: ABS cat. no. 5206.0, 5302.0, 6202.0, 6401.0 and Treasury.

FISCAL OUTLOOK

Budget aggregates

An **underlying cash deficit** of $35.1 billion (2.1 per cent of GDP) is expected in 2015-16, improving to a deficit of $6.9 billion (0.4 per cent of GDP) in 2018-19.

In accrual terms, a **fiscal deficit** of $33.0 billion (2.0 per cent of GDP) is expected for 2015-16, improving to a deficit of $3.2 billion (0.2 per cent of GDP) in 2018-19.

A **headline cash deficit** of $44.8 billion is expected in 2015-16, improving to a deficit of $17.3 billion in 2018-19.

Table 5 provides key budget aggregates for the Australian Government general government sector.

Table 5: Australian Government general government sector budget aggregates

	Actual	Estimates			Projections		
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Total(a)
	$b	$b	$b	$b	$b	$b	$b
Receipts	**360.3**	**377.3**	**398.0**	**422.5**	**453.6**	**488.2**	**2,139.6**
Per cent of GDP	22.8	23.5	24.0	24.2	24.7	25.2	
Payments(b)	**406.4**	**415.0**	**429.8**	**444.9**	**464.3**	**491.1**	**2,245.2**
Per cent of GDP	25.7	25.9	25.9	25.5	25.3	25.3	
Net Future Fund earnings	2.3	3.4	3.3	3.4	3.7	4.0	17.8
Underlying cash balance(c)	**-48.5**	**-41.1**	**-35.1**	**-25.8**	**-14.4**	**-6.9**	**-123.4**
Per cent of GDP	-3.1	-2.6	-2.1	-1.5	-0.8	-0.4	
Revenue	**373.9**	**384.1**	**405.4**	**433.4**	**466.2**	**501.3**	**2,190.3**
Per cent of GDP	23.6	23.9	24.5	24.8	25.4	25.9	
Expenses	**413.8**	**420.3**	**434.5**	**452.7**	**471.8**	**499.4**	**2,278.7**
Per cent of GDP	26.2	26.2	26.2	25.9	25.7	25.8	
Net operating balance	-39.9	-36.2	-29.1	-19.2	-5.6	1.9	-88.4
Net capital investment	3.8	3.1	3.9	4.2	3.6	5.1	19.9
Fiscal balance	**-43.7**	**-39.4**	**-33.0**	**-23.4**	**-9.2**	**-3.2**	**-108.2**
Per cent of GDP	-2.8	-2.5	-2.0	-1.3	-0.5	-0.2	
Memorandum item:							
Headline cash balance	-52.5	-43.2	-44.8	-43.9	-24.7	-17.3	-173.8

(a) Total is equal to the sum of amounts from 2014-15 to 2018-19.
(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(c) Excludes net Future Fund earnings.

Table 6 provides a summary of the cash flows of the Australian Government general government sector.

Table 6: Summary of Australian Government general government sector cash flows

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$b	$b	$b	$b	$b
Cash receipts					
Operating cash receipts	375.1	396.1	422.2	453.3	487.4
Capital cash receipts(a)	2.2	1.9	0.3	0.3	0.8
Total cash receipts	377.3	398.0	422.5	453.6	488.2
Cash payments					
Operating cash payments	403.2	418.7	433.4	451.7	477.3
Capital cash payments(b)	11.8	11.2	11.5	12.6	13.8
Total cash payments	415.0	429.8	444.9	464.3	491.1
Finance leases and similar arrangements(c)	0.0	0.0	0.0	0.0	0.0
GFS cash surplus(+)/deficit(-)	**-37.7**	**-31.9**	**-22.5**	**-10.7**	**-2.9**
Per cent of GDP	-2.3	-1.9	-1.3	-0.6	-0.1
less Net Future Fund earnings	3.4	3.3	3.4	3.7	4.0
Underlying cash balance(d)	**-41.1**	**-35.1**	**-25.8**	**-14.4**	**-6.9**
Per cent of GDP	-2.6	-2.1	-1.5	-0.8	-0.4
Memorandum items:					
Net cash flows from investments in financial assets for policy purposes	-5.5	-12.9	-21.4	-14.0	-14.5
plus Net Future Fund earnings	3.4	3.3	3.4	3.7	4.0
Headline cash balance	**-43.2**	**-44.8**	**-43.9**	**-24.7**	**-17.3**

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

Underlying cash balance estimates

The estimated underlying cash deficit in 2015-16 has deteriorated by $3.9 billion when compared to the 2014-15 MYEFO. Table 7 provides a reconciliation of the variations in the underlying cash balance since the 2014-15 Budget.

Since the 2014-15 MYEFO, the effect of parameter and other variations has resulted in a $21.3 billion reduction in receipts across the four years to 2017-18, partly offset by a $17.4 billion reduction in payments.

Since the 2014-15 MYEFO, policy decisions have resulted in a $9.3 billion reduction in the underlying cash balance in the four years to 2017-18. After taking into account the provisions the Government has previously made relating to the Paid Parental Leave Scheme, as well as the revenue costs associated with the Levy and Company Tax cut, the overall impact of policy decisions on the bottom line has been more than fully offset (refer Table 3).

Table 7: Reconciliation of underlying cash balance estimates

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	Total
	$m	$m	$m	$m	$m
2014-15 Budget underlying cash balance(a)	**-29,773**	**-17,084**	**-10,562**	**-2,825**	**-60,244**
Per cent of GDP	-1.8	-1.0	-0.6	-0.2	
Changes from 2014-15 Budget to 2014-15 MYEFO					
Effect of policy decisions(b)	-2,314	-2,195	-501	950	-4,059
Effect of parameter and other variations	-8,275	-11,960	-9,781	-9,606	-39,622
Total variations	**-10,589**	**-14,155**	**-10,282**	**-8,656**	**-43,681**
2014-15 MYEFO underlying cash balance(a)	**-40,362**	**-31,239**	**-20,844**	**-11,480**	**-103,925**
Per cent of GDP	-2.5	-1.9	-1.2	-0.6	
Changes from 2014-15 MYEFO to 2015-16 Budget					
Effect of policy decisions(b)(c)					
Receipts	*40*	*-432*	*396*	*783*	*787*
Payments	*618*	*4,093*	*2,943*	*2,448*	*10,102*
Total policy decisions impact on underlying cash balance	-578	-4,525	-2,547	-1,665	-9,315
Effect of parameter and other variations(c)					
Receipts	*-2,214*	*-4,950*	*-7,163*	*-6,993*	*-21,321*
Payments	*-2,143*	*-5,335*	*-4,440*	*-5,517*	*-17,435*
less Net Future Fund earnings	*110*	*-265*	*-279*	*-225*	*-658*
Total parameter and other variations impact on underlying cash balance	-181	650	-2,445	-1,251	-3,227
2015-16 Budget underlying cash balance(a)	**-41,121**	**-35,115**	**-25,836**	**-14,396**	**-116,468**
Per cent of GDP	-2.6	-2.1	-1.5	-0.8	

(a) Excludes expected net 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.

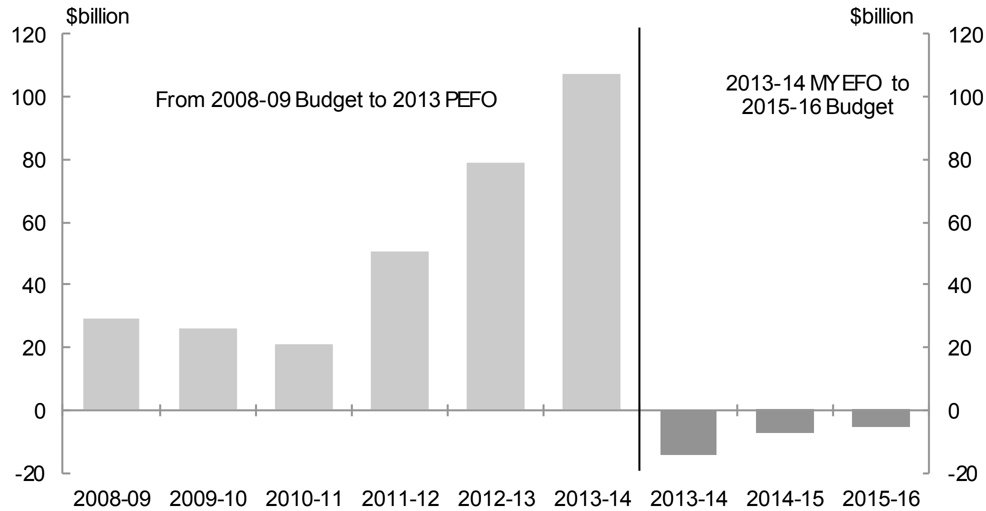
Receipts estimates

Total receipts are expected to be $5.4 billion lower in 2015-16 than estimated at the 2014-15 MYEFO, with tax receipts $6.5 billion lower and non-taxation receipts $1.1 billion higher.

Non-taxation receipts have been revised up by $1.1 billion in 2015-16 and $258 million over the four years to 2017-18. This primarily reflects lower than expected forecasts of royalties offset by increases in other non-taxation receipts, including the $1.5 billion of unspent funding from the Victorian Government in relation to the East West Link project required to be returned consistent with the obligations under relevant agreements with the Commonwealth.

Revenue decisions taken by this Government, up to and including the 2015-16 Budget, have reduced revenue by $5.4 billion in accrual terms compared with decisions taken by the former Government.

Chart 6: Cumulative effect of revenue measures since the 2008-09 Budget (a)



(a) Cumulative value of revenue measures taken in each budget year

Policy decisions

Policy decisions since the 2014-15 MYEFO are expected to reduce receipts by $432 million in 2015-16, but increase receipts by $396 million in 2016-17, $783 million in 2017-18 and $1,886 million in 2018-19. Significant measures include:

- continuing the GST compliance program. This is expected to increase receipts by $3.6 billion over the forward estimates period, including a GST component of $1.8 billion that will be paid to states and territories. Arrangements for funding these activities will be settled with the states and territories in accordance with the *GST Administration Performance Agreement*;

- a tax cut to all small businesses through a 1.5 per cent point tax cut for small companies and a 5 per cent tax discount on income from unincorporated small business activity. These tax cuts will be available from the 2015-16 income year, and are estimated to decrease receipts by $3.3 billion over the forward estimates period. This measure will deliver lower taxes to both incorporated and unincorporated small businesses, improving their cash flow and assisting them to grow;
- expanding accelerated depreciation for all small businesses. From Budget night until 30 June 2017, small businesses with a turnover of less than $2 million will be able to deduct immediately assets they acquire and install ready for use, provided the asset costs less than $20,000. This will provide additional support and a boost to small business activity and investment. This measure is expected to decrease receipts by $1.8 billion over the forward estimates period; and
- modernising the methods available to calculate work-related car expense deductions. From the 2015-16 income tax year, the '12 per cent of original value' and the 'one-third of actual expenses' methods for calculating work-related car expense deductions will be removed. In addition, the three rates which currently apply to the 'cents per kilometre' calculation method will be replaced by one rate of 66 cents. This will apply to all motor vehicles and will be updated by the Commissioner of Taxation. These amendments are expected to increase receipts by $845.0 million over the forward estimates period.

Further details of Government policy decisions are provided in Budget Paper No. 2, *Budget Measures 2015-16*.

Parameter and other variations

Since the 2014-15 Budget, forecast nominal GDP has been revised down substantially over the forward estimates, resulting in weaker expected tax receipts. More than half of this write down in nominal GDP has been a result of weaker than previously expected iron ore values. These revisions to iron ore values have resulted in lower expected taxes from companies. In addition, weaker expected wage growth has led to lower expectations for taxes from individuals and superannuation funds.

These changes have resulted in a downgrade to total tax receipts since the 2014-15 Budget of $14.0 billion in 2015-16 and $51.7 billion over the four years to 2017-18. Excluding GST, tax receipts are expected to be $14.1 billion lower in 2015-16 and $51.9 billion lower over the four years to 2017-18.

Relative to the 2014-15 MYEFO, downgrades to forecast nominal GDP totalling $63 billion over the four years to 2017-18 have contributed to a write down in tax receipts of $5.9 billion in 2015-16 and $20.1 billion over the four years to 2017-18.

Further information on expected tax receipts is provided in *Statement 4: Revenue*. Analysis of the sensitivity of the receipts estimates to changes in the economic outlook is provided in *Statement 7: Forecasting Performance and Scenario Analysis*.

Payment estimates

Since the 2014-15 MYEFO, excluding Senate negotiations, total cash payments for 2015-16 have decreased by $2.3 billion. The overall impact of spending related decisions (excluding Senate negotiations) have decreased total cash payments by $3.6 billion over the five years to 2018-19.

Policy decisions

The impact of major policy decisions since the 2014-15 MYEFO which increase payments include:

- reversing components of the 2014-15 MYEFO measure *A Strong and Sustainable Medicare,* which is expected to increase cash payments by $628 million in 2015-16 and $2.9 billion over the five years to 2018-19. The Government will not proceed with changes to GP consultation items announced in the 2014-15 MYEFO;

- reversing the 2014-15 Budget measure *Stronger Participation Incentives for Job Seekers under 30* and instead, requiring young people under 25 years of age without significant barriers to employment to actively seek work for a four-week waiting period before receiving income support, with a net increase in cash payments of $464 million in 2015-16 ($1.8 billion over the five years to 2018-19);

- funding to support families to access affordable child care services, under the *Families Package — Child Care — Workforce Participation Stream*, which is expected to increase cash payments by $140 million in 2015-16 ($3.3 billion over the five years to 2018-19), largely due to a new Child Care Subsidy that will be introduced on 1 July 2017. This will provide a subsidy of up to 85 per cent of the actual fee paid, up to an hourly fee cap, depending on the level of parental income; and

- funding to support the *Families Package — National Partnership Agreement on Universal Access to Early Childhood Education — extension*, which is expected to increase cash payments by $125 million in 2015-16 ($843 million over the three years to 2017-18). This measure will give a further two cohorts of pre-school children the opportunity to participate in early childhood education and care through accredited pre-school programmes.

The impact of major policy decisions which decrease payments include:

- removing funding for the Victorian East-West Link from the forward estimates, which is expected to decrease cash payments by $300 million in 2015-16 ($1.5 billion over the five years to 2018-19). The Australian Government will provide $3 billion for the East-West Link to any Victorian Government that proceeds with the project, with this commitment detailed as a Contingent Liability in *Statement 8*: *Statement of Risks*;

- rationalising and streamlining Health programmes, which is expected to decrease cash payments by $121 million in 2015-16 ($963 million over the five years to 2018-19), largely by reducing funding for the Health Portfolio Flexible Funds, consolidating and streamlining dental workforce programmes and rationalising other health programmes;

- consolidating the immigration detention network, which is expected to decrease cash payments by $111 million in 2015-16 ($555 million over the five years to 2018-19), due to the planned closure of a number of facilities and a reduction in logistics and service requirements across the detention network; and

- improving the targeting of Australian Government payments by increasing the assets test thresholds and the withdrawal rate at which pensions are reduced once the threshold is exceeded, which is expected to decrease cash payments by $2.4 billion over the five years to 2018-19.

Further details of Government policy decisions are provided in Budget Paper No. 2, *Budget Measures 2015-16*. The expense estimates provided in Budget Paper No. 2 are in accrual terms and may not align with the payment figures provided in this statement.

Parameter and other variations

This Budget also incorporates some major changes in payments in 2015-16 as a result of parameter and other variations since the 2014-15 MYEFO. Major increases include:

- payments related to the Research and Development Tax Incentive, which are expected to increase by $352 million in 2015-16 ($1.5 billion over the four years to 2017-18), largely reflecting a higher than expected number and size of claims for the Research and Development refundable tax offset;

- payments related to Illegal Maritime Arrival (IMA) management costs, which are expected to increase by $286 million in 2015-16 ($244 million over the four years to 2017-18, including an estimated reduction in payments over the two years to 2017-18), largely reflecting the impact of slower than forecast processing of refugee claims in offshore facilities;

- payments related to Family Tax Benefit, which are expected to increase by $214 million in 2015-16 ($824 million over the four years to 2017-18), largely reflecting the impact of lower than expected wage growth on average payment rates and recipient numbers;

- payments related to the public sector defined benefit superannuation schemes which are expected to increase by $185 million in 2015-16 (although a reduction in payments of $153 million is expected over the four years to 2017-18), largely reflecting an increase in estimated benefit payments offset by higher returns of the funded components from superannuation schemes to the Commonwealth when employees retire; and

- payments related to Parents Income Support, which are expected to increase by $184 million in 2015-16 ($925 million over the four years to 2017-18), largely reflecting revised projected customer numbers based on observed population trends.

Major decreases in payments in 2015-16 as a result of parameter and other variations since the 2014-15 MYEFO include:

- not proceeding with the Paid Parental Leave Scheme, resulting in decreased cash payments of $10.1 billion over the five years to 2018-19, provisioned for in the Contingency Reserve;
- payments relating to public debt interest expenses, which are expected to decrease by $247 million in 2015-16 and by $1.2 billion over the four years to 2017-18, largely reflecting a reduction in the weighted average cost of borrowing. This is partially offset by a decrease in interest receipts ($167 million over the four years to 2017-18);
- payments related to the Income Support for Seniors programme, which are expected to decrease by $177 million in 2015-16 ($654 million over the four years to 2017-18), largely reflecting lower than expected average payment rates;
- payments related to the Income Support for People with a Disability programme, which are expected to decrease by $164 million in 2015-16 ($660 million over the four years to 2017-18), largely reflecting lower than expected customer numbers and average payment rates;
- payments related to the Interest on Overpayment and Early Payment of Tax programme, which are expected to decrease by $150 million in 2015-16 ($580 million over the four years to 2017-18), largely reflecting early settlements of disputed tax revenue cases;
- Child Care Rebate and Child Care Benefit payments, which are expected to decrease by $135 million in 2015-16 ($552 million over the four years to 2017-18), largely reflecting lower than expected utilisation of demand driven child care services, both in terms of number of children in child care and hours claimed, following a period of several years of continual upwards variations due to higher than expected growth. From 1 July 2017, the Child Care Rebate and Child Care Benefit will be replaced by the new Child Care Subsidy; and
- payments related to the Income Support for Carers programme, which are expected to decrease by $129 million in 2015-16 ($519 million over the four years to 2017-18), largely reflecting lower than expected recipient numbers.

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 the Other Purposes section of *Statement 5: Expenses and Net Capital Investment*.

Analysis of the sensitivity of payments estimates to changes in the economic outlook is provided in *Statement 7: Forecasting Performance and Scenario Analysis*.

Fiscal balance estimates

The fiscal deficit is expected to be $33.0 billion (2.0 per cent of GDP) in 2015-16, which reflects a deterioration of $5.7 billion compared with the 2014-15 MYEFO. Table 8 provides a reconciliation of the variations in the fiscal balance since the 2014-15 Budget.

Table 8: Reconciliation of fiscal balance estimates

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	Total
	$m	$m	$m	$m	$m
2014-15 Budget fiscal balance	**-25,855**	**-12,214**	**-6,596**	**984**	**-43,681**
Per cent of GDP	-1.6	-0.7	-0.4	0.1	
Changes from 2014-15 Budget to 2014-15 MYEFO					
Effect of policy decisions(a)	-3,395	-2,914	-618	946	-5,981
Effect of parameter and other variations	-10,555	-12,095	-10,565	-6,966	-40,181
Total variations	**-13,950**	**-15,009**	**-11,182**	**-6,020**	**-46,162**
2014-2015 MYEFO fiscal balance	**-39,806**	**-27,223**	**-17,778**	**-5,035**	**-89,842**
Per cent of GDP	-2.5	-1.6	-1.0	-0.3	
Changes from 2014-15 MYEFO to 2015-16 Budget					
Effect of policy decisions(a)(b)					
Revenue	45	-162	39	463	385
Expenses	669	3,887	1,912	2,276	8,743
Net capital investment	-31	-98	914	132	917
Total policy decisions impact on fiscal balance	-592	-3,951	-2,786	-1,945	-9,275
Effect of parameter and other variations(b)					
Revenue	-1,823	-6,170	-7,649	-7,459	-23,101
Expenses	-3,232	-5,901	-5,355	-5,771	-20,259
Net capital investment	386	1,529	567	567	3,048
Total parameter and other variations impact on fiscal balance	1,023	-1,798	-2,861	-2,255	-5,891
2015-16 Budget fiscal balance	**-39,375**	**-32,972**	**-23,425**	**-9,236**	**-105,008**
Per cent of GDP	-2.5	-2.0	-1.3	-0.5	

(a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.
(b) 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.

Revenue estimates

Changes in accrual revenue are generally driven by the same factors as cash receipts, though differences arise where revenue raised in a given year is not received in that year.

Expense and net capital investment estimates

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

- superannuation benefits, where there are differences between the timing of cash payments and accrued expenses as a result of revaluations recommended by the actuary; and

- the Natural Disaster Relief and Recovery Arrangements, where expenses are recognised in the financial year in which the disaster occurs, rather than when cash payments are made.

Detailed information on expenses and net capital investment can be found in *Statement 5: Expenses and Net Capital Investment*.

Headline cash balance estimates

The headline cash balance consists of the underlying cash balance, net cash flows from investments in financial assets for policy purposes (for example, the equity funding of NBN Co), and net Future Fund earnings. Table 9 provides further detail of differences between the underlying and headline cash balance estimates of the Australian Government general government sector.

The headline cash balance for 2015-16 is estimated to be a deficit of $44.8 billion, compared with a deficit of $41.9 billion at 2014-15 MYEFO. Over the four years to 2018-19, the headline cash deficit is projected to decline by $27.4 billion to $17.3 billion in 2018-19.

Table 9: Details of the Australian Government general government sector items between the underlying and headline cash balance estimates

	Estimates			Projections		
	2014-15 $m	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m	Total $m
2015-16 Budget underlying cash balance(a)	**-41,121**	**-35,115**	**-25,836**	**-14,396**	**-6,905**	**-123,372**
plus Net cash flows from investments in financial assets for policy purposes						
Student loans	-6,381	-7,926	-10,174	-11,676	-12,988	-49,144
NBN investment	-4,917	-7,839	-8,326	0	0	-21,082
Sale of Medibank Private	5,679	0	0	0	0	5,679
Residential mortgage backed securities	1,980	4,036	0	0	0	6,017
WestConnex	0	-226	-854	-831	-88	-2,000
Trade support loans	-72	-460	-511	-563	-569	-2,174
Asbestos removal in the ACT - Mr Fluffy loose fill asbestos remediation	-750	-250	0	50	50	-900
Northern Australia Infrastructure Facility	0	0	-935	-870	-805	-2,610
Net other	-1,039	-243	-598	-94	-53	-2,027
Total net cash flows from investments in financial assets for policy purposes	**-5,500**	**-12,908**	**-21,397**	**-13,983**	**-14,452**	**-68,240**
plus Net Future Fund earnings	3,429	3,258	3,375	3,699	4,037	17,798
2015-16 Budget headline cash balance	**-43,191**	**-44,764**	**-43,859**	**-24,681**	**-17,320**	**-173,815**

(a) Excludes expected net Future Fund earnings.

STATEMENT 4: REVENUE

Since the 2014-15 Budget, the forecast for nominal GDP has been revised down significantly by around $172 billion over the four years to 2017-18, which has weakened the outlook for tax receipts. The 2015-16 Budget forecasts for tax receipts, excluding new policy, have been downgraded since the 2014-15 Budget by $14.0 billion in 2015-16 and $51.7 billion over the four years to 2017-18. Excluding GST, tax receipts variations are forecast to be $14.1 billion lower in 2015-16 and $51.9 billion lower over the four years to 2017-18.

The decline in the price of iron ore accounts for around $20 billion of this write-down. While most of this downgrade is from taxes paid by mining companies there are also effects on taxes paid by other businesses, taxes on wages and other sources of revenue. Weaker expected wage growth is expected to lead to lower taxes from individuals of $16.4 billion over the four years to 2017-18.

Since the 2014-15 MYEFO, forecast tax receipts have been downgraded by $5.9 billion in 2015-16 and $20.1 billion over the four years to 2017-18, driven by downgrades to forecasts for nominal GDP totalling around $63 billion over the four years to 2017-18.

Downgrades in forecast tax receipts since the 2013 Pre-Election Economic and Fiscal Outlook are estimated to have totalled over $90 billion across the forward years.

Total tax receipts as a per cent of GDP are expected to be 22.3 per cent in 2015-16, slightly lower than estimated at the 2014-15 Budget at 22.5 per cent.

CONTENTS

STATEMENT 4: REVENUE

OVERVIEW

Relative to the 2014-15 Budget, expected tax receipts, excluding policy, have been downgraded by around $14.0 billion in 2015-16 and $51.7 billion over the four years to 2017-18. Excluding GST, tax receipts have been downgraded by around $14.1 billion in 2015-16 and $51.9 billion over the four years to 2017-18. As GST is paid to the States, tax receipts excluding GST represent the tax receipts available to the Australian Government.

Since the 2014-15 Budget, the fall in commodity prices has had a significant impact on both business profits and wages with material implications for nominal GDP. The forecast for nominal GDP has been revised down significantly, by around $172 billion over the four years to 2017-18, which has weakened the outlook for tax receipts. Excluding policy decisions, company tax has been revised down by $6.8 billion (9.0 per cent) in 2015-16 and $19.9 billion over the four years to 2017-18 since the 2014-15 Budget. Lower forecasts for wage growth have also led to lower expectations for taxes from individuals and superannuation funds totalling around $4.9 billion (2.4 per cent) in 2015-16 and $20.6 billion over the four years to 2017-18.

The rapid fall in the iron ore price has been the largest single contributor to write-downs to Government tax receipts over the past year. Since the 2014-15 Budget, forecasts of iron ore export values have been reduced by around $90 billion over the four years to 2017-18. This contributes to lower nominal GDP and has reduced forecast tax collections by around $20 billion over the same period. Most of this downgrade is from taxes paid by mining companies but there are also effects on taxes paid by other businesses, taxes on wages and other sources of revenue.

Total tax receipts as a per cent of GDP are expected to increase from 22.3 per cent in 2015-16 to 23.4 per cent by 2018-19, an increase of 1.0 percentage points (Table 1). Excluding GST the tax-to-GDP ratio is expected to increase by 0.9 percentage points.

Table 1: Australian Government general government receipts

	Actual	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Total taxation receipts ($b)	**338.4**	**351.5**	**370.1**	**396.4**	**422.8**	**452.5**
Growth on previous year (%)	3.7	3.9	5.3	7.1	6.6	7.0
Per cent of GDP	21.4	21.9	22.3	22.7	23.0	23.4
Tax receipts excluding GST ($b)	**287.3**	**297.5**	**313.1**	**335.5**	**358.3**	**384.3**
Growth on previous year (%)	3.2	3.5	5.3	7.1	6.8	7.3
Per cent of GDP	18.2	18.5	18.9	19.2	19.5	19.8
Non-taxation receipts ($b)	**22.0**	**25.9**	**27.8**	**26.0**	**30.8**	**35.8**
Growth on previous year (%)	-10.9	17.8	7.7	-6.5	18.4	16.0
Per cent of GDP	1.4	1.6	1.7	1.5	1.7	1.8
Total receipts ($b)	**360.3**	**377.3**	**398.0**	**422.5**	**453.6**	**488.2**
Growth on previous year (%)	2.6	4.7	5.5	6.2	7.4	7.6
Per cent of GDP	22.8	23.5	24.0	24.2	24.7	25.2

Since the 2014-15 Budget, total receipts, including non-tax receipts, have been revised down by $8.5 billion in 2014-15, $12.4 billion in 2015-16 and $49.7 billion over the four years to 2017-18.

TAX OUTLOOK

Table 2 reconciles the 2015-16 Budget's estimates of tax receipts with the 2014-15 Budget and the 2014-15 MYEFO estimates. Relative to the 2014-15 Budget, tax receipts, including policy, have been revised down by $8.9 billion in 2014-15, $15.1 billion in 2015-16 and $54.1 billion over the four years to 2017-18.

Relative to the 2014-15 MYEFO, tax receipts, including policy, have been revised down by $2.1 billion in 2014-15, $6.5 billion in 2015-16 and $20.8 billion over the four years to 2017-18.

Table 2: Reconciliation of Australian Government general government taxation receipts estimates from the 2014-15 Budget

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	Total
	$m	$m	$m	$m	$m
Tax receipts at 2014-15 Budget	**360,372**	**385,286**	**411,691**	**437,562**	**1,594,911**
Changes from 2014-15 Budget to 2014-15 MYEFO					
Effect of policy decisions	-556	-554	-312	-339	-1,761
Effect of parameter and other variations	-6,222	-8,129	-8,587	-8,645	-31,581
Total variations	-6,777	-8,683	-8,898	-8,983	-33,342
Tax receipts at 2014-15 MYEFO	**353,594**	**376,604**	**402,792**	**428,579**	**1,561,569**
Changes from 2014-15 MYEFO to 2015-16 Budget					
Effect of policy decisions	-3	-554	-226	66	-717
Effect of parameter and other variations	-2,139	-5,910	-6,145	-5,883	-20,076
Total variations	-2,142	-6,463	-6,371	-5,817	-20,793
Tax receipts at 2015-16 Budget	**351,452**	**370,140**	**396,422**	**422,762**	**1,540,776**

The downward revision to tax receipts is primarily driven by declines in prices of key commodities, particularly for iron ore. Between the 2014-15 Budget and the 2014-15 MYEFO, the iron ore price fell from around US$95 per tonne FOB (free on board) to around US$60 per tonne. Since the 2014-15 MYEFO, the price fell to as low as US$43 per tonne, with some recovery in recent weeks. The forecasts in this Budget are underpinned by an iron ore price of US$48 per tonne. Lower international prices for key commodities have been partly offset by falls in the value of the Australian dollar. Weaker expected wage growth since the 2014-15 Budget has also significantly downgraded expected tax receipts. For more details on the economic outlook, see Budget Statement 2.

Abstracting from policy decisions, tax receipts have been revised down $20.1 billion over the four years to 2017-18 since the 2014-15 MYEFO. New policy measures since the 2014-15 MYEFO are expected to reduce tax receipts by $0.7 billion over the four years to 2017-18. Significant measures include: continuing the GST compliance program; a tax cut to all small businesses through a 1.5 percentage point tax cut for small companies and a 5 per cent tax discount on income from unincorporated small business activity; expanding accelerated depreciation for all small businesses; and modernising the methods available to calculate work-related car expense deductions. For more details on revenue and expense measures introduced at this Budget, see Budget Paper 2.

The 2014-15 Budget provisions for both the 1.5 per cent company levy to fund the Paid Parental Leave Scheme and reduction in the general company tax rate to 28.5 per cent have now been removed.

The 2015-16 Budget continues to include a provision for the China-Australia Free Trade Agreement. Consistent with usual practice, this will become a revenue measure when the agreement is signed.

VARIATIONS IN RECEIPTS ESTIMATES

Table 3 reconciles the 2015-16 Budget's estimates of total receipts, which include non-tax receipts, with the 2014-15 Budget and the 2014-15 MYEFO estimates. These differences reflect the impact of parameter and other variations and the impact of policy decisions.

Table 3: Reconciliation of Australian Government general government receipts estimates from the 2014-15 Budget and the 2014-15 MYEFO[(a)]

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	Total
	$m	$m	$m	$m	$m
Receipts at 2014-15 Budget	**385,778**	**410,427**	**436,849**	**467,985**	**1,701,040**
Changes from 2014-15 Budget to 2014-15 MYEFO					
Effect of policy decisions	-486	-350	-105	-140	-1,082
Effect of parameter and other variations	-5,809	-6,714	-7,515	-8,040	-28,078
Total variations	**-6,295**	**-7,064**	**-7,620**	**-8,180**	**-29,160**
Receipts at 2014-15 MYEFO	**379,483**	**403,362**	**429,228**	**459,806**	**1,671,880**
Changes from 2014-15 MYEFO to 2015-16 Budget					
Effect of policy decisions	40	-432	396	783	787
Effect of parameter and other variations	-2,214	-4,950	-7,163	-6,993	-21,321
Total variations	**-2,174**	**-5,382**	**-6,767**	**-6,211**	**-20,535**
Receipts at 2015-16 Budget	**377,309**	**397,980**	**422,461**	**453,595**	**1,651,345**

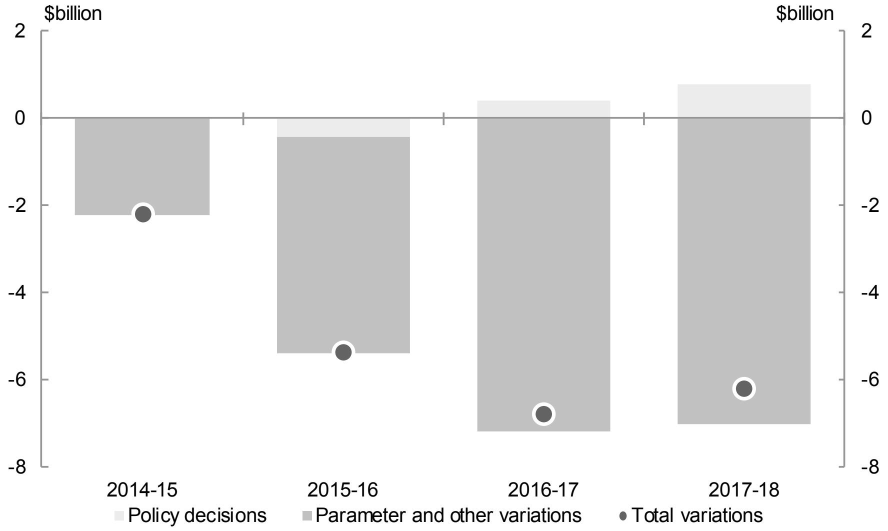
(a) Includes expected Future Fund earnings.

Since the 2014-15 MYEFO, total receipts have been revised down by around $20.5 billion in the four years to 2017-18, reflecting a downward revision of $21.3 billion from parameter and other variations, and an increase of $0.8 billion from policy decisions. Excluding GST, total receipts have been revised down $5.2 billion in 2015-16 and $22.1 billion over the four years to 2017-18.

Since the 2014-15 Budget, total receipts have been revised down by $49.7 billion over the four years to 2017-18.

Chart 1 shows the revisions to estimates for total receipts, which includes non-tax receipts, since the 2014-15 MYEFO over the four years to 2017-18. The revisions are broken down by revisions owing to policy decisions and revisions owing to parameter and other variations.

Chart 1: Revisions to total receipts estimates since the 2014-15 MYEFO



Source: Treasury.

Variations in receipts can stem from either policy changes or parameter and other variations — that is, recent economic conditions, the updated economic outlook, year-to-date tax collections and other non-policy factors. The key economic parameters that influence receipts are shown in Table 4. Analysis of the sensitivity of the tax receipts estimates to changes in the economic outlook is provided in Budget Statement 7.

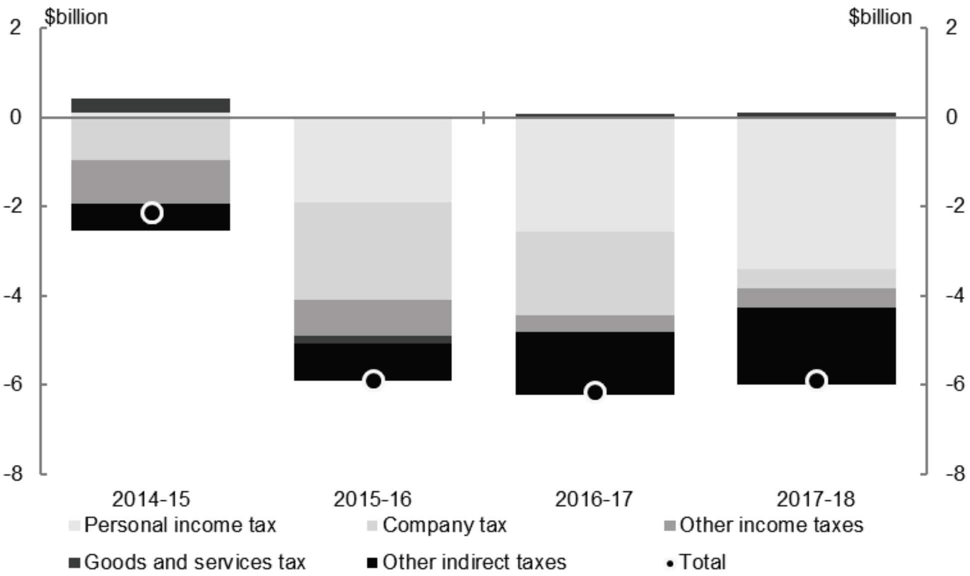
Table 4: Key economic parameters(a)

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue parameters at 2015-16 Budget					
Nominal gross domestic product (non-farm)	1 1/2	3 1/4	5 1/2	5 1/4	5 1/2
Change since 2014-15 MYEFO	*- 1/4*	*-1 1/4*	*1/4*	*0*	*na*
Compensation of employees(b)	3	3 3/4	4 1/2	4 3/4	5 1/4
Change since 2014-15 MYEFO	*- 1/2*	*- 1/2*	*- 1/4*	*- 1/2*	*na*
Corporate gross operating surplus(c)	-2 3/4	1/4	7 1/2	6 1/2	5 3/4
Change since 2014-15 MYEFO	*1/2*	*-4*	*1 1/2*	*1*	*na*
Unincorporated business income (non-farm)	3/4	1 1/2	4	5	5 3/4
Change since 2014-15 MYEFO	*-2 3/4*	*-1 1/4*	*1*	*1 1/2*	*na*
Property income(d)	4	6	7	5 1/4	5 1/2
Change since 2014-15 MYEFO	*-1 1/2*	*-3 1/2*	*1 3/4*	*0*	*na*
Consumption subject to GST	3 1/2	5 1/4	5 1/2	5 1/2	5 1/2
Change since 2014-15 MYEFO	*- 3/4*	*- 1/2*	*1/4*	*0*	*na*

(a) Current prices, per cent change on previous years. Changes since the 2014-15 MYEFO are percentage points and may not reconcile due to rounding.
(b) Compensation of employees measures total remuneration earned by employees.
(c) Corporate GOS is an Australian System of National Accounts measure of company profits, gross of depreciation.
(d) Property income measures income derived from interest, rent and dividends.
na not applicable.

Relative to the 2014-15 MYEFO, parameter and other variations have reduced tax receipts by $2.1 billion in 2014-15, $5.9 billion in 2015-16 and $20.1 billion over the four years to 2017-18 (Chart 2). Excluding GST, parameter and other variations have reduced forecast tax receipts by $2.4 billion in 2014-15, by around $5.8 billion in 2015-16 and by around $20.4 billion over the four years to 2017-18.

Chart 2: Parameter and other variations to tax receipts since the 2014-15 MYEFO



Source: Treasury.

In aggregate, tax receipts are expected to grow by 3.9 per cent in 2014-15 and 5.3 per cent in 2015-16. At a disaggregated level, different heads of revenue are expected to grow at different rates, with some expected to experience negative growth.

Individuals and other withholding taxation receipts

Gross income tax withholding (ITW) receipts are forecast to grow by 6.5 per cent in 2014-15 and 6.3 per cent in 2015-16. Relative to the 2014-15 MYEFO, more subdued wage growth has contributed to a downward revision to ITW receipts of around $8.6 billion over the four years to 2017-18. This downward revision has been partly offset by new policy decisions, including the effect of the introduction of a cap for salary sacrificed meal entertainment and entertainment facility leasing expenses.

Gross receipts from other individuals (OI) are expected to grow by 8.1 per cent in 2014-15 and 8.5 per cent in 2015-16. Since the 2014-15 MYEFO, OI receipts are expected to be $300 million higher in 2014-15 but $2.4 billion lower over the four years to 2017-18. The upward revision in 2014-15 is a result of higher-than-expected collections in 2014-15. This has been more than offset by slightly weaker expected income growth, for example interest income, over the four years to 2017-18.

Income tax refunds for individuals, which have a negative effect on receipts, are expected to decrease by 0.4 per cent in 2014-15 and grow by 2.6 per cent in 2015-16. Relative to the 2014-15 MYEFO, forecast refunds are $200 million lower (an increase in overall tax receipts) in 2014-15 and $2.3 billion lower over the four years to 2017-18. This downward revision has been driven by lower-than-expected payouts for refunds in 2014-15, lower expected ITW receipts over the four years to 2017-18 and new policy decisions, including better targeting the Zone Tax Offset to exclude 'fly-in fly-out' and 'drive-in drive-out' workers and modernising the methods used for calculating work related car expense deductions.

Fringe benefits tax

Receipts from fringe benefits tax (FBT) are forecast to grow by 6.7 per cent in 2014-15 and 12.2 per cent in 2015-16. The expected growth rate in 2015-16 for FBT is driven by the Temporary Budget Repair Levy. Since the 2014-15 MYEFO, FBT receipts are unchanged in 2014-15 but are expected to be $80 million lower over the four years to 2017-18. This downgrade to forecast FBT receipts reflects lower expected wage growth.

Company tax

Company tax receipts are forecast to grow by 1.1 per cent in 2014-15 and by 0.3 per cent in 2015-16. Compared to the 2014-15 MYEFO, forecast receipts are expected to be $960 million lower in 2014-15 owing to lower-than-expected collections from mining companies, consistent with a lower iron ore price since the 2014-15 MYEFO. Over the four years to 2017-18, company tax receipts have been revised down by $7.2 billion, reflecting lower expected corporate profitability including the impact of lower commodity prices on parts of the non-mining corporate sector. Company tax receipts have also been affected by the tax cut for small business companies and the more generous depreciation arrangements.

Superannuation fund taxes

Receipts from superannuation funds are expected to grow by 0.6 per cent in 2014-15 and 47.9 per cent in 2015-16. The large growth in receipts in 2015-16 is driven by large funds commencing monthly pay-as-you-go instalments as announced in the 2013-14 Budget and an expected continued recovery in capital gains tax receipts. Since the 2014-15 MYEFO, receipts are expected to be around $900 million lower in 2014-15 and $1.8 billion lower over the four years to 2017-18, reflecting the flow on effects of lower taxable income in 2013-14 and 2014-15 as well as lower expected net contributions owing to weaker wages. The downward revision to superannuation fund receipts in 2014-15 primarily reflects lower-than-expected collections attributable to higher-than-expected foreign exchange losses in the 2013-14 income year. There are no detrimental superannuation taxation measures in this Budget.

Petroleum resource rent tax

Petroleum resource rent tax (PRRT) receipts are forecast to grow by 31.6 per cent in 2014-15 and decline by 19.4 per cent in 2015-16. Since the 2014-15 MYEFO, PRRT receipts are expected to be $90 million lower in 2014-15 and $790 million lower over the four years to 2017-18, consistent with lower expected oil prices.

Goods and services tax

Receipts from GST are forecast to grow by 5.6 per cent in 2014-15, underpinned by solid growth in private dwelling investment and property ownership transfer costs, and 5.6 per cent in 2015-16 in line with expected growth in consumption subject to GST. Since the 2014-15 MYEFO, GST receipts have been revised up $1.6 billion over the four years to 2017-18, partly underpinned by the upward revision to the 2014-15 estimate owing to stronger-than-expected collections, as well as 2015-16 Budget measures including the extension of the GST compliance program and applying GST to digital products and services imported by consumers.

Excise and customs duty

Excise and customs duty receipts are forecast to decline by 4.3 per cent in 2014-15 and grow by 1.5 per cent in 2015-16. Excise and customs duty receipts have been revised down from the 2014-15 MYEFO by $520 million in 2014-15 and $4.5 billion over the four years to 2017-18.

Over the four years to 2017-18, receipts from fuel products (excluding crude oil) have been revised down, consistent with weaker forecast mining investment, economic activity and inflation. Crude oil excise has also been revised down, consistent with lower expected oil prices.

Lower forecasts for tobacco consumption have led to downward revisions to tobacco excise over the four years to 2017-18.

Other sales taxes

Other sales taxes include the wine equalisation tax (WET) and the luxury car tax (LCT).

WET receipts are forecast to grow by 1.9 per cent in 2014-15 and 5.1 per cent in 2015-16. Since the 2014-15 MYEFO, forecast WET receipts have been revised down by 1.8 per cent, or $60 million, over the four years to 2017-18, consistent with slightly lower expected prices.

LCT receipts are forecast to grow by 7.7 per cent in 2014-15 in line with stronger-than-expected sales of vehicles subject to LCT. Compared with the 2014-15 MYEFO, over the four years to 2017-18, LCT receipts have been revised up by $240 million.

Non-taxation receipts

Non-taxation receipts (including Future Fund earnings) are expected to grow by 17.8 per cent in 2014-15 and grow by 7.7 per cent in 2015-16. This largely relates to proceeds from the sale of spectrum licences.

Non-taxation receipts have been revised up from the 2014-15 MYEFO by $1.1 billion in 2015-16 and $258 million over the four years to 2017-18. This primarily reflects lower than expected forecasts of royalties, offset by increases in other non-taxation receipts, including the $1.5 billion of unspent funding from the Victorian Government in relation to the East West Link project required to be returned consistent with the obligations under relevant agreements with the Commonwealth.

The changes in the individual heads of revenue relative to the 2014-15 MYEFO are shown in Table 5 and Table 6 for 2014-15 and 2015-16 respectively.

Table 7 shows the Australian Government general government cash receipts from 2013-14 to 2018-19 by head of revenue.

Table 5: Reconciliation of 2014-15 general government (cash) receipts

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	166,700	166,300	-400	-0.2
Gross other individuals	37,300	37,600	300	0.8
less: Refunds	27,500	27,300	-200	-0.7
Total individuals and other withholding tax	176,500	176,600	100	0.1
Fringe benefits tax	4,350	4,350	0	0.0
Company tax	68,960	68,000	-960	-1.4
Superannuation fund taxes	7,040	6,140	-900	-12.8
Minerals resource rent tax(a)	60	60	0	0.0
Petroleum resource rent tax	1,890	1,800	-90	-4.8
Income taxation receipts	**258,800**	**256,950**	**-1,850**	**-0.7**
Goods and services tax	53,982	54,285	303	0.6
Wine equalisation tax	800	780	-20	-2.5
Luxury car tax	400	500	100	25.0
Excise and customs duty				
Petrol	5,950	6,000	50	0.8
Diesel	8,930	8,800	-130	-1.5
Other fuel products	3,260	2,960	-300	-9.2
Tobacco	8,310	8,280	-30	-0.4
Beer	2,410	2,340	-70	-2.9
Spirits	1,970	1,980	10	0.5
Other alcoholic beverages(b)	950	910	-40	-4.2
Other customs duty				
Textiles, clothing and footwear	590	650	60	10.2
Passenger motor vehicles	800	700	-100	-12.5
Other imports	1,570	1,600	30	1.9
less : Refunds and drawbacks	420	420	0	0.0
Total excise and customs duty	34,320	33,800	-520	-1.5
Carbon pricing mechanism	1,800	1,630	-170	-9.4
Agricultural levies	454	492	37	8.2
Other taxes	3,038	3,016	-23	-0.7
Indirect taxation receipts	**94,794**	**94,502**	**-292**	**-0.3**
Taxation receipts	**353,594**	**351,452**	**-2,142**	**-0.6**
Sales of goods and services	9,114	9,218	105	1.1
Interest received	3,469	3,131	-338	-9.7
Dividends	3,831	4,121	290	7.6
Other non-taxation receipts	9,475	9,386	-89	-0.9
Non-taxation receipts	**25,889**	**25,856**	**-33**	**-0.1**
Total receipts	**379,483**	**377,309**	**-2,174**	**-0.6**
Memorandum:				
Total excise	*25,260*	*24,050*	*-1,210*	*-4.8*
Total customs duty	*9,060*	*9,750*	*690*	*7.6*
Capital gains tax(c)	*8,900*	*8,900*	*0*	*0.0*
Medicare and DisabilityCare Australia levy	*14,130*	*14,050*	*-80*	*-0.6*

(a) Net receipts from the MRRT are expected to be $40 million in 2014-15 which represents the net receipts impact across different revenue heads. This includes the offsetting reductions in company tax (through deductibility) and interactions with other taxes. The MRRT will not apply beyond 30 September 2014.
(b) Other alcoholic beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(c) Capital gains tax is part of gross other individuals, company tax and superannuation fund taxes.

Table 6: Reconciliation of 2015-16 general government (cash) receipts

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	178,800	176,800	-2,000	-1.1
Gross other individuals	41,100	40,800	-300	-0.7
less: Refunds	28,100	28,000	-100	-0.4
Total individuals and other withholding tax	191,800	189,600	-2,200	-1.1
Fringe benefits tax	4,890	4,880	-10	-0.2
Company tax	70,800	68,200	-2,600	-3.7
Superannuation fund taxes	9,630	9,080	-550	-5.7
Minerals resource rent tax(a)	0	0	0	0.0
Petroleum resource rent tax	1,700	1,450	-250	-14.7
Income taxation receipts	**278,820**	**273,210**	**-5,610**	**-2.0**
Goods and services tax	57,468	57,316	-153	-0.3
Wine equalisation tax	830	820	-10	-1.2
Luxury car tax	360	450	90	25.0
Excise and customs duty				
Petrol	6,150	6,100	-50	-0.8
Diesel	9,340	9,110	-230	-2.5
Other fuel products	3,150	2,840	-310	-9.8
Tobacco	9,560	9,370	-190	-2.0
Beer	2,470	2,390	-80	-3.2
Spirits	2,030	2,030	0	0.0
Other alcoholic beverages(b)	990	960	-30	-3.0
Other customs duty				
Textiles, clothing and footwear	310	380	70	22.6
Passenger motor vehicles	520	420	-100	-19.2
Other imports	1,070	1,120	50	4.7
less: Refunds and drawbacks	420	420	0	0.0
Total excise and customs duty	35,170	34,300	-870	-2.5
Carbon pricing mechanism	0	0	0	0.0
Agricultural levies	478	472	-6	-1.3
Other taxes	3,477	3,573	96	2.8
Indirect taxation receipts	**97,784**	**96,930**	**-853**	**-0.9**
Taxation receipts	**376,604**	**370,140**	**-6,463**	**-1.7**
Sales of goods and services	9,202	9,475	274	3.0
Interest received	4,022	3,334	-688	-17.1
Dividends	3,407	4,623	1,216	35.7
Other non-taxation receipts	10,128	10,407	279	2.8
Non-taxation receipts	**26,759**	**27,840**	**1,081**	**4.0**
Total receipts	**403,362**	**397,980**	**-5,382**	**-1.3**
Memorandum:				
Total excise	*26,860*	*24,820*	*-2,040*	*-7.6*
Total customs duty	*8,310*	*9,480*	*1,170*	*14.1*
Capital gains tax(c)	*11,300*	*11,500*	*200*	*1.8*
Medicare and DisabilityCare Australia levy	*15,040*	*14,870*	*-170*	*-1.1*

(a) The MRRT will not apply beyond 30 September 2014.
(b) Other alcoholic beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(c) Capital gains tax is part of gross other individuals, company tax and superannuation fund taxes.

Table 7: Australian Government general government (cash) receipts

	Actual	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m	$m
Individuals and other withholding taxes						
Gross income tax withholding	156,211	166,300	176,800	187,600	199,600	213,800
Gross other individuals	34,787	37,600	40,800	43,900	48,000	52,600
less: Refunds	27,407	27,300	28,000	28,400	30,000	31,600
Total individuals and other withholding tax	163,592	176,600	189,600	203,100	217,600	234,800
Fringe benefits tax	4,077	4,350	4,880	5,090	4,920	5,160
Company tax	67,273	68,000	68,200	73,800	80,200	86,200
Superannuation fund taxes	6,101	6,140	9,080	10,530	11,210	11,760
Minerals resource rent tax(a)	143	60	0	0	0	0
Petroleum resource rent tax	1,368	1,800	1,450	1,450	1,400	1,400
Income taxation receipts	**242,553**	**256,950**	**273,210**	**293,970**	**315,330**	**339,320**
Goods and services tax	51,394	54,285	57,316	61,231	64,803	68,520
Wine equalisation tax	766	780	820	850	890	940
Luxury car tax	464	500	450	400	410	420
Excise and customs duty						
Petrol	6,053	6,000	6,100	6,250	6,600	7,000
Diesel	8,940	8,800	9,110	9,520	9,930	10,490
Other fuel products	3,624	2,960	2,840	2,840	2,930	3,050
Tobacco	8,498	8,280	9,370	10,180	10,410	10,720
Beer	2,348	2,340	2,390	2,500	2,640	2,770
Spirits	1,909	1,980	2,030	2,140	2,240	2,370
Other alcoholic beverages(b)	927	910	960	1,000	1,050	1,130
Other customs duty						
Textiles, clothing and footwear	789	650	380	290	210	180
Passenger motor vehicles	921	700	420	400	400	450
Other imports	1,631	1,600	1,120	1,010	990	1,090
less: Refunds and drawbacks	319	420	420	420	420	420
Total excise and customs duty	35,321	33,800	34,300	35,710	36,980	38,830
Carbon pricing mechanism	4,363	1,630	0	0	0	0
Agricultural levies	495	492	472	480	488	494
Other taxes	3,012	3,016	3,573	3,781	3,861	3,945
Indirect taxation receipts	**95,815**	**94,502**	**96,930**	**102,452**	**107,432**	**113,149**
Taxation receipts	**338,368**	**351,452**	**370,140**	**396,422**	**422,762**	**452,469**
Sales of goods and services	8,579	9,218	9,475	11,735	16,274	20,008
Interest received	3,128	3,131	3,334	3,537	3,692	4,069
Dividends	2,978	4,121	4,623	3,305	3,745	4,054
Other non-taxation receipts	7,268	9,386	10,407	7,463	7,122	7,632
Non-taxation receipts	**21,954**	**25,856**	**27,840**	**26,040**	**30,833**	**35,764**
Total receipts	**360,322**	**377,309**	**397,980**	**422,461**	**453,595**	**488,233**
Memorandum:						
Total excise	*26,075*	*24,050*	*24,820*	*25,880*	*27,000*	*28,380*
Total customs duty	*9,246*	*9,750*	*9,480*	*9,830*	*9,980*	*10,450*
Capital gains tax(c)	*7,200*	*8,900*	*11,500*	*13,900*	*15,900*	*17,400*
Medicare and DisabilityCare Australia levy	*10,500*	*14,050*	*14,870*	*15,570*	*16,290*	*17,100*

(a) Net receipts from the MRRT are expected to be $40 million in 2014-15 which represents the net receipt impact across different revenue heads. This includes the offsetting reductions in company tax (through deductibility) and interactions with other taxes. The MRRT will not apply beyond 30 September 2014.

(b) Other alcoholic beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).

(c) Capital gains tax is part of gross other individuals, company tax and superannuation fund taxes. The 2013-14 reported figure is an estimate.

VARIATIONS IN REVENUE ESTIMATES

The revenue estimates are the accrual accounting equivalent of the cash-based receipts estimates. Changes in revenue are generally driven by the same factors — policy as well as parameter and other variations — as receipts. The timing of revenue and receipts estimates may vary. Table 8 provides a reconciliation of the Budget's revenue estimates with those at the 2014-15 MYEFO.

Table 8: Reconciliation of total Australian Government general government revenue estimates from the 2014-15 MYEFO

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	Total
	$m	$m	$m	$m	$m
Revenue at 2014-15 MYEFO	**385,876**	**411,682**	**441,036**	**473,174**	**1,711,769**
Per cent of GDP	24.0	24.5	25.0	25.5	
Changes from 2014-15 MYEFO to 2015-16 Budget					
Effect of policy decisions(a)	45	-162	39	463	385
Effect of parameter and other variations	-1,823	-6,170	-7,649	-7,459	-23,101
Total variations	**-1,778**	**-6,332**	**-7,610**	**-6,996**	**-22,716**
Revenue at 2015-16 Budget	**384,098**	**405,350**	**433,427**	**466,178**	**1,689,053**

(a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

Since the 2014-15 MYEFO, total revenue has been revised down by around $1.8 billion in 2014-15 and $22.7 billion over the four years to 2017-18. The factors affecting revisions to tax receipts are also at play with regards to revenue.

The changes to individual heads of revenue accrual estimates since the 2014-15 MYEFO are shown in Tables 9 and 10. For the five year accrual table, the accrual equivalent of Table 7, see Budget Statement 9, Note 3.

Revenue and receipts historical tables that have previously been published in Appendix C of Budget Statement 5 are now available online and can be accessed at www.budget.gov.au.

Table 9: Reconciliation of 2014-15 general government (accrual) revenue

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	168,430	167,860	-570	-0.3
Gross other individuals	40,470	40,600	130	0.3
less: Refunds	27,500	27,300	-200	-0.7
Total individuals and other withholding tax	181,400	181,160	-240	-0.1
Fringe benefits tax	4,480	4,480	0	0.0
Company tax	70,930	69,900	-1,030	-1.5
Superannuation fund taxes	7,130	6,200	-930	-13.0
Minerals resource rent tax(a)	60	60	0	0.0
Petroleum resource rent tax	1,770	1,640	-130	-7.3
Income taxation revenue	**265,770**	**263,440**	**-2,330**	**-0.9**
Goods and services tax	56,820	56,690	-130	-0.2
Wine equalisation tax	810	820	10	1.2
Luxury car tax	400	510	110	27.5
Excise and customs duty				
Petrol	5,970	6,020	50	0.8
Diesel	8,960	8,830	-130	-1.5
Other fuel products	3,280	2,980	-300	-9.1
Tobacco	8,320	8,290	-30	-0.4
Beer	2,430	2,350	-80	-3.3
Spirits	1,970	1,980	10	0.5
Other alcoholic beverages(b)	950	910	-40	-4.2
Other customs duty				
Textiles, clothing and footwear	590	650	60	10.2
Passenger motor vehicles	800	700	-100	-12.5
Other imports	1,570	1,600	30	1.9
less: Refunds and drawbacks	420	420	0	0.0
Total excise and customs duty	34,420	33,890	-530	-1.5
Carbon pricing mechanism	0	0	0	0.0
Agricultural levies	454	492	37	8.2
Other taxes	3,285	3,275	-10	-0.3
Indirect taxation revenue	**96,190**	**95,677**	**-513**	**-0.5**
Taxation revenue	**361,959**	**359,117**	**-2,843**	**-0.8**
Sales of goods and services	9,190	9,277	87	0.9
Interest	3,987	3,653	-334	-8.4
Dividends	3,396	4,796	1,401	41.2
Other non-taxation revenue	7,344	7,255	-89	-1.2
Non-taxation revenue	**23,917**	**24,981**	**1,064**	**4.5**
Total revenue	**385,876**	**384,098**	**-1,778**	**-0.5**
Memorandum:				
Total excise	*25,360*	*24,140*	*-1,220*	*-4.8*
Total customs duty	*9,060*	*9,750*	*690*	*7.6*
Capital gains tax(c)	*8,900*	*8,900*	*0*	*0.0*
Medicare and DisabilityCare Australia levy	*14,130*	*14,050*	*-80*	*-0.6*

(a) Net revenue from the MRRT is expected to be $40 million in 2014-15 which represents the net revenue impact across different revenue heads. This includes the offsetting reductions in company tax (through deductibility) and interactions with other taxes. The MRRT will not apply beyond 30 September 2014.

(b) Other alcoholic beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).

(c) Capital gains tax is part of gross other individuals, company tax and superannuation fund taxes.

Table 10: Reconciliation of 2015-16 general government (accrual) revenue

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	180,660	178,460	-2,200	-1.2
Gross other individuals	44,550	43,800	-750	-1.7
less: Refunds	28,100	28,000	-100	-0.4
Total individuals and other withholding tax	197,110	194,260	-2,850	-1.4
Fringe benefits tax	5,030	5,020	-10	-0.2
Company tax	72,500	69,800	-2,700	-3.7
Superannuation fund taxes	9,760	9,180	-580	-5.9
Minerals resource rent tax(a)	0	0	0	0.0
Petroleum resource rent tax	1,700	1,420	-280	-16.5
Income taxation revenue	**286,100**	**279,680**	**-6,420**	**-2.2**
Goods and services tax	60,390	60,330	-60	-0.1
Wine equalisation tax	840	840	0	0.0
Luxury car tax	360	450	90	25.0
Excise and customs duty				
Petrol	6,200	6,130	-70	-1.1
Diesel	9,370	9,140	-230	-2.5
Other fuel products	3,170	2,850	-320	-10.1
Tobacco	9,580	9,390	-190	-2.0
Beer	2,480	2,400	-80	-3.2
Spirits	2,030	2,030	0	0.0
Other alcoholic beverages(b)	990	960	-30	-3.0
Other customs duty				
Textiles, clothing and footwear	310	380	70	22.6
Passenger motor vehicles	520	420	-100	-19.2
Other imports	1,070	1,120	50	4.7
less: Refunds and drawbacks	420	420	0	0.0
Total excise and customs duty	35,300	34,400	-900	-2.5
Carbon pricing mechanism	0	0	0	0.0
Agricultural levies	478	472	-6	-1.3
Other taxes	3,781	3,902	121	3.2
Indirect taxation revenue	**101,149**	**100,394**	**-755**	**-0.7**
Taxation revenue	**387,249**	**380,074**	**-7,175**	**-1.9**
Sales of goods and services	9,258	9,542	284	3.1
Interest	4,672	4,083	-589	-12.6
Dividends	3,170	3,143	-27	-0.9
Other non-taxation revenue	7,333	8,508	1,175	16.0
Non-taxation revenue	**24,433**	**25,276**	**843**	**3.5**
Total revenue	**411,682**	**405,350**	**-6,332**	**-1.5**
Memorandum:				
Total excise	*26,990*	*24,920*	*-2,070*	*-7.7*
Total customs duty	*8,310*	*9,480*	*1,170*	*14.1*
Capital gains tax(c)	*11,300*	*11,500*	*200*	*1.8*
Medicare and DisabilityCare Australia levy	*15,040*	*14,870*	*-170*	*-1.1*

(a) The MRRT will not apply beyond 30 September 2014.
(b) Other alcoholic beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(c) Capital gains tax is part of gross other individuals, company tax and superannuation fund taxes.

APPENDIX A: TAX EXPENDITURES

This appendix contains an overview of Australian Government tax expenditures, as required by the *Charter of Budget Honesty Act 1998* (CBHA).

The CBHA also requires the publication of an annual Tax Expenditures Statement (TES). The 2014 TES was published in January 2015 and provides a detailed description of Australian Government tax expenditures and, where possible, the estimated value or order of magnitude of each tax expenditure.

- A tax expenditure arises where the actual tax treatment of an activity or class of taxpayer differs from the benchmark tax treatment. The choice of benchmark unavoidably involves judgment and may therefore be contentious in some cases. This choice should not be interpreted as indicating a view on how an activity or class of taxpayer ought to be taxed.

Consistent with most OECD countries, estimates of the size of tax expenditures in the TES reflect the existing utilisation of a tax expenditure, similar to Budget estimates of outlays on demand-driven expenditure programmes.

- This is known as the 'revenue forgone' approach which, in practice, involves estimating the difference in revenue between the existing and benchmark tax treatments but importantly assuming taxpayer behaviour is the same in each circumstance.

Revenue forgone estimates therefore do not indicate the revenue loss to the Australian Government budget if specific tax expenditures were abolished, as there may be significant changes in taxpayer behaviour were tax expenditures to be removed.

Care needs to be taken when comparing tax expenditures with direct expenditures as they may, for example, measure different things. In addition, estimates from different editions of the TES are generally not comparable because benchmarks may have changed.

The information in Table A1 is derived from the 2014 TES and does not include the impact of decisions in this Budget on tax expenditures. Further information on tax expenditures is available in the 2014 TES.

Table A1: Estimates of large measured tax expenditures

Tax expenditure		Estimate $m			
		2015-16	2016-17	2017-18	2018-19
Large positive tax expenditures					
E6	Capital gains tax main residence exemption — discount component	25,500	25,500	26,000	26,500
E5	Capital gains tax main residence exemption	20,500	21,000	21,500	22,000
C3	Concessional taxation of employer superannuation contributions	17,350	18,100	19,050	20,150
C6	Concessional taxation of superannuation entity earnings	16,150	21,600	26,800	30,400
H28	GST - Food	6,700	7,000	7,300	7,600
E11	Capital gains tax discount for individuals and trusts	6,150	6,840	7,600	8,570
H16	GST - Education	4,300	4,700	5,150	5,600
H2	GST - Financial supplies - input taxed treatment	3,750	3,950	4,150	4,350
H19	GST - Health - medical and health services	3,800	4,100	4,400	4,700
C5	Concessional taxation of non-superannuation termination benefits	1,950	1,900	1,900	1,850
A38	Exemption of Family Tax Benefit payments	2,170	2,110	2,040	2,100
B73	Statutory effective life caps	1,930	1,850	1,745	1,650
B14	Exemption from interest withholding tax on certain securities	1,860	1,860	1,860	1,860
A19	Medicare levy exemption for residents with taxable income below the low-income thresholds	1,860	1,930	2,000	2,070
A17	Exemption of the Private Health Insurance Rebate	1,690	1,760	1,850	1,940
D10	Exemption for public and not-for-profit hospitals and public ambulance services	1,500	1,600	1,700	1,800
D14	Exemption for public benevolent institutions (excluding public and not-for-profit hospitals)	1,430	1,510	1,580	1,660
F8	Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	1,310	1,400	1,500	1,580
H20	GST - Health - residential care, community care and other care services	1,190	1,270	1,360	1,460
A54	Philanthropy - deduction for gifts to deductible gift recipients	1,140	1,170	1,190	1,220
H5	GST - Child care services	1,220	1,340	1,470	1,600
B80	Research and development - non-refundable tax offset	980	960	980	980
H6	GST - Water, sewerage and drainage	1,170	1,290	1,430	1,590
B75	Capital works expenditure deduction	1,005	1,055	1,110	1,160
H3	GST - Financial supplies - reduced input tax credits	940	990	1,050	1,100
Large negative tax expenditures					
F24	Customs duty	-1,490	-1,250	-1,230	-1,210
F12	Higher rate of excise levied on cigarettes not exceeding 0.8 grams of tobacco	-2,195	-2,555	-2,690	-2,790

STATEMENT 5: EXPENSES AND NET CAPITAL INVESTMENT

Statement 5 presents estimates of general government sector expenses and net capital investment, allocated according to the various functions of government, on a fiscal balance basis. These functions are based on an international standard classification of functions of government that is incorporated into the Government Finance Statistics (GFS) reporting framework.

The first part of this statement provides information on trends in estimated expenses while the second part presents trends in net capital investment estimates. Estimates are on an Australian Government general government sector basis.

Statement 5 focuses on short to medium term trends in estimated expenses and their underlying drivers. Consistent with this emphasis, much of Statement 5 explains year on year changes across the forward estimates period.

The main trends are:

- in 2015-16 the social security and welfare, health, defence and education functions account for nearly two thirds of total expenses, with social security and welfare accounting for slightly more than one third of total expenses;
- in real terms, the strongest growth across the budget and forward estimates is expected to occur in the social security and welfare function; and
- net capital investment in 2015-16 largely reflects continued investment in defence capital projects.

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STATEMENT 5: EXPENSES AND NET CAPITAL INVESTMENT

OVERVIEW

Australian Government general government sector (GGS) accrual expenses are expected to increase by 0.9 per cent in real terms in 2015-16, with the growth rate increasing to 3.3 per cent in 2018-19, predominantly reflecting the implementation of the National Disability Insurance Scheme. Total expenses are expected to decline as a percentage of GDP from 26.2 per cent in 2015-16 to 25.8 per cent over the forward estimates.

Table 1.1: Estimates of general government sector expenses

	MYEFO	Revised	Estimate		Projections	
	2014-15	2014-15	2015-16	2016-17	2017-18	2018-19
Total expenses ($b)	**422.9**	**420.3**	**434.5**	**452.7**	**471.8**	**499.4**
Real growth on previous year (%)(a)	-0.2	-0.2	0.9	1.7	1.8	3.3
Per cent of GDP	26.3	26.2	26.2	25.9	25.7	25.8

(a) Real growth is calculated using the consumer price index.

When presented in underlying cash terms, total payments are expected to decline as a percentage of GDP from 25.9 per cent in 2015-16 to 25.3 per cent over the forward estimates.

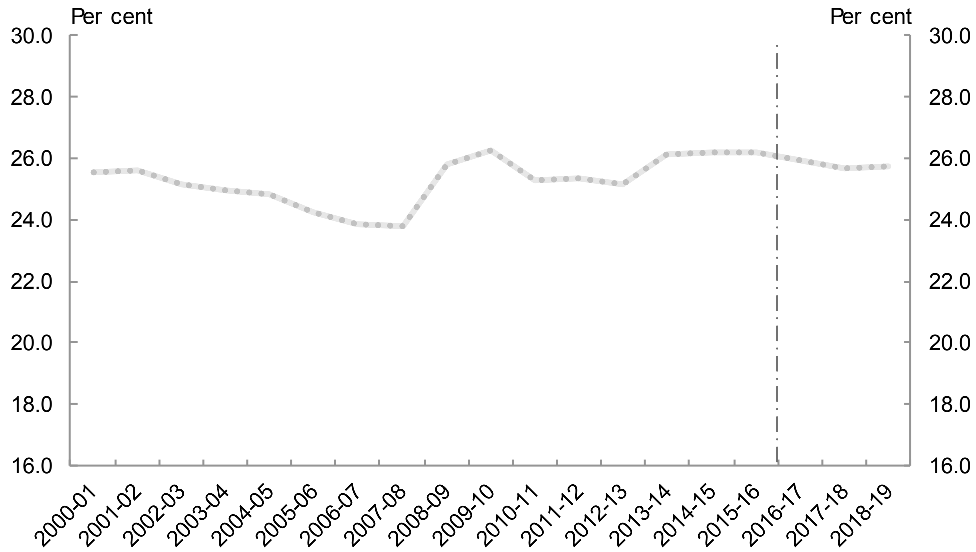
Table 1.2: Estimates of general government sector payments

	MYEFO	Revised	Estimate		Projections	
	2014-15	2014-15	2015-16	2016-17	2017-18	2018-19
Total payments ($b)	**416.5**	**415.0**	**429.8**	**444.9**	**464.3**	**491.1**
Real growth on previous year (%)(a)	0.1	0.4	1.1	1.0	1.9	3.2
Per cent of GDP	25.9	25.9	25.9	25.5	25.3	25.3

(a) Real growth is calculated using the consumer price index.

As set out in Statement 3 of Budget Paper No. 1, the Government also reports spending on an underlying cash basis. When expressed in cash terms, Government spending is forecast to grow by an average of 1.5 per cent per annum in real terms over the four years to 2018-19.

Chart 1: Total spending as percentage of GDP



Over the period between 2007-08 and 2013-14, total expenditure rose as a percentage of GDP from 23.8 per cent of GDP in 2007-08 to an estimate of 26.2 per cent of GDP in 2013-14. Over the forward estimates, expenses are expected to decline to 25.8 per cent of GDP in 2018-19 (see Chart 1).

Table 2 provides a reconciliation of expense estimates between the 2014-15 Budget, the 2014-15 *Mid-Year Economic and Fiscal Outlook* (MYEFO) and the 2015-16 Budget showing the effect of policy decisions, and economic parameter and other variations.

Table 2: Reconciliation of expense estimates

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	Total
	$m	$m	$m	$m	$m
2014-15 Budget expenses	**414,845**	**431,118**	**453,806**	**475,447**	**1,775,216**
Changes from 2014-15 Budget to 2014-15 MYEFO					
Effect of policy decisions(a)	2,802	2,288	253	-1,418	3,925
Effect of parameter and other variations	5,251	3,078	2,038	1,281	11,647
Total variations	**8,053**	**5,366**	**2,291**	**-137**	**15,572**
2014-15 MYEFO expenses	**422,898**	**436,484**	**456,097**	**475,310**	**1,790,788**
Changes from 2014-15 MYEFO to 2015-16 Budget					
Effect of policy decisions(a)	669	3,887	1,912	2,276	8,743
Effect of economic parameter variations					
Total economic parameter variations	-25	-1,289	-468	-230	-2,012
Unemployment benefits	*-213*	*12*	*423*	*596*	*817*
Prices and wages	*-84*	*-1,185*	*-1,441*	*-1,608*	*-4,317*
Interest and exchange rates	*-18*	*35*	*-11*	*-88*	*-82*
GST payments to the States	*290*	*-150*	*560*	*870*	*1,570*
Public debt interest	-265	-455	-489	-594	-1,804
Programme specific parameter variations	-403	622	-653	-697	-1,131
Other variations	-2,538	-4,779	-3,745	-4,250	-15,312
Total variations	**-2,563**	**-2,015**	**-3,443**	**-3,495**	**-11,515**
2015-16 Budget expenses	**420,335**	**434,469**	**452,654**	**471,816**	**1,779,273**

(a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

The combined impact of policy decisions and variations has decreased expenses by $11.6 billion over the four years from 2014-15 to 2017-18 compared to the 2014-15 MYEFO. The Government has made policy decisions which increase expenses by $8.7 billion. Programme specific, parameter and other variations have decreased expenses by $20.3 billion, $7.4 billion of which is a result of the Government's decision to not proceed with the Paid Parental Leave Scheme.

Estimated expenses by function

Table 3 sets out the estimates of Australian Government GGS expenses by function for the period 2014-15 to 2018-19.

Table 3: Estimates of expenses by function

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
General public services	25,169	22,162	22,936	22,224	22,543
Defence	24,612	26,348	26,106	27,631	28,783
Public order and safety	4,580	4,885	4,851	4,735	4,806
Education	31,202	31,854	33,133	34,055	35,115
Health	67,037	69,381	71,634	74,076	76,987
Social security and welfare	149,107	154,000	159,654	170,719	186,869
Housing and community amenities	4,940	5,329	5,242	5,041	4,553
Recreation and culture	3,520	3,530	3,350	3,294	3,287
Fuel and energy	6,986	6,706	6,705	6,895	7,237
Agriculture, forestry and fishing	2,731	3,063	2,930	2,780	2,408
Mining, manufacturing and construction	3,218	3,142	3,129	3,082	3,092
Transport and communication	6,504	8,575	11,198	9,304	6,315
Other economic affairs	10,680	9,792	8,918	8,850	8,950
Other purposes	80,049	85,701	92,869	99,131	108,483
Total expenses	**420,335**	**434,469**	**452,654**	**471,816**	**499,428**

Major expense trends between 2014-15 and 2015-16, and from 2015-16 over the forward years include movements in the following functions:

- **general public services** — the decrease in expenses between 2014-15 and 2015-16 largely reflects the use of different discount rates applied to superannuation expenses and returning the level of official development assistance (ODA) expenditure in real terms to the levels that applied when ODA was last funded from Budget surpluses rather than debt. From 2015-16 to 2018-19 expenses in the general public services function are estimated to remain relatively stable;

- **defence** — the decrease in expenses from 2015-16 to 2016-17 largely reflects the practice of funding overseas operations on a year-by-year basis. Between 2015-16 and 2018-19, Defence expenses are projected to grow by 9.2 per cent in nominal terms (1.6 per cent in real terms);

- **education** — the increase in expenses from 2015-16 to 2018-19 largely reflects the Government's *Students First* school education policy, ongoing enrolment growth under the expanded higher education demand driven system, and an increase in the value of Higher Education Loan Programme loans which will vary with enrolment numbers and the number and value of HELP loans;

- **health** — the increase in expenses from 2015-16 to 2018-19 is driven by a range of programmes within the Medical Services and Benefits, Pharmaceutical Benefits and Services and Assistance to the States for public hospitals sub-functions. Higher demand for health services, and a growing and ageing population, continue to be significant drivers of increasing health costs;

- **social security and welfare** — the increase in expenses from 2015-16 to 2018-19 largely reflects the implementation of the National Disability Insurance Scheme to support people with a significant and permanent disability, and an increasingly ageing population accessing age, disability and carer payments and residential and home care. This increase is partly offset by decreasing expenses in other social security and welfare programmes such as Family Tax Benefit and Paid Parental Leave;

- **housing and community amenities** — the decrease in expenses from 2015-16 to 2018-19 largely reflects the scheduled completion of payments made to state and territory governments under two National Partnership Agreements and forecast reductions of construction and acquisition of Defence Housing Australia properties;

- **transport and communication** — the fluctuating profile of expenses from 2015-16 to 2018-19 largely reflects infrastructure projects within the Rail Transport and Road Transport sub-functions, where the value of projects funded varies year on year, and payments correspond to project timelines; and

- **other purposes** — the increase in expenses from 2015-16 to 2018-19 largely reflects growing general revenue assistance payments (largely GST) to be made to the states and territories, increasing public debt interest costs and the conservative bias allowance component of the Contingency Reserve.

Government expenses are strongly influenced by underlying trends in spending in the social security and welfare, health and education functions (see Boxes 1 and 2). Together, these functions account for 58.7 per cent of all government expenses in 2015-16. Further details of spending trends against all functions, including movements in expenses from 2014-15 to 2015-16, are set out under individual function headings.

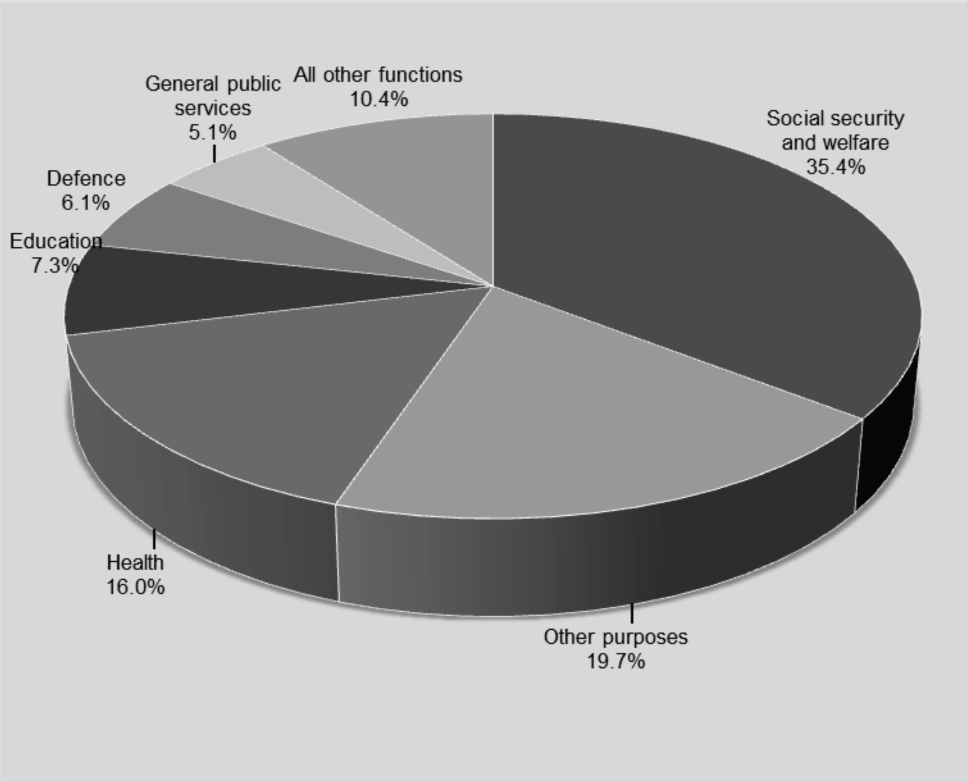
Box 1: Where does government spending go in 2015-16?

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, people with disabilities, veterans, carers and unemployed people.

Another one sixth of government expenses occur in health, including Medicare Benefits Schedule (MBS) and Pharmaceutical Benefits Scheme (PBS) 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.

Chart 2: Expenses by function in 2015-16



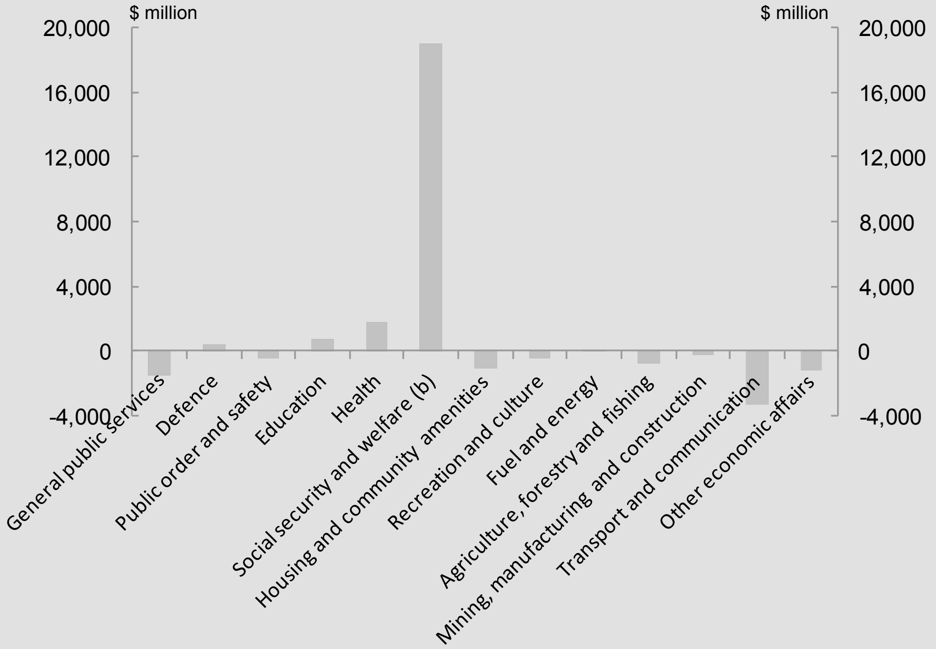
The estimates presented in the chart above are explained in greater detail under each individual function in the following pages.

Box 2: Trends in future spending

Social security and welfare expenses are projected to grow over the forward estimates. The key factor of growth is the implementation of the National Disability Insurance Scheme. Other factors driving growth include age, disability and carer payments and an increase in expenses associated with home care, home support, and residential and flexible aged care programmes, with demographic factors resulting in an increase in the number of people receiving these payments.

A number of major health programmes will continue to see expenditure growth in real terms, including the MBS, the Private Health Insurance Rebate, and payments to the states and territories for public hospital services. Spending on health is influenced by population growth and to some extent by the ageing of the population together with developments in health technology and the resulting use of new products and services.

Chart 3: Total real growth in expenses by function — 2015-16 to 2018-19(a)

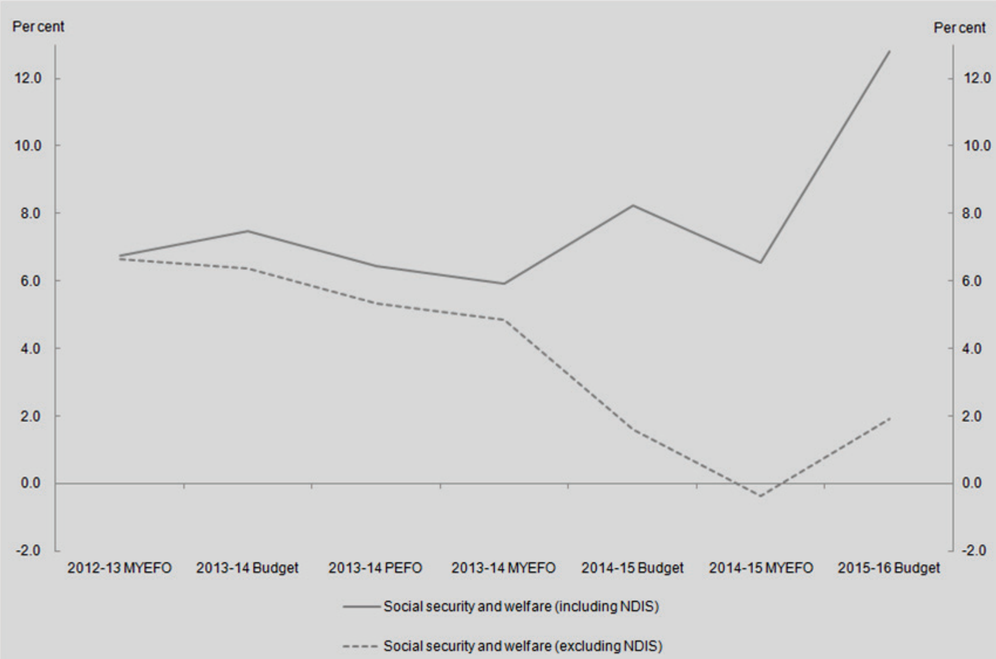


(a) The other purposes function is not included in this chart as it contains expenses for general revenue assistance to the state and territory governments (primarily GST), public debt interest, and the conservative bias allowance.
(b) The growth in the social security and welfare function mainly reflects the implementation of the National Disability Insurance Scheme.

Box 2.1: Trends in social security and welfare spending

Chart 3.1 shows rates of real expenditure growth in the social security and welfare function over the forward estimates at each budget update with and without the National Disability Insurance Scheme. In 2015-16, expenditure growth in the social security and welfare function reflects the costs associated with the substantial ramp up of the implementation of the National Disability Insurance Scheme moving into the forward estimates period.

Chart 3.1: Total real growth rates over the forward estimates at each Budget and Economic update from 2012-13 MYEFO to 2015-16 Budget (a)



(a) NDIS figures includes some payments of monies received from the states and territories.

Programme expenses

Table 3.1 reports the top 20 expense programmes in the 2015-16 financial year. These programmes represent approximately two thirds of total expenses in that year. More than half of the top 20 expense programmes provide financial assistance or services to seniors, families, people with a disability, students, carers and the unemployed.

Table 3.1: Top 20 programmes by expenses in 2015-16

Programme(a)	Function	Estimates			Projections	
		2014-15	2015-16	2016-17	2017-18	2018-19
		$m	$m	$m	$m	$m
Revenue Assistance to the States and Territories	Other purposes	55,178	57,749	61,660	65,149	68,745
Income support for seniors	SSW	41,648	44,178	46,234	47,719	50,371
Medicare Services	Health	20,321	21,141	22,126	22,975	24,272
Family tax benefit	SSW	21,519	20,152	18,737	17,785	18,142
Income Support for People with Disability	SSW	16,746	17,059	17,514	17,987	18,599
Assistance to the States for public hostpitals(b)	Health	15,459	16,441	17,382	18,103	18,873
Job seeker income support	SSW	10,810	11,515	11,591	11,445	12,048
Residential and flexible care	SSW	9,683	10,161	10,697	11,331	12,064
Non-government schools - national support	Education	9,417	9,997	10,653	11,179	11,620
Pharmaceutical and pharmaceutical services	Health	9,481	9,970	10,457	10,841	11,178
Public sector superannuation(c)	Other purposes; General public services	8,633	8,187	8,387	8,581	8,774
Income support for carers	SSW	7,497	8,107	8,799	9,485	10,070
Child Care Fee Assistance(d)		6,510	7,261	7,923	0	0
Child Care Subsidy(d)	SSW	0	0	0	10,003	11,018
Army capabilities	Defence	6,559	6,779	6,483	6,397	6,391
Commonwealth Grants Scheme	Education	6,454	6,653	6,439	6,529	6,677
Private health insurance	Health	6,148	6,341	6,587	6,850	7,300
Fuel tax credits scheme	Fuel and energy	6,142	6,230	6,461	6,679	7,044
Government schools national support	Education	5,247	5,746	6,359	6,852	7,140
Parents' income support	SSW	5,683	5,703	5,733	5,819	6,097
Air force capabilities	Defence	5,180	5,546	5,119	5,232	5,246
Sub-total		**274,315**	**284,915**	**295,343**	**306,937**	**321,670**
Other programmes		146,020	149,553	157,311	164,878	177,758
Total expenses		**420,335**	**434,469**	**452,654**	**471,816**	**499,428**

(a) The entry for each programme includes eliminations for inter-agency transactions within that programme.
(b) Estimates for the Assistance to the States for healthcare services programme have moved to the Assistance to the States for public hospitals programme starting 2017-18.
(c) This programme is a combination of the public sector superannuation nominal interest and benefits payments.
(d) Child Care Fee Assistance includes the Child Care Benefit and Child Care Rebate. After 2017-18, the Child Care Benefit and Child Care Rebate will be replaced by the new Child Care Subsidy.

General government sector expenses

General public services

The general public services function includes expenses to support 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

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Legislative and executive affairs	1,165	1,058	1,234	1,054	1,069
Financial and fiscal affairs	7,763	7,934	8,532	8,430	8,533
Foreign affairs and economic aid	6,324	5,422	5,663	5,573	5,740
General research	2,847	2,716	2,674	2,534	2,627
General services	860	913	877	888	906
Government superannuation benefits	6,208	4,119	3,956	3,745	3,667
Total general public services	**25,169**	**22,162**	**22,936**	**22,224**	**22,543**

Total general public services expenses are estimated to decrease by 14.0 per cent in real terms from 2014-15 to 2015-16, and decrease by 5.4 per cent in real terms over the period 2015-16 to 2018-19.

The uneven profile of expenses under the **legislative and executive affairs** sub-function partly reflects costs that will be incurred by the Australian Electoral Commission to support the scheduled federal election in 2016-17 and costs incurred by the Department of the Prime Minister and Cabinet due to Australia hosting the Group of 20 in 2014.

Expenses in the **financial and fiscal affairs** sub-function are expected to increase from 2015-16 to 2018-19, due to bad and doubtful debts expenses that are expected to increase in line with the normal growth in taxation revenue over the forward estimates. The increase in expenses from 2016-17 reflects funding for the Australian Bureau of Statistics to conduct the 2016 census and expenses associated with concessional loans under the northern Australia loan facility.

The fall in expenses from 2014-15 to 2015-16 in the **government superannuation benefits** sub-function reflects the use of different discount rates. In accordance with accounting standards, the superannuation expenses for 2014-15 apply a discount rate based on long-term government bonds at the commencement of the financial year (4.1 per cent). Forward years are estimated based on the discount rate applied by the superannuation scheme actuaries in preparing long term cost reports (6 per cent).

Table 4.1: Trends in the major components of foreign affairs and economic aid sub-function expenses

Component(a)	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Foreign aid(b)	4,395	3,344	3,565	3,592	3,739
Diplomacy(c)	854	900	904	812	816
Payments to international organisations	328	416	437	461	484
Passport services	243	245	246	247	247
International police assistance	240	229	216	152	147
International agriculture research and development	126	119	131	132	131
Consular services	79	97	96	87	87
Finance and insurance services for Australian exporters and investors	22	20	15	17	15
Other	37	53	52	74	74
Total	**6,324**	**5,422**	**5,663**	**5,573**	**5,740**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) The foreign aid figures reflect aid spending by the Department of Foreign Affairs and Trade in accrual terms. This differs from the international measure of aid reporting, official development assistance (ODA), which is in cash terms. Aid spending by other agencies is usually reflected in other sub-functions.
(c) Diplomacy includes Departmental expenditure for the Department of Foreign Affairs and Trade's Operations, Security and IT, overseas property and international climate change engagement.

Total expenses under the **foreign affairs and economic aid** sub-function are expected to decrease by 16.3 per cent in real terms from 2014-15 to 2015-16 and are forecast to decrease by 1.6 per cent in real terms across the forward years from 2015-16.

The decrease from 2014-15 to 2015-16 is primarily due to the Government's decision in the 2014-15 MYEFO to return the level of official development assistance (ODA) expenditure in real terms to the levels that applied when it was last funded from budget surpluses rather than debt. The decrease across the forward years from 2015-16 is primarily due to measures terminating in 2016-17 relating to Australia's diplomatic overseas network and international policing assistance.

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

Component(a)	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Research - national flagships, science and services	1,018	1,025	1,030	1,041	1,077
Discovery - research and research training	551	515	490	516	519
Science and technology solutions	296	296	302	289	295
Linkage - cross sector research partnerships	327	276	263	269	276
Supporting science and commercialisation	228	179	157	142	174
Research capacity	185	166	156	6	5
Other	243	259	274	270	281
Total	**2,847**	**2,716**	**2,674**	**2,534**	**2,627**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

The **general research** sub-function incorporates expenses incurred by the Commonwealth Scientific and Industrial Research Organisation (CSIRO), the Australian Nuclear Science and Technology Organisation (ANSTO), the Australian Institute of Marine Science (AIMS) and the Australian Research Council (ARC).

Total expenses under this sub-function are expected to decrease in real terms by 6.8 per cent from 2014-15 to 2015-16 and by 10.1 per cent across the forward estimates from 2015-16. The decrease in expenses is primarily due to the scheduled termination of the National Collaborative Research Infrastructure Strategy on 30 June 2017 and decisions taken in the 2014-15 Budget which reduced funding to the ARC on an ongoing basis and to other science and research agencies and the Cooperative Research Centres programme over the period to 30 June 2018.

Defence

The defence function includes expenses incurred by the Department of Defence (Defence) and related agencies. 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.

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

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Defence	24,612	26,348	26,106	27,631	28,783
Total defence	**24,612**	**26,348**	**26,106**	**27,631**	**28,783**

Total expenses for the defence function are estimated to increase by 4.5 per cent in real terms from 2014-15 to 2015-16, and by 1.6 per cent in real terms over the period 2015-16 to 2018-19.

Funding does not include the additional cost of major operations beyond 2015-16, which is considered on a year-by-year basis and subject to future government decisions. The expected decrease in defence expenses from 2015-16 to 2016-17 in part reflects this practice.

Additional funding of $752.7 million will be provided in 2015-16 to support Defence operations in the Middle East and in protecting Australia's borders.

Box 4: Defence funding

Total Defence spending is estimated to increase by $4.6 billion (or 7.1 per cent in real terms) between 2015-16 and 2018-19. This includes both expenses and net capital investment. Expenses for the defence function are those incurred in undertaking 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	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Expenses	24,612	26,348	26,106	27,631	28,783
Net capital investment	3,752	3,751	3,369	4,642	5,886
Total defence spending	28,365	30,098	29,475	32,273	34,668
Nominal growth (per cent)	11.3%	6.1%	-2.1%	9.5%	7.4%
Real growth (per cent)	11.3%	3.6%	-4.4%	6.9%	4.8%

Capital funding in the defence function is applied to the acquisition of military equipment, enabling services and the construction of support facilities linked to capability. Fluctuations in capital spending can be due to slippage in expenditure from one year to the next, foreign exchange rate fluctuations and capital investment decisions of Government.

Public order and safety

The public order and safety function includes expenses to 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, border protection and intelligence activities, and the protection of Australian Government property.

Table 6: Summary of expenses — public order and safety

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Courts and legal services	1,063	1,198	1,169	1,111	1,096
Other public order and safety	3,518	3,687	3,682	3,625	3,711
Total public order and safety	**4,580**	**4,885**	**4,851**	**4,735**	**4,806**

Total expenses for the **public order and safety** function are estimated to increase by 4.1 per cent in real terms from 2014-15 to 2015-16, and to decrease by 8.5 per cent in real terms over the period 2015-16 to 2018-19.

Expenses within the **courts and legal services** sub-function are expected to increase by 10.1 per cent in real terms from 2014-15 to 2015-16 as a result of the consolidation of the Australian Government Solicitor into the Attorney-General's Department. Sub-function expenses decrease by 15.0 per cent in real terms from 2015-16 to 2018-19, largely due to the expected completion of the remaining two established Royal Commissions over the next year.

The major components of the other public order and safety sub-function expenses are set out in Table 6.1.

Table 6.1: Trends in the major components of the other public order and safety sub-function expenses

Component(a)	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Policing and law enforcement	2,371	2,339	2,355	2,254	2,309
Border protection(b)	1,147	1,347	1,326	1,371	1,401
Total	**3,518**	**3,687**	**3,682**	**3,625**	**3,711**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) Border management expenses have been reclassified from the immigration sub-function to the other public order and safety sub-function from 1 July 2015 to better align the reporting of the expenses against the purpose of protecting Australia's border (refer to Table 16.1).

Expenses within the other **public order and safety** sub-function are expected to increase by 2.3 per cent in real terms from 2014-15 to 2015-16, and decrease by 6.4 per cent in real terms from 2015-16 to 2018-19. The increase from 2014-15 to 2015-16 is largely due to a reclassification in expenses from the Immigration sub-function to better align the reporting of the expenses against the purpose of protecting Australia's border. The decrease across the forward estimates is largely due to ongoing efficiencies. This decrease is partially offset by additional national security funding and additional capability enhancements to further strengthen Australia's border protection service.

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

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Higher education	9,133	9,304	8,920	9,142	9,280
Vocational and other education	1,823	1,833	1,996	1,504	1,529
Schools	14,664	15,743	17,012	18,031	18,760
Non-government schools	*9,417*	*9,997*	*10,653*	*11,179*	*11,620*
Government schools	*5,247*	*5,746*	*6,359*	*6,852*	*7,140*
School education - specific funding	928	700	620	465	92
Student assistance	4,403	3,987	4,304	4,634	5,167
General administration	251	286	281	280	286
Total education	**31,202**	**31,854**	**33,133**	**34,055**	**35,115**

Total education expenses are expected to decrease by 0.3 per cent in real terms between 2014-15 and 2015-16 and increase by 2.5 per cent in real terms from 2015-16 to 2018-19.

Expenses under the **higher education** sub-function are expected to decrease by 0.5 per cent in real terms from 2014-15 to 2015-16 and by 7.3 per cent in real terms from 2015-16 to 2018-19. The expected decrease from 2015-16 is mainly due to the Government's policy to allow higher education providers to set their own course fees and to reduce the subsidies provided under the Commonwealth Grant Scheme from 2016.

Expenses under the **vocational and other education** sub-function are expected to decrease by 1.8 per cent in real terms between 2014-15 and 2015-16 and by 22.4 per cent in real terms from 2015-16 to 2018-19. The forecast overall decline in expenses over the forward estimates is primarily due to the conclusion of funding under the Skills Reform National Partnership Agreement, with the final milestone payments contributing to the one-off increase in expenses in 2016-17.

Aggregate school funding expenses are expected to increase by 4.8 per cent in real terms between 2014-15 and 2015-16 and by 10.8 per cent in real terms from 2015-16 to 2018-19 reflecting the Government's *Students First* school education policy. From the 2018 school year onwards, total school funding will be indexed by the Consumer Price Index, with an allowance for changes in enrolments.

Expenses in the **schools — non-government schools** sub-function are expected to increase by 3.7 per cent in real terms between 2014-15 and 2015-16 and by 8.1 per cent in real terms from 2015-16 to 2018-19. Expenses under the **schools — government schools** sub-function are expected to increase by 6.9 per cent in real terms between 2014-15 and 2015-16 and by 15.5 per cent in real terms from 2015-16 to 2018-19.

Expenses under the **school education — specific funding** sub-function are expected to decrease by 26.3 per cent in real terms between 2014-15 and 2015-16 and by 87.8 per cent in real terms from 2015-16 to 2018-19. The expected decrease in expenses from 2014-15 is primarily due to the conclusion of a number of National Partnerships, including the National Partnership on Trade Training Centres in Schools in 2015-16, and the National Partnership Agreement on Universal Access to Early Childhood Education, which has been extended until 2017.

Expenses under the **student assistance** sub-function are expected to decrease by 11.6 per cent in real terms from 2014-15 to 2015-16, and increase by 20.5 per cent in real terms from 2015-16 to 2018-19. The decrease from 2014-15 to 2015-16 is primarily due to the impact of converting Student Start-up Scholarships to Student Start-up loans. The expected increase in expenses from 2015-16 is largely driven by the Higher Education Loan Programme (HELP). Expenses under HELP mainly reflect the estimated cost to the Government of providing concessional loans which will vary with enrolment numbers and the number and value of HELP loans. These expenses are recorded when loans are issued and are based on projections of future interest rates.

Health

The health function includes expenses relating to medical services funded through Medicare; payments to the states and territories to deliver essential health services, including public hospitals; the Pharmaceutical Benefits and Repatriation Pharmaceutical Benefits Schemes; the Private Health Insurance Rebate; Aboriginal and Torres Strait Islander health programmes; Mental Health services; and health workforce initiatives.

In addition to these expenses, the Government is committed to establishing the Medical Research Future Fund (MRFF) which was announced in the 2014-15 Budget. The MRFF will provide a sustainable and growing funding stream to be invested in additional medical research in the medium to long term.

Table 8: Summary of expenses — health

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Medical services and benefits	28,195	29,502	30,735	31,844	33,608
Pharmaceutical benefits and services	10,607	11,138	11,667	12,081	12,439
Assistance to the States for public hospitals	15,459	16,441	17,382	18,103	18,873
Hospital services(a)	2,019	1,787	1,706	1,716	1,725
Health services	6,796	6,660	6,353	6,462	6,489
General administration	3,220	3,110	2,982	2,977	2,923
Aboriginal and Torres Strait Islander health	740	743	809	893	931
Total health	**67,037**	**69,381**	**71,634**	**74,076**	**76,987**

(a) The hospital services sub-function includes payments from the Commonwealth to the states and territories for specific hospital improvement initiatives and is in addition to the bulk of hospital funding provided under the Assistance to the States for public hospitals' sub-function.

Total expenses for this function are estimated to increase by 1.1 per cent in real terms between 2014-15 and 2015-16. Total expenses are estimated to increase by 3.2 per cent in real terms from 2015-16 to 2018-19. This expected growth is driven by higher demand for health services, and a growing and ageing population.

The **medical services and benefits** sub-function, which primarily consists of Medicare and Private Health Insurance Rebate (PHIR) expenses, is 42.5 per cent of total estimated health expenses for 2015-16. Medicare expenses are the major driver of growth in this sub-function.

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

Component(a)	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Medicare services	20,321	21,141	22,126	22,975	24,272
Private health insurance	6,148	6,341	6,587	6,850	7,300
General medical consultations and services	888	873	845	818	816
Dental services	425	605	616	630	656
Other	414	542	561	571	565
Total	**28,195**	**29,502**	**30,735**	**31,844**	**33,608**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

Expenses for Medicare services are expected to increase by 1.6 per cent in real terms between 2014-15 and 2015-16, and by 6.7 per cent in real terms over the period 2015-16 to 2018-19, as a result of ongoing growth in the use of medical services and in the use of high value items on the Medicare Benefits Schedule.

Expenses for Private Health Insurance are expected to increase by 0.7 per cent in real terms between 2014-15 and 2015-16, and by 7.0 per cent in real terms over the period

2015-16 to 2018-19 due to forecast continued take up of private health insurance policies. The proportion of Australians with some form of private health insurance is now around 55 per cent, providing a high level of access to private health services and taking pressure off the public system.

Expenses for dental services are expected to increase by 39.2 per cent in real terms between 2014-15 and 2015-16, and are expected to grow by 0.7 per cent in real terms over the period 2015-16 to 2018-19, due to the expansion of dental services under the *Child Dental Benefit Schedule — consistent indexation*.

The **pharmaceutical benefits and services** sub-function is expected to increase by 2.5 per cent in real terms between 2014-15 and 2015-16 due largely to new and amended listings on the Pharmaceutical Benefits Scheme. Expenses are expected to grow by 3.8 per cent in real terms over the period 2015-16 to 2018-19. Estimates for the Pharmaceutical Benefits Scheme (PBS) do not include the potential listing of new drugs or price adjustments to existing drugs, which typically increase spending above original estimates.

The major components of the pharmaceutical benefits and services sub-function are set out in Table 8.2.

Table 8.2: Trends in the major components of pharmaceutical benefits and services sub-function expenses

Component(a)	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Pharmaceutical benefits (concessional)	5,657	5,735	5,957	6,137	6,318
Pharmaceutical benefits (highly specialised and other drugs dispensed in hospitals)	2,213	2,601	2,809	2,965	3,072
Pharmaceutical benefits (general)	1,414	1,434	1,489	1,534	1,580
Pharmaceutical benefits - targeted medicine programmes	148	114	108	113	115
Immunisation	180	273	309	315	314
Veterans' pharmaceutical benefits	388	369	376	389	402
Payments for wholesalers and pharmacy programmes	342	344	347	350	354
Other	265	268	272	278	284
Total	**10,607**	**11,138**	**11,667**	**12,081**	**12,439**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

The Australian Government's contribution to public hospital funding is reported through the **Assistance to the States for public hospitals** sub-function. Hospital services covered by this sub-function include all admitted services, programmes that deliver hospital services in the home and emergency department services. Expenditure growth for this sub-function is expected to increase by 3.9 per cent in real terms from 2014-15 to 2015-16, and by 6.7 per cent in real terms over the period 2015-16 to 2018-19. This increase largely reflects growth in the volume of services and changes in the efficient price of those services from 2014-15 to 2016-17, with the annual rate of growth in expenses slowing to around 1.7 per cent in real terms between 2016-17 and 2018-19 due to the Government's decision to transition to block funding indexed by a combination of population growth and the Consumer Price Index.

The **hospital services** sub-function includes payments to the states and territories through a range of National Partnership Agreements, and support for veterans' hospital services. Expenditure growth for this sub-function is expected to fall by 13.6 per cent in real terms between 2014-15 and 2015-16, and fall by 10.2 per cent in real terms over the period 2015-16 to 2018-19. This fall is primarily due to the National Partnership Agreement on Improving Public Hospital Services ceasing from 1 July 2015.

Expenses in the **health services** sub-function include Australian Government expenses associated with the delivery of population health, mental health, blood and blood products, research, other allied health services, and health infrastructure funding through the Health and Hospitals Fund (HHF). As announced in the 2014-15 Budget, the HHF will cease operation and transfer uncommitted funds to the Medical Research Future Fund once the fund is established. From 2014-15 to 2015-16 expenditure is expected to decrease by 4.3 per cent in real terms, and between 2015-16 and 2018-19 expenditure is expected to decrease by 9.4 per cent in real terms. This largely reflects the completion of projects funded from the HHF. This is partially offset by increased expenditure on the national blood agreement, reflecting both greater costs and demand for blood products, and increased expenditure on health research, resulting from the Medical Research Future Fund.

The **general administration — health** sub-function includes the Government's general administrative costs, investment in health workforce measures and support for rural health initiatives. Expenditure for this sub-function is expected to fall in real terms by 5.7 per cent between 2014-15 and 2015-16 and by 12.6 per cent over the period 2015-16 to 2018-19, largely as a result of recent measures the Government has undertaken to improve the efficiency of the Department of Health and its programmes.

Expenses in the **Aboriginal and Torres Strait Islander health** sub-function are expected to decrease by 2.1 per cent in real terms from 2014-15 to 2015-16, due to ceasing National Partnership Agreements. Expenses are expected to increase by 16.5 per cent in real terms over the period 2015-16 to 2018-19 as Aboriginal and Torres Strait Islander people across Australia continue to access Indigenous-specific services under the *Indigenous Australians Health Programme*. Substantial investments in Indigenous health also occur through other health sub-functions.

Box 5: Medical Research Future Fund

The Government remains committed to the establishment of the Medical Research Future Fund (MRFF), and will introduce legislation to establish the MRFF from 1 August 2015. The MRFF is still expected to reach $20 billion in 2019-20, even though the Government will not proceed with proposed changes to the GP consultation items announced in the 2014-15 *Mid-Year Economic and Fiscal Outlook*.

The capital and any ongoing capital gains of the MRFF will be preserved in perpetuity to provide a sustainable funding stream to be spent on medical research in the medium to long term.

The net interest earnings of the fund will be drawn down in the year after they are earned and used to fund critical medical research ($10 million will be made available in 2015-16 by bringing forward some of the earnings that would otherwise be made available in 2016-17). This additional expenditure will grow from $10 million in 2015-16 to provide an ongoing funding stream of around $1 billion per year from 2023-24.

Table 8.3: Medical Research Future Fund

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Savings invested in the MRFF	0	2,406(a)	2,182	3,512	4,778
Uncommitted balance from the HHF invested in the MRFF		1,021			
Total investments each year in the MRFF	**0**	**3,427**	**2,182**	**3,512**	**4,778**
Net interest earnings		63	130	224	396
Capital gains		7	15	26	45
Additional funding for Medical Research(b)		-10	-53	-130	-224
Cumulative Balance of the MRFF(c)(d)	**0**	**3,487**	**5,761**	**9,392**	**14,387**

(a) Includes $76 million in 2013-14 savings and $743 million in 2014-15 savings which will be invested in the MRFF after it is established on 1 August 2015.
(b) The net interest earnings of the MRFF are paid out in the year after they are earned to fund medical research. This expenditure is included in the health function.
(c) The estimated cumulative balance includes capital gains in addition to savings.
(d) Numbers may not add due to rounding.

Social security and welfare

The social security and welfare function includes expenses for 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 assistance provided to Indigenous Australians which has not been included under other functions.

Table 9: Summary of expenses — social security and welfare

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Assistance to the aged	57,637	60,734	63,057	65,538	69,400
Assistance to veterans and dependants	6,790	6,592	6,405	6,193	6,016
Assistance to people with disabilities	27,724	29,545	34,157	42,950	53,067
Assistance to families with children	38,808	38,143	37,084	38,152	39,856
Assistance to the unemployed and the sick	10,810	11,515	11,591	11,445	12,048
Other welfare programmes	1,527	1,494	1,529	897	1,017
Assistance for Indigenous Australians nec	2,148	2,112	2,161	2,151	2,105
General administration	3,662	3,865	3,671	3,394	3,360
Total social security and welfare	**149,107**	**154,000**	**159,654**	**170,719**	**186,869**

Expenses in the social security and welfare function are estimated to grow by 0.9 per cent in real terms from 2014-15 to 2015-16 and by 12.8 per cent in real terms from 2015-16 to 2018-19.

The growth in social security and welfare expenses across the forward estimates is driven by the **assistance to people with disabilities** sub-function, which grows by 4.1 per cent in real terms between 2014-15 and 2015-16 and by 67.0 per cent between 2015-16 and 2018-19, reflecting the progressive implementation of the National Disability Insurance Scheme (NDIS). Also contributing to growth in social security and welfare expenses is **assistance to the aged**, which is expected to grow in real terms by 2.9 per cent between 2014-15 and 2015-16 and by 6.2 per cent between 2015-16 and 2018-19.

Growth in social security and welfare expenses is moderated by a decline in the growth of **assistance to families with children,** which reduces in real terms by 4.0 per cent between 2014-15 and 2015-16 and by 5.1 per cent between 2015-16 and 2016-17 before returning to real growth of 0.4 per cent from 2017-18, with a decrease in net real growth of 2.9 per cent between 2015-16 and 2018-19. Although overall expenses in the sub-function are falling in real terms, Child Care Fee Assistance expenses are expected to grow in real terms by 8.9 per cent from 2014-15 to 2015-16 and by 41.1 per cent between 2015-16 and 2018-19, reflecting both the 2015-16 Budget measure *Families Package – Child Care – Workforce Participation Stream* and underlying growth.

Growth across all other sub-functions falls in real terms across the forward estimates period as a result of demographic change (**assistance to veterans and dependants**), specific Government reforms (**assistance to the unemployed and the sick** and **assistance for Indigenous Australians (nec)**) and falling service delivery costs (**general administration).**

The principal driver of growth over the forward estimates for the **assistance to the aged sub-function** is income support for seniors (Age Pension), which is estimated to grow by 3.6 per cent in real terms from 2014-15 to 2015-16 and 6.0 per cent in real terms from 2015-16 to 2018-19 due to demographic changes. Growth in total expenses is expected to slow between 2016-17 and 2017-18 to 0.8 per cent, primarily due to the increase in Age Pension age from 65 years to 65.5 years.

Also contributing to growth from 2015-16 to 2018-19 is an increase in expenses associated with home care, home support and residential and flexible aged care programmes, largely reflecting demographic factors.

Expenses for the National Partnership Payments — Assistance to the Aged cease after 2015-16 and reflect the Commonwealth's contribution for the Home and Community Care (HACC) programme in Victoria and Western Australia under the *HACC Review Agreement 2007,* which has been extended to 30 July 2016. Negotiations between the Commonwealth and the Victorian and Western Australian Governments on HACC transition arrangements are continuing. All other states and territories transferred funding and policy responsibility for HACC services to the Australian Government from 1 July 2012, with this funding now included in the Home Support Programme which commences from 1 July 2015.

The estimated increase in expenses of 10.7 per cent in real terms from 2015-16 to 2018-19 for veterans' community care and support is mainly attributable to a growing number of veterans and war widow(ers) accessing residential aged care.

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

Component(a)	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Income Support for Seniors	41,648	44,178	46,234	47,719	50,371
Residential and flexible care	9,683	10,161	10,697	11,331	12,064
Veterans' Community Care and Support	1,567	1,648	1,741	1,853	1,962
Home Support	1,641	1,641	1,701	1,764	1,860
Home Care	1,364	1,531	1,730	1,954	2,250
National Partnership Payments - Assistance to the Aged	586	617	0	0	0
Mature Age Income Support	444	379	313	248	203
Ageing and service improvement	178	210	238	240	259
Access and information	134	129	144	149	150
Workforce and quality	104	103	105	104	105
Allowances, concessions and services for seniors	242	94	115	130	134
Other	45	42	39	46	42
Total	**57,637**	**60,734**	**63,057**	**65,538**	**69,400**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

Expenses for the **assistance to veterans and dependants** sub-function are estimated to fall by 15.2 per cent over the forward estimates in real terms, predominantly reflecting an expected natural decline in the number of beneficiaries.

The increase in projected expenses in the **assistance to people with disabilities** sub-function with growth of 67.0 per cent in real terms across the forward estimates is primarily driven by the National Disability Insurance Scheme (NDIS).

Growth in expenses for the NDIS reflect the increase in numbers of people with disabilities entering the scheme as it moves towards full coverage across all jurisdictions. Of the total $37.0 billion in expenses over the forward estimates, the Commonwealth is contributing funding of $18.9 billion. States and territories contribute the remaining funding, noting that, in addition, the Commonwealth will provide $2.5 billion (14 per cent) to the states and territories from the proceeds of the Medicare Levy through National Partnership arrangements.

The increase in expenses for National Partnership Payments — Assistance to People with Disabilities of $1.8 billion between 2014-15 and 2018-19 reflects funding sourced from the DisabilityCare Australia Fund to support participating states and territories achieve the scheduled rollout of the NDIS. The DisabilityCare Australia Fund was established to hold and invest the additional Medicare levy proceeds for the purpose of making a contribution to the State and Territory Governments' and the Commonwealth's costs incurred in relation to the NDIS. Over the life of the Fund the

Commonwealth will provide $9.7 billion to assist the states with their contributions to the cost of the NDIS.

Expenses for the Disability Support Pension (DSP) are estimated to decrease by 0.5 per cent in real terms from 2014-15 to 2015-16 due to lower than expected growth in DSP recipient numbers. The slower growth in DSP recipient numbers is underpinned by the ongoing impact of the revised DSP impairment tables. The measure announced in the 2014-15 MYEFO, *Disability Support Pension — revised assessment process* which commenced from 1 January 2015 is expected to further contribute to slowing growth in DSP expenses in the future. Expenses are expected to grow by 1.4 per cent in real terms from 2015-16 to 2018-19 primarily due to increases in payment rates.

Expenses for income support for carers are estimated to grow by 5.6 per cent in real terms from 2014-15 to 2015-16 and 15.5 per cent in real terms from 2015-16 to 2018-19, largely as a result of growth in Carer Payment and Carer Allowance (adult) payments predominantly driven by the increasing number of frail aged Australians receiving care at home.

The major components of the assistance to people with disabilities sub-function are outlined below in Table 9.2.

Table 9.2: Trends in the major components of assistance to people with disabilities sub-function expenses

Component(a)	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Income Support for People with Disability	16,746	17,059	17,514	17,987	18,599
Income Support for Carers	7,497	8,107	8,799	9,485	10,070
Assistance to the States for Disability Services	1,394	1,442	1,493	1,552	1,617
Disability and Carers	842	1,152	1,257	1,268	1,204
National Disability Insurance Scheme(b)	629	1,079	4,331	11,785	19,202
National Disability Insurance Scheme Transition Programme	599	590	576	552	562
National Partnership Payments - Assistance to People with Disabilities	17	115	186	321	1,813
Total	**27,724**	**29,545**	**34,157**	**42,950**	**53,067**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) Includes both Commonwealth and State contributions to the cost of the National Disability Insurance Scheme delivered though the National Disability Insurance Agency, which is a Commonwealth agency in the General Government Sector

The decrease in projected expenses for the **assistance to families with children** sub-function is primarily driven by improved targeting of Family Tax Benefit (FTB) and Paid Parental Leave.

FTB expenses are estimated to decline by 8.6 per cent in real terms from 2014-15 to 2015-16 and by 16.3 per cent in real terms from 2015-16 to 2018-19. Reductions from 2015-16 reflect the impact of the 2014-15 Budget measures under the *Family Payment Reform* package, which improve the targeting and sustainability of FTB payments; and the 2014-15 MYEFO measure *Repeal of the Minerals Resource Rent Tax* and related measures, which ceases the Schoolkids Bonus after 30 June 2016.

Expenses for Paid Parental Leave (PPL) are estimated to grow by 3.3 per cent in real terms from 2014-15 to 2015-16 and decrease by 26.2 per cent in real terms from 2015-16 to 2018-19. The decrease mainly reflects the impact of the 2015-16 Budget measure *Removing Double-Dipping from Parental Leave Pay* which will take effect on 1 July 2016. This measure removes the ability for individuals to double dip when applying for the existing Parental Leave Pay Scheme.

The decline in real growth in the assistance to families with children sub-function is partially offset by an expected increase in Child Care Fee Assistance expenses, which are expected to grow in real terms by 8.9 per cent from 2014-15 to 2015-16 and by 41.1 per cent between 2015-16 and 2018-19. The increase in expenses in the period to 2017-18 is due to the growing number of families accessing fee assistance for the Child Care Rebate and Child Care Benefit. From 2017-18 the projected increase in expenses due to increased numbers of families is coupled with a change to the way assistance for families will be provided due to the implementation of the 2015-16 Budget measure *Families Package — Child Care — Workforce Participation Stream*.

The major components of the assistance to families with children sub-function are set out in Table 9.3.

Table 9.3: Trends in the major components of assistance to families with children sub-function expenses

Component(a)	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Family tax benefit	21,519	20,152	18,737	17,785	18,142
Child Care Fee Assistance(b)	6,510	7,261	7,923	0	0
Child Care Benefit	3,383	3,650	3,866	0	0
Child Care Rebate	3,126	3,612	4,057	0	0
Child Care Subsidy	0	0	0	10,003	11,018
Parents income support	5,683	5,703	5,733	5,819	6,097
Paid Parental Leave	1,949	2,061	1,625	1,581	1,637
Child support	1,857	1,879	1,915	1,962	2,024
Support for the child care system	703	524	586	437	400
Families and Children	242	234	231	230	222
Family relationship services	161	163	162	165	167
Child Payments	129	130	132	134	136
National Partnership Payments - Child care	31	21	24	22	0
Other	25	14	14	14	14
Total	**38,808**	**38,143**	**37,084**	**38,152**	**39,856**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) After 2017-18, Child Care Benefit and Child Care Rebate will be replaced by the new Child Care Subsidy.

Expenses for the **assistance to the unemployed and the sick** sub-function are estimated to increase by 4.0 per cent in real terms from 2014-15 to 2015-16, and decrease by 2.7 per cent in real terms from 2015-16 to 2018-19. The increase is largely driven by an increase in the expected number of people requiring unemployment benefits. The decline after 2015-16 is due to a reduction in the average payment made to benefit recipients resulting from the 2014-15 Budget measure *Increasing the age of eligibility for Newstart Allowance and Sickness Allowance*.

Expenses for the **assistance for Indigenous Australians not elsewhere classified (nec)** sub-function are estimated to decrease by 4.0 per cent in real terms from 2014-15 to 2015-16, and by 7.3 per cent in real terms from 2015-16 to 2018-19. In nominal terms there is a reduction of 2.0 per cent over the period from 2014-15 to 2018-19.

Expenses for the **general administration** sub-function are estimated to increase slightly in 2015-16, with substantial decreases over the forward estimates in real terms. This is mainly attributable to 2014-15 and 2015-16 Budget measures implemented by the Department of Human Services, involving significant upfront service delivery costs that should decrease over time.

Housing and community amenities

The housing and community amenities function includes expenses for the Australian Government's contribution to the National Affordable Housing Specific Purpose Payment and related National Partnerships, other Australian Government housing programmes, the expenses of Defence Housing Australia (DHA), urban and regional development programmes and environmental protection initiatives.

Table 10: Summary of expenses — housing and community amenities

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Housing	3,348	3,276	3,524	3,440	2,794
Urban and regional development	734	1,009	609	451	436
Environment protection	858	1,045	1,110	1,150	1,323
Total housing and community amenities	**4,940**	**5,329**	**5,242**	**5,041**	**4,553**

Total expenses under the housing and community amenities function are estimated to increase in real terms by 5.4 per cent from 2014-15 to 2015-16, and decrease by 20.6 per cent in real terms from 2015-16 to 2018-19. The decrease of 11.9 per cent in real terms from 2017-18 to 2018-19 is primarily due to a reduction in housing expenses.

The **housing** sub-function includes initiatives relating to the Australian Government's contribution to the National Affordable Housing Specific Purpose Payment and associated National Partnerships, provision of housing for the general public and people with special needs and the expenses of DHA.

Expenses for this sub-function are estimated to decrease by 4.4 per cent in real terms from 2014-15 to 2015-16, and by 20.7 per cent in real terms from 2015-16 to 2018-19. There is a 20.8 per cent decrease in real terms from 2017-18 to 2018-19, reflecting the scheduled completion of National Partnership payments for remote Indigenous housing and the forecast reduction of construction and acquisition of DHA properties in 2018-19.

The **urban and regional development** sub-function comprises regional development programmes and services to territories. This includes the Community Development Grants, the National Stronger Regions Fund and the new Stronger Communities programme which fund capital works projects in local communities. Also reflected in this sub-function is new funding for the delivery of services to Norfolk Island under governance reforms. Expenses are expected to decline from a peak in 2015-16 due to the completion of projects under key programmes, such as Community Development Grants and the Regional Development Australia Fund.

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. The estimated increase in expenses from 2014-15 to 2015-16 is primarily due to the continued implementation of the Emissions Reduction Fund. The Emissions Reduction Fund and the Green Army programme are the prime drivers of the estimated increase in expenses from 2015-16 to 2018-19.

Recreation and culture

The recreation and culture function includes expenses to support 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

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Broadcasting	1,538	1,524	1,473	1,495	1,500
Arts and cultural heritage	1,187	1,302	1,199	1,154	1,157
Sport and recreation	404	345	337	304	300
National estate and parks	390	359	341	341	330
Total recreation and culture	**3,520**	**3,530**	**3,350**	**3,294**	**3,287**

Total expenses under the **recreation and culture** function are estimated to decrease by 2.1 per cent in real terms from 2014-15 to 2015-16 and by 13.4 per cent in real terms over the period 2015-16 to 2018-19.

Expenses under the **broadcasting** sub-function are estimated to decrease by 3.2 per cent in real terms from 2014-15 to 2015-16 and by 8.5 per cent in real terms from 2015-16 through to 2018-19. These reductions are primarily due to the 2014-15 Budget measure *Australian Broadcasting Corporation and Special Broadcasting Service Corporation – efficiency savings* and the 2014-15 MYEFO measure *Australian Broadcasting Corporation and Special Broadcasting Service Corporation – additional efficiency savings*.

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

Component(a)	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
ABC general operational activities	962	953	903	909	912
SBS general operational activities	292	285	281	292	289
ABC transmission and distribution services	195	198	202	207	211
SBS transmission and distribution services	89	88	87	88	88
Total	**1,538**	**1,524**	**1,473**	**1,495**	**1,500**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

Expenses under the **arts and cultural heritage** sub-function are estimated to increase by 7.1 per cent in real terms from 2014-15 to 2015-16, but will decrease by 17.4 per cent over the period 2015-16 to 2018-19. This sub-function includes programmes which support funding for the arts and cultural institutions. The estimated initial increase reflects the timing of expenditure on Australian screen production incentives. The estimated overall decreases are due to the implementation of greater efficiencies, and arts-related savings measures, including the ongoing savings associated with the 2014-15 Budget measure *Arts programmes — reduced funding*.

Expenses under the **sport and recreation** sub-function are estimated to decrease by 16.5 per cent in real terms from 2014-15 to 2015-16 and by 19.1 per cent in real terms over the period 2015-16 to 2018-19. The drop in 2015-16 primarily reflects the completion of funding for the Asian Football Cup and the Netball World Cup. The decline in expenditure over the forward estimates reflects the completion of sporting infrastructure projects by 30 June 2016 announced at the 2014-15 MYEFO, the termination of the 2014-15 Budget measure *Sporting Schools Initiative* on 30 June 2017, and continued efficiencies at the Australian Sports Commission and the Australian Sports Anti-Doping Authority.

Expenses under the **national estate and parks** sub-function are estimated to decrease by 10.3 per cent in real terms from 2014-15 to 2015-16 and by 14.4 per cent in real terms over the period 2015-16 to 2018-19. The decrease from 2014-15 to 2015-16 largely reflects a reduction in expenses for the Australian Antarctic Programme. The further decline in expenses in 2016-17 relates, in part, to the scheduled termination of the measure *Antarctica — maintaining Australia's presence*.

Fuel and energy

The fuel and energy function includes expenses for the Fuel Tax Credits, Cleaner Fuels, and Product Stewardship Waste (Oil) schemes, all administered by the Australian Taxation Office. It also includes expenses related to improving Australia's energy efficiency, resource related initiatives, and programmes to support the production or use of alternative fuels, including ethanol and biodiesel.

Table 12: Summary of expenses — fuel and energy

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Fuel and energy	6,986	6,706	6,705	6,895	7,237
Total fuel and energy	**6,986**	**6,706**	**6,705**	**6,895**	**7,237**

Fuel and energy expenses are estimated to decrease by 6.2 per cent in real terms from 2014-15 to 2015-16, and increase by 0.3 per cent in real terms over the period 2015-16 to 2018-19.

Table 12.1 provides further details of the **fuel and energy** sub-function.

Table 12.1: Trends in the major components of fuel and energy sub-function expenses

Component(a)	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Fuel Tax Credits Scheme	6,142	6,230	6,461	6,679	7,044
Australian Renewable Energy Agency Projects	267	197	74	74	26
Resources and Energy	279	172	65	33	52
Other	298	108	105	109	115
Total	**6,986**	**6,706**	**6,705**	**6,895**	**7,237**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

The major programme within this function is the Fuel Tax Credits Scheme which is expected to decrease by 1.0 per cent in real terms from 2014-15 to 2015-16 and increase by 5.1 per cent in real terms from 2015-16 to 2018-19. The decrease in 2015-16 reflects an expected fall in eligible diesel consumption, particularly in the mining industry, with the subsequent increase reflecting the indexation of fuel excise.

The decrease in expenses under the resources and energy component from 2014-15 to 2018-19 reflects the Government's 2014-15 Budget decisions to reduce funding for the Carbon Capture and Storage Flagships programme and to abolish the Ethanol Production Grants programme on 30 June 2015, as well as the closure of the Low Emissions Technology Demonstration Fund and the Low Carbon Communities programme in 2015-16.

The decrease in expenses under the Australian Renewable Energy Agency (ARENA) Projects component from 2014-15 to 2015-16 is due to the Government's 2014-15 Budget decision to abolish ARENA. The management of existing ARENA projects will be transferred to the Department of Industry and Science. The decrease in expenses under this component from 2015-16 to 2018-19 is driven by the timing of project milestones for the existing ARENA projects.

Agriculture, forestry and fishing

The agriculture, forestry and fishing function includes expenses to 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

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Wool industry	55	55	55	55	55
Grains industry	219	220	218	210	211
Dairy industry	55	56	57	58	59
Cattle, sheep and pig industry	200	181	181	183	186
Fishing, horticulture and other agriculture	298	293	291	281	268
General assistance not allocated to specific industries	26	26	26	27	27
Rural assistance	199	205	240	224	216
Natural resources development	1,011	1,346	1,194	1,079	741
General administration	669	681	667	663	646
Total agriculture, forestry and fishing	**2,731**	**3,063**	**2,930**	**2,780**	**2,408**

Total expenses under this function are estimated to increase by 9.5 per cent in real terms from 2014-15 to 2015-16, but decrease by 26.9 per cent in real terms over the period 2015-16 to 2018-19.

Expenses in the **fishing, horticulture and other agriculture** sub-function are estimated to decrease by 14.7 per cent in real terms over the period 2015-16 to 2018-19. This is largely due to the conclusion of a number of election commitments, including the Rural Research and Development for Profit programme in 2017-18.

The **rural assistance** sub-function is expected to increase by 0.5 per cent in real terms from 2014-15 to 2015-16 and decrease by 2.2 per cent in real terms over the period 2015-16 to 2018-19. The decrease is primarily driven by the funding profile of the Carbon Farming Futures programme declining over the forward estimates. This is partially offset by a forecast increase in expenses under the *Farm Household Allowance* caused by unfavourable seasonal conditions in certain parts of Australia as well as the continuation of the Drought Concessional Loans and Drought Recovery Concessional Loans Schemes announced in the 2015-16 Budget.

The majority of expenses under the **natural resources development** sub-function are related to water initiatives, comprising urban and rural programmes, including irrigation modernisation, recycling and stormwater capture. Funding for water purchasing is included under net capital investment.

Table 13.1 provides further details of the natural resources development sub-function.

Table 13.1: Trends in the major components of natural resources development sub-function expenses

Component(a)	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Water reform(b)	771	1,092	958	884	566
Sustainable management - natural resources	19	6	2	1	0
Other	220	248	235	195	175
Total	**1,011**	**1,346**	**1,194**	**1,079**	**741**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) Water Reform includes the following programmes: National Partnership Payments — Water and Natural Resources; Water Reform; and Commonwealth Environment Water.

The increase in expenses under the water reform component from 2014-15 to 2015-16 largely reflects the continuation of projects under the Sustainable Rural Water Use and Infrastructure Programme, which peak in 2015-16. The increase in expenses from 2014-15 to 2015-16 under the 'Other' component is mainly due to the commencement of project delivery under the South Australian Riverland Floodplains Integrated Infrastructure Programme. The reduction in expenses from 2016-17 primarily relates to the currently scheduled termination of funding for the Murray-Darling Basin Authority's basin planning functions.

Mining, manufacturing and construction

The mining, manufacturing and construction function includes expenses for programmes designed to promote the efficiency and competitiveness of Australian industries. The major components include the Research and Development Tax Incentive and programmes specific to the automotive, textile, clothing and footwear industries.

Table 14: Summary of expenses — mining, manufacturing and construction

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Mining, manufacturing and construction	3,218	3,142	3,129	3,082	3,092
Total mining, manufacturing and construction	**3,218**	**3,142**	**3,129**	**3,082**	**3,092**

Total expenses under the mining, manufacturing and construction function are expected to decrease by 4.6 per cent in real terms from 2014-15 to 2015-16 and by 8.5 per cent in real terms from 2015-16 to 2018-19.

Table 14.1 provides further details of the major components of the mining, manufacturing and construction sub-function.

Table 14.1: Trends in major components of mining, manufacturing and construction sub-function expenses

Component(a)	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Research and Development Tax Incentive	2,425	2,374	2,500	2,625	2,769
Growing business investment	575	553	412	282	157
Other	218	216	216	175	166
Total	**3,218**	**3,142**	**3,129**	**3,082**	**3,092**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

Changes in expenses for the Research and Development Tax Incentive, administered by the Australian Taxation Office, reflect changes in the number and size of expected claims from eligible companies with an annual turnover of less than $20 million.

Expenses under the 'Growing business investment' component of this function are expected to decrease due to the Government's 2014-15 Budget decision to refocus industry policy by terminating a range of industry and innovation programmes and establishing the Entrepreneurs' Infrastructure Programme. The estimated decrease in expenses also reflects reduced demand for assistance under the Automotive Transformation Scheme in the lead up to the closure of vehicle manufacturing firms by the end of 2017.

Transport and communication

The transport and communication function includes expenses to support the infrastructure and regulatory framework for Australia's transport and communication sectors.

Table 15: Summary of expenses — transport and communication

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Communication	643	640	633	603	563
Rail transport	740	1,079	1,303	954	674
Air transport	210	245	212	212	203
Road transport	4,214	5,935	8,402	6,899	4,236
Sea transport	351	382	425	429	442
Other transport and communication	345	295	222	206	197
Total transport and communication	**6,504**	**8,575**	**11,198**	**9,304**	**6,315**

Total expenses under this function are estimated to increase by 28.7 per cent in real terms between 2014-15 and 2015-16, and decrease by 31.5 per cent in real terms from 2015-16 to 2018-19.

The estimated expenses for the **communication** sub-function relate to communication activities and support for the digital economy through the Department of Communications, the Australian Communications and Media Authority and the Digital Transformation Office. Total expenses under the communication sub-function are estimated to decrease by 2.8 per cent in real terms between 2014-15 and 2015-16 and decrease by 18.2 per cent in real terms from 2015-16 to 2018-19. These decreases primarily reflect the completion of measures including the restack of digital television spectrum and support for National ICT Australia. This will be partly counteracted by the funding provided to the new Digital Transformation Office.

Total expenses under the **rail transport** sub-function are estimated to increase by 42.4 per cent in real terms from 2014-15 to 2015-16 and 17.8 per cent from 2015-16 to 2016-17 due to payments under the Infrastructure Growth Package announced in the 2014-15 Budget. A decrease of 41.9 per cent from 2015-16 to 2018-19 reflects the completion of projects such as the Victorian Regional Rail Link.

The estimated expenses for the **air transport** and **sea transport** sub-functions predominantly relate to activities of the safety regulators — the Civil Aviation Safety Authority, the Australian Maritime Safety Authority and the Australian Transport Safety Bureau (ATSB). Total expenses under the **air transport** sub-functions are estimated to increase by 13.6 per cent in real terms between 2014-15 and 2015-16 and decrease by 22.9 per cent in real terms from 2015-16 to 2018-19 primarily due to the completion of airstrip improvements under the Regional Aviation Access programme by mid-2015. Total expenses under the **sea transport** sub-function are estimated to increase by 6.1 per cent in real terms between 2014-15 and 2015-16 and increase in real terms by 7.7 per cent from 2015-16 to 2018-19 due to the expansion of the Tasmanian Freight Equalisation Scheme to include exports.

The expenses under the **road transport** sub-function primarily consist of grants provided under the Infrastructure Investment Programme. Expenses are estimated to increase by 37.5 per cent in real terms between 2014-15 and 2015-16 and decrease by 33.6 per cent in real terms from 2015-16 to 2018-19. The increase in expenses over 2015-16 to 2016-17 is largely driven by additional funding for infrastructure announced in the 2014-15 Budget. The decline in 2017-18 and 2018-19 is due to the completion of projects such as the Toowoomba Second Range Crossing in Queensland and reduced Commonwealth contributions as major projects such as the NorthConnex in NSW and the Perth Freight Link move towards completion.

Total expenses under the **other transport and communication** sub-function are estimated to decrease by 16.7 per cent in real terms between 2014-15 and 2015-16 and decrease by 37.8 per cent in real terms from 2015-16 to 2018-19. This sub-function primarily reflects departmental funding for the Department of Infrastructure and Regional Development and is decreasing in real terms over the forward estimates as a result of the profile for departmental expenses reflecting the decline in road and rail expenses.

Box 6: Asset Recycling Fund

The Australian Government remains committed to its 2014-15 Budget decision to establish the Asset Recycling Fund (ARF), a dedicated vehicle for providing funding and incentives to the states and territories and other bodies to invest in productivity enhancing infrastructure including through the *Asset Recycling Initiative* announced as part of the *Infrastructure Growth Package* in the 2014-15 Budget.

The ARF will be seeded with capital from the uncommitted balances of the Building Australia Fund and the Education Investment Fund (EIF) and proceeds from the sale of Medibank Private. The capital and net earnings of the ARF will be available to fund projects under the *Infrastructure Growth Package*. To optimise its use of the Medibank Private sale proceeds pending the establishment of the ARF, the Australia Government will use the proceeds to reduce its borrowing requirement, thereby reducing public debt interest. The sale proceeds will then be invested in the ARF on 1 July 2016.

The Australian Government is funding the Asset Recycling Initiative and other aspects of the *Infrastructure Growth Package*, by providing funding of $2.1 billion in 2015-16 through existing appropriation mechanisms.

Table 15.1: Asset Recycling Fund

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Uncommitted balance from the BAF invested in the ARF		3,091			
Uncommitted balance from the EIF investment in the ARF		3,662			
Medibank sale proceeds invested in the ARF			5,679		
Total investments each year in the ARF	**0**	**6,753**	**5,679**	**0**	**0**
Net interest earnings		88	302	242	188
Capital gains		10	35	29	22
Committed spending (a)(b)		-2,116	-2,608	-2,630	-1,897
Cumulative Balance of the ARF(b)(c)(d)	**0**	**6,851**	**10,259**	**7,899**	**6,211**

(a) An amount of $2,116 million has been committed in 2015-16 to fund infrastructure investments, including the Asset Recycling Initiative under the Infrastructure Growth Package. This amount will be paid through existing appropriation mechanisms.
(b) The estimated cumulative balance for 2015-16 does not include the committed spending for 2015-16 which will be paid through existing appropriation mechanisms.
(c) The estimated cumulative balance includes capital gains in addition to savings.
(d) Numbers may not add due to rounding.

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

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Tourism and area promotion	172	177	176	175	166
Total labour and employment affairs	3,903	3,963	4,296	4,326	4,358
Vocational and industry training	*1,446*	*1,484*	*1,427*	*1,463*	*1,490*
Labour market assistance to job seekers and industry	*1,694*	*1,792*	*2,190*	*2,195*	*2,199*
Industrial relations	*763*	*687*	*679*	*668*	*669*
Immigration	4,459	3,622	2,451	2,356	2,416
Other economic affairs nec	2,146	2,030	1,994	1,992	2,010
Total other economic affairs	**10,680**	**9,792**	**8,918**	**8,850**	**8,950**

Total expenses under the other economic affairs function are expected to decrease by 10.5 per cent in real terms from 2014-15 to 2015-16 and by 15.0 per cent in real terms from 2015-16 to 2018-19.

Expenses under the **vocational and industry training** sub-function are expected to increase by 0.2 per cent in real terms from 2014-15 to 2015-16, largely reflecting the implementation of the Industry Skills Fund and the Trade Support Loans programme. Expenses between 2015-16 and 2018-19 are expected to decrease by 6.6 per cent in real terms, largely due to the cessation of payments under the Tools For Your Trade programme.

Expenses under **the labour market assistance to job seeker and industry** sub-function are expected to increase by 3.3 per cent in real terms from 2014-15 to 2015-16 in line with forecast increases in unemployment benefit recipients. Expenses between 2015-16 and 2018-19 are expected to increase by 14.1 per cent in real terms, mainly due to new initiatives introduced by the Government in the 2015-16 Budget to support employment as part of the Growing Jobs and Small Business package.

Expenses under the **industrial relations** sub-function are expected to decrease by 12.1 per cent in real terms from 2014-15 to 2015-16 due to a forecast reduction in assistance payments to claimants under the Fair Entitlements Guarantee scheme. Expenses between 2015-16 and 2018-19 are expected to decrease by 9.5 per cent in real terms, mainly due to the measure *Fair Entitlements Guarantee – aligning redundancy payments to national employment standards* announced in the 2014-15 Budget.

The main components of the **immigration** sub-function relate to the management of Illegal Maritime Arrivals (IMA) and providing migration, border management and citizenship services.

Table 16.1 provides further details of the major components of the immigration sub function expenses.

Table 16.1: Trends in major components of the immigration sub-function expenses

Component(a)	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Illegal maritime arrivals asylum seeker management	2,899	2,445	1,331	1,163	1,179
Citizenship, visas, migration and border management(b)	809	666	646	698	717
Compliance and detention	281	275	269	291	293
Regional co-operation and refugee and humanitarian assistance	384	236	205	204	227
Other	87	0	0	0	0
Total	**4,459**	**3,622**	**2,451**	**2,356**	**2,416**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) Border management expenses have been reclassified from the immigration sub-function to the other public order and safety sub-function from 1 July 2015 to better align the reporting of the expenses against the purpose of protecting Australia's border (refer to Table 6.1).

Expenses under this sub-function are expected to decrease by 20.7 per cent in real terms between 2014-15 and 2015-16 and by 38.0 per cent in real terms from 2015-16 to 2018-19. The key driver is the reduction in expenditure for IMA management, reflecting forecast lower occupancy rates in the detention network.

Expenses under the **other economic affairs (nec)** sub-function are expected to decrease by 7.7 per cent in real terms from 2014-15 to 2015-16 and by 7.9 per cent in real terms from 2015-16 to 2018-19.

Table 16.2 provides further details of the major components of the other economic affairs nec sub-function expenses.

Table 16.2: Trends in major components of the other economic affairs nec sub-function expenses

Component(a)	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Promotion of Australia's export and other international economic interests(b)	336	367	358	350	352
Operating costs for:					
Department of Industry and Science(c)	505	443	422	459	485
Australian Securities and Investments Commission	357	345	341	339	336
Bureau of Meteorology	328	320	320	287	284
IP Australia	166	172	173	174	173
Australian Competition and Consumer Commission	135	132	131	131	130
Australian Prudential Regulation Authority	121	125	124	128	129
Other	197	126	125	123	122
Total	**2,146**	**2,030**	**1,994**	**1,992**	**2,010**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) The programmes Export market development grants scheme and Trade, education and investment development have been moved into the Promotion of Australia's export and other international economic interests.
(c) Since the Machinery of Government changes in December 2014, expenses for Vocational Education and Training activities previously reported against the Department of Industry and Science are now reported under the general administration — education sub-function.

The expected decrease in the economic affairs nec sub-function is primarily due to the Government's decision to change the way unclaimed money in savings accounts and life insurance policies is managed. Further information can be found in the measure *Reversal of Banking and Life Insurance unclaimed provisions* in Budget Paper No. 2, *Budget Measures 2015-16*. The decrease for the Bureau of Meteorology beyond 2016-17 reflects the scheduled termination on 30 June 2017 of funding to improve the detail and scope of nationally available water information.

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, and expenses related to the nominal interest on unfunded liabilities for government superannuation benefits.

Table 17: Summary of expenses — other purposes

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Public debt interest	14,468	15,561	16,455	16,846	17,364
Interest on Commonwealth Government's behalf	*14,468*	*15,561*	*16,455*	*16,846*	*17,364*
Nominal superannuation interest	8,989	9,869	10,259	10,648	11,034
General purpose inter-government transactions	57,467	60,038	63,949	67,534	71,232
General revenue assistance - States and Territories	*55,178*	*57,749*	*61,660*	*65,149*	*68,745*
Local government assistance	*2,289*	*2,289*	*2,289*	*2,386*	*2,487*
Natural disaster relief(a)	36	33	5	-1	-1
Contingency reserve	-911	201	2,201	4,104	8,854
Total other purposes	**80,049**	**85,701**	**92,869**	**99,131**	**108,483**

(a) Amounts for the Natural Disaster Relief and Recovery Arrangements (NDRRA) reflect an estimate of expenses being recorded in the year in which the disaster occurs rather than when payments are made to State or Territory governments in relation to Australian Government financial obligations under the NDRRA. The Natural Disaster Relief estimates do not include the recent NSW storms.

Total expenses under the other purposes function are estimated to increase by 4.5 per cent in real terms from 2014-15 to 2015-16, and by 17.7 per cent over the period 2015-16 to 2018-19. This increase in expenses is primarily driven by **general revenue assistance** paid to State and Territory governments, nearly all of which comprise payments of GST entitlements provided on an 'untied' basis. Payments to State and Territory governments tied to specific purposes are reported under the relevant sections in this statement. Further information on general revenue assistance to the states and territories can be found in Budget Paper No. 3, *Federal Financial Relations 2015-16*.

The increase in expenses under the **public debt interest** sub-function in 2015-16 and over the forward years is due to the increased issuance of Australian Government Securities. Expenses under the **nominal superannuation interest** sub-function are projected to increase over time, reflecting the growth in the Australian 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 6 of Budget Paper No. 1.

Expenses in the **local government assistance** sub-function relate to 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, allowing councils to direct the grants to local priorities. Expenses are estimated to remain constant in nominal terms in 2014-15, 2015-16 and 2016-17 as a result of the Government's decision in the 2014-15 Budget to pause indexation of local government financial assistance grants for three years commencing in 2014-15. Expenses are expected to increase from 2017-18 onwards as indexation of the grants recommences. Further information on Australian Government assistance to local governments can be found in Budget Paper No. 3, *Federal Financial Relations 2014-15*.

The **natural disaster relief** sub-function reflects financial support provided by the Australian Government to affected states and territories under the Natural Disaster Relief and Recovery Arrangements. The profile over the forward estimates reflects the requirement under accounting standards to recognise the majority of expenses for a disaster in the year in which it occurs. No provision is made for future disasters. Actual (cash) payments expected to be made to states and territories are outlined in Budget Paper No. 3.

The **contingency reserve** sub-function comprises the Contingency Reserve. The Contingency Reserve is an allowance, included in aggregate expenses, that principally reflects anticipated events that cannot be assigned to individual programmes in the preparation of the Australian Government budget estimates. The Contingency Reserve is used to ensure that the 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 allocated to specific entities for appropriation closer to the time when the associated events eventuate.

The Contingency Reserve also contains an allowance for the tendency for estimates of expenses for existing Government policy to be revised upwards in the forward years, known as the conservative bias allowance (CBA). The increase in expenses in the contingency reserve sub-function from 2015-16 is largely due to the CBA. Since the 2014-15 MYEFO, the allowance has been drawn down to:

- zero in the Budget year (2015-16);
- ½ of a percentage point of total general government sector expenses (excluding GST payments to the states) in the first forward year (2016-17);
- 1 per cent of expenses in the second forward year (2017-18); and
- a 2 per cent provision has been included in the third forward year (2018-19).

The drawdown of the allowance reduced expenses by $938 million in 2015-16, $975 million in 2016-17 and $2.0 billion in 2017-18. The drawdown of the allowance is consistent with long standing practice and does not represent a saving or offset to Government spending measures.

In general, the Contingency Reserve can also include:

- a provision for underspends in the current financial year reflecting the tendency for budgeted expenses for some entities or functions not to be met;
- commercial-in-confidence and national security-in-confidence items that cannot be disclosed separately and programmes that are yet to be renegotiated with State and Territory governments;
- the effect, on the budget and forward estimates, of economic parameter revisions received late in the process and hence not able to be allocated to individual entities or functions;
- decisions taken but not yet announced by the Government, and decisions made too late for inclusion against individual entity estimates; and
- provisions for other specific events and pressures that are reasonably expected to affect the budget estimates.

General government net capital investment

Net capital investment is broadly defined as the sale and acquisition 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 sector net capital investment is expected to be $4.2 billion in 2014-15; $1.1 billion lower than the net capital investment in 2014-15. This change is largely due to the auction for most of the 700MHz and all of the 2.5GHz spectrum conducted by the Australian Communications and Media Authority in April and May 2013. Proceeds from the auction are recognised as revenue during 2014-15 when licences will be allocated to the successful bidders.

Details of movements are further explained in the following section.

Table 18: Estimates of total net capital investment

	MYEFO	Revised	Estimates		Projections	
	2014-15	2014-15	2015-16	2016-17	2017-18	2018-19
Total net capital investment ($m)	**2,784**	**3,138**	**3,854**	**4,198**	**3,598**	**5,090**
Per cent of GDP	0.2	0.2	0.2	0.2	0.2	0.3

Reconciliation of net capital investment since the 2014-15 Budget

A reconciliation of the net capital investment estimates, showing the effect of policy decisions and parameter and other variations since the 2014-15 Budget, is provided in Table 19.

Table 19: Reconciliation of net capital investment estimates

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	Total
	$m	$m	$m	$m	$m
2014-15 Budget net capital investment	**2,359**	**708**	**2,630**	**3,962**	**9,658**
Changes from 2014-15 Budget to 2014-15 MYEFO					
Effect of policy decisions(a)	135	81	53	24	294
Effect of parameter and other variations	290	1,633	35	-1,087	871
Total variations	**425**	**1,714**	**88**	**-1,063**	**1,165**
2014-15 MYEFO net capital investment	**2,784**	**2,422**	**2,718**	**2,899**	**10,823**
Changes from 2014-15 MYEFO to 2015-16 Budget					
Effect of policy decisions(a)	-31	-98	914	132	917
Effect of parameter and other variations	386	1,529	567	567	3,048
Total variations	**354**	**1,432**	**1,481**	**699**	**3,965**
2015-16 Budget net capital investment	**3,138**	**3,854**	**4,198**	**3,598**	**14,788**

(a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

Forecast net capital investment for 2015-16 has increased by $1.8 billion since the 2014-15 MYEFO. This increase is driven by the effect of new policy decisions of $210 million, and parameter and other variations of $1.6 billion.

Further information on the capital measures since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2015-16*.

Net capital investment estimates by function

Estimates for Australian Government general government sector net capital investment by function for the period 2014-15 to 2018-19 are provided in Table 20.

Table 20: Estimates of net capital investment by function

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
General public services	792	372	-11	-243	-100
Defence	3,752	3,751	3,369	4,642	5,886
Public order and safety	123	143	63	39	-62
Education	-16	4	-10	-10	-10
Health	-17	15	17	-5	-16
Social security and welfare	21	15	37	-30	-127
Housing and community amenities	107	-14	6	-4	-191
Recreation and culture	71	-19	-57	-50	-22
Fuel and energy	2	-1	-1	0	-1
Agriculture, forestry and fishing	67	78	92	576	316
Mining, manufacturing and construction	-6	2	3	4	-3
Transport and communication	-2,145	-78	-12	-23	-18
Other economic affairs	369	87	-90	-97	-62
Other purposes	17	-502	794	-1,200	-501
Total net capital investment	**3,138**	**3,854**	**4,198**	**3,598**	**5,090**

A significant component of the Government's net capital investment occurs in the defence function, and is primarily the acquisition of military equipment. Major factors contributing to changes in net capital investment, expected to occur in the following functions, include:

- **general public services** — spending to upgrade the Department of Foreign Affairs and Trade's International Communications Network and construction of a number of overseas facilities, which are expected to be completed by 2016-17 as well as the delivery and completion of the Post Entry Quarantine Facility and the Moorebank Intermodal Terminal Project;
- **defence** — previous capital measures, which redistributed funding of $550 million and $150 million into 2015-16 and 2016-17 respectively;
- **public order and safety** — funding for the Department of Immigration and Border Protection for the acquisition of *Cape* Class patrol vessels in 2014-15 and 2015-16, and for the early transfer of the Australian Defence Vessel *Ocean Shield* from the Department of Defence in 2014-15;

- **agriculture, forestry and fishing** — reflects an increase in water purchases under the Sustainable Rural Water Use and Infrastructure Programme in 2017-18 and 2018-19;
- **transport and communication** — the negative investment in 2014-15, largely due to the auction conducted by the Australian Communications and Media Authority in April and May 2013 for most of the 700MHz and all the 2.5GHz spectrum. Proceeds from the auction were recognised as revenue during 2014-15 when licences were allocated to the successful bidders. Further proceeds from the renewal of the telecommunication carrier's 15 year licences for 1800MHz spectrum are also being recognised in 2014-15;
- **other economic affairs** — the construction and expansion of offshore and onshore immigration facilities, in support of Operation Sovereign Borders impacting in 2014-15 and 2015-16; and
- **other purposes** — the negative investments in this function are largely due to the Government's intention to sell the remaining 700MHz spectrum and the renewal of the telecommunications carrier's 15 year licences for 2.1GHz spectrum.

Table 21 reports the acquisition of non-financial assets by function before taking into account depreciation or amortisation.

Table 21: Australian Government general government sector purchases of non-financial assets by function

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
General public services	1,435	1,334	929	662	677
Defence	7,882	8,215	7,970	9,536	11,151
Public order and safety	507	564	499	504	442
Education	13	34	24	24	23
Health	81	105	76	58	45
Social security and welfare	357	386	413	340	238
Housing and community amenities	51	42	46	31	30
Recreation and culture	318	434	271	255	269
Fuel and energy	4	1	0	1	0
Agriculture, forestry and fishing	102	117	127	611	351
Mining, manufacturing and construction	8	11	11	11	5
Transport and communication	57	54	56	42	46
Other economic affairs	791	551	314	305	331
Other purposes	17	-440	873	226	249
General government purchases of non-financial assets	**11,622**	**11,408**	**11,612**	**12,606**	**13,859**

APPENDIX A: EXPENSE BY FUNCTION AND SUB-FUNCTION

Table A1: Estimates of expenses by function and sub-function

	Actuals	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m	$m
General public services						
Legislative and executive affairs	1,401	1,165	1,058	1,234	1,054	1,069
Financial and fiscal affairs	16,995	7,763	7,934	8,532	8,430	8,533
Foreign affairs and economic aid	6,011	6,324	5,422	5,663	5,573	5,740
General research	2,717	2,847	2,716	2,674	2,534	2,627
General services	684	860	913	877	888	906
Government superannuation benefits	5,834	6,208	4,119	3,956	3,745	3,667
Total general public services	**33,642**	**25,169**	**22,162**	**22,936**	**22,224**	**22,543**
Defence	**22,113**	**24,612**	**26,348**	**26,106**	**27,631**	**28,783**
Public order and safety						
Courts and legal services	1,089	1,063	1,198	1,169	1,111	1,096
Other public order and safety	3,280	3,518	3,687	3,682	3,625	3,711
Total public order and safety	**4,368**	**4,580**	**4,885**	**4,851**	**4,735**	**4,806**
Education						
Higher education	8,970	9,133	9,304	8,920	9,142	9,280
Vocational and other education	1,760	1,823	1,833	1,996	1,504	1,529
Schools	13,531	14,664	15,743	17,012	18,031	18,760
Non-government schools	*8,741*	9,417	9,997	10,653	11,179	11,620
Government schools	*4,790*	5,247	5,746	6,359	6,852	7,140
School education - specific funding	965	928	700	620	465	92
Student assistance	4,157	4,403	3,987	4,304	4,634	5,167
General administration	286	251	286	281	280	286
Total education	**29,669**	**31,202**	**31,854**	**33,133**	**34,055**	**35,115**
Health						
Medical services and benefits	26,360	28,195	29,502	30,735	31,844	33,608
Pharmaceutical benefits and services	10,351	10,607	11,138	11,667	12,081	12,439
Assistance to the States for public hospitals	13,841	15,459	16,441	17,382	18,103	18,873
Hospital services(a)	3,004	2,019	1,787	1,706	1,716	1,725
Health services	6,571	6,796	6,660	6,353	6,462	6,489
General administration	3,100	3,220	3,110	2,982	2,977	2,923
Aboriginal and Torres Strait Islander health	756	740	743	809	893	931
Total health	**63,983**	**67,037**	**69,381**	**71,634**	**74,076**	**76,987**
Social security and welfare						
Assistance to the aged	54,587	57,637	60,734	63,057	65,538	69,400
Assistance to veterans and dependants	6,950	6,790	6,592	6,405	6,193	6,016
Assistance to people with disabilities	25,839	27,724	29,545	34,157	42,950	53,067
Assistance to families with children	36,352	38,808	38,143	37,084	38,152	39,856

Table A1: Estimates of expenses by function and sub-function (continued)

	Actuals	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m	$m
Social security and welfare (continued)						
Assistance to the unemployed and the sick	10,050	10,810	11,515	11,591	11,445	12,048
Other welfare programmes	1,190	1,527	1,494	1,529	897	1,017
Assistance for Indigenous Australians nec	1,691	2,148	2,112	2,161	2,151	2,105
General administration	3,907	3,662	3,865	3,671	3,394	3,360
Total social security and welfare	**140,566**	**149,107**	**154,000**	**159,654**	**170,719**	**186,869**
Housing and community amenities						
Housing	3,221	3,348	3,276	3,524	3,440	2,794
Urban and regional development	620	734	1,009	609	451	436
Environment protection	4,515	858	1,045	1,110	1,150	1,323
Total housing and community amenities	**8,355**	**4,940**	**5,329**	**5,242**	**5,041**	**4,553**
Recreation and culture						
Broadcasting	1,526	1,538	1,524	1,473	1,495	1,500
Arts and cultural heritage	1,236	1,187	1,302	1,199	1,154	1,157
Sport and recreation	511	404	345	337	304	300
National estate and parks	476	390	359	341	341	330
Total recreation and culture	**3,749**	**3,520**	**3,530**	**3,350**	**3,294**	**3,287**
Fuel and energy	**6,749**	**6,986**	**6,706**	**6,705**	**6,895**	**7,237**
Agriculture, forestry and fishing						
Wool industry	56	55	55	55	55	55
Grains industry	164	219	220	218	210	211
Dairy industry	53	55	56	57	58	59
Cattle, sheep and pig industry	194	200	181	181	183	186
Fishing, horticulture and other agriculture	261	298	293	291	281	268
General assistance not allocated to specific industries	26	26	26	26	27	27
Rural assistance	127	199	205	240	224	216
Natural resources development	869	1,011	1,346	1,194	1,079	741
General administration	634	669	681	667	663	646
Total agriculture, forestry and fishing	**2,385**	**2,731**	**3,063**	**2,930**	**2,780**	**2,408**
Mining, manufacturing and construction	**3,451**	**3,218**	**3,142**	**3,129**	**3,082**	**3,092**
Transport and communication						
Communication	701	643	640	633	603	563
Rail transport	1,648	740	1,079	1,303	954	674
Air transport	208	210	245	212	212	203
Road transport	5,305	4,214	5,935	8,402	6,899	4,236
Sea transport	335	351	382	425	429	442
Other transport and communication	211	345	295	222	206	197
Total transport and communication	**8,407**	**6,504**	**8,575**	**11,198**	**9,304**	**6,315**

Table A1: Estimates of expenses by function and sub-function (continued)

	Actuals	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m	$m
Other economic affairs						
Tourism and area promotion	188	172	177	176	175	166
Total labour and employment affairs	3,879	3,903	3,963	4,296	4,326	4,358
Vocational and industry training	*1,625*	*1,446*	*1,484*	*1,427*	*1,463*	*1,490*
Labour market assistance to job seekers and industry	*1,568*	*1,694*	*1,792*	*2,190*	*2,195*	*2,199*
Industrial relations	*686*	*763*	*687*	*679*	*668*	*669*
Immigration	4,404	4,459	3,622	2,451	2,356	2,416
Other economic affairs nec	2,367	2,146	2,030	1,994	1,992	2,010
Total other economic affairs	**10,838**	**10,680**	**9,792**	**8,918**	**8,850**	**8,950**
Other purposes						
Public debt interest	13,414	14,468	15,561	16,455	16,846	17,364
Interest on Commonwealth Government's behalf	*13,414*	*14,468*	*15,561*	*16,455*	*16,846*	*17,364*
Nominal superannuation interest	8,214	8,989	9,869	10,259	10,648	11,034
General purpose inter-government transactions	53,563	57,467	60,038	63,949	67,534	71,232
General revenue assistance - States and Territories	*52,391*	*55,178*	*57,749*	*61,660*	*65,149*	*68,745*
Local government assistance	*1,173*	*2,289*	*2,289*	*2,289*	*2,386*	*2,487*
Natural disaster relief(b)	377	36	33	5	-1	-1
Contingency reserve	0	-911	201	2,201	4,104	8,854
Total other purposes	**75,568**	**80,049**	**85,701**	**92,869**	**99,131**	**108,483**
Total expenses	**413,845**	**420,335**	**434,469**	**452,654**	**471,816**	**499,428**

(a) The hospital services sub-function includes payments from the Commonwealth to the states and territories for specific hospital improvement initiatives and is in addition to the bulk of hospital funding provided under the ‘Assistance to the States for public hospitals’ sub-function.

(b) Amounts for the Natural Disaster Relief and Recovery Arrangements (NDRRA) reflect expenses being recorded in the year in which the disaster occurs rather than when payments are made to state or territory governments in relation to Australian Government financial obligations under the NDRRA. The Natural Disaster Relief estimates do not include the recent NSW storms.

STATEMENT 6: DEBT STATEMENT, ASSETS AND LIABILITIES

This statement includes the Debt Statement and information on the major assets and liabilities on the Government's balance sheet.

CONTENTS

STATEMENT 6: DEBT STATEMENT, ASSETS AND LIABILITIES

OVERVIEW

This statement provides information on current and projected debt on issue. The end-of-year face value amount of Commonwealth Government Securities on issue subject to the Treasurer's Direction is expected to be around $412 billion in 2015-16 and is expected to increase to $518 billion in 2018-19.

Information is also provided on the major assets and liabilities on the Government's balance sheet. The Government's total stock of assets is estimated to be around $454.7 billion in 2015-16 and increase to $557.0 billion by the end of the forward estimates. Total liabilities are estimated to be around $716.1 billion in 2015-16 and increase to $839.8 billion by the end of the forward estimates.

The Australian Office of Financial Management will manage further sales of the Government's residual holdings of residential mortgage-backed securities through a regular, competitive process. Subject to market conditions, it is estimated that the portfolio could be sold down by the middle of 2016.

DEBT STATEMENT

The Debt Statement provides information on current and projected debt on issue and details of climate spending including the extent to which this spending has contributed to debt.

Commonwealth Government Securities issuance

The Government finances its activities either through receipts or by borrowing. When receipts fall short of payments, the Government borrows by issuing Commonwealth Government Securities (CGS) to investors.

In recent years, the Australian Office of Financial Management (AOFM) has taken the opportunity to lengthen the CGS yield curve. This has provided for a lower risk profile of maturing debt and has been achieved during a period when borrowing costs have been low by historical standards. A bias towards longer issuance of new CGS and consideration towards further lengthening the CGS yield curve is expected to continue while market conditions are favourable.

Even when CGS issuance is not required to finance the Government's activities, successive governments have continued to issue CGS, primarily to maintain a liquid sovereign bond market.

The Government remains committed to a well-functioning and liquid CGS market. In particular, the Government will focus on ensuring a market of sufficient size to maintain liquidity across the longer yield curve and that supports the Treasury Bond futures market.

A well-functioning and liquid CGS market also supports the development of a corporate bond market by providing a risk-free benchmark; it also provides a low-risk investment vehicle.

The AOFM is the agency responsible for issuing CGS and the management of the Government's financing activities. The AOFM currently issues three types of securities:

Treasury Bonds: medium-term to long-term securities with a fixed annual rate of interest payable every six months;

Treasury Indexed Bonds (TIBs): medium-term to long-term securities for which the capital value of the security is adjusted for movements in the consumer price index (CPI). Interest on TIBs is paid quarterly, at a fixed rate, on the adjusted capital value; and

Treasury Notes: short-term securities generally maturing within six months of issuance. 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.

All new CGS issuance is undertaken in Australian dollars. There is a very small amount of foreign currency denominated debt securities on issue remaining from issuance undertaken before 1988. Most of these securities mature in March 2017.

Within these three broad categories of CGS, issuance is undertaken into a limited number of maturities (known as lines). Each of these lines has a fixed maturity date (the date on which the Government repays the principal it has borrowed) and, for Treasury Bonds and TIBs, a coupon rate (the annual fixed interest rate paid on the security).

Concentrating CGS issuance into a limited number of lines (rather than issuing securities with a specific time value, such as 10 years) ensures each line is sufficiently large that it can easily be traded in the secondary market. Strong liquidity in the secondary market is attractive to investors, promotes demand for CGS, and assists in lowering borrowing costs.

Estimates and projections of CGS on issue

Estimates and projections of CGS on issue are published in both face value and market value terms in this statement.

The **face value** of CGS on issue is the amount that the Government pays back to investors at maturity, independent of fluctuations in market prices.[1] The total face value of CGS on issue changes when new securities are issued, or when securities are repurchased or reach maturity.

The **market value** of CGS represents the value of securities as traded on the secondary market, which changes continuously with movements in market prices. Consistent with external reporting standards the market value of CGS on issue is reported on the Australian Government general government sector balance sheet. Changes in the market price of CGS will have an impact on the value of gross and net debt.

Table 1 contains projections of the face value (end-of-year and within-year peak)[2] and the market value (end-of-year) of CGS on issue.

The *Commonwealth Inscribed Stock Act 1911* (CIS Act) requires the Treasurer to issue a direction to the AOFM stipulating the maximum face value of relevant CGS that may be on issue.[3] As required by the *Charter of Budget Honesty Act 1998*, Table 1 reports projections of CGS on issue subject to the Treasurer's Direction.

When considering these projections, it is important to note that the AOFM publishes an issuance strategy for the budget year only. Projections beyond the budget year are based on a set of technical assumptions and will vary with changes to these assumptions and budget estimates and projections.

1 For TIBs, the final repayment amount paid to investors includes an additional amount owing to inflation accretion over the life of the security. This amount is not included in the calculation of face value.
2 End-of-year values are estimates or projections of CGS on issue at 30 June for the particular year. The precise timing of within-year peaks of CGS on issue is not known. The timing of the within-year peak is therefore reported to the given month in the particular year.
3 On 11 December 2013, the Treasurer directed that the maximum face value of CGS that can be on issue is $500 billion.

Table 1: Projections of Commonwealth Government Securities on issue subject to the Treasurer's Direction(a)

	2014-15	2015-16	2016-17	2017-18	2018-19
	$b	$b	$b	$b	$b
Face value - end of year	367	412	474	497	518
Per cent of GDP	22.9	24.9	27.2	27.0	26.7
Face value - within-year peak(b)	368	431	478	514	539
Per cent of GDP(b)	22.9	26.0	27.4	28.0	27.8
Month of peak(b)	*Jun-15*	*Jun-16*	*Jun-17*	*Jan-18*	*Mar-19*
Market value - end of year(c)	413	460	523	545	565
Per cent of GDP	25.7	27.8	30.0	29.6	29.2

(a) The same stock and securities that was excluded from the previous legislative limit is excluded from the current limit set by the Treasurer's Direction. These exclusions are outlined in subsection 51JA(2A) of the CIS Act.
(b) The precise within-year timing of cash receipts and payments is not known. Projected peaks of CGS on issue are therefore subject to considerable uncertainty.
(c) The Treasurer's Direction applies only to the face value of CGS on issue. This table shows the equivalent market value of CGS that are subject to the Treasurer's Direction. These figures will differ from the estimates and projections published in *Statement 9: Australian Government Budget Financial Statements* Table 2: Australian Government general government sector balance sheet that refer to total CGS on issue.
Source: Australian Office of Financial Management.

The amount of CGS on issue subject to the Treasurer's Direction is reported weekly on the AOFM website.

In 2015-16, the end-of-year face value of CGS on issue subject to the Treasurer's Direction is expected to be around $412 billion, compared to $413 billion at the 2014-15 MYEFO. Over the forward estimates, the end-of-year face value of CGS on issue subject to the Treasurer's Direction is expected to reach around $497 billion in 2017-18, $16 billion higher than estimated at the 2014-15 MYEFO. It is expected to increase to around $518 billion in 2018-19.

In 2015-16, the face value of CGS on issue is expected to reach a within-year peak of around $431 billion. Over the forward estimates, the face value of CGS on issue is projected to rise to a within-year peak of around $539 billion in 2018-19.

Changes in CGS on issue since the 2014-15 MYEFO

Table 2 shows the change in the projected end-of-year face value of CGS on issue between the 2014-15 MYEFO and the 2015-16 Budget.

Table 2: Projected CGS on issue subject to the Treasurer's Direction — reconciliation from the 2014-15 MYEFO to the 2015-16 Budget

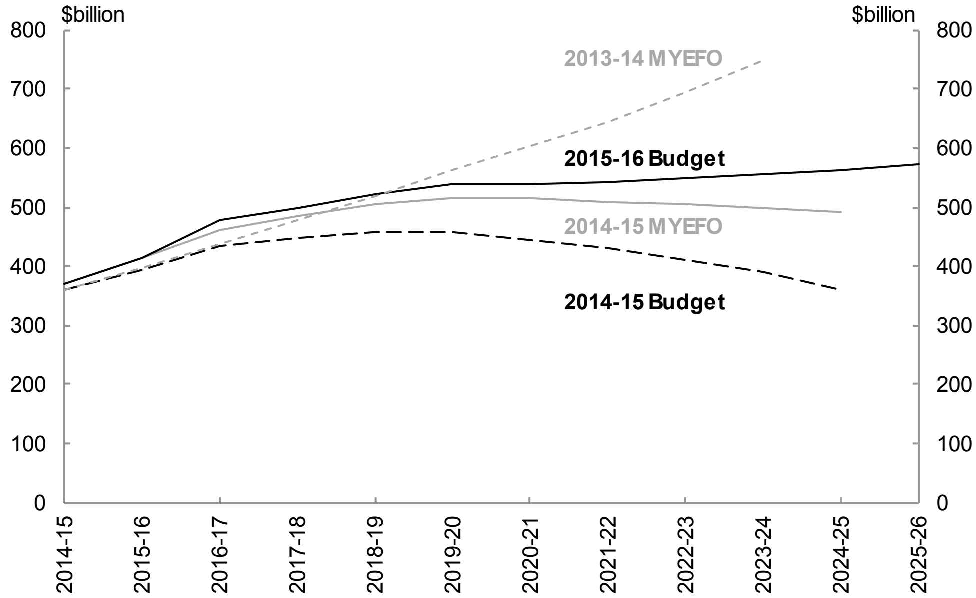
	2014-15	2015-16	2016-17	2017-18
	$b	$b	$b	$b
Total face value of CGS on issue subject to the Treasurer's Direction as at 2014-15 MYEFO	367	413	459	481
Factors affecting the change in face value of CGS on issue from 2014-15 MYEFO to 2015-16 Budget (a)				
Cumulative receipts decisions	0.0	0.4	0.0	-0.8
Cumulative receipts variations	2.2	7.2	14.3	21.3
Cumulative payment decisions	0.6	4.7	7.7	10.1
Cumulative payment variations	-2.1	-7.5	-11.9	-17.4
Cumulative change in net investments in financial assets(b)	0.0	-3.6	7.2	4.2
Other contributors	-0.6	-1.8	-1.7	-1.4
Total face value of CGS on issue subject to the Treasurer's Direction as at 2015-16 Budget	367	412	474	497

(a) Cumulative impact of decisions and variations from 2014-15 to 2017-18. Increases to payments are shown as positive, and increases to receipts are shown as negative.
(b) Change in net cash flows from investments in financial assets for policy and liquidity purposes.
Note: End of year data.

The face value of CGS on issue is projected to rise to $573 billion by 2025-26, reflecting a modestly weaker underlying cash balance, and its associated higher public debt interest expense, accumulating over the medium term. In 2023-24, the face value of CGS on issue is projected to reach $555 billion, some $112 billion less than the $667 billion projected at the 2013-14 MYEFO. This improvement would be even greater compared with the 2013-14 MYEFO, if the original scenario had assumed taxes were capped at 23.9 per cent of GDP (that is, assuming future tax relief).

The projected face value of CGS on issue is shown in Chart 1.

Chart 1: Face value of CGS on issue projected to 2025-26



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2020-21, except for the 2013-14 MYEFO where the tax cap applies from 2019-20. 2013-14 MYEFO projections were not originally published with a tax cap.
Source: Australian Office of Financial Management and Treasury projections.

Further details on the changes to the underlying cash balance since the 2014-15 MYEFO can be found in *Statement 3: Fiscal Strategy and Outlook*.

Changes in net debt since the 2014-15 MYEFO

Australian Government general government sector net debt is equal to the sum of deposits held, government securities (at market value), loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table 3: Liabilities and assets included in net debt from 2014-15 to 2018-19

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Liabilities included in net debt					
Deposits held	211	211	211	211	211
Government securities	418,307	464,298	527,453	550,072	569,504
Loans	10,347	14,148	13,607	13,502	13,400
Other borrowing	1,545	1,428	1,352	1,290	1,242
Total liabilities included in net debt	**430,409**	**480,084**	**542,624**	**565,074**	**584,357**
Assets included in net debt					
Cash and deposits	3,144	3,435	4,187	4,988	5,709
Advances paid	45,874	52,901	63,368	73,722	84,896
Investments, loans and placements	131,157	137,947	161,712	162,641	168,306
Total assets included in net debt	**180,175**	**194,282**	**229,268**	**241,352**	**258,911**
Net debt	**250,234**	**285,802**	**313,356**	**323,723**	**325,447**

Net debt is estimated to increase by $6.2 billion to $285.8 billion in 2015-16, compared with the 2014-15 MYEFO. From 2015-16 to 2017-18, net debt is higher compared with the 2014-15 MYEFO. This is primarily driven by higher levels of Commonwealth Government Securities, owing to changes in the financing requirement and a decrease in average yields compared to those at the 2014-15 MYEFO. Lower yields increase the market value of Commonwealth Government Securities on issue.

Table 4: Net debt — reconciliation from the 2014-15 MYEFO to the 2015-16 Budget

	2014-15	2015-16	2016-17	2017-18
	$b	$b	$b	$b
Net debt as at 2014-15 MYEFO ($b)	244.8	279.6	304.4	315.8
Changes in financing requirement	-2.3	-4.2	11.3	10.7
Impact of lower yields on CGS	11.0	11.8	12.0	11.7
Asset and other liability movements	-3.3	-1.3	-14.3	-14.5
Cash and deposits	0.7	0.7	-0.4	-0.6
Advances paid	0.3	0.0	-1.4	-2.9
Investments, loans and placements	-1.0	-3.2	-13.2	-11.5
Other movements	-3.4	1.1	0.7	0.6
Total movements in net debt from 2014-15 MYEFO to 2015-16 Budget	*5.4*	*6.2*	*9.0*	*8.0*
Net debt as at 2015-16 Budget ($b)	250.2	285.8	313.4	323.7

Breakdown of CGS currently on issue

Table 5 provides a breakdown of the CGS on issue by type of security as at 5 May 2015.

Table 5: Breakdown of current Commonwealth Government Securities on issue

	On issue as at 5 May 2015	
	Face value	Market value
	$m	$m
Treasury Bonds (a)	325,886	359,263
Treasury Indexed Bonds (a)	24,316	33,279
Treasury Notes (a)	5,500	5,481
Total CGS subject to Treasurer's Direction(a)(b)	355,702	398,024
Other stock and securities	2,536	4,930
Total CGS on issue	**358,238**	**402,954**

(a) The Treasurer's Direction applies only to the face value of CGS on issue. This table shows the equivalent market value of CGS that are subject to the Treasurer's Direction.
(b) The same stock and securities that was excluded from the previous legislative limit is excluded from the current limit set by the Treasurer's Direction. These exclusions are outlined in subsection 51JA(2A) of the CIS Act.
Source: Australian Office of Financial Management.

Treasury Bonds

Table 6 lists Treasury Bonds currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. As at 5 May 2015, there were 21 Treasury Bond lines on issue, with a weighted average term to maturity of around 6.6 years and the longest maturity extending to April 2037.

Since late 2010-11, the AOFM has taken advantage of favourable market conditions to lengthen the CGS yield curve and bias issuance into longer maturities, while still lowering the cost of borrowing significantly. This increases the average maturity and duration profile of the AOFM's debt portfolio — thereby lowering variability in future debt servicing costs and reducing refinancing risk.

Table 6: Treasury Bonds on issue

Coupon Per cent	Maturity	On issue as at 5 May 2015 $m	Timing of interest payments(a)		
4.75	21-Oct-15	13,899	Twice yearly	21 Oct	21 Apr
4.75	15-Jun-16	21,900	Twice yearly	15 Jun	15 Dec
6.00	15-Feb-17	21,096	Twice yearly	15 Feb	15 Aug
4.25	21-Jul-17	18,900	Twice yearly	21 Jul	21 Jan
5.50	21-Jan-18	20,500	Twice yearly	21 Jan	21 Jul
3.25	21-Oct-18	12,800	Twice yearly	21 Oct	21 Apr
5.25	15-Mar-19	21,447	Twice yearly	15 Mar	15 Sep
2.75	21-Oct-19	11,000	Twice yearly	21 Oct	21 Apr
4.50	15-Apr-20	20,397	Twice yearly	15 Apr	15 Oct
1.75	21-Nov-20	2,000	Twice yearly	21 Nov	21 May
5.75	15-May-21	21,599	Twice yearly	15 May	15 Nov
5.75	15-Jul-22	18,200	Twice yearly	15 Jul	15 Jan
5.50	21-Apr-23	21,300	Twice yearly	21 Apr	21 Oct
2.75	21-Apr-24	22,200	Twice yearly	21 Apr	21 Oct
3.25	21-Apr-25	17,500	Twice yearly	21 Apr	21 Oct
4.25	21-Apr-26	15,500	Twice yearly	21 Apr	21 Oct
4.75	21-Apr-27	14,400	Twice yearly	21 Apr	21 Oct
3.25	21-Apr-29	9,700	Twice yearly	21 Apr	21 Oct
4.50	21-Apr-33	9,800	Twice yearly	21 Apr	21 Oct
2.75	21-Jun-35	4,250	Twice yearly	21 Jun	21 Dec
3.75	21-Apr-37	7,500	Twice yearly	21 Apr	21 Oct

(a) Where the timing of an interest payment falls on a non-business day, the payment will occur on the following business day.
Source: Australian Office of Financial Management.

Treasury Indexed Bonds

Table 7 lists Treasury Indexed Bonds (TIBs) currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. As at 5 May 2015, there were 7 TIB lines on issue, with a weighted average term to maturity of around 8.6 years and the longest maturity extending to August 2035.

Table 7: Treasury Indexed Bonds on issue

Coupon Per cent	Maturity	On issue as at 5 May 2015 $m	Timing of interest payments(a)				
4.00	20-Aug-15	1,152	Quarterly	20 Aug	20 Nov	20 Feb	20 May
1.00	21-Nov-18	4,239	Quarterly	21 Nov	21 Feb	21 May	21 Aug
4.00	20-Aug-20	4,964	Quarterly	20 Aug	20 Nov	20 Feb	20 May
1.25	21-Feb-22	4,490	Quarterly	21 Feb	21 May	21 Aug	21 Nov
3.00	20-Sep-25	5,843	Quarterly	20 Sep	20 Dec	20 Mar	20 Jun
2.50	20-Sep-30	3,293	Quarterly	20 Sep	20 Dec	20 Mar	20 Jun
2.00	21-Aug-35	2,850	Quarterly	21 Aug	21 Nov	21 Feb	21 May

(a) Where the timing of an interest payment falls on a non-business day, the payment will occur on the following business day.
Source: Australian Office of Financial Management.

Treasury Notes

The face value of Treasury Notes on issue as at 5 May 2015 was $5.5 billion. Table 8 lists the Treasury Notes currently on issue. Treasury Notes do not pay a coupon, but they are issued at a discount — the face value received at maturity is higher than the price paid at issuance.

Table 8: Treasury Notes on issue

Maturity	On issue as at 5 May 2015 $m	Timing of interest payment	
12-Jun-15	3,500	At maturity	12 Jun
7-Aug-15	2,000	At maturity	7 Aug

Source: Australian Office of Financial Management.

Non-resident holdings of CGS on issue

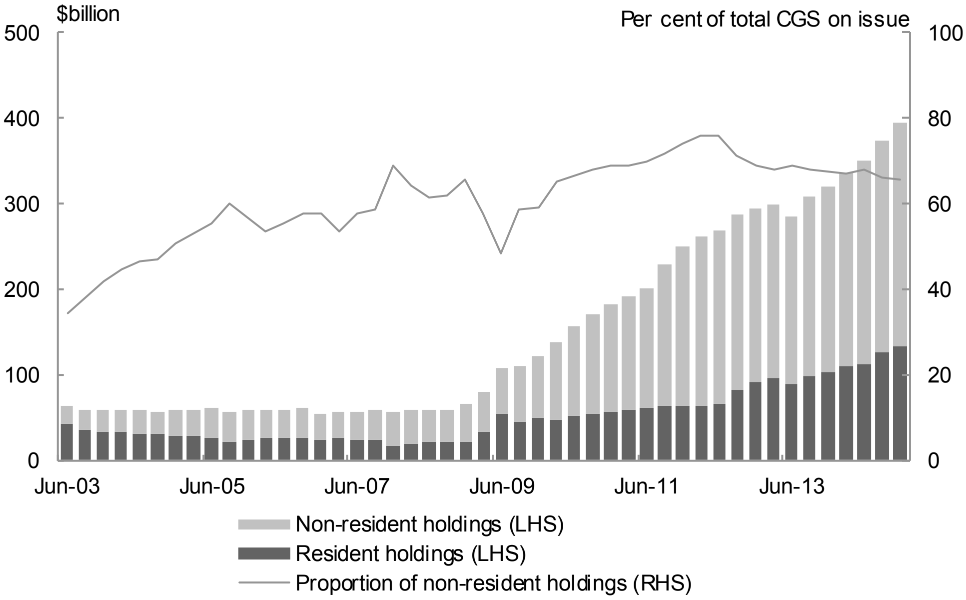
The sale of CGS is not restricted to Australian residents. As at the December quarter 2014, 65.9 per cent of total CGS on issue were held by non-residents of Australia (Chart 2).

The proportion of CGS held by non-residents has risen significantly since 2009 and remains around historically high levels. This appears to reflect an increased tendency for global foreign reserves to be invested outside of the major currencies (such as the yen, the US dollar and the euro).

The historically high proportion of non-resident holdings of CGS is also likely to have been driven by a rise in investor confidence in the Australian sovereign debt market, owing to the relative strength of Australia's public finances and the Australian economy more broadly.

CGS yields remain relatively attractive against a backdrop of low government bond yields globally. Along with strong investor confidence in the Australian sovereign debt market, this has contributed to longer-term CGS yields falling to historically low levels in recent years.

Chart 2: Non-resident holdings of Commonwealth Government Securities



Note: Data refer to the market value of holdings.
Source: ABS Catalogue Number 5302.0 and Australian Office of Financial Management.

Interest on CGS

The interest costs related to CGS are presented in these statements in both cash and accrual accounting terms. The difference between the cash interest payments and accrual interest expense generally relates to the timing of when the interest cost is recognised.

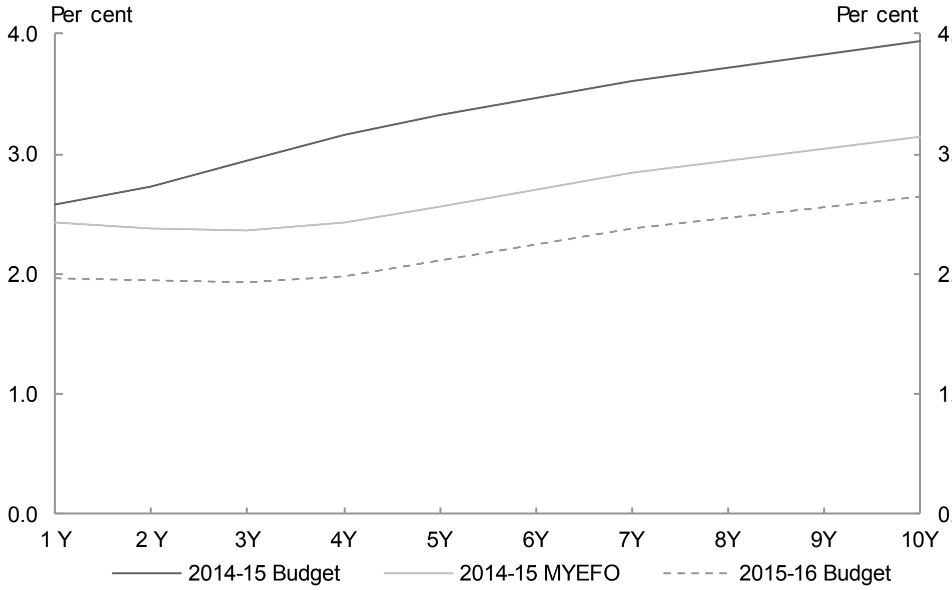
- **Interest payments** are recognised in the period when they are paid during the life of the security.
- **Interest expense** is recognised in the period in which an expense is incurred during the life of the security, rather when they are actually paid.

Estimates of the interest payments and expense of CGS on issue include the cost of CGS already on issue and future CGS issuance. The cost of:

- CGS already on issue uses the actual interest rates incurred at the time of issuance; and
- the expected future issuance of CGS is based on the prevailing market rates across the yield curve at the time of a budget estimates update.

The assumed market yields at the 2015-16 Budget result in a weighted average cost of borrowing of around 2.5 per cent for future issuance of Treasury Bonds in the forward estimates period, compared with around 2.9 per cent at the 2014-15 MYEFO. Chart 3 shows the yield curve assumptions underpinning the 2014-15 Budget, 2014-15 MYEFO and 2015-16 Budget.

Chart 3: Yield curve assumptions from 2014-15 to 2018-19



Source: Australian Office of Financial Management.

The Government's interest payments and expense over the forward estimates mostly relate to the cost of servicing the stock of CGS on issue, and are expected to increase over the forward estimates as a result of the projected rise in CGS on issue.

The Government's total interest payments in 2015-16 are estimated to be $15.0 billion, of which $14.5 billion relates to CGS on issue (Table 9).

Table 9: Interest payments and interest expense

	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Interest payments on CGS(a)	13,512	14,455	14,980	15,535	16,587
Per cent of GDP	0.8	0.9	0.9	0.8	0.9
Total interest payments(a)	14,037	14,953	15,464	16,028	17,070
Per cent of GDP	0.9	0.9	0.9	0.9	0.9
Interest expense on CGS(b)	14,450	15,560	16,454	16,845	17,363
Per cent of GDP	0.9	0.9	0.9	0.9	0.9
Total interest expense(b)	15,915	17,270	19,040	19,652	20,141
Per cent of GDP	1.0	1.0	1.1	1.1	1.0

(a) Interest payments are a cash measure, with the relevant amount recognised in the period in which the interest payment is made.
(b) Interest expense is an accrual measure, with the relevant amount recognised in the period in which the expense is incurred, but not necessarily paid.

The Government's interest expense in 2015-16 is estimated to be $17.3 billion, of which $15.6 billion relates to CGS on issue. In the 2014-15 MYEFO, interest expense in 2015-16 was estimated to be $17.9 billion, of which $16.0 billion related to CGS on issue. Table 10 shows the Government's estimated interest expense, interest expense on CGS, interest income and net interest expense over the forward estimates.

Table 10: Interest expense, interest income and net interest expense

	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Interest expense	15,915	17,270	19,040	19,652	20,141
Per cent of GDP	1.0	1.0	1.1	1.1	1.0
Interest income	3,653	4,083	4,680	5,159	6,184
Per cent of GDP	0.2	0.2	0.3	0.3	0.3
Net interest expense	12,262	13,187	14,360	14,493	13,957
Per cent of GDP	0.8	0.8	0.8	0.8	0.7

Climate spending

The Government's climate spending is shown on an aggregated basis in Table 11.

Table 11: Climate spending from 2014-15 to 2018-19

	2014-15	2015-16	2016-17	2017-18	2018-19
	$b	$b	$b	$b	$b
Climate spending(a)	1.35	0.70	0.60	0.50	0.55

(a) Spending in this table is on a headline cash balance basis; that is, payments and net cash flows from investments in financial assets for policy purposes, as well as estimated interest receipts associated with Clean Energy Finance Corporation investments.

Over the forward estimates, the key components of climate spending are:

- the Emissions Reduction Fund, which is providing incentives to support abatement activities across the economy; and
- funding for the Department of Industry and Science to support Australian Renewable Energy Agency legacy functions.

Estimates of climate spending have been updated to reflect the delay in the passage of legislation to abolish the Clean Energy Finance Corporation and to reflect revised timelines for the delivery of projects administered by the Australian Renewable Energy Agency.

Impact of climate spending on debt

Climate spending may be financed through either receipts or debt. This statement takes the approach of assuming that the proportion of climate spending being financed through new debt (as opposed to receipts) is equivalent to climate spending as a proportion of total spending. This is shown in Table 12.

Table 12: Impact on debt — climate spending as a proportion of total spending

	2014-15	2015-16	2016-17	2017-18	2018-19
Climate spending ($b) (a)	1.35	0.70	0.60	0.50	0.55
Total spending ($b) (b)	418.3	440.9	466.0	478.0	504.7
Climate spending (per cent of total spending)	0.3	0.2	0.1	0.1	0.1
Change in face value of CGS from previous year ($b) (c)	50.2	45.1	61.9	23.1	20.8
Contribution to change in face value of CGS from climate spending ($b)	0.16	0.07	0.08	0.02	0.02

(a) The calculation of climate spending in this table is on a headline cash balance basis; that is, payments and net cash flows from investments in financial assets for policy purposes, as well as estimated interest receipts associated with the Clean Energy Finance Corporation investments.
(b) The calculation of total spending in this table is on a headline cash balance basis; that is, total payments and net cash flows from investments in financial assets for policy purposes.
(c) Calculations of the change in the face value of CGS are calculated using total CGS on issue.

Recurrent and capital spending

In the 2013-14 MYEFO, the Government made a commitment to enhance disclosure on the proportion of the total budget[4] allocated to recurrent and capital spending.

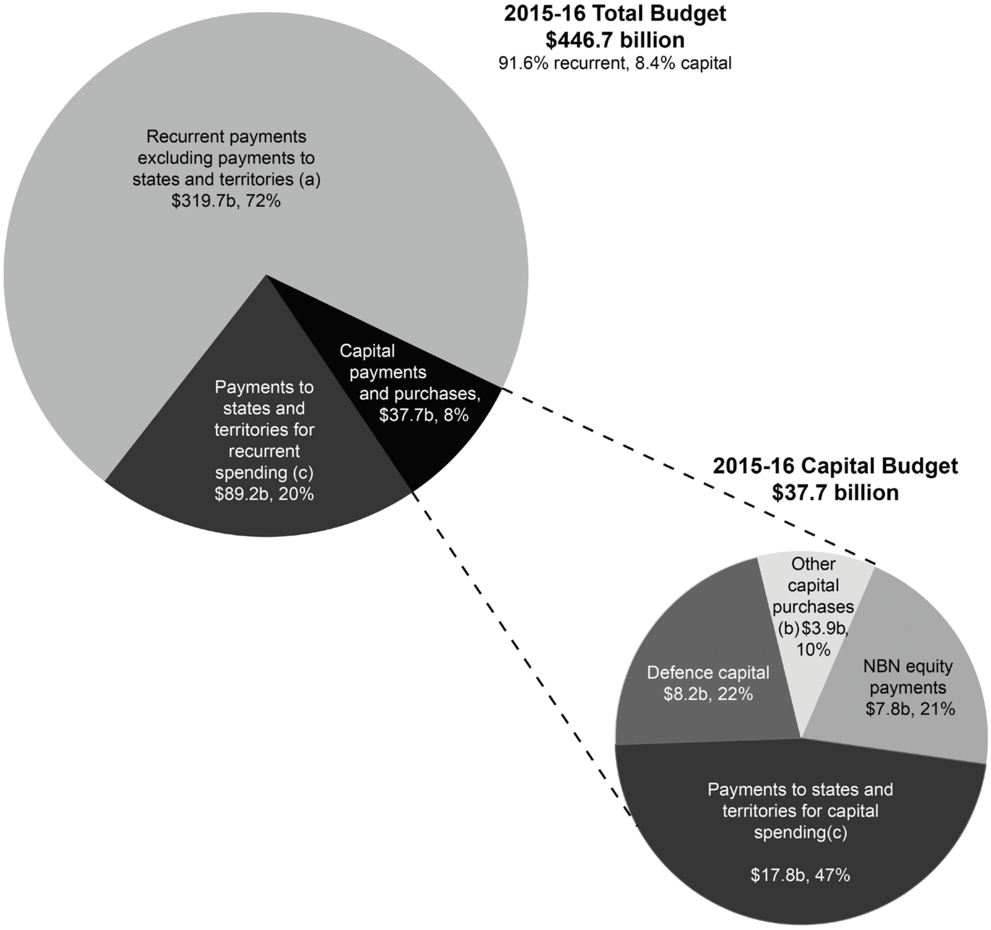
The **recurrent budget** includes pension and income support payments, funding in the areas of health and education (except where funding is allocated to the building of facilities), interest payments on public debt, student loans, and operating costs of the Government including payments to employees.

The **capital budget** comprises loans and other funding made to fund infrastructure, including transport and communications infrastructure; and purchases of defence and other non-financial assets.

Chart 4 below presents a detailed breakdown of recurrent and capital spending for the 2015-16 year.

4 Total budget is defined as all cash outflows within the underlying cash balance and headline cash balance (where identifiable). This is equal to total payments plus investments in financial assets for policy purposes (for example, loans and equity payments).

Chart 4: Recurrent and capital spending as a proportion of the Budget in 2015-16



(a) Recurrent payments excluding payments to states and territories include pension and income support payments, government loans, payments to government employees, payments for goods and services, and grants and subsidies not made for capital purposes.
(b) Other capital purchases include the purchase of land and buildings, software and other facilities.
(c) State and territory payments include payments for general revenue assistance (including Goods and Services Tax payments) and specific purpose payments.

Chart 4 shows that 91.6 per cent of estimated total budget spending in 2015-16 is recurrent, and the remaining 8.4 per cent of the budget is capital.

Of the total budget, 72 per cent comprises recurrent payments such as income support payments, grants and subsidies to recipients other than states and territories, interest payments on public debt, operating costs of the Government, and student loans. Payments to states and territories to fund recurrent spending make up 20 per cent of the budget. This amount includes specific purpose payments to states and territories, including in the areas of health and education, and recurrent spending by the states and territories estimated to be funded through general revenue assistance.

Of the $37.7 billion of the capital budget, around $17.8 billion relates to specific purpose payments to the states and territories for capital purposes and the portion of General Revenue Assistance that is estimated to fund capital spending by the states and territories. Equity payments to NBN Co comprise around 21 per cent of the capital budget and purchases of defence capital (for example, defence weapons and aircraft) comprises around 22 per cent. Other capital purchases such as software facilities upgrades make up around 10 per cent of the capital budget.

Funding for the Infrastructure Growth Package is reflected in payments to states and territories for capital spending (for amounts paid to states and territories) and other capital loans, grants and subsidies (for amounts paid to local governments).

Additional Transparency — Medium-term projections

To improve the transparency of the budget papers, the medium-term projections have been enhanced to encourage discussion and debate beyond the short term about the benefits of funding important investments such as infrastructure.

Budget Statement 7: Forecasting Performance and Scenario Analysis includes alternative scenarios of the medium-term outlook for the underlying cash balance and CGS on issue.

Further, the Budget details the Government's commitment to funding productivity-enhancing infrastructure over the medium term.

The Government is committed to investing over $50 billion in transport infrastructure to 2019-20 (this includes a $3 billion commitment to East West Link that is recorded as a contingent liability), with spending included in the forward estimates and the medium-term projections.

The Government is also investing in a new Northern Australia Infrastructure Facility over five years to help promote private sector participation in major projects necessary for economic development in the north.

The medium-term fiscal projections in this Budget include expenditure on infrastructure by the Commonwealth.

Stronger infrastructure links improve the competitiveness of businesses and increase their ability to provide services to their customers. Businesses will also benefit from the increased investment activity and a more dynamic economy.

THE AUSTRALIAN GOVERNMENT'S MAJOR ASSETS AND LIABILITIES

Assets

The Government's total stock of assets is estimated to be around $428.7 billion at 30 June 2015, increasing to $454.7 billion in 2015-16 and $557.0 billion by the end of the forward estimates.

The Government's financial assets are estimated to be around $309.9 billion at 30 June 2015, increasing to $332.6 billion in 2015-16 and $422.0 billion by the end of the forward estimates.

The Government's non-financial assets are estimated to be around $118.8 billion at 30 June 2015, increasing to $122.1 billion in 2015-16 and $135.0 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 Investment Mandate for the Future Fund sets a benchmark return of at least 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 (the Board) 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.

The portfolio of assets has performed well. Since the first contribution to the Future Fund on 5 May 2006, the return has been 8.2 per cent per annum.

At 31 March 2015, the Future Fund's return for the financial year to date was 15.1 per cent. The Future Fund was valued at $117.0 billion at 31 March 2015.

The Board continues to focus on maintaining clear objectives and manages the portfolio in line with its mandate and strategy. Table 13 shows changes in the asset allocation of the Future Fund since 30 June 2014.

Table 13: Asset allocation of the Future Fund

Asset class	30 June 2014 $m	31 March 2015 $m
Australian equities	9,565	9,618
Global equities		
Developed markets	23,451	24,345
Emerging markets	9,840	11,077
Private equity	8,481	11,274
Property	5,475	7,227
Infrastructure and Timberland	8,326	7,942
Debt securities	11,344	11,576
Alternative assets	13,729	16,069
Cash	11,375	17,834
Total Future Fund assets	101,586	116,964

Note: Data may not sum due to rounding.

Asset Recycling Fund

The Australian Government remains committed to its 2014-15 Budget decision to establish the Asset Recycling Fund (ARF), a dedicated vehicle for providing funding and financial incentives primarily to the states and territories to invest in infrastructure, including under the Asset Recycling Initiative.

The ARF will be seeded with $6.8 billion of capital from uncommitted balances of the Building Australia Fund (BAF) and Education Investment Fund (EIF). Further contributions to the Fund will be made from proceeds from the sale of Medibank Private, to be credited on 1 July 2016, and other privatisations.

Drawdowns from the ARF for payments relating to the Infrastructure Growth Package will be made from capital and net earnings. Such drawdowns will primarily fund payments to states and territories through the Council of Australian Governments (COAG) Reform Fund, governed by the National Partnership Agreements that will include those for the Asset Recycling Initiative and Land Transport Infrastructure Projects. Pending the establishment of the ARF, the Australian Government will enable funding for infrastructure investments under the Infrastructure Growth Package by providing funding of $2.1 billion in 2015-16 through existing appropriation mechanisms.

The ARF will be managed by the Future Fund Board of Guardians. The Treasurer and Minister for Finance will set an investment mandate for the Fund which will provide broad direction to the Board in relation to its investment strategy.

Once the ARF is established and the uncommitted balances of the BAF and EIF are transferred to the ARF, the BAF and the EIF will be abolished. Remaining committed milestone payments of the BAF and EIF will be transferred to consolidated revenue to continue to be paid based on contractual obligations under the responsibility of the relevant department.

Medical Research Future Fund

The Government will establish the Medical Research Future Fund (MRFF) on 1 August 2015 to provide additional funding for medical research from 2015-16.

Contributions to the MRFF will come from $1 billion uncommitted funds in the Health and Hospitals Fund (HHF), and the estimated value of health savings from the Health portfolio until the Fund reaches a target capital level of $20 billion. The MRFF is still expected to reach $20 billion in 2019-20.

Net earnings on MRFF capital for a given financial year will be available for drawdown the following financial year. Payments met from drawdowns will be determined through the annual budget process. In 2015-16, $10 million will be distributed by bringing forward some of the earnings that would otherwise be made available in 2016-17. The capital of the Fund will be preserved in perpetuity.

The MRFF will be managed by the Future Fund Board of Guardians. The Treasurer and Minister for Finance will set an investment mandate for the Fund which will provide broad direction to the Board in relation to its investment strategy.

The HHF will be abolished on 1 August 2015. Remaining committed milestone payments of the HHF will be transferred to consolidated revenue to continue to be paid based on contractual obligations under the responsibility of the Department of Health.

DisabilityCare Australia Fund

The DisabilityCare Australia Fund (DCAF) was established on 1 July 2014 to assist the Commonwealth and the State and Territory governments with spending directly related to the National Disability Insurance Scheme (NDIS). This is consistent with the commitment by governments to roll out the NDIS across Australia.

The DCAF is funded by revenue raised from the increase in the Medicare levy of half a percentage point to 2 per cent that was implemented on 1 July 2014. As at 8 May 2015 the DCAF has received credits totalling $2.5 billion.

The investments of the DCAF are managed by the Future Fund Board of Guardians (the Board). The Treasurer and Minister for Finance have set an Investment Mandate for the DCAF which came into effect from 1 July 2014 and provides guidance to the Board in relation to its investment strategy for the Fund. The DCAF Investment Mandate sets a benchmark return on the Fund of the Australian three month bank bill swap rate plus 0.3 per cent per annum calculated on a rolling 12 month basis (net of fees). In achieving its objectives, the Board must invest in such a way as to minimise the probability of capital losses over a 12-month horizon.

A fixed amount of the money flowing into the DCAF each year is set aside (commencing from 2014-15) for the State and Territory governments consistent with the DisabilityCare Australia Fund Act 2013. In 2015-16, this fixed amount is $854 million, which was indexed by 3.5 per cent from the previous financial year. This amount will continue to be indexed annually by 3.5 per cent until 2023-24.

The State and Territory governments will be able to draw down from the DCAF when they meet key conditions such as agreement to fully roll out the NDIS and milestones relating to the participation of people with significant and permanent disability in the scheme. The balance of the DCAF, after taking into account allocations to the states and territories, will be available to the Commonwealth to assist with meeting the Commonwealth's contribution to the NDIS.

Residential mortgage-backed securities

The Government will progressively sell down its residential mortgage-backed securities (RMBS) holdings subject to market conditions. As at the end of April 2015, the Government's RMBS portfolio was valued at $4.6 billion in amortised face value terms. Subject to market conditions, it is estimated that the portfolio could be sold down by the middle of 2016.

During the global financial crisis, the previous Government directed the AOFM to invest in high-quality AAA-rated RMBS to support competition from smaller lenders in residential mortgage and small business lending markets. As a result, the AOFM directly invested around $15.5 billion in high-quality RMBS.

Conditions in the Australian securitisation market have improved substantially since the introduction of the AOFM programme. Since late 2012, private demand for securitisation had increased to the extent that the AOFM was not required to provide any direct investment in new RMBS deals. Given the improvement in the market, the previous Government announced on 10 April 2013 that the program would close for new investment.

Conditions have continued to improve since then. Around $29 billion of new RMBS was issued in 2014, the largest volume in any calendar year since the crisis. Smaller lenders are able to fund their new lending by securitisation, with over $10 billion of primary RMBS issuance by non-major lenders since September 2014.

The RMBS market is now functioning well and no longer needs Government support. Moreover, a progressive sale of RMBS is expected to support the market by providing regular pricing benchmarks to a relatively opaque market.

National Broadband Network

The National Broadband Network (NBN) will deliver fast, affordable broadband to all Australians. The Government has instructed NBN Co Limited to complete the NBN using a multi-technology mix (including fibre-to-the-premises, fibre-to-the-node, hybrid-fibre coaxial cable, and wireless and satellite technologies), to ensure the NBN is delivered as soon as possible and at least cost to taxpayers.

On 14 December 2015, the Government announced that is has successfully renegotiated the Definitive Agreements with Telstra and Optus. These agreements secure access to existing fixed-line infrastructure that could be used to rollout the NBN faster and at lower cost.

In the 2015-16 Budget, $2.6 billion in equity payments for NBN Co have been brought forward to 2015-16 and 2016-17 from 2017-18. This is to reflect the launch and scale of new network technologies. The Government's equity contributions are capped at $29.5 billion.

Higher Education Loan Programme

The Higher Education Loan Programme (HELP) comprises concessional loans to students that enable them to defer payment of fees for diploma level and above courses, which are paid back once earning an income above a certain level.

The fair value of HELP is estimated to be around $30.2 billion at 30 June 2015, which is $0.4 billion lower than projected in the 2014-15 MYEFO. The fair value of HELP is projected to grow to around $52.9 billion in 2017-18, which is $0.9 billion higher than estimated in the 2014-15 MYEFO, and to reach $62.7 billion by the end of the forward estimates.

This growth is largely a result of the estimated underlying increase in university commencements over the forward estimates, deregulation of the higher education sector, the reduction in subsidies for Commonwealth supported places, and increased demand for VET FEE-HELP.

From 1 January 2016, the Government will fully deregulate higher education by removing fee caps and expanding the demand-driven system to bachelor and sub-bachelor courses at all approved higher education providers. Supported students will continue to be able to defer the costs of their studies through HELP.

In addition, from 1 January 2016, the Government will rebalance student and Commonwealth contributions towards a new student's course fees by reducing subsidies for Commonwealth-supported places by 20 per cent on average.

Clean Energy Finance Corporation

The Clean Energy Finance Corporation (CEFC) was established as a Commonwealth Authority in August 2012 through the *Clean Energy Finance Corporation Act 2012* (CEFC Act).

The CEFC Act provides the CEFC with $10 billion over five years to invest in renewable energy, low-emissions technology and energy efficiency projects.

Investment decisions are made by an independent board consistent with the CEFC Act and the CEFC's investment mandate.

The Government has announced that it will abolish the CEFC.

Legislation to abolish the CEFC and transfer the CEFC's existing assets and liabilities to the Commonwealth is currently before Parliament. The Government will honour all payments that are necessary as part of meeting our contractual obligations to committed investments. These obligations will be met from the CEFC's existing funding, which will be transferred to a new CEFC transitional special account.

Liabilities

The Government's total liabilities are estimated to be around $660.0 billion at 30 June 2015, increasing to $716.1 billion in 2015-16 and $839.8 billion by the end of the forward estimates.

The Government's major liabilities are CGS on issue and public sector employee superannuation liabilities. For further information on CGS on issue, see the Debt Statement.

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 $167 billion at 30 June 2015 and approximately $282 billion at 30 June 2050.

The Australian Government has never fully funded its superannuation liabilities in relation to defined benefit schemes. For civilian employees, the major defined benefit schemes are the Commonwealth Sector Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). These schemes were closed to new members in 1990 and 2005 respectively. The Public Sector Superannuation accumulation plan (PSSap) was introduced on 1 July 2005 and provides fully funded accumulation benefits for new civilian employees from that date.

For military personnel, the defined benefit schemes are the Defence Force Retirement and Death Benefits Scheme (DFRDB), the Defence Forces Retirement Benefits Scheme (DFRB) and the Military Superannuation and Benefits Scheme (MSBS). The DFRDB and DFRB are closed to new members. Legislation is being prepared which would close the MSBS to new members from 1 July 2016, with a new military accumulation scheme with death and disability arrangements to be established.

While there will not be any civilian or military defined benefit schemes available to new members from 1 July 2016, the value of the Government's unfunded superannuation liability is projected to continue growing (in nominal terms) into the immediate future — although it is projected to decrease as a proportion of GDP — and is forecast to reach $194 billion by the end of the forward estimates. The increase in the liability partly results from the time value of money which recognises future benefits being closer to maturity each year. It also results from the accruing entitlements to current members of the civilian and military defined benefit schemes.

An actuarially-determined discount rate is used to estimate the present value of future unfunded superannuation benefits. The long-term nature of the unfunded superannuation liability requires the use of a discount rate that best matches the duration of the liability. The value recorded on the balance sheet is highly sensitive to the discount rate used. The use of a long-term discount rate for budget purposes avoids the volatility that would occur by using current market yields on government bonds which continually change. Consistent with the latest Long Term Cost Reports for the civilian and military schemes, the discount rate currently applied is 6 per cent per annum. This rate is in the context of a long-term assumed rate of CPI inflation of 2.5 per cent per annum.

Civilian defined benefit schemes

Changes in member behaviour, including members increasing their member contributions and increasingly taking more of their benefit as a pension rather than as a lump sum, have also increased the liability in 2014-15 by around $4 billion compared to previous projections for the 2014-15 Budget.

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 *Statement 9: Australian Government Budget Financial Statements* for further information about budget aggregation).

STATEMENT 7: FORECASTING PERFORMANCE AND SCENARIO ANALYSIS

The economic and fiscal forecasts presented in the 2015-16 Budget incorporate assumptions and judgments based on information available at the time of preparation. The forecasts are subject to considerable uncertainty. This Statement details the forecasting performance for the key macroeconomic aggregates of real and nominal GDP and estimates of government receipts. The Statement also presents a number of scenarios which help to illustrate the sensitivity of budget aggregates to changes in parameters.

STATEMENT 7: FORECASTING PERFORMANCE AND SCENARIO ANALYSIS

OVERVIEW

The macroeconomic and fiscal forecasts presented in the 2015-16 Budget incorporate assumptions and judgments based on information available at the time of preparation.

Budget macroeconomic and fiscal forecasts are important for Government policy and decision-making. The budget estimates provide a fiscal baseline against which policy decisions are taken by the Government. Better forecasting, and a better understanding of the uncertainties around the forecasts, contributes to better policy and decision-making.

This Statement presents an assessment of forecasting performance and estimates of uncertainty around the forecasts. This is consistent with moves of fiscal agencies around the world to improve forecasting performance and raise awareness of the uncertainties inherent in forecasting.

The macroeconomic forecasts are reliant on the assumptions underpinning them. The economic forecasts and the forward estimates of revenue and expenses are closely linked. The fiscal forecasts are therefore sensitive to the assumptions underpinning the economic forecasts. This statement illustrates how alternative assumptions or other developments can affect the economic and fiscal outlook. A discussion of economic and other assumptions and the sensitivity of budget estimates to changes in these assumptions is one of the requirements of the *Charter of Budget Honesty Act 1998*.

FORECASTING PERFORMANCE

Macroeconomic forecasting performance

The Government's macroeconomic forecasts are prepared using a range of modelling techniques, including structural macroeconometric models and equations, spreadsheet analyses and accounting frameworks. These are supplemented by survey data, business liaison, expert opinion and judgment.

The differences between forecasts and outcomes (forecast errors) can arise for a range of reasons, for example differences between the assumed path of key variables and the outcome, or the relationship between different parts of the economy.

Confidence intervals are based on observed historical patterns of forecast errors. Confidence intervals show that there is a range of plausible outcomes around any given point estimate forecast. They are a guide to the degree of uncertainty around the forecast and, typically, span a wide range of outcomes.

Real GDP forecasts

Real GDP forecasts in the Budget are based on assumptions about the exchange rate, interest rates and oil prices. The forecasts incorporate judgments about how developments in one part of the Australian economy affect other parts, and how the domestic economy is affected by events in the international economy. The accuracy of the forecasts depends on the extent to which the assumptions and judgments underpinning them prove to be correct.

For example, a lower exchange rate than assumed would be expected to result in higher growth in Australia's export volumes, including in tourism and manufacturing. At the same time, import prices would be higher, resulting in lower growth in import volumes. Overall, this would lead to a larger contribution of net exports to economic growth, although there would be some mitigating effect on real GDP from the impact of higher import prices on real household income.

Forecast errors for real GDP can also result from unexpected shifts in economic activity between forecast years. For instance, economic growth can suddenly gain pace in an upswing, supported by a mutually reinforcing pick-up in consumer spending, employment and investment.

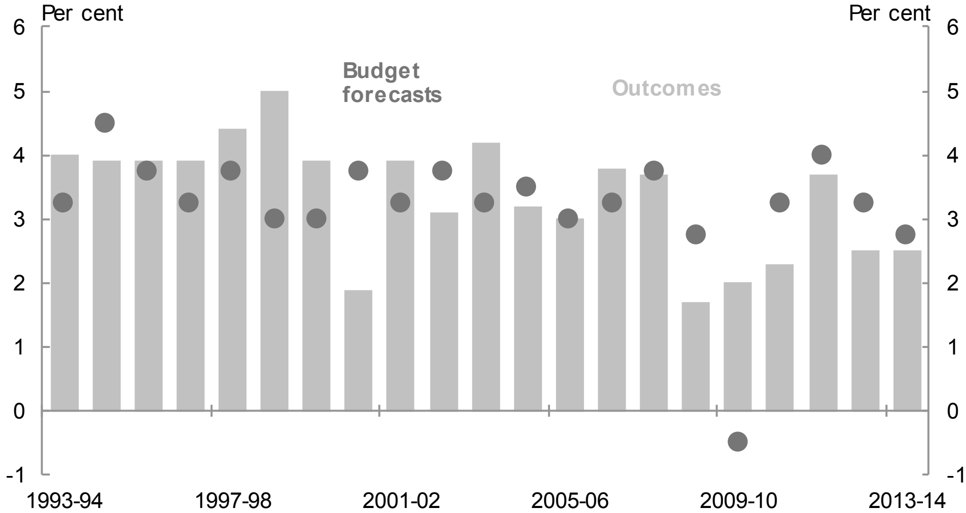
A faster pick-up in Australia's economic growth in 2015-16 could be driven by stronger than forecast household consumption in response to rising housing and stock market wealth. Rising consumer spending could lead to higher employment growth, capacity utilisation and stronger investment. Stronger than expected growth in Australia's major trading partners could provide a fillip to exports and in turn boost incomes and demand throughout the economy.

More persistent shifts in the economy's supply side through changes in population, productivity or participation can also give rise to forecast errors. An illustrative scenario of the macroeconomic and fiscal effects of a one per cent increase in real GDP driven by an increase in labour productivity and labour force participation is presented later in this statement.

Over the past 20 years, Treasury's forecasts of real GDP growth have exhibited little evidence of bias, and accuracy has generally remained within a range of ½ to 1 percentage point (Chart 1). While forecasts of real GDP growth were less accurate in the years during and immediately after the global financial crisis (GFC), forecast errors have since returned to the usual range.

While National Accounts data are not yet available for the whole of 2014-15, information to date suggests that real GDP growth is evolving broadly in line with last year's Budget forecast. This reflects some offsetting results at the component level, with stronger growth in export volumes, including non-rural commodities, and lower growth in import volumes expected to balance slightly lower growth in household consumption. Other components of GDP, including business investment, have so far evolved largely as expected in 2014-15.

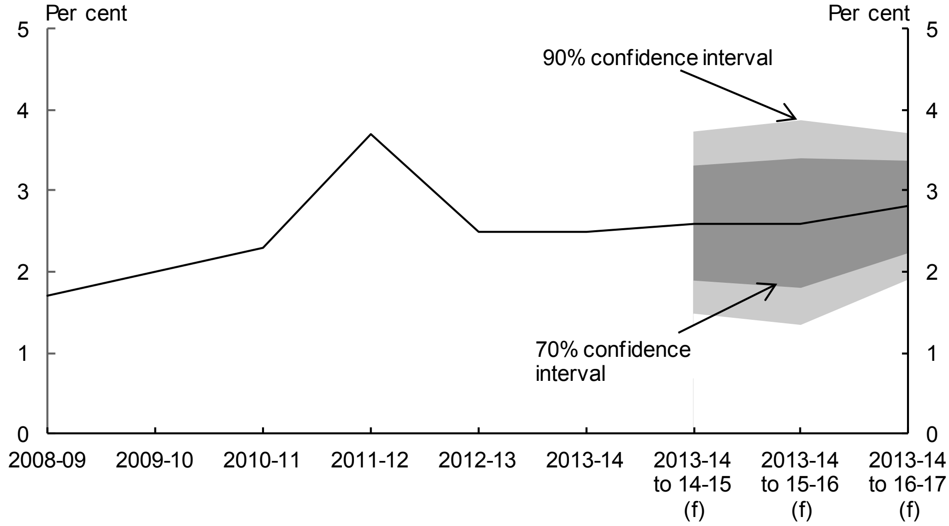
Chart 1: Budget forecasts of real GDP growth



Note: Outcome is as published in the December quarter 2014 National Accounts. Forecast is that published in the Budget for that year.
Source: ABS cat. no. 5206.0 and Treasury.

Chart 2 shows that the average annualised growth rate in real GDP in the two years to 2015-16 is expected to be around 2½ per cent, with the 70 per cent confidence interval ranging from 1¾ to 3½ per cent. In other words, if forecast errors are similar to those made over recent years, there is a 70 per cent probability that the growth rate will lie in this range.

Chart 2: Confidence intervals around real GDP growth rate forecasts



Note: The central line shows the outcomes and the 2015-16 Budget forecasts. Annual growth rates are reported for the outcomes. Average annualised growth rates from 2013-14 are reported for 2014-15 onwards. (f) are forecasts. Confidence intervals are based on the root mean squared errors (RMSEs) of Budget forecasts from 1998-99 onwards, with outcomes based on December quarter 2014 National Accounts data.
Source: ABS cat. no. 5206.0, Budget papers and Treasury.

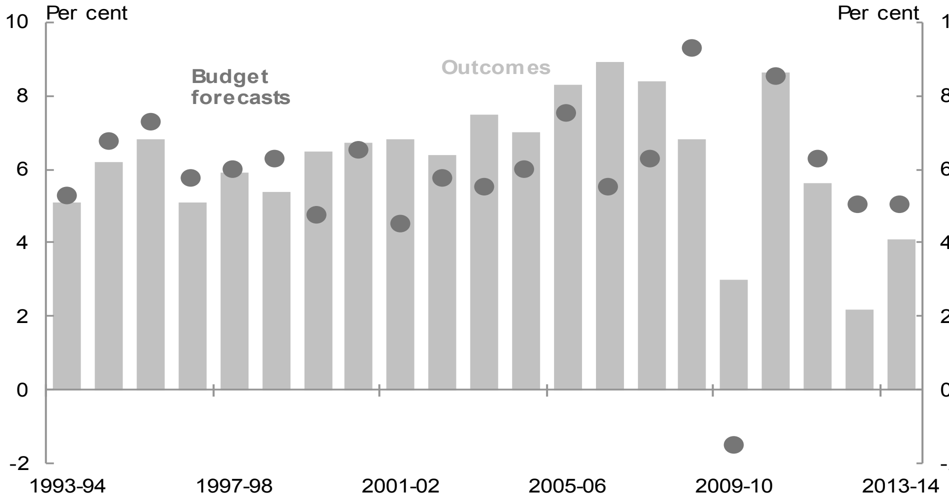
Nominal GDP forecasts

Compared with real GDP forecasts, nominal GDP forecasts are subject to additional sources of uncertainty from the evolution of domestic prices and wages, and world prices for commodities.

Over the past decade, nominal GDP forecast errors have reflected the difficulties in predicting movements in global commodity prices (Chart 3). Faster than anticipated declines in the prices of key commodities in recent years, particularly iron ore, has meant that nominal GDP was overestimated.

In 2014-15, nominal GDP growth is expected to be lower than forecast in last year's Budget. This primarily reflects the steeper than anticipated decline in key commodity prices over the past year, which has contributed to lower than forecast outcomes for the terms of trade and GDP deflator.

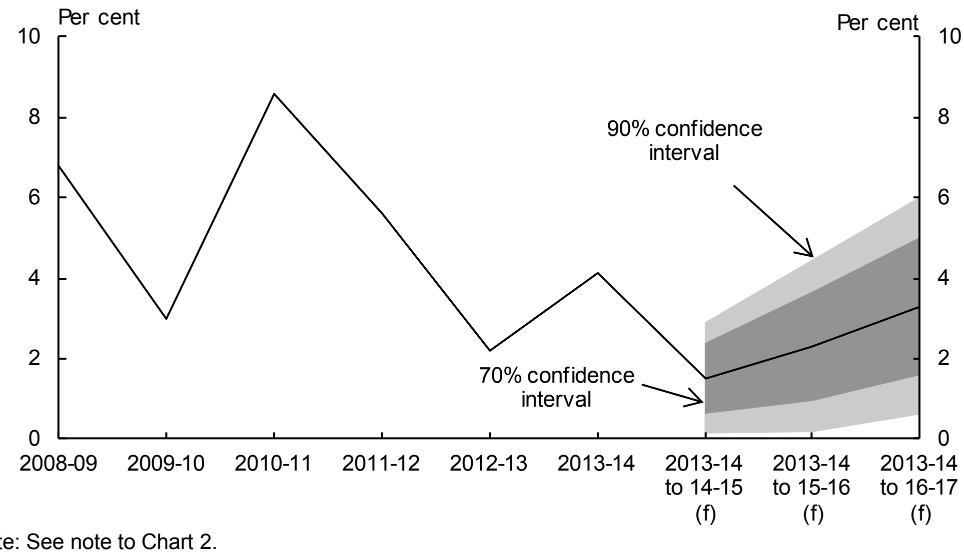
Chart 3: Budget forecasts of nominal GDP growth



Note: Outcome is as published in the December quarter 2014 National Accounts. Forecast is that published in the Budget for that year.
Source: ABS cat. no. 5206.0 and Treasury.

The confidence intervals around nominal GDP forecasts are wider than those around the real GDP forecasts, reflecting both the uncertainty over the outlook for real GDP and the added uncertainty about the outlook for domestic prices and the terms of trade. Chart 4 suggests that the average annualised growth rate in nominal GDP growth in the two years to 2015-16 is expected to be around 2¼ per cent, with the 70 per cent confidence interval ranging from 1 to 3¾ per cent.

Chart 4: Confidence intervals around nominal GDP growth rate forecasts



Note: See note to Chart 2.
Source: ABS cat. no. 5206.0, Budget papers and Treasury.

Fiscal forecasting performance

The fiscal estimates contained in the 2015-16 Budget are based on forecasts of the economic outlook. Changes to the economic forecasts underpinning the estimates, for example, inflation, profits, wages growth, population and unemployment, will affect receipts, payments and therefore the profile of both the underlying cash balance and government debt. Even small movements in economic parameters can result in large changes to the budget estimates, for example, decreasing payments or increasing receipts with flow-on effects to the underlying cash balance.

Major taxes such as company and individuals income taxes fluctuate significantly with economic activity. Capital gains tax (CGT) is particularly volatile and is affected by both the level of gains in asset markets and the timing of when those gains are realised. Similarly, superannuation fund taxes are affected by investment market returns.

Receipts forecasts are also affected by errors in translating the impact that changes in the economy have on tax collections, and other factors. Factors such as the timing of tax payments and enforcement activity can affect outcomes compared with forecasts.

The estimates and projections of receipts are subject to a number of general risks that can affect tax collections. These general risks include failure of the tax system to keep pace with changes in the business environment, tax avoidance, court decisions, Australian Taxation Office rulings and enforcement efforts. These pressures may result in a shift in the composition of taxation collected from the various tax bases and/or a change in the size of the tax base.

There are also a number of risks that may affect the payments estimates and projections. In particular, demand-driven programmes, which form the bulk of the Government's payments, can fluctuate significantly with economic and social conditions. If changes to these conditions are not anticipated this can have major effects on payments levels. For example, an unexpected increase in the number of persons unemployed in the population could lead to additional welfare-related payments.

Fiscal risks also include emergency foreign aid and natural disasters. Such occurrences have in the past resulted in unexpected increases in payments and may do so again. Specific fiscal risks to the budget and forward estimates are detailed in Budget Statement 8: *Statement of Risks.*

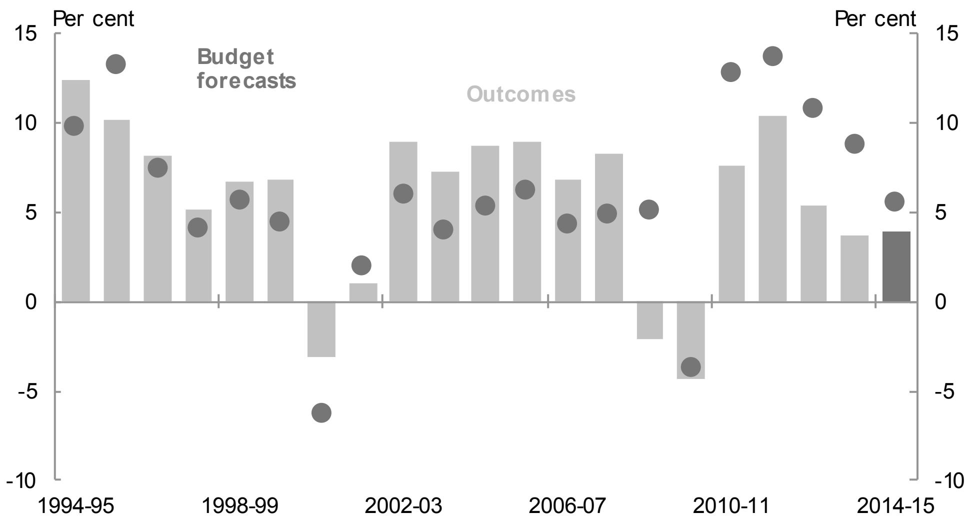
Receipts forecasts

The Government's tax receipts estimates are generally prepared using a 'base plus growth' methodology. The last known outcome (2013-14 for the 2015-16 Budget) is used as the base to which estimated growth rates are applied, resulting in tax receipts estimates for the current and future years.

Most of the indirect heads of revenue, such as GST and fuel excise, are forecast by mapping the growth rate of an appropriate economic parameter directly to the tax growth rate in the relevant head of revenue. A number of income taxes also involve 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.

Over the past two decades, receipts forecasts have both under- and over-predicted outcomes (Chart 5).

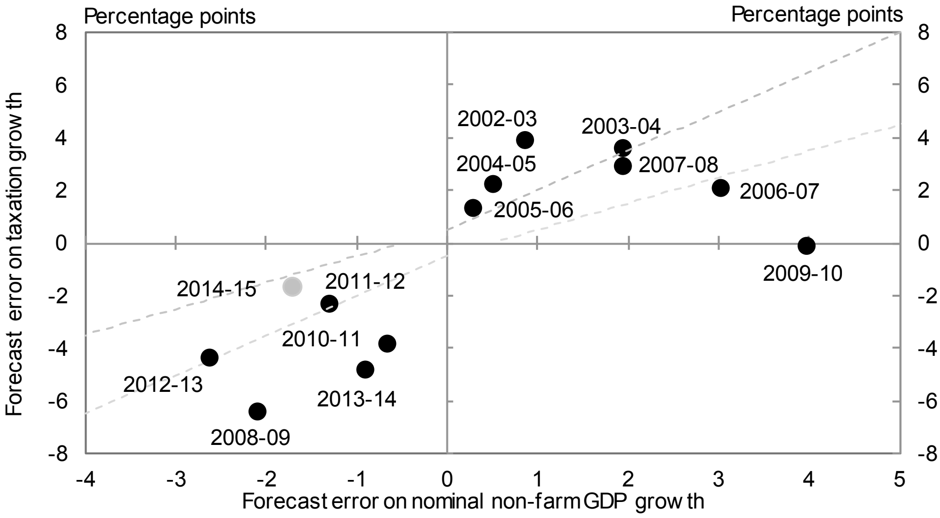
Chart 5: Budget forecast of tax receipts growth



Note: Forecast error for 2014-15 is an estimate.
Source: ABS cat. no. 5206.0, Budget papers and Treasury.

Generally, there is a strong correlation between the accuracy of the forecasts of the nominal economy and the forecasts for tax receipts. On average, economic forecasting errors will be magnified in receipts forecasting errors, owing to the progressive nature of personal income tax. Chart 6 plots the forecast errors for nominal non-farm GDP against the errors for tax receipts. It shows where there has been an underestimate of nominal non-farm GDP growth, tax receipts tend to be underestimated and vice versa.

Chart 6: Budget forecast errors on nominal non-farm GDP growth and taxation receipts growth (excluding CGT)



Note: The lower and upper lines are based on aggregate elasticities (of receipts with respect to nominal non-farm GDP) of 1.0 and 1.5 respectively, assuming an error of plus or minus 0.5 per cent if there is zero error on the economic forecasts. Forecasting errors outside this range could be a result of factors such as timing of tax receipts. Forecast error for 2014-15 is an estimate.
Source: ABS cat. no. 5206.0, Budget papers and Treasury.

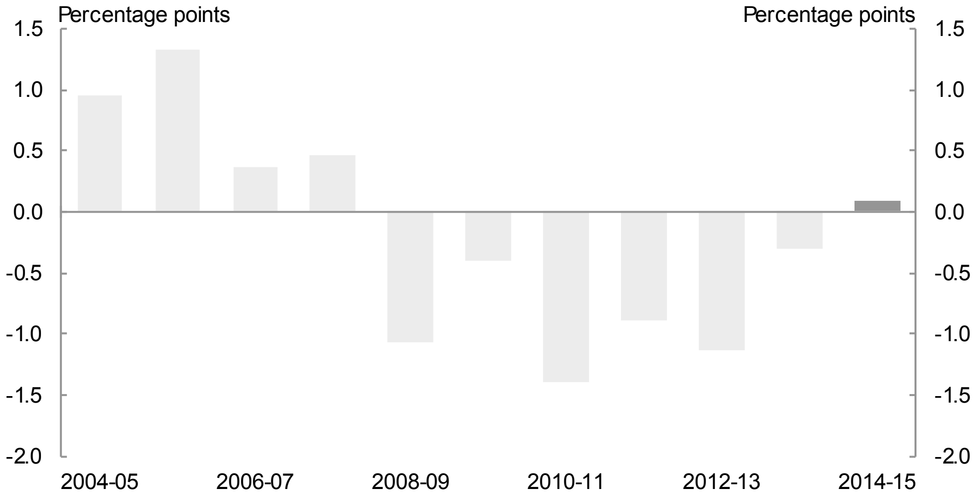
The forecast for 2014-15 tax receipts (excluding CGT) in the 2014-15 Budget is expected to be an over-estimate of around 1.7 percentage points, compared to an over-estimate of around 1¾ percentage points for nominal non-farm GDP growth.

The largest contributor to the expected forecasting error in 2014-15 is from the shortfall in company tax. In 2014-15, company tax is estimated to be $3.6 billion (5.0 percent) lower than in the 2014-15 Budget. This overestimate of company tax is largely a result of lower than expected commodity prices, particularly iron ore.

Another significant contributor to the expected forecasting error for 2014-15 is from gross income tax withholding which is estimated to be $3.1 billion (1.8 per cent) below the forecast of the 2014-15 Budget as a result of lower than expected wage growth. Discussions of earlier years' forecast performance can be found in previous budgets.

From 2008-09, forecasting errors in tax receipts have been affected significantly by the economic downturn following the GFC, particularly with regards to CGT (Chart 7).

Chart 7: Forecast error on capital gains tax (contribution to tax receipts growth)



Note: Forecast error for 2014-15 is an estimate.
Source: ABS cat. no. 5206.0, Budget papers and Treasury.

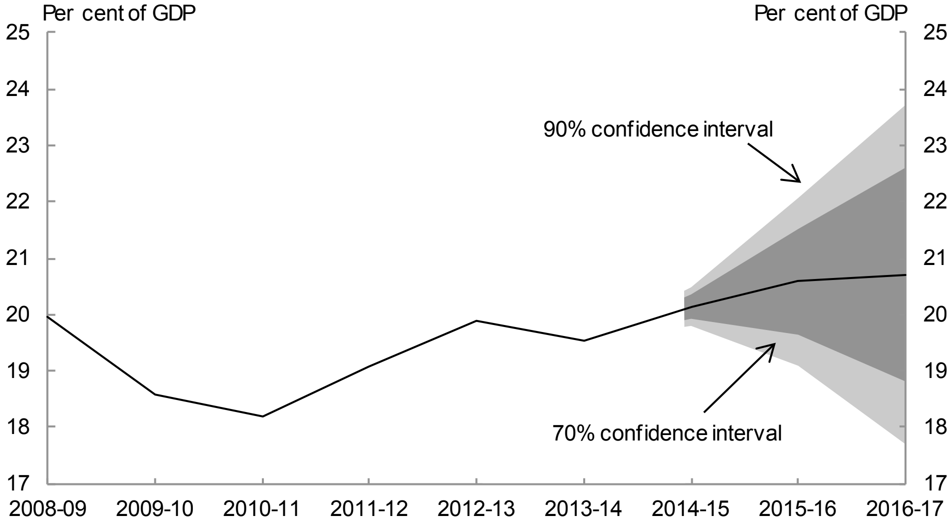
Forecasting CGT, in particular, is very difficult. First, unexpected price movements may cause CGT to be significantly different from the forecast. Secondly, CGT only applies to realised gains, so even in the absence of unexpected price movements, there may be more or less gains realised than was assumed.

Following the GFC, a large stock of capital losses were carried forward (see Box 2 of Statement 5 of the 2010-11 Budget), and the utilisation of these losses continues to generate large uncertainty in both the timing and magnitude of the forecasts.

Chart 8 shows confidence intervals around the forecasts for receipts (excluding GST[1] and including Future Fund earnings). Impacts of future policy decisions are beyond the scope of these forecasts. To account for this, confidence intervals constructed around the receipts forecasts exclude historical variations caused by subsequent policy decisions. These intervals take into account errors caused by parameter and other variations in isolation.

1 GST was not reported as a Commonwealth tax in budget documents prior to the 2008-09 Budget. As a result, GST data have been removed from historical receipts and payments data to abstract from any error associated with this change in accounting treatment.

Chart 8: Confidence intervals around receipts forecasts



Note: The central line shows the outcomes and the 2015-16 Budget point estimate forecasts. Confidence intervals use RMSEs for Budget forecasts from the 1998-99 Budget onwards.
Source: Treasury.

The chart shows that there is considerable uncertainty around receipts forecasts and that this uncertainty increases over the estimates period. It suggests that in 2015-16, the width of the 70 per cent confidence interval for the 2015-16 Budget receipts forecast is approximately 1.9 per cent of GDP ($30 billion) and the 90 per cent confidence interval is approximately 3.0 per cent of GDP ($50 billion).

Payments

The Government's payments estimates are prepared by Australian Government agencies which comprise the Australian Government general government sector. An assessment of payments forecast performance is not included in this Statement, however, historical errors have been incorporated in estimated confidence intervals.

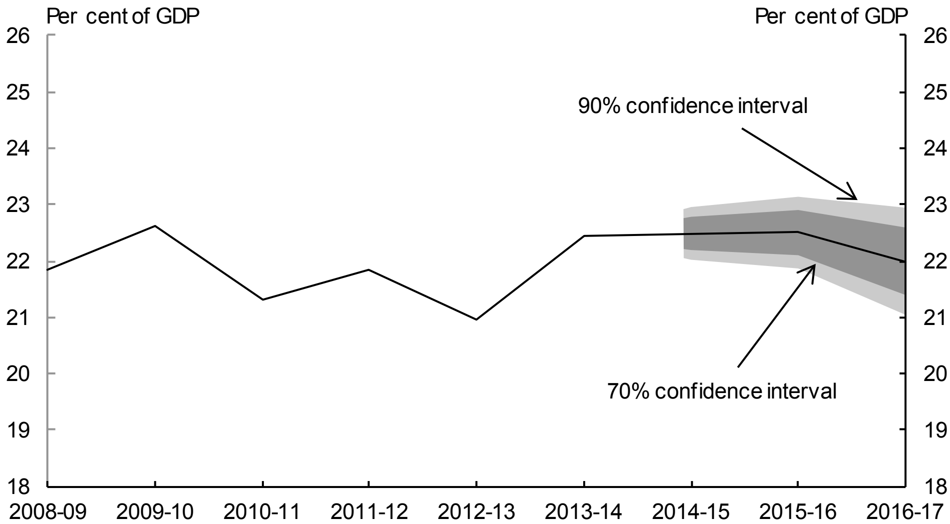
Chart 9 shows confidence intervals around payments forecasts (excluding GST). As with the receipts estimates, historical policy decisions are excluded,[2] and future policy

2 Excluding historical variations stemming from policy decisions does not exclude cases that are classified in budget documentation as parameter and other variations, but have more in common with decisions of government. For example, decisions to re-profile spending due to changes in timing of projects are captured for reporting purposes as parameter and other variations, as are new and often substantial spending decisions to provide assistance for the impacts of natural disasters. Such variations contribute to the size of the confidence intervals around payments.

decisions are out of scope. The estimates include the public debt interest impact of policy decisions.[3]

The chart shows that there is moderate uncertainty around payments forecasts. In 2015-16 the width of the 70 per cent confidence interval for the 2015-16 Budget payments forecast is approximately 0.8 per cent of GDP ($15 billion) and the 90 per cent confidence interval is approximately 1.3 per cent of GDP ($20 billion).

Chart 9: Confidence intervals around payments forecasts



Note: See note to Chart 8.
Source: Treasury.

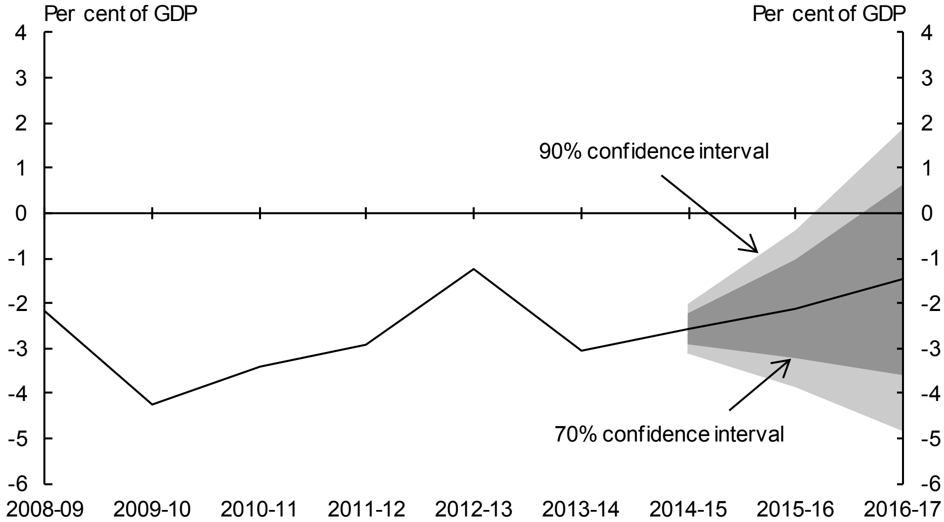
Payments outcomes can differ from forecasts for a number of reasons. Demand driven programs such as payments to individuals and some social services, form the bulk of Government expenditure. Forecasts of payments associated with a number of these government programs depend on forecasts of economic conditions. For example, higher than forecast unemployment levels will mean that expenditure on related services, including allowances, will be higher than anticipated.

Underlying cash balance

The underlying cash balance estimates are sensitive to the same forecasting errors that affect estimates of receipts and payments. Confidence interval analysis shows that there is considerable uncertainty around the underlying cash balance forecasts (see Chart 10).

3 The impacts of past policy decisions on historical public debt interest through time cannot be readily identified or estimated. For this reason, no adjustment has been made to exclude these impacts from the analysis.

Chart 10: Confidence intervals around the underlying cash balance forecasts



Note: See note to Chart 8.
Source: Treasury.

In 2015-16, the width of the 70 per cent confidence interval for the 2015-16 Budget underlying cash balance forecast is approximately 2.2 per cent of GDP ($35 billion) and the 90 per cent confidence interval is approximately 3.5 per cent of GDP ($60 billion). In line with receipts forecasts, uncertainty increases over the estimates period.

SCENARIO AND SENSITIVITY ANALYSIS

Small movements in economic parameters can result in large changes to the budget estimates, for example, increasing payments or reducing receipts can lead to wider deficits and ultimately changes in gross and net debt.

Consideration of particular scenarios and sensitivity analysis demonstrates the potential impact of these changes. This analysis highlights the trade-offs that governments face should risks eventuate, for example, in choices about budget funding or meeting fiscal targets.

Fiscal sensitivity to permanent changes in key economic variables

The scenarios examine the effect on receipts and payments of altering some of the key economic assumptions. 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.

Scenario 1: One per cent reduction in nominal GDP

The following sensitivity analysis considers the consequences of a permanent fall in world prices of non-rural commodity exports in 2015-16 to examine the fiscal consequences of a reduction in nominal GDP. The price fall examined is consistent with a fall in the terms of trade of around 4 per cent, which causes a 1 per cent fall in nominal GDP by 2016-17. The sensitivity analysis evaluates the flow-on effects on the economy, the labour market and prices. The impacts in Table 1 are stylised and refer to per cent deviations from the baseline levels of the economic parameters.

Table 1: Illustrative impact of a permanent one per cent reduction in nominal GDP by 2016-17 due to a fall in the terms of trade (per cent deviation from the baseline level)[4]

	2015-16 per cent	2016-17 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.

Given these assumptions, the overall impact of the fall in the terms of trade is a decrease in the underlying cash balance of around $2.9 billion in 2015-16 and around $5.8 billion in 2016-17 (see Table 2).

4 These results 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, and assume no change in the exchange rate, interest rates or policy over the forecast period.

Table 2: Illustrative sensitivity of the budget balance to a one per cent decrease in nominal GDP due to a fall in the terms of trade

	2015-16	2016-17
	$b	$b
Receipts		
Individuals and other withholding taxes	-0.6	-1.7
Superannuation fund taxes	-0.1	-0.3
Company tax	-1.8	-3.3
Goods and services tax	-0.1	-0.3
Excise and customs duty	-0.1	-0.1
Other taxes	-0.1	-0.1
Total receipts	**-2.8**	**-5.8**
Payments		
Income support	-0.2	-0.3
Other payments	0.0	0.1
Goods and services tax	0.1	0.3
Total payments	**-0.1**	**0.1**
Public debt interest	0.0	-0.1
Underlying cash balance impact(a)	**-2.9**	**-5.8**

(a) Estimated impacts fall within the 70 per cent confidence intervals for years 2015-16 and 2016-17, as shown in Charts 8 to 10.

On the receipts side, a fall in nominal GDP reduces tax collections. The largest impact is on company tax receipts as the fall in export income decreases company profits. Owing to lags in tax collections, the effect on company tax is larger in 2016-17. Lower company profits are assumed to flow through to lower Australian equity prices, therefore reducing capital gains tax from individuals, companies and superannuation funds.

The weaker economy results in lower aggregate demand, which flows through to lower employment and wages, reducing individuals income tax receipts. 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 taxes.

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 because of a higher number of unemployment benefit recipients. The increase in spending on unemployment benefits in 2016-17 is partly offset by reduced expenditure on pensions and allowances reflecting lower growth in benefit rates resulting from lower wages growth and lower inflation. 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.

While not taken into account in this scenario, under a floating exchange rate, a fall in the terms of trade would be expected to lead to a fall in the exchange rate. This would likely dampen the effects 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: One per cent increase in real GDP driven by an increase in labour productivity and labour force participation with each contributing equally

As discussed above, the budget forecasts also depend on assumptions about the economy's supply side. If the outcomes for population, productivity and participation differ from what was assumed, then so may the budget outcomes.

This scenario involves a permanent 0.5 per cent increase in both the participation rate and labour productivity, resulting in a 1 per cent increase in real GDP from 2015-16. Once again, the sensitivity analysis evaluates the flow-on effects on the economy, the labour market and prices. The impacts in Table 3 are stylised and refer to per cent deviations from the baseline levels of the parameters.

Table 3: Illustrative impact of a one per cent increase in real GDP due to an equal and ongoing increase in both productivity and participation (per cent deviation from the baseline level)[5]

	2015-16	2016-17
	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 one 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 different parts of the economy are affected in different ways.

The increases in labour force participation and labour productivity have the same impact on output, but different impacts on the labour market. Higher productivity leads to higher real GDP and higher real wages, while an increase in the participation

5 See footnote 4.

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 temporarily falls relative to the baseline. The lower domestic prices make 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 unchanged.

The overall impact of the increase in labour productivity and participation is an increase in the underlying cash balance of around $3.7 billion in 2015-16 and around $4.5 billion in 2016-17 (see Table 4).

Table 4: Illustrative sensitivity of the budget balance to a one per cent increase in real GDP due to an equal increase in both productivity and participation

	2015-16	2016-17
	$b	$b
Receipts		
Individuals and other withholding taxes	1.9	1.7
Superannuation fund taxes	0.1	0.2
Company tax	1.2	1.8
Goods and services tax	0.5	0.6
Excise and customs duty	0.4	0.4
Other taxes	0.0	0.0
Total receipts	**4.1**	**4.7**
Payments		
Income support	0.0	0.2
Other payments	0.1	0.1
Goods and services tax	-0.5	-0.6
Total payments	**-0.4**	**-0.3**
Public debt interest	0.0	0.1
Underlying cash balance impact(a)	**3.7**	**4.5**

(a) Estimated impacts fall within the 70 per cent confidence intervals for years 2015-16 and 2016-17, as shown in Charts 8 to 10.

On the receipts side, individuals income tax collections increase because of the rise in the number of wage earners and, additionally, higher real wages. The stronger labour market also increases tax collections from superannuation funds because contributions (including compulsory contributions) are higher. 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, unemployment benefits and other allowances) is lower, reflecting lower growth in benefit rates through indexation due to lower inflation (as measured by the Consumer Price Index).[6] This effect is partly offset by growth in the number of unemployment benefit recipients (as higher labour force participation increases both employment and the number unemployed).

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.

The impacts shown in the Tables 1 to 4 above 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.

Impact on the balance sheet of economic and fiscal developments

This section outlines in broad terms the impact on the balance sheet of economic and fiscal shocks.

The impact of a terms of trade shock was outlined earlier in this statement (see Tables 1 and 2). In these circumstances, receipts fall and payments increase, leading to a decline in the budget position. To fund a higher deficit, assets would need to be run down or borrowings would need to increase through the issuance of more Commonwealth Government Securities (CGS). This would increase the CGS liability, and interest payments would be higher until the Government repaid this debt.

A weaker economic environment also increases the likelihood of contingent liabilities (for example, guarantees) crystallising or defaults on loans, resulting in higher liabilities and an increase in payments. Details of contingent liabilities are set out in Statement 8.

Alternatively, an improvement in economic conditions would see receipts improve and payments fall, as outlined earlier in this statement, strengthening the budget position. In these circumstances, borrowings could be reduced, and with reduced borrowings, interest payments would be lower.

Some balance sheet items are required to be recorded at market value, for example, the investments of the Future Fund. The market valuation of these items is therefore susceptible to price fluctuations. Market movements may therefore have a temporary impact on the strength of the balance sheet. Movements in interest rates affect the recorded market value of the Government's CGS liability, even though interest rates payable are determined at the time of issuance. For example, lower interest rates that may be used to stimulate the economy will contribute to a higher market value of the liability.

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6 Under existing indexation arrangements, the growth in wages (average weekly earnings) has historically been the key driver of the growth in benefit rates for pensions and similar payments. However, with recent subdued wages growth, the key driver is currently indexation of benefit rates to growth in the CPI.

Medium-term projections scenarios

The medium-term projections set out in this Budget are not equivalent to forecasts. The medium-term projections use the forward estimates as a base. They are therefore subject to similar risks and uncertainties that affect the fiscal aggregates discussed above, although the longer timeframes mean even greater uncertainty.

Beyond the forward estimates, a range of simplifying assumptions are used to project government payments, with the main drivers being movements in prices, economic growth, the size and structure of the population and the expected per person costs (in each age bracket) of major government programs based on current Government policy. In this context, it is important to note that the projections are very unlikely to unfold exactly as outlined. There will be changes over the projection period that are not anticipated in the underlying assumptions, and government policy will change.

Relatively small changes to assumptions underpinning these projections can have a significant effect on projections of the key fiscal aggregates including the underlying cash balance and CGS on issue (otherwise known as gross debt) by the end of the projection period.

This section outlines the impact on the underlying cash balance and CGS on issue of two alternative assumptions. The first scenario considers the impact on public debt interest costs of higher interest rate assumptions than adopted in the 2015-16 Budget estimates. The second considers the impact of slower than expected payments growth after the end of the forward estimates.

Scenario 1: Higher yield assumptions

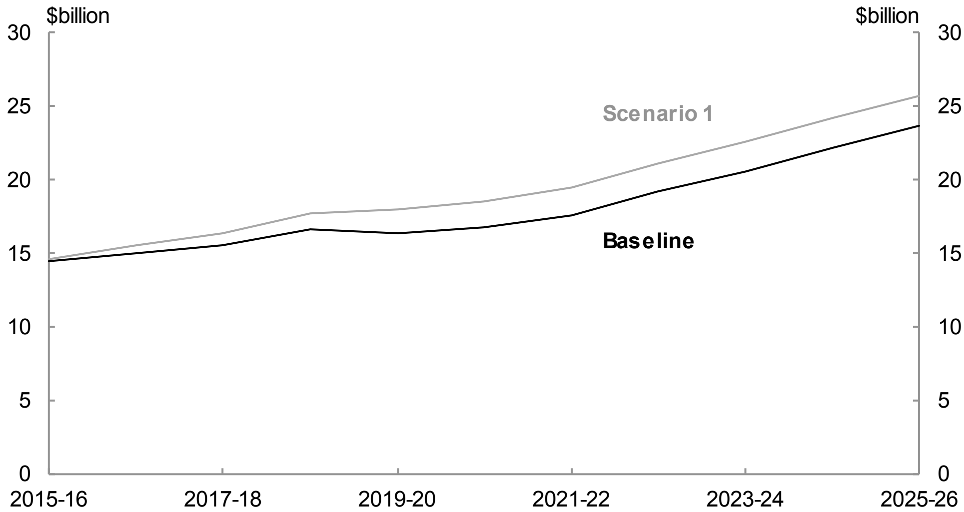
Future borrowing costs are determined by interest rates on Government bonds (that is, bond yields) at the time of issuance. Significant levels of CGS are expected to be issued in current years. This is both to finance projected cash deficits, as well as to refinance maturing debt.

This debt issuance requirement means that an increase in yields from current rates would lead to an increase in public debt interest costs.

Government bond yields have recently been at historically low levels. On 30 April 2015, the yield on 10-year Treasury bonds was 2.6 per cent, compared with 3.1 per cent at the time of the 2014-15 Mid-Year Economic and Fiscal Outlook (MYEFO). At the 2008-09 Budget, the interest rate on 10-year Treasury bonds was over 6 per cent.

Chart 11 shows public debt interest costs to 2025-26 under the yield assumptions for the 2015-16 Budget, compared with the higher yield assumptions at the 2014-15 MYEFO. The chart shows that if the 2014-15 MYEFO yield assumption were applied to borrowings estimated in the 2015-16 Budget, public debt interest costs would be $1.1 billion higher by 2018-19, and $2.1 billion higher by 2025-26.

Chart 11: Impact of higher yields on public debt interest costs over the medium term



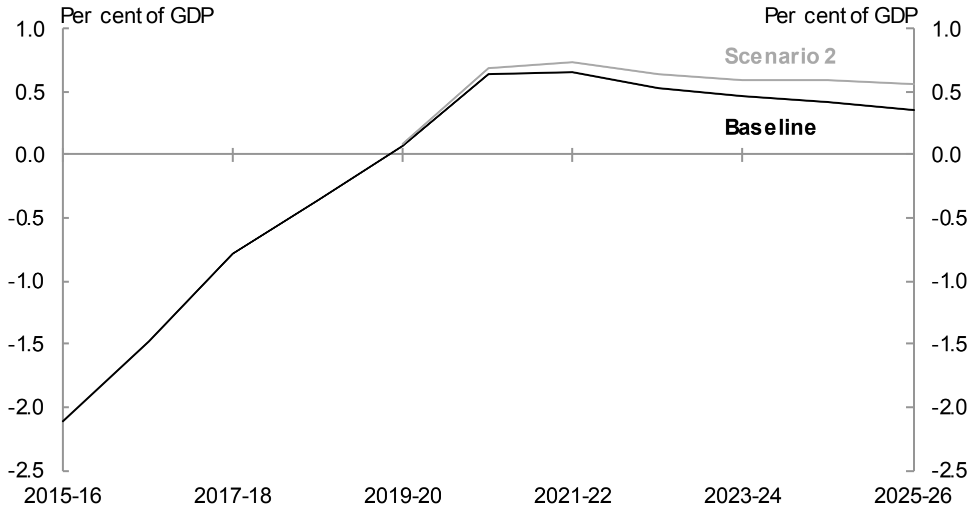
Source: Treasury projections.

The increase in public debt interest costs would increase payments, and therefore lead to a deterioration in the underlying cash balance. This would flow through to further borrowings, increasing CGS on issue and net debt. A return of the yield curve to levels closer to historical averages would be expected to lead to even larger increases in public debt interest costs.

Scenario 2: Slower than anticipated payments growth

The rate of payments growth affects the underlying cash balance over time. This may be driven by changes in demand for particular programs, or changes in the cost of those programs, for example, wages growth. This scenario shows the impact of 10 per cent of total government payments growing 1 per cent slower than expected, after the end of the forward estimates. The impact of this scenario on the underlying cash balance is illustrated in Chart 12.

Chart 12: Impact on underlying cash balance of slower payments growth over the medium-term

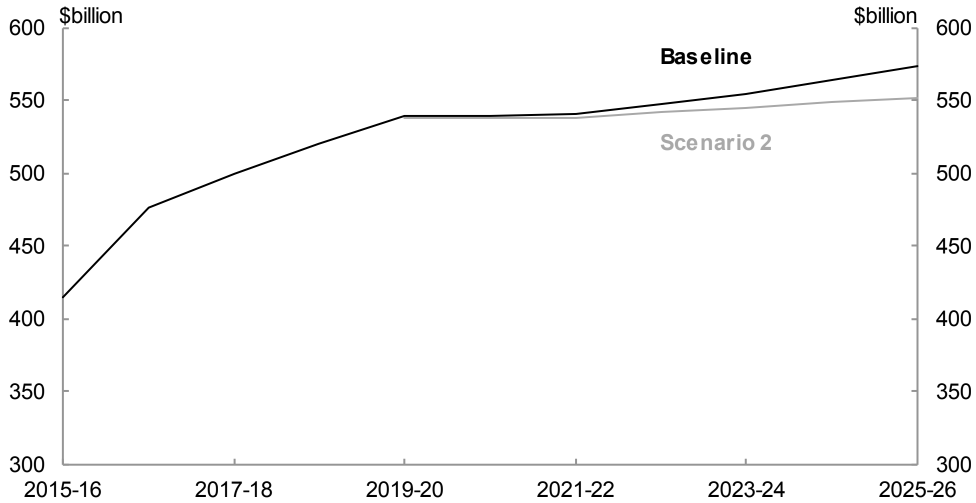


Source: Treasury projections.

Chart 12 shows that the underlying cash balance would improve, and be higher by 0.2 per cent of GDP by 2025-26, compared with the baseline scenario. This incorporates the benefits from lower public debt interest costs, projected to be $1.1 billion lower in 2025-26 compared with the baseline scenario.

The improvement in the underlying cash balance as a result of slower payments growth would also have an effect on the total face value of CGS on issue (see Chart 13). This scenario would be projected to lead to a decrease in the total face value of CGS on issue of $21 billion compared with the baseline scenario.

Chart 13: Impact on face value of total CGS on issue of slower payments growth over the medium term



Source: Treasury projections.

The impact of a scenario in which a proportion of government payments grows faster than currently projected is broadly symmetrical. That is, the impact is around the same magnitude, but in the opposite direction.

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, specific contingent liabilities and specific contingent assets that may affect the budget balances.

STATEMENT 8: STATEMENT OF RISKS

The forward estimates of revenue and expenses in the 2015-16 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, particularly global economic developments;
- 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 2015-16 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 *Statement 7: Forecasting Performance and Scenario Analysis*.

To the extent that unanticipated changes in economic conditions occur, their impact will flow through to government expense and revenue forecasts. For example, over the past year weaker than expected growth in wages has been reflected in weaker forecasts for tax revenue and higher than expected social services payments.

In addition, revenue forecasting relies on the observed historical relationships between the economy, tax bases and tax revenues. Such relationships may shift as conditions change and present a further risk to the estimates. For example, losses incurred during the global financial crisis have posed particular challenges in estimating both the quantum and timing of loss utilisation. Revenue forecasts also incorporate costings for new policies which also typically have a margin of uncertainty.

The Budget 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, the Future Fund Management Agency and Future Fund Board of Guardians, and the Reserve Bank of Australia.

The Australian 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 has 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 *2014-15 Mid-Year Economic and Fiscal Outlook* (MYEFO). 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. Two new risk items have also arisen since the MYEFO.

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. Some financial information in the text may not add to totals due to rounding. Information on contingent liabilities and contingent assets is also provided in the Australian Government's annual consolidated financial statements and in the annual financial statements of departments and other Government entities.

Table 1 outlines how fiscal risks, assets and liabilities and contingent assets and liabilities are disclosed in the Budget.

Table 1: Disclosure of fiscal risks, contingent assets and contingent liabilities, and assets and liabilities in the Budget Papers

Category	Type(a)	Disclosure
Fiscal Risks	Fiscal Risks	Statement of Risks
Contingent assets and contingent liabilities	Significant contingent assets and liabilities considered remote	Statement of Risks
	Unquantifiable contingent assets and liabilities that are improbable but not remote	Statement of Risks
	Quantifiable contingent assets and liabilities that are improbable but not remote	Statement of Risks
	Contingent assets and liabilities excluded on the basis of immateriality(b)	None
Assets and liabilities	Assets and liabilities that are probable and can be reliably measured	Balance sheet(c)(d)
	Assets and liabilities that are probable but have an uncertain timing or amount (provisions)	Balance sheet

(a) Items that are described as probable have a 50 per cent or higher chance of occurrence.
(b) Only 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 considered material and disclosed in this Statement.
(c) Unearned income from charging guarantee fees is shown as a liability in the balance sheet.
(d) Additional disclosure to increase transparency on loans over $200 million has been included in the Statement of Risks since the 2014-15 Budget.

ECONOMIC AND OTHER PARAMETERS

Changes in economic parameters represent a risk to the estimates included in the Budget. The realisation of any of the domestic or internationally based risks discussed in Statement 2 could potentially affect the budget estimates. *Statement 7: Forecasting Performance and Scenario Analysis* examines the impact on receipts and payments 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. Specific fiscal risks to the budget and forward estimates are detailed below.

The estimates for the Department of Defence include the cost of major operations of the Australian Defence Force in 2015-16. Funding is considered on a year-by-year basis and the forward estimates do not provide for extensions of currently approved operations beyond 2015-16. This is consistent with past practice. Funding for Operations Accordion, Highroad, Okra, Manitou, and Resolute have been agreed to 30 June 2016. The Department of Defence will likely have additional funding requirements for major operations beyond 30 June 2016.

Since 19 July 2013, Australia has made up to A$1 billion available to the Government of Indonesia in the form of a standby loan facility, to be drawn down should Indonesia be unable to raise sufficient funds at reasonable interest rates on global capital markets due to the impact of financial market volatility. Contributions to the standby loan facility have also been provided by the World Bank, the Asian Development Bank and the Government of Japan. Australia's contribution to the facility is available to Indonesia up to 30 June 2015. A drawdown from the facility will be dependent on a request from the Government of Indonesia and subject to certain criteria being met. Any funds provided will be repaid in full with interest.

The Australian Government has supported the Gold Coast's bid to host the 2018 Commonwealth Games through the provision of commitments in areas such as immigration, customs, work permits, taxation, security, protection of commercial rights, and communications and information technology. Not all costs associated with delivery of the commitments are available at this time.

The introduction of a 1500 gigalitre (GL) cap on Australian Government water buybacks comes with a potential, but currently unquantifiable, fiscal risk for the Government. If there is a substantial shortfall in sustainable diversion limit (SDL) adjustments from supply measures, then the cap on water buybacks will be reached and other potentially more expensive means of water recovery will need to be used to meet SDLs. It will not be possible to identify whether this risk will be realised, and what the financial implications are, until the SDL adjustment mechanism operates in 2016.

There are a significant number of measures which impact on the Budget aggregates that remain subject to the legislative process. If legislation is not passed by Parliament as proposed, this may affect the estimates and projections of the Budget.

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.

Contingencies reported in this statement include loan guarantees, non-loan guarantees, warranties, indemnities, uncalled capital and letters of comfort, together with those contingencies considered remote. These contingencies are in addition to the liabilities and assets already recognised in the consolidated financial statements of the Australian Government general government sector in Statement 9.

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 2015. In some cases, other dates are used and those are noted in the relevant section.

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2014-15 Budget and the 2014-15 MYEFO[(a)]

Significant but remote contingencies	Status	Category[(b)(c)(d)]
Communications		
NBN Co Limited — Equity Agreement	Modified	Guarantee
Telstra Financial Guarantee	Modified	Guarantee
Termination of the funding agreement with OPEL Network Pty Ltd	Modified	Other
Defence		
ADI Limited — Officers' and Directors' indemnities	Unchanged	Indemnity
Remote contingencies	Modified	Indemnity
Litigation cases	Modified	Other
Employment		
Job Services Australia — Employment Pathway Fund	Modified	Other
Industry and Science		
Liability for damages caused by space activities	Modified	Other
Infrastructure and Regional Development		
Maritime Industry Finance Company Limited — Board Members' Indemnity	Unchanged	Indemnity
Moorebank Intermodal Company Limited — Board Members' Indemnity	Modified	Indemnity
Tripartite deeds relating to the sale of federal leased airports	Modified	Other

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2014-15 Budget and the 2014-15 MYEFO[a] (continued)

Significant but remote contingencies (continued)	**Status**	**Category[b][c][d]**
Treasury		
Financial Claims Scheme	Modified	Guarantee
Guarantee of State and Territory borrowing	Modified	Guarantee
Guarantee Scheme for Large Deposits and Wholesale funding	Modified	Guarantee
Guarantees under the *Commonwealth Bank Sale Act 1995*	Modified	Guarantee
Reserve Bank of Australia — guarantee	Modified	Guarantee
Contingent liabilities — unquantifiable		
Agriculture		
Compensation claims arising from suspension of livestock exports to Indonesia	Unchanged	Other
Compensation claims arising from equine influenza outbreak	Unchanged	Other
Emergency pest and disease response arrangements	Unchanged	Other
Attorney-General's		
Native Title agreements — access to geospatial data	Unchanged	Indemnity
Australian Victims of Terrorism Overseas Payment	Modified	Other
Disaster Recovery	Modified	Other
Native Title costs	Unchanged	Other
Communications		
NBN Co Limited — Board Members' Insolvency Indemnity	Modified	Indemnity
Defence		
Cockatoo Island Dockyard	Unchanged	Indemnity
Land decontamination, site restoration and decommissioning of Defence assets	Unchanged	Other
Non-remote contingent liabilities	Unchanged	Other
Finance		
ASC Pty Ltd — Directors' indemnities	Modified	Indemnity
Commonwealth Superannuation Corporation — immunity and indemnity	Unchanged	Indemnity
Future Fund Management Agency and Future Fund Board of Guardians — indemnity	Modified	Indemnity
Googong Dam	Unchanged	Indemnity
Indemnities for the Reserve Bank of Australia and private sector banks	Unchanged	Indemnity
Indemnities relating to other former asset sales, privatisations and information technology outsourcing projects	Modified	Indemnity
Australian Government general insurance fund — Comcover	Unchanged	Other
Australian Government domestic property	Modified	Other
Foreign Affairs and Trade		
Export Finance and Insurance Corporation — board member and senior management indemnities	Unchanged	Indemnity
Health		
Australian Medical Association — Private Mental Health Alliance	Unchanged	Indemnity
Australian Red Cross Society — indemnities	Unchanged	Indemnity
Blood and blood products liability cover	Unchanged	Indemnity
CSL Ltd	Unchanged	Indemnity
Indemnities relating to vaccines	Unchanged	Indemnity
Medical Indemnity Exceptional Claims Scheme	Unchanged	Indemnity
New South Wales Health Administration Council — indemnity	Unchanged	Indemnity

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2014-15 Budget and the 2014-15 MYEFO[(a)] (continued)

Contingent liabilities — unquantifiable (continued)		
Health (continued)		
Tobacco plain packaging litigation	Unchanged	Other
Termination of Medicare Local Deed for Funding	Unchanged	Other
Immigration and Border Protection		
Northern Patrol and Response — Triton	Modified	Indemnity
Southern Ocean Maritime Patrol and Response Programme	Removed	Indemnity
Immigration detention services by state and territory governments — liability limit	Modified	Indemnity
Immigration detention services contract — liability limit	New	Indemnity
Industry and Science		
Australian Nuclear Science and Technology Organisation — indemnity	Unchanged	Indemnity
British atomic test site at Maralinga	Unchanged	Indemnity
Gorgon liquefied natural gas and carbon dioxide storage project — long-term liability	Modified	Indemnity
Snowy Hydro Limited — water releases	Unchanged	Indemnity
Liability for costs incurred in a national liquid fuel emergency	Unchanged	Other
Infrastructure and Regional Development		
Indemnity provided to the New South Wales Rural Fire Fighting Service in relation to the Jervis Bay Territory	Unchanged	Indemnity
Australian Maritime Safety Authority incident costs	Unchanged	Other
Service Delivery Arrangement Indemnities — Indian Ocean Territories	Modified	Indemnity
Social Services		
Business Services Wage Assessment Tool	Modified	Other
National Disability Insurance Scheme	Modified	Other
Treasury		
Terrorism insurance — commercial cover	Unchanged	Guarantee
Contingent assets — unquantifiable		
Defence		
Non-remote contingent assets	Unchanged	Other
Health		
Legal action seeking compensation from Sanofi	Unchanged	Other
Legal action seeking compensation from Wyeth	Unchanged	Other
Industry and Science		
Wireless Local Area Network	Unchanged	Other
Contingent liabilities — quantifiable		
Defence		
Claims against the Department of Defence	Unchanged	Other
Employment		
Indemnity provided to the Administrator and the Assistant Administrators of the Health Services Union	Modified	Indemnity
Environment		
Low Carbon Australia Limited — Board of Directors' and senior management indemnities	Unchanged	Indemnity

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2014-15 Budget and the 2014-15 MYEFO[(a)] (continued)

Contingent liabilities — quantifiable (continued)		
Foreign Affairs and Trade		
Export Finance and Insurance Corporation	Modified	Guarantee
Australian Response to the outbreak of Ebola in West Africa	Modified	Indemnity
Infrastructure and Regional Development		
Commonwealth contribution to the East West Link project	New	Other
Social Services		
Accommodation Payment Guarantee Scheme	Modified	Guarantee
Treasury		
Australian Taxation Office — tax disputes	Modified	Other
International financial institutions — uncalled capital subscriptions	Modified	Other
International Monetary Fund	Modified	Other
Contingent assets — quantifiable		
Defence		
Claims against the Department of Defence	Unchanged	Other
Foreign Affairs and Trade		
Export Finance and Insurance Corporation	Removed	Other

(a) Detailed descriptions of these items are in the following text.
(b) Guarantees — a guarantee is where one party promises to be responsible for the debt or performance obligations of another party should that party default in some way.
(c) Indemnities — an indemnity is a legally binding promise whereby a party undertakes to accept the risk of loss or damage another party may suffer.
(d) Other — contingent liabilities and assets which are not guarantees or indemnities.

SIGNIFICANT BUT REMOTE CONTINGENCIES

Communications

NBN Co Limited — Equity Agreement

The Australian Government has entered into an Equity Funding Agreement with NBN Co Limited (NBN Co). The Agreement formalises the Australian Government's intention to provide equity to fund the roll-out of the National Broadband Network, with such funding being conditional on the annual appropriation processes. In addition, it commits the Australian Government, in the event of a termination of the National Broadband Network roll-out, to provide sufficient funds to NBN Co to meet its direct costs arising from that termination. Although the NBN Co Equity Funding Agreement will terminate in 2019, the Commonwealth's obligations to meet NBN Co's direct costs arising from termination of the roll-out will continue. As at 28 February 2015, NBN Co's termination liabilities were estimated at $7.3 billion.

Telstra Financial Guarantee

The Australian Government has provided a guarantee to Telstra in respect of NBN Co's financial obligations to Telstra under the original Definitive Agreements. The Agreements were amended on 14 December 2014 and further agreements were entered into at that time, which will also be covered by the guarantee. The amendments and new agreements will not take effect until the conditions precedent within the agreements are satisfied, which is expected to occur in June 2015. The liabilities under the agreements between Telstra and NBN Co arise progressively during the roll-out of the multi-technology mix National Broadband Network as infrastructure is accessed and subscribers to Telstra's existing network are disconnected. As at 28 February 2015, NBN Co had generated liabilities covered by the guarantee estimated at $3.7 billion. The guarantee will terminate when NBN Co achieves specified credit ratings for a period of two continuous years and either:

- the company is capitalised by the Commonwealth to the agreed amount; or
- the Communications Minister declares, under the *National Broadband Network Companies Act 2011*, that, in his or her opinion, the National Broadband Network should be treated as built and fully operational**.**

Termination of the funding agreement with OPEL Network Pty Ltd

Following the termination of its agreement with OPEL Network Pty Ltd (OPEL) under the Broadband Connect programme, the Australian Government made provision towards costs incurred by OPEL in producing its Implementation Plan. OPEL was wound up on 13 March 2009. Proceedings were commenced in the New South Wales Federal Court by the OPEL Liquidators and Optus on 5 September 2013 in respect of the termination of the funding agreement (including a claim relating to the costs for the preparation of the Implementation Plan). The court timetable for the trial hearing has not yet been determined.

Defence

ADI Limited — Officers' and Directors' indemnities

Under the sale agreements for ADI Limited, the Australian Government agreed to indemnify the Directors, officers and employees of ADI Limited 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.

Remote contingencies

These significant remote contingent liabilities are restricted in nature and details are not given due to reasons of commercial in confidence and/or national security.

As at 31 March 2015, the Department of Defence carried 1,440 instances of quantifiable remote contingent liabilities valued at $3.6 billion and 23 instances of unquantifiable remote contingent liabilities. In addition, Defence had three instances of quantifiable remote contingent assets valued at $0.6 million and two instances of unquantifiable remote contingent assets.

As at 31 March 2015, the Defence Materiel Organisation carried 70 contingencies that are quantifiable, to the value of $1.8 billion and 420 instances of contingencies (relating to Foreign Military Sales) that are unquantifiable and are considered remote. While these contingencies are considered remote, they have been reported for completeness.

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 alleged injuries from workplace systems, practices, conduct and property damage. A number of claims have also been received for damage caused by the use of a Defence Practice Area. There is the potential for a number of claims to arise out of reviews into Australian Defence Force and Defence culture and from the disposal of assets to third parties where such assets contain hazardous materials or components that have the potential to cause injury.

Employment

Job Services Australia — Employment Pathway Fund

The estimates for the Department of Employment Job Services Australia (JSA) programme include anticipated expenditure for the Employment Pathway Fund (EPF). The EPF provides a flexible pool of funding available to JSA providers to deliver assistance to job seekers to help them find and keep a job. Amounts are credited to the EPF based on a job seeker's assessed level of disadvantage. Experience with the EPF suggests that all credits will not be used during the life of the JSA contracts. The forward estimates do not include the value of residual credits from the EPF that are not expected to be spent during the current contract period. The EPF will cease on 30 June 2015 and will be replaced by the Employment Fund.

Industry and Science

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 or Australian nationals. 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 or a minimum amount of insurance determined by an insurance analyst, 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 billion above the insured level.

Infrastructure and Regional Development

Maritime Industry Finance Company Limited — Board Members' Indemnity

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.

Moorebank Intermodal Company Limited — Board Members' Indemnity

The Australian Government has provided certain indemnities for the Directors and Officers of the Moorebank Intermodal Company Limited (MIC) to protect them against civil claims relating to their employment and conduct. The indemnities apply to the period of appointment as Directors or Officers of the company. 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

The tripartite deeds between the Australian Government, the airport lessee company and financiers amend airport (head) leases to provide for limited step-in-rights for financiers in circumstances where the Australian Government terminates the head lease to enable the financiers to correct the circumstances that triggered such a termination event. The tripartite deeds may require the Australian Government to pay financiers compensation as a result of its termination of the (head) lease, once all Australian Government costs have been recovered. The Australian Government's contingent liabilities are considered to be unquantifiable and remote.

Treasury

Financial Claims Scheme

The Financial Claims Scheme provides depositors of authorised deposit-taking institutions (ADIs) and claimants of general insurers with timely access to their funds in the event of a financial institution failure.

Under the *Banking Act 1959* the scheme provides a mechanism for making payments to depositors under the Government's guarantee of deposits in ADIs. Payments are capped at $250,000 per account holder per ADI. As at 31 December 2014, deposits eligible for coverage under the Financial Claims Scheme were estimated to be $766 billion, increasing slightly from an estimated $732 billion at 30 June 2014, reflecting overall deposit growth in the financial system.

Under the *Insurance Act 1973* the scheme provides a mechanism for making payments to eligible beneficiaries with a valid claim against a failed general insurer.

In the very unlikely event of an ADI or general insurer failure, any payments made under the Financial Claims Scheme would be recovered through the liquidation of the failed institution. If there was a shortfall in the amount recovered through the liquidation of the failed institution, a levy could be applied to the relevant industry to recover the difference between the amount expended and the amount recovered in the liquidation.

From 2016, subject to the Government's response to the Financial System Inquiry, any payment under the Financial Claims Scheme relating to ADIs would initially be met from the Financial Stability Fund announced in the 2013 Economic Statement. In this case, a levy could be applied to ADIs to recover the difference between the amount expended by the Government (excluding amounts drawn from the Financial Stability Fund) and the amount recovered in the liquidation.

The Australia Prudential Regulation Authority (APRA) is responsible for the Financial Claims Scheme. Under the Financial Claims Scheme, any payments to eligible depositors or claimants will be made out of APRA's Financial Claims Scheme Special Account. Under the legislation, initial amounts available to meet payments and administer the Financial Claims Scheme, in the event of activation are $20.1 billion per institution.

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 these securities 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 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 2015, the face value of state and territory borrowings covered by the guarantee was $12.3 billion, down from $13.3 billion at 31 October 2014.

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 (ADIs) from 12 October 2008 under the Guarantee Scheme for Large Deposits and Wholesale Funding.

On 7 February 2010, the then Government announced that the Guarantee Scheme would close to new liabilities on 31 March 2010. Since 31 March 2010, Australian ADIs have been prohibited from issuing any new guaranteed wholesale funding or accepting new guaranteed deposits above $1 million. Existing guaranteed wholesale funding is guaranteed to maturity until October 2015. Depositors who covered their balances above $1 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.

Government expenditure would arise under the guarantee in the 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 seek to recover any such expenditure through a claim on the relevant institution. The impact on the budget would depend on the extent of the institution's default and its ability to meet the Government's claim.

As at 27 March 2015, total liabilities covered by the Guarantee Scheme were estimated at $1.4 billion, down from $2.5 billion at 5 December 2014. The total liabilities are comprised entirely of $1.4 billion of large deposits. All guaranteed short-term wholesale funding matured in March 2011 and all guaranteed long-term wholesale funding matured in March 2015.

As at 28 February 2015, institutions participating in the Guarantee Scheme had paid fees of $4.5 billion since its inception.

Guarantees under the Commonwealth Bank Sale Act 1995

Under the terms of the *Commonwealth Bank Sale Act 1995*, the Australian Government has guaranteed various superannuation and other liabilities: $473.6 million is attributable to liabilities of the Commonwealth Bank of Australia, as at 31 December 2014; and $4.4 billion is attributable to liabilities of the Commonwealth Bank Officers' Superannuation Corporation, as at 31 December 2014.

Reserve Bank of Australia — guarantee

The Australian Government guarantees the liabilities of the Reserve Bank of Australia, 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 $65.6 billion, as at 25 March 2015, and the total guarantee is $101.9 billion ($90.4 billion at the 2014-15 MYEFO).

CONTINGENT LIABILITIES — UNQUANTIFIABLE

Agriculture

Compensation claims arising from suspension of livestock exports to Indonesia

The Australian Government has received a statement of claim seeking compensation for alleged losses due to the temporary suspension of exports of live animals to Indonesia that was put in place on 7 June 2011.

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.

Proceedings have commenced in the Federal Court of Australia by Maurice Blackburn Lawyers with Attwood Marshall Lawyers who represent a closed class of 586 applicants claiming damages as a result of the 2007 equine influenza outbreak. No final quantum of damages sought can be calculated. The Department of Finance, which has responsibility for Comcover (the Australian Government's general insurance fund), has assumed responsibility for the potential claims under its insurance arrangements with the Department of Agriculture.

Emergency pest and disease response arrangements

National emergency response arrangements for animal, plant and environmental pest and disease outbreaks are largely funded through cost sharing agreements between Australian governments and, where relevant, agricultural industry bodies. Under the terms of the agreements, the Australian Government is typically liable for 50 per cent of total government funding to respond to a disease or pest outbreak. Limited funding is provided in the forward estimates for the Australian Government's contribution under emergency response agreements with states and territories. This funding is unlikely to be sufficient to meet the unquantifiable costs of a major outbreak or large scale emergency response exercise.

The Australian Government may be expected to contribute bilaterally in situations where an incursion is not covered by a cost sharing agreement or where the relevant industry body is not party to an agreement. The Australian Government may also provide financial assistance to an industry party by funding its initial share of the response. These contributions may subsequently be recovered from the industry over a period of up to 10-years, usually by a levy.

Attorney-General's

Native Title agreements — access to geospatial data

The Australian Government has entered into agreements with state and territory government bodies and/or their agents to access their geospatial data, which is essential to support the National Native Title Tribunal in achieving its outcomes. Under these agreements, the Australian Government provides indemnities against third-party claims arising from errors in the data.

Australian Victims of Terrorism Overseas Payment

The *Social Security Amendment (Supporting Australian Victims of Terrorism Overseas) Act 2012* inserted Part 2.24AA into the *Social Security Act 1991* to create a scheme for providing financial assistance to Australians who are victims of an overseas terrorist act that has been declared by the Prime Minister. The scheme commenced on 22 January 2013. Under the scheme, Australians harmed (primary victims) and Australians who are close family members of a person who dies as a direct result of a declared terrorist act (secondary victims) are eligible to claim one-off payments of up to $75,000. As acts of terrorism are unpredictable, and the declaration of overseas terrorists acts discretionary, the cost of the scheme is unquantifiable.

Disaster Recovery

The Australian Government provides funding to states and territories through the Natural Disaster Relief and Recovery Arrangements (NDRRA) to assist with natural disaster relief and recovery costs. A state or territory may claim NDRRA funding if a natural disaster occurs and state or territory relief and recovery expenditure for that event meets the requirements set out in the NDRRA Determination. For major disasters, payments to individuals may be approved under the *Social Security Act 1991*. These include the Disaster Recovery Payment and Disaster Recovery Allowance. As natural disasters and their impacts are unpredictable, the cost of future disasters is unquantifiable and not included in the forward estimates.

Further, while current forward estimates for the programme are based on the best information available at the time of preparation, preliminary estimates of the cost of a disaster and the timing of expenditure are subject to change and the total cost of relief and recovery from these events may not be completely realised for some years. Estimates of all natural disasters are regularly reviewed and revised by the states and territories as new information becomes available, and this, or the occurrence of future natural disasters, can in turn significantly affect the estimated NDRRA liability and payments.

Native Title costs

The Commonwealth can assist state and territory governments in meeting certain Native Title costs pursuant to the *Native Title Act 1993* (the NTA), including compensation costs. A National Partnership Agreement was executed in 2010 between the Australian Government and Victoria, under which the Commonwealth provided a contribution towards the settlement of two native title claims. No other agreement has been entered into to date.

The Australian Government will also be liable for any compensation found to be payable under the NTA (and potentially also the Constitution) in respect of compensable acts for which the Australian Government is responsible. The Australian Government's liability in both scenarios cannot be quantified owing to uncertainty about the number and effect of compensable acts and the value of Native Title affected by those acts.

Communications

NBN Co Limited — Board Members' Insolvency Indemnity

The Australian Government has provided each Director of NBN Co with an indemnity against liability as a result of the Government failing to meet its funding obligations to NBN Co. The liabilities covered by this indemnity would be no greater than those covered by the NBN Co Equity Agreement, with the exception of any legal expenses incurred by individual Directors arising from this indemnity. Directors are also indemnified in relation to claims arising out of their involvement in the negotiation and entry by NBN Co into the Financial Heads of Agreement with Telstra.

Defence

Cockatoo Island Dockyard

On 13 October 2001, Cockatoo Island Dockyard (CODOCK) commenced proceedings against the Australian Government (Defence) in the New South Wales (NSW) Supreme Court seeking full reimbursement from the Australian Government for personal injury claims costs incurred by CODOCK after 31 October 1995 in relation to asbestos exposure. Following decisions in the NSW Supreme Court on 17 December 2004 and 4 February 2005, and the NSW Court of Appeal on 23 November 2006, CODOCK was awarded a complete indemnity from the Australian Government for its uninsured exposure to asbestos damages claims, plus 7.5 per cent.

Land decontamination, site restoration and decommissioning of Defence assets

The Department of Defence (Defence) has made a financial provision for the future estimates involved in land decontamination, site restoration and decommissioning of Defence assets where a legal or constructive obligation has arisen in relation to those underlying assets. For those decontamination, restoration and decommissioning activities for which there is no legal or constructive obligation, the potential costs have not been assessed and are unquantifiable. Where there is a possible legal or constructive obligation and potential costs are unquantifiable, these have been disclosed as a note to Defence's financial statements.

Non-remote contingent liabilities

The Department of Defence has eight instances of unquantifiable non-remote contingent liabilities.

Finance

ASC Pty Ltd — Directors' indemnities

The Australian Government has provided former Directors of the then Australian Submarine Corporation Pty Ltd (now known as ASC Pty Ltd — ASC) with indemnities in relation to 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.

Commonwealth Superannuation Corporation — immunity and indemnity

The *Governance of Australian Government Superannuation Schemes Act 2011* (the Governance Act) provides for specific immunities for activities undertaken in good faith by Directors and delegates of the board of the Commonwealth Superannuation Corporation (CSC), provided these activities relate to the performance of their functions. These immunities do not prevent CSC from being subject to any action, liability, claim or demand. Under the Governance Act, other than in cases where the *Superannuation Industry (Supervision) Act 1993* or regulations under that Act do not so permit, any money that becomes payable by CSC in respect of an action, liability, claim or demand that relates to the superannuation schemes or funds for which it is responsible, is to be paid out of the relevant superannuation fund or if there is no fund, the Consolidated Revenue Fund (CRF). Amounts paid from a superannuation fund are reimbursed to the fund from the CRF.

Future Fund Management Agency and Future Fund Board of Guardians — indemnity

The Australian Government has provided certain staff members of the Future Fund Management Agency (the Agency) and the members (Board members) of the Future Fund Board of Guardians (the FFBG) with deeds of indemnity. The indemnities are intended to cover liabilities in excess of the insurance cover (including Comcover) of the FFBG, its subsidiary entities and the Agency. Board members are indemnified for liabilities incurred arising out of an act, omission or breach of statutory duty by the Board or a Board member that relates to the performance of the FFBG's functions or the exercise of the FFBG's powers or that relates to any act, omission or breach of statutory duty by a Board member as a director or officer of a wholly owned Australian subsidiary of the FFBG. Certain Agency staff members are indemnified in connection with the performance of functions or the exercise of powers in their capacity as a director or officer of investee companies or subsidiaries of the FFBG. Subject to certain exceptions or qualifications, Board members and Agency staff members are indemnified for amounts up to the value of the relevant funds.

Board members are not indemnified in respect of any liability owed by them to the FFBG or its subsidiary, or which results from a contravention of a civil penalty provision of the *Future Fund Act 2006* or the *Corporations Act 2001*. Agency staff members are not indemnified to the extent they are indemnified by the relevant investee company or subsidiary, in respect of any liability owed to the FFBG or the Commonwealth, or to the extent that they are granted and receive financial assistance under Appendix E of the Legal Services Directions 2005. Both Board members and Agency staff members are not indemnified for any liability resulting from conduct they engage in other than in good faith, to the extent they recover a liability under a Directors and Officers insurance policy (including Comcover) or in respect of legal costs incurred by them in unsuccessfully defending or resisting criminal proceedings or proceedings regarding a contravention of a civil penalty provision.

Googong Dam

On 4 September 2008, a 150 year lease for Googong Dam was signed between the Australian Government and the Australian Capital Territory (ACT) 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 ACT. 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 information technology outsourcing projects

Ongoing indemnities have been given in respect of a range of asset sales, privatisations and information technology (IT) outsourcing projects that have been conducted by the Department of Finance (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 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), Medibank Private Limited (2014) — these indemnities cease after 30 June 2022, National Transmission Network (1999), Sydney Airports Corporation Ltd (2001), Telstra (1996, 1999 and 2006), Wool International (1999), and the Albury-Wodonga Development Corporation (2014). Apart from instances noted elsewhere, Finance does not currently expect any other action to be taken in respect of these indemnities.

Australian Government general insurance fund — Comcover

The Department of Finance (Finance) through Comcover, the Australian Government's general insurance fund, provides insurance and risk management services to the Australian Government general government sector. Finance's liability for outstanding claims, which includes the expected future cost of claims notified and claims incurred but not reported, is subject to inherent uncertainty in the estimation process.

Australian Government domestic property

The Australian Government's domestic property portfolio managed by the Department of Finance has approximately 190 properties. This has increased from 100 reported at the 2014-15 Mid-Year Economic and Fiscal Outlook due to the incorporation of the Albury-Wodonga Development Corporation into the Australian Government domestic property portfolio. A small number of these have had potential remediation issues identified, which are currently the subject of further investigation. Except for the properties at Lucas Heights, New South Wales; Kingston Foreshore, Australian Capital Territory; and Cox Peninsula, Northern Territory, none of the remaining properties with potential remediation issues has had a provision recognised, as neither the conditions for legal nor constructive obligations have been met, nor is a reliable estimate of the obligation currently possible.

Foreign Affairs and Trade

Export Finance and Insurance Corporation — board member and senior management indemnities

The Australian Government has provided indemnities to Export Finance and Insurance Corporation (EFIC) board members and senior management to protect against civil claims and legal expenses for unsuccessful criminal claims relating to the implementation of EFIC's alliance/divestment of its short-term export credit insurance business.

Health

Australian Medical Association — Private Mental Health Alliance

An agreement has been entered into between the Australian Medical Association Ltd (AMA), the Commonwealth, the Australian Private Hospitals Association Ltd and Private Healthcare Australia for participation in, and support of the Private Mental Health Alliance. Each party 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* in respect of identified information collected, held or exchanged by the parties in connection with the National Model for the Collection and Analysis of a Minimum Data Set with Outcome Measures in Private, Hospital-based Psychiatric Services. The AMA'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 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 may 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 Behring (Australia) Ltd, a subsidiary of CSL Ltd, which has operated since 1 January 2010, includes a requirement that the National Blood Authority make a defined payment to CSL Behring (Australia) Ltd, in certain circumstances only, in the event that the volume of plasma supplied annually to CSL Behring (Australia) Ltd is less than a specified amount.

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.

New South Wales Health Administration Council — indemnity

The National Health Funding Body (NHFB) provided an indemnity to the New South Wales government through the New South Wales Health Administration Council (NSW HAC), in relation to a state funding pool account with the Reserve Bank of Australia. The indemnity includes liabilities or claims arising in relation to the NHFB in two respects:

(i) liabilities or claims arising from acts or omissions of NHFB staff as users of pool account information; and

(ii) liabilities or claims arising from unauthorised access to the banking services or system from NHFB premises.

NSW HAC has provided a reciprocal indemnity for the actions of staff of the NHFB to the Reserve Bank of Australia.

Tobacco plain packaging litigation

The Australian Government will continue to fund the defence of legal challenges to the tobacco plain packaging legislation in international forums. Further information about these cases has not been disclosed on the grounds that it may prejudice the outcomes of these cases or may relate to commercial information.

Termination of Medicare Local Deed for Funding

The Government intends to refocus primary care funding by replacing Medicare Locals with Primary Health Networks from 1 July 2015. Due to the early termination of the Medicare Local Deed for Funding, the Commonwealth may be liable for the payment of reasonable costs incurred by the Medicare Locals which are directly attributable to the termination.

Immigration and Border Protection

Northern Maritime Patrol and Response — Triton

The Australian Government has entered into a contractual arrangement with Gardline Australia Pty Ltd until 30 June 2015 for the provision of a vessel to strengthen enforcement activities in Australia's northern waters. The contract with Gardline Australia contains unquantifiable indemnities relating to the use, or other operations, of armaments and the presence of armaments 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 vessel.

Immigration detention services by state and territory governments — liability limit

The Department of Immigration and Border Protection (DIBP) has negotiated arrangements with a number of state and territory governments for the provision of various services (including health, education, corrections and policing services) to immigration detention facilities and people in immigration detention. Some jurisdictions sought indemnification by the Australian Government for the provision of those services. These agreements, as listed below, contain unquantifiable indemnities relating to any damage or loss incurred by state and territory governments arising out of, or incidental to, the provision of services under the proposed agreements.

Jurisdictions	Service Streams			
	Health	Education(a)	Corrections	Police
NSW	N/A	$5 million per claim or event	Uncapped liability	$5 million per claim or event
Vic/WA	Uncapped liability	Uncapped liability	N/A	$5 million per claim or event
Qld/Tas/ACT/NT	N/A	$5 million per claim or event	N/A	$5 million per claim or event
SA	$5 million per claim or event	$5 million per claim or event	N/A	$5 million per claim or event

(a) To date, none of the agreements in place relating to education have included any such indemnities.

Immigration detention services contract — liability limit

The Department of Immigration and Border Protection (DIBP) entered into a contract with Serco Australia Pty Ltd (Serco), which commenced on 11 December 2014, to deliver immigration detention services in Australia on behalf of the Australian Government at immigration detention facilities. The contract terms limits Serco's liability to DIBP to a maximum of any insurance proceeds recovered by Serco up to a value of $330 million. Serco's liability is unlimited for specific events defined under the contract.

Industry and Science

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.

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 site — Maralinga section 400 — to the site's Traditional Owners, Maralinga Tjarutja. Under the terms of the *Maralinga Nuclear Test Site Handback Deed*, 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*.

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 was signed by the Prime Minister and the Premier of Western Australia on 13 February 2015.

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.

Liability for costs incurred in a national liquid fuel emergency

The Australian Government has responsibility for the *Liquid Fuel Emergency Act 1984* (the Act). In addition, the Australian Government and state and territory governments have entered into an inter-governmental agreement in relation to a national liquid fuel emergency (IGA 2006). Under the IGA, the Australian Government agrees to consult IGA parties on a likely shortage and, if necessary after those consultations, to advise the Governor-General to declare a national emergency under the Act.

The IGA also 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.

Infrastructure and Regional Development

Indemnity provided to the New South Wales Rural Fire Fighting Service in relation to the Jervis Bay Territory

The Department of Infrastructure and Regional Development is required to engage the New South Wales Rural Fire Service (NSW RFS) to provide fire management support for the volunteer brigade located in the Jervis Bay Territory (JBT). To provide this service, the NSW RFS requires the Australian Government to provide an uncapped indemnity whereby the Australian Government would be liable for any damage caused as a result of the actions of the NSW RFS in the JBT while fighting a fire. The likelihood of an event occurring that may result in a liability for the Australian Government has been assessed as very remote and the risks are currently mitigated through the training and professional qualifications of the NSW RFS staff.

Australian Maritime Safety Authority incident costs

In the normal course of operations, the Australian Maritime Safety Authority is responsible for the provision of funds necessary to meet the 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 meets 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. The Australian Maritime Safety Authority has established a pollution response reserve of $10 million supported by a commercial line of credit of $40 million to provide funding should the overall clean-up costs exceed the liability limit of the ship owner.

Service Delivery Arrangement Indemnities — Indian Ocean Territories

A range of services are delivered to the Indian Ocean Territories through arrangements that are in place with the Western Australian (WA) Government (referred to as Service Delivery Arrangements or SDAs). There are 40 WA government agencies delivering services to the Indian Ocean Territories.

The Australian Government has provided certain indemnities for the WA Government, their respective officers, agents, contractors and employees against civil claims relating to their employment and conduct as officers.

The likelihood of an event occurring that may result in a liability for the Australian Government has been assessed as remote and the risks are currently mitigated through the training and professional qualifications of the staff of these agencies.

Social Services

Business Services Wage Assessment Tool

The Australian Government may potentially become liable for a significant range of costs following the Full Federal Court ruling (21 December 2012) that the use of the Business Services Wage Assessment Tool to assess the wages of two intellectually disabled employees constituted unlawful discrimination under the *Disability Discrimination Act 1992*.

The Australian Government's potential liability cannot be quantified at this time. A representative proceeding against the Commonwealth continues in the Federal Court.

National Disability Insurance Scheme

In bilateral negotiations, the Australian Government has committed to provide temporary, untied financial assistance to some jurisdictions that expect to have their GST entitlements adversely affected during the transition to the National Disability Insurance Scheme (NDIS).

Under this commitment, the expected liability will depend on a range of factors including when all jurisdictions reach full scheme and any impact resulting from the Commonwealth Grants Commission's 2015 Methodology Review. The Review considered the most appropriate treatment of disability services for GST distribution purposes, both during the transition to the NDIS and once the full scheme is operating nationally. Any impact on the Australian Government is not expected to occur before 2016-17.

Treasury

Terrorism insurance — commercial cover

The *Terrorism Insurance Act 2003* established a scheme for 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 maintain 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 billion.

CONTINGENT ASSETS — UNQUANTIFIABLE

Defence

Non-remote contingent assets

The Department of Defence has 11 instances of unquantifiable non-remote contingent assets.

Health

Legal action seeking compensation from Sanofi

The Department of Health has initiated legal action to seek compensation from Sanofi, the original patent owner of clopidogrel (Plavix®), for additional costs to the Pharmaceutical Benefits Scheme (PBS) resulting from a delay in listing a generic version of clopidogrel. Listing a generic form of clopidogrel on the Australian market in 2008 would have triggered an automatic reduction to the price paid by the Government for clopidogrel through the PBS and is likely to have resulted in a Price Disclosure reduction in 2010. The first generic version of this medicine was listed in 2010 and the first Price Disclosure reduction occurred in 2012.

Legal action seeking compensation from Wyeth

The Department of Health has initiated legal action to seek compensation from Wyeth, the original patent owner of venlafaxine (Efexor®), for additional costs to the Pharmaceutical Benefits Scheme (PBS) resulting from a delay in listing a generic version of venlafaxine. Listing a generic form of venlafaxine on the Australian market in 2009 would have triggered an automatic reduction to the price paid by the Government for venlafaxine through the PBS. The first generic version of this medicine was listed in 2012.

Industry and Science

Wireless Local Area Network

The Commonwealth Scientific and Industrial Research Organisation (CSIRO) has ongoing patent infringement proceedings in the United States of America and Europe against multiple defendants. The patents cover CSIRO's invention of a wireless local area network. CSIRO expects to receive additional revenue which would exceed the associated legal costs.

CONTINGENT LIABILITIES — QUANTIFIABLE

Defence

Claims against the Department of Defence

The Department of Defence (Defence) has 16 instances of non-remote, quantifiable contingent liabilities in respect of claims on Defence valued at $39 million. The estimated figure is determined by conducting an objective analysis of the probable amount payable for all matters managed by the members of Defence's Legal Services Panel and those being handled in-house by Defence Legal Division. However, the exact amount payable under those claims is uncertain. Defence is defending the claims or is trying to resolve them by recourse to alternative dispute resolution measures.

Employment

Indemnity provided to the Administrator and the Assistant Administrators of the Health Services Union

The Australian Government continues to provide the Administrator and the Assistant Administrators of the Health Services Union with indemnities associated with their performance, pursuant to section 323 of the *Fair Work (Registered Organisations) Act 2009 (Cth)*.

The Commonwealth will irrevocably indemnify the indemnified parties against any and all demands, claims, suits, actions, liabilities, losses, costs and expenses which may be made or brought against or suffered or incurred by the indemnified parties in respect of the indemnified event or as a direct or indirect result of any claim made or purported to be made in respect of the indemnified event as evidenced in writing up to $20 million.

There are three indemnities, each of which is to the value of $20 million.

Environment

Low Carbon Australia Limited — Board of Directors' and senior management indemnities

The Australian Government has provided indemnities to directors and company officers of Low Carbon Australia Limited (LCAL). A total of seven indemnity deeds have been executed. Each indemnity covers liability incurred by a director or officer arising from the implementation of the merger of LCAL with the Clean Energy Finance Corporation. An aggregate cap of $100 million to cover all claims has been established, and the indemnities will operate for seven years from execution.

Foreign Affairs and Trade

Export Finance and Insurance Corporation

The Australian Government guarantees the due payment of money that is, or may at any time become, payable by the Export Finance and Insurance Corporation (EFIC) to anybody 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 2015, the Government's total contingent liability was $3.8 billion, representing a decrease of $1.5 billion from that reported at the 2014-15 Mid-Year Economic and Fiscal Outlook. The $3.8 billion contingent liability comprises EFIC's liabilities to third parties ($2.7 billion) and EFIC's overseas investment insurance, contracts of insurance and guarantees ($1.1 billion). Of the total contingent liability, $3.1 billion relates to EFIC's Commercial Account and $0.7 billion relates to the National Interest Account.

Australian Response to the outbreak of Ebola in West Africa

The Department of Foreign Affairs and Trade has provided an indemnity capped at $50 million to Aspen Medical for the operation of a 100-bed medical treatment centre in Sierra Leone, as part of Australia's response to the recent outbreak of Ebola Virus Disease in West Africa. The indemnity is for all liabilities suffered or incurred by Aspen Medical in respect of a claim made by a third party (other than an Aspen employee) against Aspen arising out of the transmission of Ebola by an Aspen employee who has contracted Ebola while engaged in the provision of treatment services. The Ebola Treatment Centre closed on 30 April 2015 and the contract with Aspen will conclude on 31 May 2015.

Infrastructure and Regional Development

Commonwealth contribution to the East West Link project

The Commonwealth Government remains committed to the construction of East West Link, despite the decision of the Victorian Government not to proceed with the project.

To this end, the Commonwealth Government will provide $3 billion to the first Victorian Government willing to build the East West Link and is therefore recording this commitment as a contingent liability in the Budget.

Social Services

Accommodation Payment Guarantee Scheme

The Accommodation Payment Guarantee Scheme (the Guarantee Scheme) guarantees the repayment of aged care residents' accommodation bond, entry contribution balances and, from 1 July 2014, refundable accommodation deposits and contributions if the approved provider becomes insolvent or bankrupt and defaults on its refund obligations. In return for the payment, the rights that the resident had to recover the amount from their approved provider are transferred to the Australian Government so it can pursue the approved provider for the funds. In cases where the funds are unable to be recovered, the Australian Government may levy all approved providers holding bonds, entry contributions and refundable accommodation deposits to meet any shortfall. On 30 June 2014, the maximum contingent liability, in the unlikely event that all providers defaulted, was approximately $15.6 billion.

Treasury

Australian Taxation Office — tax disputes

At any point in time the Australian Taxation Office is involved in a range of dispute resolution processes, including litigation, relating to tax disputes.

Details of the outcome of dispute resolution processes are uncertain until a court ruling is made and/or an agreement is reached with the taxpayer. As a result, in most cases it is not possible to estimate with any reliability the likely financial impact of current disputes. The estimated aggregate value of tax in dispute as at 31 March 2015, for which a provision has not been made, is $4.9 billion.

Outcomes of dispute resolution processes are included in the Commissioner of Taxation's Annual Report each year. This may include disputes resolved through objections, settlements and court and tribunal decisions. It may also include amounts owed by taxpayers that are subject to dispute but not finalised.

International financial institutions — uncalled capital subscriptions

The Australian Government has held an uncalled capital subscription in the International Bank for Reconstruction and Development (IBRD) since 1947. The Government is contributing additional resources to the IBRD as part of the general capital increase agreed in 2010. As part of this process, Australia will increase its uncalled capital subscription so that it totals US$3.6 billion (estimated value A$4.7 billion as at 31 March 2015).

The Australian Government has also held an uncalled capital subscription in the European Bank for Reconstruction and Development (EBRD) since 1991. Australia's uncalled capital subscription to the EBRD totals EUR237.5 million (estimated value A$336 million as at 31 March 2015).

The Australian Government has further held an uncalled capital subscription in the Asian Development Bank (ADB) since 1966. Australia increased its uncalled capital subscription (effective 11 January 2010) to the ADB as part of its 2010 general capital increase, so that it totals US$7 billion (estimated value A$9.2 billion as at 31 March 2015).

The Australian Government has further held an uncalled capital subscription in the Multilateral Investment Guarantee Agency of US$26.5 million (estimated value A$34.7 million as at 31 March 2015).

None of these international financial institutions have 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. The value of Australia's NAB credit arrangement is Special Drawing Rights (SDR, the IMF's unit of account) 4.4 billion (estimated value A$7.9 billion at 31 March 2015). 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. As agreed by G20 Finance Ministers and IMF Governors in 2010, the credit arrangements of all NAB participants, including Australia, will be reduced when a proposed increase in IMF quotas comes into effect. The quota increase has not yet occurred, due to a delay in implementing the above agreement by the United States.

In addition to the NAB credit line, as part of a broad international effort to increase the resources available to the IMF, Australia has made available a SDR4.6 billion, (approximately A$8.4 billion at 31 March 2015) contingent bilateral loan to the IMF. The contingent loan is on terms consistent with separate bilateral loan and note purchase agreements between the IMF and all contributing countries. It will be drawn upon by the IMF only if needed to supplement the IMF's quota and NAB resources and any loans would be repaid in full with interest. The increase in the IMF's resources will help ensure that it has the capability to address any potential vulnerability facing the global economy.

CONTINGENT ASSETS — QUANTIFIABLE

Defence

Claims against the Department of Defence

The Department of Defence has 12 instances of non-remote, quantifiable contingent assets in respect of claims on the Department valued at $3.8 million. Defence is expecting to succeed in its claims. The estimated figure is determined by conducting an objective analysis of the probable amounts owing to Defence.

GOVERNMENT LOANS

Loans are recorded as financial assets and accordingly the amounts advanced and repaid do not normally affect the budget aggregates of fiscal balance and underlying cash balance. Loans that are concessional (lower than market interest rate) or are agreed to be written off may result in an impact on fiscal balance in some circumstances.

The Government makes loans for policy purposes. All loans contain some element of credit risk that they will not be repaid in full, although in many cases this risk is small. Table 3 summarises Government loans estimated to exceed $200 million at 30 June 2015.

Table 3: Summary of Australian Government loans exceeding $200 million[(a)(b)(c)]

Agency	Loan amount[(d)] ($m)	Borrower	Interest rate	Term	Status
Department of Education and Training					
Higher Education Loan Programme	30,220	Eligible tertiary education students	Consumer Price Index (CPI)	8.5 years*	Modified
Australian Office of Financial Management					
Commonwealth-State financing arrangements — Housing and Specific Purpose Capital	2,025	State and Northern Territory governments	3.5-6 per cent	Up to 30 June 2042	Modified
Clean Energy Finance Corporation					
Clean Energy Finance Corporation	955	Eligible entities undertaking clean energy technology projects	6 per cent	5-10 years	Modified
Department of the Treasury					
International Monetary Fund New Arrangements to Borrow	804	International Monetary Fund	0.05 per cent at 31 March 2015	10 years	Modified
Department of Infrastructure and Regional Development					
Concessional Loan for Asbestos removal in the ACT — Mr Fluffy loose fill asbestos remediation	750	Australian Capital Territory Government	Commonwealth Government 10-year bond rate	Up to 30 June 2024	Modified
Indigenous Business Australia					
Indigenous Home Ownership	640	Eligible Indigenous persons	4.8 per cent*	29.2 years*	Modified
Department of Social Services					
Student Financial Supplement Scheme	553	Eligible recipients of Youth Allowance (student), Austudy and ABSTUDY	CPI	Various	Modified

Table 3: Summary of Australian Government loans exceeding $200 million[a][b][c] (continued)

Agency	Loan amount[d] ($m)	Borrower	Interest rate	Term	Status
Indigenous Business Australia					
Indigenous Home Ownership	640	Eligible Indigenous persons	4.8 per cent*	29.2 years*	Modified
Department of Social Services					
Student Financial Supplement Scheme	553	Eligible recipients of Youth Allowance (student), Austudy and ABSTUDY	CPI	Various	Modified
Export Finance and Insurance Corporation					
Development Import Finance Facility	331	The Republic of Indonesia acting through its Ministry of Finance	Various	Various	Modified
Papua New Guinea Liquefied Natural Gas	328	Entities associated with the Papua New Guinea Liquefied Natural Gas project	Commercial-In-Confidence	Until 2026	Modified
Department of Agriculture					
Farm Finance Concessional Loans	324	State governments	4.5 per cent	5 years	Modified
Indigenous Land Corporation					
Voyages Indigenous Tourism Australia Pty Ltd	319	Voyages Indigenous Tourism Australia Pty Ltd	90 Day bank bill swap reference rate + 5 per cent	9 years, 11 months	Modified
Department of Social Services					
Zero Real Interest Loans	291	Residential aged care providers building or extending residential aged care facilities in areas of high need	CPI	12-22 years	Modified

Table 3: Summary of Australian Government loans exceeding $200 million[(a)(b)(c)] (continued)

Agency	Loan amount[(d)] ($m)	Borrower	Interest rate	Term	Status
Department of Agriculture					
Drought Concessional Loans	270	State governments	3.8 per cent	5 years	Modified

* Average

(a) The Government has decided to provide a concessional loan of up $2 billion to accelerate the delivery of the WestConnex Stage 2 project in Sydney. The loan would first be available for drawdown on 1 July 2015.

(b) The Government will establish a concessional loan facility of up to $5 billion, with the objective of increasing private sector investment in infrastructure in northern Australia. The loan will first be available for drawdown on 1 July 2016. Further details are provided in Budget Paper No. 2, *Budget Measures 2015-16*.

(c) Loan amount is the estimated loan programme amounts outstanding as at 30 June 2015 in $ million.

Higher Education Loan Programme

The Higher Education Loan Programme (HELP) is an income contingent loan programme that assists eligible tertiary education students with the cost of their fees and overseas study expenses. As at 30 June 2015, the fair value of loans outstanding is estimated to be $30.2 billion. The fair value takes into account the concessionality of HELP loans and makes an allowance for debt not expected to be repaid.

Debts are indexed annually by the Consumer Price Index. The repayment term depends on individual circumstances including the amount borrowed and each debtor's income. There were 1,997,973 HELP debtors as at 30 June 2014. The term of a HELP loan can only be determined for people who have fully repaid their debt. As at the end of June 2014, the average duration of HELP loans was 8.5 years.

Commonwealth-State financing arrangements — Housing and Specific Purpose Capital

From 1945 to 1989, the Australian Government made concessional advances to the State and Northern Territory Governments under Commonwealth-State financing arrangements for housing and for specific purpose capital. The advances are concessional fixed rate loans to be repaid over 53 years, with the last loans maturing in 2042. Annual payments, comprising both interest and principal repayment, are made by the states and the Northern Territory. As at 30 June 2015, the estimated amortised value of the advances is $2 billion.

The Australian Office of Financial Management manages the receipt of interest and principal repayments from the State and Northern Territory Governments.

Clean Energy Finance Corporation

The Clean Energy Finance Corporation (CEFC) has developed a portfolio of loans and investments across the spectrum of clean energy technologies that, in aggregate, has an acceptable but not excessive level of risk relative to the sector, as required under the Clean Energy Finance Corporation Investment Mandate Directions 2015 (Investment Mandate). As at 30 June 2015, loans contracted and outstanding are estimated to total $955 million.

The CEFC's portfolio consists of predominantly senior ranking, secured loans, and secured project finance facilities, typically secured against energy generating assets such as wind or solar farms or biogas facilities or other assets such as building or council rates.

The Government has announced its intention to abolish the CEFC. Legislation to abolish the CEFC and transfer the CEFC's existing assets and liabilities to the Commonwealth is currently before Parliament.

The CEFC has predominantly made loans as a co-financier either jointly or in consortiums with private sector financial institutions. Interest rates vary with an average expected return of approximately 6 per cent. Loans have various maturity dates, typically in the range of 5-10 years.

International Monetary Fund New Arrangements to Borrow

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. The NAB 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 are drawn upon by the IMF as needed to supplement the IMF's usual quota resources and will be repaid in full with interest. As at 30 June 2015, loans outstanding are expected to total $804 million.

The value of Australia's NAB credit arrangement is Special Drawing Rights (SDR, the IMF's unit of account) 4.4 billion (estimated value A$7.9 billion at 31 March 2015).

Concessional Loan for Asbestos removal in the ACT — Mr Fluffy loose fill asbestos remediation

The Australian Government has agreed to provide the ACT Government with a concessional loan of up to $1 billion to deliver a programme to buy-back and demolish houses in the ACT affected by Mr Fluffy loose fill asbestos.

This facility will allow the ACT to borrow up to $1 billion at the Commonwealth Government's 10-year bond rate for a period of 10 years.

Indigenous Home Ownership

Indigenous Business Australia delivers flexible loans with concessional interest rates to improve Indigenous home ownership across Australia, including in remote Indigenous communities. The average interest rate is currently 4.76 per cent per annum, with an average loan term of 29.2 years.

Student Financial Supplement Scheme

The Student Financial Supplement Scheme was a programme whereby student income support recipients could trade one dollar of entitlement for two dollars provided as an income contingent loan. The programme closed for new recipients on 1 January 2004. The outstanding debt relates to debtors who received loans prior to 2004. As at 30 June 2015, loans outstanding are estimated to total $553.2 million.

Farm Finance Concessional Loans

The Farm Finance Concessional Loans Scheme provides up to $420 million over two years to 2014-15 for the provision of concessional loans to eligible farm businesses experiencing financial difficulties, but considered commercially viable in the long term. Loans will be issued for the purpose of productivity enhancements and debt refinancing.

Loans are made to state governments that, through state delivery agencies, on-lend to eligible farm businesses. The interest rate is 4.34 per cent, and is reviewed on a six-monthly basis and revised in accordance with material changes in the five-year Commonwealth bond rate. Loans are provided for a term of five years, with an extenuating circumstances clause in some jurisdictions, which allows a maximum two-year extension to the loan, on commercial terms.

Indigenous Land Corporation

The Indigenous Land Corporation (ILC) purchased Ayers Rock Resort (ARR) for $292 million in May 2011 and immediately on-sold it to its wholly-owned subsidiary Voyages Indigenous Tourism Australia Pty Ltd (Voyages) creating an intercompany loan that is partly funded by borrowings. The interest rate is set at the 90 day bank bill swap reference rate plus 5 per cent, and is reset six-monthly. An additional $26.9 million in accrued interest on the intercompany loan and other advances (between the ILC and Voyages) has been incurred since the purchase of ARR, with the total amount owing now at $318.9 million.

Export Finance and Insurance Company

The loan in support of the Papua New Guinea Liquefied Natural Gas (PNG LNG) project involves the development, construction, operation and maintenance of a LNG liquefaction plant, gas production and processing, facilities, onshore and offshore pipelines, associated ancillary facilities and infrastructure. As at 30 June 2015, the loan amount outstanding is estimated to total $327.5 million.

The Development Import Finance Facility (DIFF), administered by the Export Finance and Insurance Corporation on behalf of the former Australian Agency for International Development (AusAID), provided concessional loans to Indonesia to deliver development benefits to that country. The DIFF was discontinued in 1996 with no further concessional loans being provided. As at 30 June 2015, loans outstanding are estimated to total $331.3 million.

Drought Concessional Loans

The Drought Concessional Loans Scheme provides up to $420 million until 30 June 2016 for loans to drought-affected farm businesses for debt restructuring, operating expenses, and drought recovery and preparedness activities. The variable interest rate is set at 0.5 per cent below the Farm Finance Concessional Loan rate.

Loans are made to state governments that, through state delivery agencies, on lend to eligible farm businesses. The interest rate is 3.84 per cent, and is reviewed on a six-monthly basis and revised in accordance with changes to the Farm Finance Concessional Loan interest rate. Loans are provided for a term of five years, with an extenuating circumstances clause, which allows a maximum two-year extension to the loan, on commercial terms.

Zero Real Interest Loans

The Zero Real Interest Loans Programme provides loans to assist aged care providers to build or extend residential aged care services in areas of high need. Loans provided under the Programme attract an interest rate equivalent to the Consumer Price Index. Four funding rounds were completed with the final funding round completed in 2013. No further new loan offers will be available under the Programme. As at 30 June 2015, the total amount owed to the Commonwealth is estimated to be $290.8 million.

STATEMENT 9: AUSTRALIAN GOVERNMENT BUDGET FINANCIAL STATEMENTS

Consistent with the *Charter of Budget Honesty Act 1998* (the Charter), the Government has produced a single set of financial statements for the Australian Government general government sector (GGS), the public non-financial corporations (PNFC) sector, the total non-financial public sector (NFPS) and the public financial corporations (PFC) sector. This is the first Budget that includes financial statement estimates for the PFC sector. The financial statements comply with both Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) and Australian Accounting Standards (AAS), with departures disclosed. These statements are:

- an operating statement, including other economic flows, which shows net operating balance and net lending/borrowing (fiscal balance);
- 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.

The statements reflect the 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 Uniform Presentation Framework (UPF) — for the presentation of government financial information on a basis broadly consistent with the Australian Accounting Standards Board standard 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 Loan Council Allocation.

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STATEMENT 9: AUSTRALIAN GOVERNMENT BUDGET FINANCIAL STATEMENTS

Table 1: Australian Government general government sector operating statement

		Estimates			Projections	
		2014-15	2015-16	2016-17	2017-18	2018-19
	Note	$m	$m	$m	$m	$m
Revenue						
Taxation revenue	3	359,117	380,074	406,617	433,790	464,205
Sales of goods and services	4	9,277	9,542	11,791	16,331	20,069
Interest income	5	3,653	4,083	4,680	5,159	6,184
Dividend income	5	4,796	3,143	3,561	3,911	3,310
Other	6	7,255	8,508	6,777	6,986	7,519
Total revenue		**384,098**	**405,350**	**433,427**	**466,178**	**501,288**
Expenses						
Gross operating expenses						
Wages and salaries(a)	7	18,939	19,801	19,948	19,968	20,098
Superannuation	7	6,803	4,760	4,737	4,755	4,787
Depreciation and amortisation	8	6,804	7,182	7,466	7,719	8,154
Supply of goods and services	9	80,474	85,046	85,729	94,569	98,788
Other operating expenses(a)	7	5,502	5,510	5,499	5,565	5,657
Total gross operating expenses		*118,522*	*122,298*	*123,380*	*132,577*	*137,483*
Superannuation interest expense	7	8,989	9,869	10,259	10,648	11,034
Interest expenses	10	15,915	17,270	19,040	19,652	20,141
Current transfers						
Current grants	11	124,435	128,415	136,519	147,698	161,362
Subsidy expenses		12,522	12,654	13,401	13,779	14,517
Personal benefits	12	130,663	133,123	136,821	135,931	146,061
Total current transfers		*267,620*	*274,191*	*286,741*	*297,407*	*321,940*
Capital transfers	11					
Mutually agreed write-downs		2,124	2,199	2,366	2,560	2,713
Other capital grants		7,164	8,641	10,867	8,972	6,116
Total capital transfers		*9,288*	*10,840*	*13,234*	*11,532*	*8,830*
Total expenses		**420,335**	**434,469**	**452,654**	**471,816**	**499,428**
Net operating balance		**-36,237**	**-29,118**	**-19,227**	**-5,638**	**1,860**
Other economic flows - included in operating result						
Net write-downs of assets (including bad and doubtful debts)		-6,878	-8,638	-9,358	-10,302	-9,842
Assets recognised for the first time		319	335	351	362	380
Liabilities recognised for the first time		0	0	0	0	0
Actuarial revaluations		0	0	0	0	0
Net foreign exchange gains		-247	46	33	14	1
Net swap interest received		-799	0	0	0	0
Market valuation of debt		-14,521	3,625	3,115	2,603	2,398
Other gains/(losses)		20,826	5,604	4,768	7,579	7,143
Total other economic flows - included in operating result		**-1,300**	**972**	**-1,090**	**256**	**80**
Operating result(b)		**-37,537**	**-28,147**	**-20,317**	**-5,382**	**1,940**

Table 1: Australian Government general government sector operating statement (continued)

		Estimates			Projections	
		2014-15	2015-16	2016-17	2017-18	2018-19
	Note	$m	$m	$m	$m	$m
Non-owner movements in equity						
Revaluation of equity investments		2,681	-2,221	29	31	49
Actuarial revaluations		-3,383	105	314	353	426
Other economic revaluations		-3,554	135	1,019	76	145
Total other economic flows - included in equity		**-4,256**	**-1,981**	**1,362**	**460**	**620**
Comprehensive result - Total change in net worth		**-41,793**	**-30,128**	**-18,955**	**-4,922**	**2,560**
Net operating balance		**-36,237**	**-29,118**	**-19,227**	**-5,638**	**1,860**
Net acquisition of non-financial assets						
Purchases of non-financial assets		11,622	11,408	11,612	12,606	13,859
less Sales of non-financial assets		2,348	491	267	1,709	828
less Depreciation		6,804	7,182	7,466	7,719	8,154
plus Change in inventories		494	352	408	377	209
plus Other movements in non-financial assets		174	-234	-89	44	4
Total net acquisition of non-financial assets		**3,138**	**3,854**	**4,198**	**3,598**	**5,090**
Fiscal balance (Net lending/borrowing)(c)		**-39,375**	**-32,972**	**-23,425**	**-9,236**	**-3,230**

(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) Operating result under AAS.
(c) The term fiscal balance is not used by the ABS.

Table 2: Australian Government general government sector balance sheet

		Estimates			Projections	
		2014-15	2015-16	2016-17	2017-18	2018-19
	Note	$m	$m	$m	$m	$m
Assets						
Financial assets						
Cash and deposits		3,144	3,435	4,187	4,988	5,709
Advances paid	13	45,874	52,901	63,368	73,722	84,896
Investments, loans and placements	14	131,157	137,947	161,712	162,641	168,306
Other receivables	13	44,828	45,980	48,549	50,623	53,261
Equity investments						
Investments in other public sector entities		39,708	45,471	53,920	53,986	54,012
Equity accounted investments		326	326	323	323	323
Investments - shares		44,847	46,537	48,447	51,873	55,524
Total financial assets		*309,884*	*332,597*	*380,507*	*398,156*	*422,030*
Non-financial assets	15					
Land		9,287	9,144	9,152	9,122	9,218
Buildings		26,043	26,927	27,536	28,427	29,306
Plant, equipment and infrastructure		57,012	59,766	62,622	65,575	69,703
Inventories		8,360	8,211	8,181	8,087	7,808
Intangibles		6,312	6,547	6,686	7,231	7,463
Investment property		195	195	195	195	195
Biological assets		36	36	36	36	36
Heritage and cultural assets		10,843	10,852	10,864	10,877	10,889
Assets held for sale		113	72	72	72	72
Other non-financial assets		582	348	260	303	308
Total non-financial assets		*118,784*	*122,098*	*125,604*	*129,925*	*134,998*
Total assets		**428,668**	**454,695**	**506,111**	**528,081**	**557,029**
Liabilities						
Interest bearing liabilities						
Deposits held		211	211	211	211	211
Government securities		418,307	464,298	527,453	550,072	569,504
Loans	16	10,347	14,148	13,607	13,502	13,400
Other borrowing		1,545	1,428	1,352	1,290	1,242
Total interest bearing liabilities		*430,409*	*480,084*	*542,624*	*565,074*	*584,357*

Table 2: Australian Government general government sector balance sheet (continued)

		Estimates			Projections	
		2014-15	2015-16	2016-17	2017-18	2018-19
	Note	$m	$m	$m	$m	$m
Provisions and payables						
Superannuation liability	17	167,327	173,921	180,532	187,117	193,677
Other employee liabilities	17	16,030	16,105	16,362	16,659	16,971
Suppliers payable	18	4,956	4,914	4,887	5,008	5,012
Personal benefits provisions and payables	18	13,261	12,826	12,446	11,414	11,485
Subsidies provisions and payables	18	4,585	4,854	5,071	5,178	5,367
Grants provisions and payables	18	10,325	8,472	9,162	8,684	8,427
Other provisions and payables	18	13,086	14,959	15,421	14,262	14,488
Total provisions and payables		*229,571*	*236,051*	*243,882*	*248,323*	*255,427*
Total liabilities		**659,979**	**716,135**	**786,505**	**813,397**	**839,785**
Net worth(a)		**-231,311**	**-261,440**	**-280,395**	**-285,316**	**-282,756**
Net financial worth(b)		*-350,096*	*-383,538*	*-405,998*	*-415,241*	*-417,754*
Net financial liabilities(c)		*389,804*	*429,009*	*459,919*	*469,227*	*471,766*
Net debt(d)		*250,234*	*285,802*	*313,356*	*323,723*	*325,447*

(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	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Cash receipts from operating activities					
Taxes received	351,452	370,140	396,422	422,762	452,469
Receipts from sales of goods and services	9,218	9,475	11,735	16,274	20,008
Interest receipts	3,131	3,334	3,537	3,692	4,069
Dividends and income tax equivalents	4,121	4,623	3,305	3,745	4,054
Other receipts	7,164	8,549	7,196	6,846	6,804
Total operating receipts	**375,087**	**396,121**	**422,194**	**453,319**	**487,405**
Cash payments for operating activities					
Payments for employees	-26,061	-27,891	-28,021	-28,421	-28,924
Payments for goods and services	-80,293	-85,076	-85,811	-94,409	-98,631
Grants and subsidies paid	-146,048	-150,792	-160,611	-169,991	-180,713
Interest paid	-14,037	-14,953	-15,464	-16,028	-17,070
Personal benefit payments	-131,520	-134,744	-138,405	-137,731	-146,707
Other payments	-5,247	-5,218	-5,110	-5,116	-5,244
Total operating payments	**-403,206**	**-418,674**	**-433,423**	**-451,697**	**-477,288**
Net cash flows from operating activities	**-28,119**	**-22,553**	**-11,229**	**1,622**	**10,117**
Cash flows from investments in non-financial assets					
Sales of non-financial assets	2,222	1,859	267	276	828
Purchases of non-financial assets	-11,795	-11,161	-11,495	-12,596	-13,813
Net cash flows from investments in non-financial assets	**-9,572**	**-9,302**	**-11,228**	**-12,320**	**-12,985**
Net cash flows from investments in financial assets for policy purposes	**-5,500**	**-12,908**	**-21,397**	**-13,983**	**-14,452**
Cash flows from investments in financial assets for liquidity purposes					
Increase in investments	-9,021	-3,129	-20,044	1,721	-2,886
Net cash flows from investments in financial assets for liquidity purposes	**-9,021**	**-3,129**	**-20,044**	**1,721**	**-2,886**
Cash receipts from financing activities					
Borrowing	53,695	50,790	67,956	27,405	24,294
Other financing	48	11	0	0	0
Total cash receipts from financing activities	**53,743**	**50,801**	**67,956**	**27,405**	**24,294**
Cash payments for financing activities					
Borrowing	0	0	0	0	0
Other financing	-2,231	-2,620	-3,304	-3,645	-3,368
Total cash payments for financing activities	**-2,231**	**-2,620**	**-3,304**	**-3,645**	**-3,368**
Net cash flows from financing activities	**51,512**	**48,182**	**64,652**	**23,760**	**20,926**
Net increase/(decrease) in cash held	**-701**	**291**	**753**	**801**	**721**

Table 3: Australian Government general government sector cash flow statement[(a)] (continued)

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Net cash flows from operating activities and investments in non-financial assets (Surplus(+)/deficit(-))	**-37,691**	**-31,855**	**-22,457**	**-10,697**	**-2,868**
Finance leases and similar arrangements(b)	0	-2	-5	0	0
GFS cash surplus(+)/deficit(-)	**-37,691**	**-31,856**	**-22,462**	**-10,697**	**-2,868**
less Net Future Fund earnings	3,429	3,258	3,375	3,699	4,037
Equals underlying cash balance(c)	**-41,121**	**-35,115**	**-25,836**	**-14,396**	**-6,905**
plus Net cash flows from investments in financial assets for policy purposes	-5,500	-12,908	-21,397	-13,983	-14,452
plus Net Future Fund earnings	3,429	3,258	3,375	3,699	4,037
Equals headline cash balance	**-43,191**	**-44,764**	**-43,859**	**-24,681**	**-17,320**

(a) A positive number denotes a cash inflow; a negative number 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	
	2014-15	2015-16
	$m	$m
Revenue		
Current grants and subsidies	73	31
Sales of goods and services	9,640	9,627
Interest income	41	44
Other	10	27
Total revenue	**9,764**	**9,729**
Expenses		
Gross operating expenses		
Wages and salaries(a)	3,793	3,889
Superannuation	381	386
Depreciation and amortisation	1,256	1,705
Supply of goods and services	5,271	5,985
Other operating expenses(a)	543	400
Total gross operating expenses	*11,244*	*12,366*
Interest expenses	445	519
Other property expenses	65	118
Current transfers		
Tax expenses	70	22
Total current transfers	*70*	*22*
Total expenses	**11,825**	**13,025**
Net operating balance	**-2,061**	**-3,295**
Other economic flows	**-410**	**134**
Comprehensive result - Total change in net worth excluding contribution from owners	**-2,471**	**-3,161**
Net acquisition of non-financial assets		
Purchases of non-financial assets	2,678	6,089
less Sales of non-financial assets	77	20
less Depreciation	1,256	1,705
plus Change in inventories	7	14
plus Other movements in non-financial assets	1,200	869
Total net acquisition of non-financial assets	**2,552**	**5,247**
Fiscal balance (Net lending/borrowing)(b)	**-4,613**	**-8,543**

(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	
	2014-15	2015-16
	$m	$m
Assets		
Financial assets		
Cash and deposits	1,703	2,073
Investments, loans and placements	106	287
Other receivables	1,681	1,653
Equity investments	3	3
Total financial assets	*3,492*	*4,016*
Non-financial assets		
Land and other fixed assets	18,773	23,355
Other non-financial assets(a)	3,626	4,496
Total non-financial assets	*22,400*	*27,850*
Total assets	**25,892**	**31,866**
Liabilities		
Interest bearing liabilities		
Advances received	319	188
Loans	2,242	2,497
Other borrowing	3,766	4,030
Total interest bearing liabilities	*6,327*	*6,715*
Provisions and payables		
Superannuation liability	5	5
Other employee liabilities	1,463	1,357
Other provisions and payables(a)	3,510	4,009
Total provisions and payables	*4,977*	*5,371*
Total liabilities	**11,304**	**12,086**
Shares and other contributed capital	**14,588**	**19,780**
Net worth(b)	**14,588**	**19,780**
Net financial worth(c)	*-7,812*	*-8,070*
Net debt(d)	*4,518*	*4,355*

(a) Excludes the impact of commercial taxation adjustments.
(b) Under AASB 1049, 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 (deposit held, advances received, loans and other 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	
	2014-15	2015-16
	$m	$m
Cash receipts from operating activities		
Receipts from sales of goods and services	10,257	10,397
GST input credit receipts	428	633
Other receipts	65	42
Total operating receipts	**10,750**	**11,072**
Cash payments for operating activities		
Payments to employees	-4,510	-4,682
Payment for goods and services	-7,016	-7,175
Interest paid	-67	-62
GST payments to taxation authority	-43	-69
Other payments	-48	-60
Total operating payments	**-11,683**	**-12,048**
Net cash flows from operating activities	**-933**	**-977**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	71	26
Purchases of non-financial assets	-3,851	-6,959
Net cash flows from investments in non-financial assets	**-3,781**	**-6,933**
Net cash flows from investments in financial assets for policy purposes	**0**	**0**
Cash flows from investments in financial assets for liquidity purposes		
Increase in investments	72	-12
Net cash flows from investments in financial assets for liquidity purposes	**72**	**-12**
Net cash flows from financing activities		
Borrowing (net)	-86	106
Other financing (net)	5,150	8,303
Distributions paid (net)	-100	-117
Net cash flows from financing activities	**4,965**	**8,292**
Net increase/(decrease) in cash held	**323**	**370**
Cash at the beginning of the year	**1,380**	**1,703**
Cash at the end of the year	**1,703**	**2,073**
Net cash from operating activities and investments in non-financial assets	**-4,714**	**-7,910**
Distributions paid	-100	-117
Equals surplus(+)/deficit(-)	**-4,814**	**-8,026**
Finance leases and similar arrangements(b)	0	0
GFS cash surplus(+)/deficit(-)	**-4,814**	**-8,026**

(a) A positive number denotes a cash inflow; a negative number 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	
	2014-15	2015-16
	$m	$m
Revenue		
Taxation revenue	359,046	380,052
Sales of goods and services	17,533	18,170
Interest income	3,676	4,108
Dividend income	4,731	3,025
Other	7,265	8,535
Total revenue	**392,250**	**413,891**
Expenses		
Gross operating expenses		
Wages and salaries(a)	22,732	23,690
Superannuation	7,184	5,146
Depreciation and amortisation	8,060	8,887
Supply of goods and services	84,362	90,031
Other operating expenses(a)	6,045	5,910
Total gross operating expenses	*128,382*	*133,664*
Superannuation interest expense	8,989	9,869
Interest expenses	16,341	17,770
Current transfers		
Current grants	124,435	128,415
Subsidy expenses	12,449	12,623
Personal benefits	130,663	133,123
Total current transfers	*267,547*	*274,160*
Capital transfers	9,288	10,840
Total expenses	**430,548**	**446,304**
Net operating balance	**-38,298**	**-32,414**
Other economic flows	**-3,775**	**2,409**
Comprehensive result - Total change in net worth	**-42,073**	**-30,005**
Net acquisition of non-financial assets		
Purchases of non-financial assets	14,300	17,498
less Sales of non-financial assets	2,425	511
less Depreciation	8,060	8,887
plus Change in inventories	501	366
plus Other movements in non-financial assets	1,373	635
Total net acquisition of non-financial assets	**5,690**	**9,101**
Fiscal balance (Net lending/borrowing)(b)	**-43,988**	**-41,515**

(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	
	2014-15	2015-16
	$m	$m
Assets		
Financial assets		
Cash and deposits	4,846	5,508
Advances paid	45,555	52,713
Investments, loans and placements	131,263	138,234
Other receivables	46,360	47,546
Equity investments	69,487	71,872
Total financial assets	*297,512*	*315,873*
Non-financial assets		
Land and other fixed assets	130,319	138,255
Other non-financial assets	10,864	11,694
Total non-financial assets	*141,184*	*149,948*
Total assets	**438,696**	**465,821**
Liabilities		
Interest bearing liabilities		
Deposits held	211	211
Advances received	0	0
Government securities	418,307	464,298
Loans	12,589	16,645
Other borrowing	5,311	5,458
Total interest bearing liabilities	*436,417*	*486,611*
Provisions and payables		
Superannuation liability	167,332	173,926
Other employee liabilities	17,493	17,462
Other provisions and payables	49,575	49,948
Total provisions and payables	*234,400*	*241,336*
Total liabilities	**670,817**	**727,947**
Shares and other contributed capital	**14,588**	**19,780**
Net worth(a)	**-232,121**	**-262,126**
Net financial worth(b)	*-373,305*	*-412,074*
Net debt(c)	*254,752*	*290,156*

(a) Under AASB 1049, 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 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.

(c) 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.

Table 9: Australian Government total non-financial corporations sector cash flow statement[(a)]

	Estimates	
	2014-15	2015-16
	$m	$m
Cash receipts from operating activities		
Taxes received	351,409	370,081
Receipts from sales of goods and services	17,913	18,713
Interest receipts	3,151	3,347
Dividends and income tax equivalents	4,021	4,506
Other receipts	7,190	8,559
Total operating receipts	**383,684**	**405,206**
Cash payments for operating activities		
Payments to employees	-30,571	-32,573
Payments for goods and services	-85,362	-90,528
Grants and subsidies paid	-146,048	-150,792
Interest paid	-14,085	-14,996
Personal benefit payments	-131,520	-134,744
Other payments	-5,251	-5,218
Total operating payments	**-412,836**	**-428,852**
Net cash flows from operating activities	**-29,152**	**-23,646**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	2,293	1,885
Purchases of non-financial assets	-15,646	-18,120
Net cash flows from investments in non-financial assets	**-13,353**	**-16,235**
Net cash flows from investments in financial assets for policy purposes	**-362**	**-4,555**
Cash flows from investments in financial assets for liquidity purposes		
Increase in investments	-8,949	-3,141
Net cash flows from investments in financial assets for liquidity purposes	**-8,949**	**-3,141**
Net cash flows from financing activities		
Borrowing (net)	53,609	50,896
Other financing (net)	-2,171	-2,658
Net cash flows from financing activities	**51,439**	**48,238**
Net increase/(decrease) in cash held	**-378**	**661**
Cash at the beginning of the year	**5,225**	**4,846**
Cash at the end of the year	**4,846**	**5,508**
Net cash from operating activities and investments in non-financial assets	**-42,505**	**-39,881**
Distributions paid	0	0
Equals surplus(+)/deficit(-)	**-42,505**	**-39,881**
Finance leases and similar arrangements(b)	0	-2
GFS cash surplus(+)/deficit(-)	**-42,505**	**-39,882**

(a) A positive number denotes a cash inflow; a negative number 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 10: Australian Government public financial corporations sector operating statement

	Estimates	
	2014-15	2015-16
	$m	$m
Revenue		
Current grants and subsidies	150	154
Sales of goods and services(a)	3,233	727
Interest income	2,290	2,478
Other	99	78
Total revenue	**5,772**	**3,437**
Expenses		
Gross operating expenses		
Wages and salaries (a)(b)	269	151
Superannuation	67	33
Depreciation and amortisation	44	34
Supply of goods and services(a)(c)	2,818	441
Other operating expenses(a)(b)(c)	425	382
Total gross operating expenses	*3,623*	*1,042*
Interest expenses	1,331	1,307
Other property expenses	1,478	468
Current transfers		
Tax expenses	47	6
Total current transfers	*47*	*6*
Total expenses	**6,479**	**2,822**
Net operating balance	**-707**	**615**
Other economic flows	**3,983**	**45**
Comprehensive result - Total change in net worth excluding contribution from owners	**3,276**	**660**
Net acquisition of non-financial assets		
Purchases of non-financial assets	11	1
less Sales of non-financial assets	80	0
less Depreciation	44	34
plus Change in inventories	-11	0
plus Other movements in non-financial assets	-2	0
Total net acquisition of non-financial assets	**-127**	**-34**
Fiscal balance (Net lending/borrowing)(d)	**-579**	**649**

(a) The reduction in 2015-16 largely reflects the sale of Medibank Private.
(b) Consistent with ABS GFS classification and PNFC presentation, from the 2015-16 Budget, other employee related expenses, such as employee entitlements, are reclassified from wages and salaries to other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.
(c) Consistent with ABS GFS classification and PNFC presentation, from the 2015-16 Budget, supply of goods and services has been separated from other operating expenses.
(d) The term fiscal balance is not used by the ABS.

Table 11: Australian Government public financial corporations sector balance sheet[(a)]

	Estimates	
	2014-15	2015-16
	$m	$m
Assets		
Financial assets		
Cash and deposits	369	358
Investments, loans and placements	160,736	161,894
Other receivables	324	279
Equity investments	376	376
Total financial assets	*161,805*	*162,907*
Non-financial assets		
Land and other fixed assets	615	612
Other non-financial assets(b)	41	41
Total non-financial assets	*656*	*652*
Total assets	**162,461**	**163,560**
Liabilities		
Interest bearing liabilities		
Deposits held	121,805	121,805
Borrowing	12,821	12,677
Total interest bearing liabilities	*134,626*	*134,482*
Provisions and payables		
Superannuation liability	197	197
Other employee liabilities	1,547	1,718
Other provisions and payables(b)	1,978	2,390
Total provisions and payables	*3,722*	*4,305*
Total liabilities	**138,348**	**138,787**
Shares and other contributed capital	**24,113**	**24,773**
Net worth(c)	**24,113**	**24,773**
Net financial worth(d)	*23,457*	*24,120*
Net debt(e)	*-26,479*	*-27,771*

(a) Assumes no valuation or currency movement.
(b) Excludes the impact of commercial taxation adjustments.
(c) Under AASB 1049, 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.
(d) 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.
(e) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table 12: Australian Government public financial corporations sector cash flow statement[(a)]

	Estimates	
	2014-15	2015-16
	$m	$m
Cash receipts from operating activities		
Receipts from sales of goods and services(b)	2,939	718
Grants and subsidies received	0	0
GST input credit receipts	15	0
Interest receipts	1,719	2,532
Other receipts	410	392
Total operating receipts	**5,083**	**3,642**
Cash payments for operating activities		
Payments to employees(b)	-513	-429
Payment for goods and services(b)	-2,714	-439
Interest paid	-1,021	-1,344
GST payments to taxation authority	0	-1
Other payments(b)	-7,518	-1,227
Total operating payments	**-11,767**	**-3,440**
Net cash flows from operating activities	**-6,683**	**202**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	80	0
Purchases of non-financial assets	-18	0
Net cash flows from investments in non-financial assets	**62**	**0**
Net cash flows from investments in financial assets for policy purposes	**0**	**0**
Cash flows from investments in financial assets for liquidity purposes		
Increase in investments	-114	-4
Net cash flows from investments in financial assets for liquidity purposes	**-114**	**-4**
Net cash flows from financing activities		
Borrowing (net)	2,438	-157
Deposits received (net)	0	0
Other financing (net)	4,569	15
Distributions paid (net)	-932	-67
Net cash flows from financing activities	**6,075**	**-209**
Net increase/(decrease) in cash held	**-661**	**-10**
Cash at the beginning of the year	**1,030**	**369**
Cash at the end of the year	**369**	**358**
Net cash from operating activities and investments in non-financial assets	**-6,622**	**202**
Distributions paid	-932	-67
Equals surplus(+)/deficit(-)	**-7,554**	**135**
Finance leases and similar arrangements(c)	0	0
GFS cash surplus(+)/deficit(-)	**-7,554**	**135**

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) The reduction in 2015-16 largely reflects the sale of Medibank Private.
(c) 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 GENERAL GOVERNMENT SECTOR 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 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

- the Australian Accounting Standards (AAS), issued by the Australian Accounting Standards Board (AASB), which includes International Financial Reporting Standards (IFRS) as adopted in Australia and the public sector specific standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

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 ABS GFS frameworks, in addition to definitions of key terms used in these frameworks, can be found in Appendix A. Detailed accounting policies, as well as a set of notes and other disclosures, as required by AAS, are disclosed in the annual Consolidated Financial Statements.

Fiscal 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.

The Government's key fiscal aggregates are based on ABS GFS concepts and definitions, including the ABS GFS cash surplus/deficit and the derivation of the underlying cash balance and net financial worth. AASB 1049 requires the disclosure of other ABS GFS fiscal aggregates, including net operating balance, net lending/borrowing (fiscal balance) and net worth. In addition to these ABS GFS aggregates the Uniform Presentation Framework (UPF) requires disclosure of net debt, net financial worth and net financial liabilities.

AASB 1049 and the UFP 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).

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 to be 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 5: *Expenses and Net Capital Investment*. In accordance with the UPF, purchases of non-financial assets by function are also disclosed in Statement 5.

AASB 1055 requires major variances between original budget estimates and outcomes to be explained in the financial statements. 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 2014-15* (MYEFO) are disclosed in Statement 3: *Fiscal Strategy and Outlook*, with decisions taken since the MYEFO disclosed in Budget Paper No. 2 *Budget Measures 2015-16*. All policy decisions taken between the 2014-15 Budget and the 2014-15 MYEFO are disclosed in Appendix A of the MYEFO.

Details of the Australian Government's GGS contingent liabilities are disclosed in Statement 8: *Statement of Risks*.

Note 2: Departures from external reporting standards

The Charter requires that departures from applicable external reporting standards be identified. The major differences between AAS and the ABS GFS treatments of transactions are outlined in Table 13.

AASB 1049 requires AAS measurement of items to be disclosed on the face of the financial statements with reconciliation to ABS GFS measurement of key fiscal aggregates, where different, in notes to the financial statements. Differences from the AAS measurement of items outlined above and reconciliation have not been included as they would effectively create different measures of the same aggregate.

Further information on the differences between the two systems is provided in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (cat. no. 5514.0).

Table 13: 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 using the perpetual inventory method from September quarter 2009. 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 is treated as a liability, and the cost of producing the coins is treated as an expense.	AAS
Provisions for bad and doubtful debts	Reported in the balance sheet as an offset to assets. Under AASB 1049, it is included in the operating statement as other economic flows.	Creating provisions for bad and doubtful debts 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
Provision for restoration, decommissioning and make-good	Included in the fiscal balance capital adjustment.	Excluded from the calculation of net lending capital adjustment.	AAS
Renewable Energy Certificates (RECs)	The issuance and registration of RECs is considered to be an administrative function and does not result in the recognition of assets or liabilities and, consequently, no revenues or expenses are recognised.	The issuance and registration of RECs is considered to be government financial transactions resulting in the recognition of assets, liabilities, revenue and expenses.	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

Table 13: Major differences between AAS and ABS GFS (continued)

Issue	AAS treatment	ABS GFS treatment	Treatment adopted
Commercial tax effect accounting assets and liabilities	Corporations in the PNFC and PFC sectors record tax expenses on a commercial basis.	Deferred tax assets and liabilities are reversed so that corporations record tax expenses on a consistent basis to the Australian Taxation Office.	ABS GFS
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
Net financial worth of PNFC and PFC sectors	Calculated as financial assets less total liabilities.	Calculated as financial assets less total liabilities less shares and contributed capital.	AAS
Classification difference			
Prepayments	Treated as a non-financial asset.	Treated as a financial asset.	ABS GFS
Spectrum sales	Recognise non-financial asset sales for fiscal balance when payment is made and the licenses take effect, which may be after the auction of licences, as this is regarded as the point control is transferred. Recognise cash at the time of receipt.	Recognise non-financial asset sales for fiscal balance at time of auction as this is regarded as the point control is transferred. Recognise cash at the time of receipt.	AAS

Note 3: Taxation revenue by type

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Individuals and other withholding taxes					
Gross income tax withholding	167,860	178,460	189,130	201,270	215,620
Gross other individuals	40,600	43,800	47,230	51,680	56,520
less Refunds	27,300	28,000	28,400	30,000	31,600
Total individuals and other withholding taxation	181,160	194,260	207,960	222,950	240,540
Fringe benefits tax	4,480	5,020	5,230	5,060	5,300
Company tax	69,900	69,800	75,500	82,100	88,200
Superannuation fund taxes	6,200	9,180	10,670	11,350	11,900
Minerals resource rent tax(a)	60	0	0	0	0
Petroleum resource rent tax	1,640	1,420	1,450	1,370	1,380
Income taxation revenue	**263,440**	**279,680**	**300,810**	**322,830**	**347,320**
Goods and services tax	56,690	60,330	64,130	67,790	71,780
Wine equalisation tax	820	840	870	910	960
Luxury car tax	510	450	410	420	430
Excise and customs duty					
Petrol	6,020	6,130	6,250	6,610	7,010
Diesel	8,830	9,140	9,530	9,940	10,500
Other fuel products	2,980	2,850	2,890	2,970	3,090
Tobacco	8,290	9,390	10,180	10,410	10,720
Beer	2,350	2,400	2,500	2,640	2,770
Spirits	1,980	2,030	2,140	2,240	2,370
Other alcoholic beverages(b)	910	960	1,000	1,050	1,130
Other customs duty					
Textiles, clothing and footwear	650	380	290	220	180
Passenger motor vehicles	700	420	400	420	450
Other imports	1,600	1,120	1,010	1,030	1,090
less: Refunds and drawbacks	420	420	420	420	420
Total excise and customs duty	33,890	34,400	35,770	37,110	38,890
Carbon pricing mechanism	0	0	0	0	0
Agricultural levies	492	472	480	488	494
Other taxes	3,275	3,902	4,148	4,242	4,331
Mirror taxes	509	546	581	615	636
less Transfers to States in relation to mirror tax revenue	509	546	581	615	636
Mirror tax revenue	0	0	0	0	0
Indirect taxation revenue	**95,677**	**100,394**	**105,807**	**110,960**	**116,885**
Taxation revenue	**359,117**	**380,074**	**406,617**	**433,790**	**464,205**

Note 3: Taxation revenue by type (continued)

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Memorandum:					
Total excise	*24,140*	*24,920*	*25,940*	*27,060*	*28,440*
Total customs duty	*9,750*	*9,480*	*9,830*	*10,050*	*10,450*
Capital gains tax(c)	*8,900*	*11,500*	*13,900*	*15,900*	*17,400*
Medicare and DisabilityCare Australia levy	*14,050*	*14,870*	*15,570*	*16,290*	*17,100*

(a) Net revenue from the MRRT is expected to be $40 million in 2014-15 which represents the net revenue impact across different revenue heads. This includes the offsetting reductions in company tax (through deductibility) and interactions with other taxes. The MRRT will not apply beyond 30 September 2014.
(b) Other alcoholic beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(c) Capital gains tax is part of gross other individuals, company tax and superannuation fund taxes.

Note 3(a): Taxation revenue by source

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Taxes on income, profits and capital gains					
Income and capital gains levied on individuals	185,660	199,300	213,220	228,020	245,850
Income and capital gains levied on enterprises	77,780	80,380	87,590	94,810	101,470
Total taxes on income, profits and capital gains	**263,440**	**279,680**	**300,810**	**322,830**	**347,320**
Taxes on employers' payroll and labour force	738	760	755	757	776
Taxes on the provision of goods and services					
Sales/goods and services tax	58,020	61,620	65,410	69,120	73,170
Excises and levies	24,632	25,392	26,420	27,548	28,934
Taxes on international trade	9,750	9,480	9,830	10,050	10,450
Total taxes on the provision of goods and services	**92,402**	**96,492**	**101,660**	**106,718**	**112,554**
Other sale of goods and services	2,537	3,142	3,393	3,484	3,555
Total taxation revenue	**359,117**	**380,074**	**406,617**	**433,790**	**464,205**
Memorandum:					
Medicare and DisabilityCare Australia levy	*14,050*	*14,870*	*15,570*	*16,290*	*17,100*

Note 4: Sales of goods and services revenue

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Sales of goods	1,620	1,653	1,884	1,943	1,655
Rendering of services	4,060	4,181	6,113	10,531	14,629
Operating lease rental	66	61	60	61	61
Fees from regulatory services	3,531	3,647	3,735	3,796	3,724
Total sales of goods and services revenue	**9,277**	**9,542**	**11,791**	**16,331**	**20,069**

Note 5: Interest and dividend revenue

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Interest from other governments					
State and Territory debt	18	36	37	36	35
Housing agreements	134	129	124	119	114
Total interest from other governments	**152**	**165**	**161**	**156**	**149**
Interest from other sources					
Advances	46	51	58	98	139
Deposits	85	83	85	87	89
Bank deposits	160	130	129	132	145
Indexation of HELP receivable and other student loans	538	661	982	1,155	1,290
Other	2,671	2,993	3,265	3,531	4,373
Total interest from other sources	**3,501**	**3,918**	**4,519**	**5,004**	**6,036**
Total interest	**3,653**	**4,083**	**4,680**	**5,159**	**6,184**
Dividends					
Dividends from other public sector entities	1,581	598	849	1,013	201
Other dividends	3,215	2,545	2,712	2,898	3,109
Total dividends	**4,796**	**3,143**	**3,561**	**3,911**	**3,310**
Total interest and dividend revenue	**8,449**	**7,226**	**8,241**	**9,070**	**9,495**

Note 6: Other sources of non-taxation revenue

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Industry contributions	56	57	58	59	60
Royalties	1,496	886	898	811	660
Seigniorage	110	118	111	105	97
Other	5,593	7,446	5,709	6,012	6,703
Total other sources of non-taxation revenue	**7,255**	**8,508**	**6,777**	**6,986**	**7,519**

Note 7: Employee and superannuation expense

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Wages and salaries expenses	**18,939**	**19,801**	**19,948**	**19,968**	**20,098**
Other operating expenses					
Leave and other entitlements	2,351	2,327	2,316	2,310	2,333
Separations and redundancies	255	66	56	52	51
Workers compensation premiums and claims	783	857	893	946	969
Other	2,112	2,260	2,234	2,257	2,303
Total other operating expenses	**5,502**	**5,510**	**5,499**	**5,565**	**5,657**
Superannuation expenses					
Superannuation	6,803	4,760	4,737	4,755	4,787
Superannuation interest cost	8,989	9,869	10,259	10,648	11,034
Total superannuation expenses	**15,792**	**14,629**	**14,997**	**15,403**	**15,821**
Total employee and superannuation expense	**40,233**	**39,940**	**40,444**	**40,936**	**41,576**

Note 8: Depreciation and amortisation expense

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Depreciation					
Specialist military equipment	3,053	3,311	3,615	3,887	4,254
Buildings	1,365	1,423	1,402	1,435	1,484
Other infrastructure, plant and equipment	1,433	1,438	1,461	1,484	1,499
Heritage and cultural assets	38	38	38	37	37
Total depreciation	**5,889**	**6,210**	**6,516**	**6,844**	**7,274**
Total amortisation	**915**	**972**	**950**	**875**	**880**
Total depreciation and amortisation expense	**6,804**	**7,182**	**7,466**	**7,719**	**8,154**

Note 9: Supply of goods and services expense

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Supply of goods and services	25,852	27,809	26,280	27,043	27,906
Operating lease rental expenses	2,494	2,536	2,506	2,538	2,576
Personal benefits – indirect(a)	44,666	46,962	48,927	56,660	60,060
Health care payments	5,307	5,336	5,423	5,547	5,696
Other	2,155	2,402	2,593	2,782	2,550
Total supply of goods and services expense	**80,474**	**85,046**	**85,729**	**94,569**	**98,788**

(a) Includes Child Care Subsidy from 2017-18, when all payments will be made directly to child care providers. See also Note 12, Personal benefits expense.

Note 10: Interest expense

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Interest on debt					
Government securities(a)	14,450	15,560	16,454	16,845	17,363
Loans	9	10	0	1	1
Other	368	376	371	372	368
Total interest on debt	**14,827**	**15,945**	**16,825**	**17,217**	**17,732**
Other financing costs	**1,088**	**1,325**	**2,216**	**2,435**	**2,410**
Total interest expense	**15,915**	**17,270**	**19,040**	**19,652**	**20,141**

(a) Public debt interest estimates are calculated using the contract interest rates incurred on existing Commonwealth Government Securities (CGS) when issued and on 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	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Current grants expense					
State and Territory governments	95,095	99,619	104,999	109,679	116,103
Local governments	6	2	0	0	0
Private sector	1,176	1,064	863	561	568
Overseas	4,622	3,653	3,882	3,809	3,977
Non-profit organisations	2,480	3,083	2,839	3,231	2,930
Multi-jurisdictional sector	10,076	10,219	9,791	9,912	10,069
Other	10,981	10,776	14,144	20,506	27,715
Total current grants expense	**124,435**	**128,415**	**136,519**	**147,698**	**161,362**
Capital grants expense					
Mutually agreed write-downs	2,124	2,199	2,366	2,560	2,713
Other capital grants					
State and Territory governments	6,162	7,425	9,849	7,688	4,530
Local governments	445	665	332	332	332
Private sector	0	0	0	0	0
Multi-jurisdictional sector	102	103	99	100	102
Other	455	447	588	853	1,153
Total capital grants expense	**9,288**	**10,840**	**13,234**	**11,532**	**8,830**
Total grants expense	**133,723**	**139,254**	**149,752**	**159,229**	**170,191**

Note 12: Personal benefits expense

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Social welfare - assistance to the aged	42,416	44,751	46,779	48,231	50,862
Assistance to veterans and dependants	6,008	5,768	5,578	5,347	5,166
Assistance to people with disabilities	24,243	25,166	26,313	27,472	28,669
Assistance to families with children(a)	34,199	33,263	31,724	26,857	27,609
Assistance to the unemployed	10,810	11,515	11,590	11,445	12,048
Student assistance	3,570	3,041	3,081	3,155	3,439
Other welfare programmes	1,155	1,093	1,101	416	473
Financial and fiscal affairs	477	512	495	483	472
Vocational and industry training	140	95	84	92	93
Other	7,645	7,921	10,076	12,433	17,230
Total personal benefits expense	**130,663**	**133,123**	**136,821**	**135,931**	**146,061**

(a) Excludes Child Care Subsidy from 2017-18, when all payments will be made directly to child care providers. See also Note 9, Supply of goods and services expense.

Note 13: Advances paid and other receivables

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Advances paid					
Loans to State and Territory governments	3,160	3,354	3,262	3,119	2,961
Higher Education Loan Program	30,220	36,482	44,175	52,878	62,691
Student Financial Supplement Scheme	553	505	460	411	361
Other	12,169	12,779	15,677	17,513	19,072
less Provision for doubtful debts	228	220	207	198	189
Total advances paid	**45,874**	**52,901**	**63,368**	**73,722**	**84,896**
Other receivables					
Goods and services receivable	784	803	807	805	812
Recoveries of benefit payments	3,818	4,243	4,735	4,767	4,709
Taxes receivable	19,859	21,374	22,580	23,938	26,665
Prepayments	3,063	3,048	3,083	3,041	3,000
Other	18,770	18,101	19,123	20,036	20,098
less Provision for doubtful debts	1,465	1,588	1,779	1,964	2,022
Total other receivables	**44,828**	**45,980**	**48,549**	**50,623**	**53,261**

Note 14: Investments, loans and placements

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Investments - deposits	39,805	28,717	37,028	30,645	30,481
IMF quota	5,520	11,538	11,594	11,609	11,609
Other	85,832	97,692	113,090	120,387	126,215
Total investments, loans and placements	**131,157**	**137,947**	**161,712**	**162,641**	**168,306**

Note 15: Total non-financial assets

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Land and buildings					
Land	9,287	9,144	9,152	9,122	9,218
Buildings	26,043	26,927	27,536	28,427	29,306
Total land and buildings	**35,331**	**36,071**	**36,688**	**37,549**	**38,524**
Plant, equipment and infrastructure					
Specialist military equipment	43,646	45,968	48,749	51,614	55,796
Other	13,366	13,798	13,873	13,961	13,907
Total plant, equipment and infrastructure	**57,012**	**59,766**	**62,622**	**65,575**	**69,703**
Inventories					
Inventories held for sale	1,447	1,504	1,582	1,637	1,495
Inventories not held for sale	6,913	6,707	6,599	6,450	6,313
Total inventories	**8,360**	**8,211**	**8,181**	**8,087**	**7,808**
Intangibles					
Computer software	3,637	3,722	3,660	3,617	3,528
Other	2,675	2,825	3,026	3,614	3,935
Total intangibles	**6,312**	**6,547**	**6,686**	**7,231**	**7,463**
Total investment properties	**195**	**195**	**195**	**195**	**195**
Total biological assets	**36**	**36**	**36**	**36**	**36**
Total heritage and cultural assets	**10,843**	**10,852**	**10,864**	**10,877**	**10,889**
Total assets held for sale	**113**	**72**	**72**	**72**	**72**
Total other non-financial assets	**582**	**348**	**260**	**303**	**308**
Total non-financial assets	**118,784**	**122,098**	**125,604**	**129,925**	**134,998**

Note 16: Loans

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Promissory notes	4,250	8,266	7,769	7,745	7,720
Special drawing rights	5,258	5,258	5,285	5,292	5,292
Other	838	624	554	466	389
Total loans	**10,347**	**14,148**	**13,607**	**13,502**	**13,400**

Note 17: Employee and superannuation liabilities

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Total superannuation liability(a)	**167,327**	**173,921**	**180,532**	**187,117**	**193,677**
Other employee liabilities					
Leave and other entitlements	7,389	7,464	7,521	7,595	7,678
Accrued salaries and wages	718	558	557	569	578
Workers compensation claims	3,363	3,425	3,491	3,555	3,627
Other	4,561	4,658	4,793	4,940	5,087
Total other employee liabilities	**16,030**	**16,105**	**16,362**	**16,659**	**16,971**
Total employee and superannuation liabilities	**183,357**	**190,026**	**196,894**	**203,777**	**210,648**

(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 AAS, the long-term government bond rate as at 30 June is used to calculate the superannuation liability for the purpose of actuals reporting.

Note 18: Provisions and payables

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Suppliers payable					
Trade creditors	4,003	3,957	3,922	4,043	4,048
Operating lease rental payable	293	298	302	302	300
Other creditors	660	659	664	663	664
Total suppliers payable	**4,956**	**4,914**	**4,887**	**5,008**	**5,012**
Total personal benefits provisions and payables	**13,261**	**12,826**	**12,446**	**11,414**	**11,485**
Total subsidies provisions and payables	**4,585**	**4,854**	**5,071**	**5,178**	**5,367**
Grants provisions and payables					
State and Territory governments	107	74	73	69	61
Non-profit organisations	62	62	62	62	62
Private sector	237	233	232	232	232
Overseas	1,424	1,108	2,199	1,846	1,692
Local governments	2	2	2	2	2
Other	8,494	6,994	6,595	6,474	6,379
Total grants provisions and payables	**10,325**	**8,472**	**9,162**	**8,684**	**8,427**
Other provisions and payables					
Provisions for tax refunds	2,174	2,219	2,235	2,235	2,228
Other	10,912	12,739	13,186	12,027	12,260
Total other provisions and payables	**13,086**	**14,959**	**15,421**	**14,262**	**14,488**

Note 19: Reconciliation of cash

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
Operating balance (revenues less expenses)	**-36,237**	**-29,118**	**-19,227**	**-5,638**	**1,860**
less **Revenues not providing cash**					
Other	1,585	1,483	1,526	1,790	2,370
Total revenues not providing cash	**1,585**	**1,483**	**1,526**	**1,790**	**2,370**
plus **Expenses not requiring cash**					
Increase/(decrease) in employee entitlements	8,826	6,753	7,202	7,262	7,304
Depreciation/amortisation expense	6,804	7,182	7,466	7,719	8,154
Mutually agreed write-downs	2,124	2,199	2,366	2,560	2,713
Other	1,264	1,188	1,116	2,290	2,260
Total expenses not requiring cash	**19,018**	**17,321**	**18,150**	**19,831**	**20,432**
plus **Cash provided/(used) by working capital items**					
Decrease/(increase) in inventories	-272	-118	-161	-116	66
Decrease/(increase) in receivables	-5,611	-8,058	-10,022	-10,309	-10,117
Decrease/(increase) in other financial assets	1,828	1,787	2,450	2,863	2,573
Decrease/(increase) in other non-financial assets	-119	-27	-75	-18	-34
Increase/(decrease) in benefits, subsidies and grants payable	-3,463	-1,808	607	-1,190	158
Increase/(decrease) in suppliers' liabilities	670	-48	-36	115	-19
Increase/(decrease) in other provisions and payables	-2,348	-1,003	-1,390	-2,126	-2,433
Net cash provided/(used) by working capital	**-9,315**	**-9,273**	**-8,626**	**-10,781**	**-9,805**
equals (Net cash from/(to) operating activities)	-28,119	-22,553	-11,229	1,622	10,117
plus (Net cash from/(to) investing activities)	-24,093	-25,338	-52,670	-24,581	-30,323
Net cash from operating activities and investment	**-52,213**	**-47,891**	**-63,899**	**-22,959**	**-20,206**
plus (Net cash from/(to) financing activities)	51,512	48,182	64,652	23,760	20,926
equals **Net increase/(decrease) in cash**	**-701**	**291**	**753**	**801**	**721**
Cash at the beginning of the year	**3,844**	**3,144**	**3,435**	**4,187**	**4,988**
Net increase/(decrease) in cash	-701	291	753	801	721
Cash at the end of the year	**3,144**	**3,435**	**4,187**	**4,988**	**5,709**

APPENDIX A: FINANCIAL REPORTING STANDARDS AND BUDGET CONCEPTS

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.

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, overriding AASB 10 *Consolidated 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*.[1]

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1 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).

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.[2]

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, and 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.

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) equals gross fixed capital formation, less depreciation, plus changes (investment) in inventories, plus other transactions in non-financial assets. This 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.

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

2 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.

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.[3]

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.

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 and other contributed capital. Net financial worth is a broader measure than net debt, in that it incorporates provisions made (such as superannuation) as well as holdings of equity. Net financial worth includes all classes of financial assets and all liabilities, only some of which are included in net debt. As non-financial assets are excluded from net financial worth, this is a narrower measure than net worth. However, it avoids the concerns inherent with the net worth measure relating to the valuation of non-financial assets and their availability to offset liabilities.

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3 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 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 in 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, government securities, loans, and other borrowing) less the sum of selected financial assets[4] (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.

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 net 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.

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4 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.

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[5]

equals

ABS GFS cash surplus/deficit

less

Net Future Fund earnings

equals

Underlying cash balance

The Government has excluded net Future Fund earnings from the calculation of the underlying cash balance. Prior to the 2012-13 MYEFO, the underlying cash balance only excluded the gross earnings of the Future Fund. Under the *Future Fund Act 2006*, earnings are required to be reinvested to the meet the Government's future public sector superannuation liabilities. The Future Fund becomes available to meet the Government's superannuation liabilities from 2020.

In contrast, net Future Fund earnings are included in the fiscal balance because superannuation expenses relating to future cash payments are recorded in the fiscal balance.

Net 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: *Fiscal Strategy and Outlook*, and Statement 10, *Historical Australian Government Data*.

5 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.

Headline cash balance

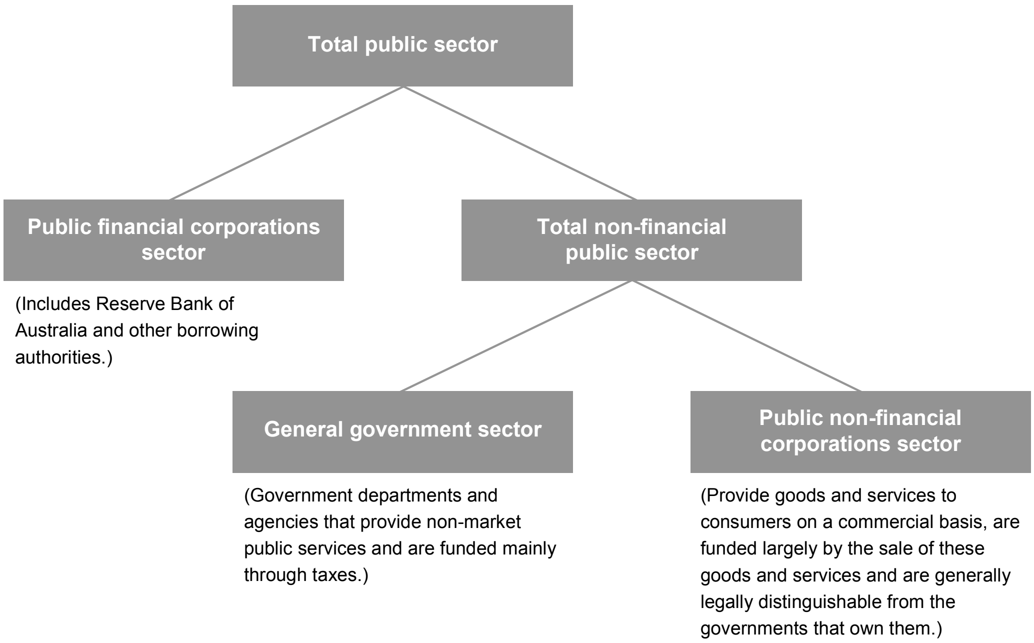
The headline cash balance is calculated by adding net cash flows from investments in financial assets for policy purposes and net Future Fund earnings to the underlying cash balance.

Cash flows from investments in financial assets for policy purposes include equity transactions and net advances.[6] Equity transactions include equity injections into controlled businesses and privatisations of government businesses. Net advances include net loans to the States, net loans to students under the Higher Education Loan Program (HELP), and contributions to international organisations that increase the Australian Government's financial assets.

Sectoral classifications

To assist in analysing the public sector, data are presented by institutional sector as shown in Figure 1. ABS GFS defines the general government sector (GGS) and the public non-financial corporations (PNFC) and public financial corporations (PFC) sectors. AASB 1049 has also adopted this sectoral reporting.

Figure 1: Institutional structure of the public sector



All entities are classified as GGS entities except for the following list of portfolio entities that are classified as PFC or PNFC (Table A1).

6 Cash flows from investments in financial assets for policy purposes are often referred to as net advances.

A table which provides a full list of public sector principal entities is available on the Department of Finance website at: http://www.finance.gov.au/sites/default/files/list-ggs-pnfc-pfc-pgpa.pdf?V=2

Table A1: Entities outside of the general government sector

Public financial corporations
Employment Portfolio
Coal Mining Industry (Long Service Leave Funding) Corporation
Finance Portfolio
Medibank Private Ltd*
Foreign Affairs and Trade Portfolio
Export Finance and Insurance Corporation
Treasury Portfolio
Australia Reinsurance Pool Corporation, Reserve Bank of Australia
Public non-financial corporations
Attorney General's Portfolio
Australian Government Solicitor*
Communications Portfolio
Australian Postal Corporation, NBN Co Ltd
Finance Portfolio
Albury-Wodonga Development Corporation*, ASC Pty Ltd, Australian River Co. Ltd*
Industry and Science Portfolio
ANSTO Nuclear Medicine Pty Ltd
Infrastructure and Regional Development Portfolio
Airservices Australia, Australian Rail Track Corporation Ltd, Moorebank Intermodal Company Ltd
Prime Minister and Cabinet Portfolio
Voyages Indigenous Tourism Australia Pty Ltd
Social Services Portfolio
Australian Hearing Services

* Medibank Private Ltd, Australian Government Solicitor, Albury-Wodonga Development Corporation and Australian River Co. Ltd have ceased operations or are expected to cease operations as separate Commonwealth entities on or by 1 July 2015.

APPENDIX B: AUSTRALIAN LOAN COUNCIL ALLOCATION

Under the Loan Council arrangements, every year the Commonwealth and each state and territory government nominate an annual Loan Council Allocation (LCA). A jurisdiction's LCA incorporates:

- the estimated non-financial public sector ABS GFS cash surplus/deficit (made up from the balance 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 Australian Government's revised estimate for the 2015-16 LCA is a $51.8 billion deficit. This compares with its LCA nomination of a $45.4 billion deficit endorsed by the Loan Council on 9 April 2015. The LCA Budget estimate falls within the tolerance limit set at nomination.

Table B1: Commonwealth's Loan Council Allocation budget update for 2015-16

		2015-16 Nomination $m	2015-16 Budget estimate $m
	GGS cash surplus(-)/deficit(+)	27,714	31,855
	PNFC sector cash surplus(-)/deficit(+)	4,484	8,026
	NFPS cash surplus(-)/deficit(+)(a)	32,198	39,881
	Acquisitions under finance leases and similar arrangements	2	2
equals	ABS GFS cash surplus(-)/deficit(+)	32,200	39,882
minus	Net cash flows from investments in financial assets for policy purposes(b)	-14,217	-12,908
plus	Memorandum items(c)	-1,044	-1,038
	Loan Council Allocation	**45,373**	**51,752**
	2015-16 tolerance limit(d)	8,176	8,104

(a) May not directly equate to the sum of the GGS and the PNFC sector due to intersectoral transfers which are netted out.

(b) Net cash flows 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.

(c) 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 net funding of superannuation and the net financing requirement of the Australian National University.

(d) A tolerance limit equal to two per cent of NFPS cash receipts from operating activities applies to the movement between the LCA nomination and budget estimate, and again between the budget estimate and outcome.

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 are sourced from Australian Government *Final Budget Outcomes*, the Australian Bureau of Statistics (ABS), the Australian Office of Financial Management 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 owing to accounting classification differences and changes to the structure of the budget which cannot be eliminated through back-casting because of 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 Accounting Standards (AAS) which includes International Financial Reporting Standards (IFRS) as adopted in Australia. Prior to 2005-06, underlying GFS data are based on data provided by agencies applying AAS prior to the adoption of IFRS;

- most recent accounting classification changes that require revisions to the historical series have been back-cast (where applicable) to 1998-1999, ensuring that data are 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 are 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 2008-09 Budget, cash data prior to 1998-99 have been replaced by ABS data derived from the accrual framework.

The 2015-16 Budget includes revisions to the historical series to reflect a change by the Australian Tax Office (ATO) to the accounting treatment of penalty and interest imposition and remissions in its financial statements. Penalties that are imposed and remitted on the same day are now not recognised as revenue or as an expense where the ATO did not have any intention to maintain the full amount imposed. This change decreases revenue and expenses but has no impact on the fiscal balance for the general government sector.

Table 1: Australian Government general government sector receipts, payments, net Future Fund earnings and underlying cash balance[(a)]

	Receipts(b)		Payments(c)				Net 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	20.6	7,389	na	na	18.3	-	901	2.2
1971-72	9,135	20.5	8,249	4.1	4.7	18.6	-	886	2.0
1972-73	9,735	19.6	9,388	7.7	7.8	18.9	-	348	0.7
1973-74	12,228	20.3	11,078	4.2	3.6	18.4	-	1,150	1.9
1974-75	15,643	22.0	15,463	19.9	14.6	21.7	-	181	0.3
1975-76	18,727	22.5	20,225	15.7	13.5	24.3	-	-1,499	-1.8
1976-77	21,890	22.8	23,157	0.6	1.9	24.1	-	-1,266	-1.3
1977-78	24,019	22.9	26,057	2.7	3.3	24.9	-	-2,037	-1.9
1978-79	26,129	22.1	28,272	0.3	2.7	23.9	-	-2,142	-1.8
1979-80	30,321	22.6	31,642	1.5	2.1	23.6	-	-1,322	-1.0
1980-81	35,993	23.7	36,176	4.6	3.6	23.8	-	-184	-0.1
1981-82	41,499	23.6	41,151	2.9	0.5	23.4	-	348	0.2
1982-83	45,463	24.0	48,810	6.3	6.2	25.8	-	-3,348	-1.8
1983-84	49,981	23.4	56,990	9.4	9.6	26.7	-	-7,008	-3.3
1984-85	58,817	25.0	64,853	9.1	9.0	27.6	-	-6,037	-2.6
1985-86	66,206	25.4	71,328	1.5	3.6	27.4	-	-5,122	-2.0
1986-87	74,724	26.1	77,158	-1.1	0.7	27.0	-	-2,434	-0.9
1987-88	83,491	25.8	82,039	-0.9	0.1	25.3	-	1,452	0.4
1988-89	90,748	24.7	85,326	-3.1	-4.4	23.2	-	5,421	1.5
1989-90	98,625	24.4	92,684	0.6	1.7	22.9	-	5,942	1.5
1990-91	100,227	24.2	100,665	3.1	3.7	24.3	-	-438	-0.1
1991-92	95,840	22.7	108,472	5.7	5.9	25.6	-	-12,631	-3.0
1992-93	97,633	22.0	115,751	5.6	5.9	26.1	-	-18,118	-4.1
1993-94	103,824	22.2	122,009	3.5	4.4	26.1	-	-18,185	-3.9
1994-95	113,458	22.9	127,619	1.4	2.5	25.7	-	-14,160	-2.9
1995-96	124,429	23.5	135,538	1.9	3.2	25.6	-	-11,109	-2.1
1996-97	133,592	24.0	139,689	1.7	1.5	25.1	-	-6,099	-1.1
1997-98	140,736	23.9	140,587	0.6	-0.7	23.9	-	149	0.0
1998-99	152,063	24.5	148,175	4.1	4.9	23.9	-	3,889	0.6
1999-00	166,199	25.2	153,192	1.0	0.8	23.2	-	13,007	2.0
2000-01	182,996	25.9	177,123	9.1	10.8	25.1	-	5,872	0.8
2001-02	187,588	24.9	188,655	3.5	4.1	25.0	-	-1,067	-0.1
2002-03	204,613	25.5	197,243	1.4	1.4	24.6	-	7,370	0.9
2003-04	217,775	25.3	209,785	3.9	2.6	24.3	-	7,990	0.9
2004-05	235,984	25.6	222,407	3.5	2.0	24.1	-	13,577	1.5
2005-06	255,943	25.6	240,136	4.6	2.6	24.1	51	15,757	1.6
2006-07	272,637	25.1	253,321	2.5	0.5	23.3	2,127	17,190	1.6
2007-08	294,917	25.0	271,843	3.8	2.7	23.1	3,319	19,754	1.7

Table 1: Australian Government general government sector receipts, payments, net Future Fund earnings and underlying cash balance[(a)] (continued)

	Receipts(b)		Payments(c)				Net 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
2008-09	292,600	23.3	316,046	12.7	10.4	25.1	3,566	-27,013	-2.1
2009-10	284,662	22.0	336,900	4.2	5.5	26.0	2,256	-54,494	-4.2
2010-11	302,024	21.5	346,102	-0.4	-3.2	24.6	3,385	-47,463	-3.4
2011-12	329,874	22.2	371,032	4.8	5.2	24.9	2,203	-43,360	-2.9
2012-13	351,052	23.1	367,204	-3.2	-0.6	24.1	2,682	-18,834	-1.2
2013-14	360,322	22.8	406,430	7.8	9.0	25.7	2,348	-48,456	-3.1
2014-15(e)	377,309	23.5	415,000	0.4	3.3	25.9	3,429	-41,121	-2.6
2015-16(e)	**397,980**	**24.0**	**429,836**	**1.1**	**3.2**	**25.9**	**3,258**	**-35,115**	**-2.1**
2016-17(e)	422,461	24.2	444,923	1.0	1.3	25.5	3,375	-25,836	-1.5
2017-18(p)	453,595	24.7	464,292	1.9	2.6	25.3	3,699	-14,396	-0.8
2018-19(p)	488,233	25.2	491,101	3.2	3.9	25.3	4,037	-6,905	-0.4

(a) Data have been revised in the 2015-16 Budget to improve accuracy and comparability through time.
(b) Receipts are equal to cash receipts from operating activities and sales of non-financial assets.
(c) Payments are equal to cash 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 net Future Fund earnings. For the purposes of consistent comparison with years prior to 2005-06, net Future Fund earnings should be added back to the underlying cash balance.
(e) Estimates.
(f) Real spending growth is calculated using the Consumer Price Index as the deflator. Real spending growth using the non-farm GDP deflator is included for comparative purposes only.
(p) Projections.

Table 2: Australian Government general government sector net cash flows for investments in financial assets for policy purposes and headline cash balance[(a)]

	Receipts	Payments	Net cash flows from investments in financial assets for policy purposes(b)		Headline cash balance(c)	
	$m	$m	$m	Per cent of GDP	$m	Per cent of GDP
1970-71	8,290	7,389	-851	-2.1	50	0.1
1971-72	9,135	8,249	-987	-2.2	-101	-0.2
1972-73	9,735	9,388	-977	-2.0	-629	-1.3
1973-74	12,228	11,078	-1,275	-2.1	-125	-0.2
1974-75	15,643	15,463	-2,648	-3.7	-2,467	-3.5
1975-76	18,727	20,225	-2,040	-2.5	-3,539	-4.3
1976-77	21,890	23,157	-1,530	-1.6	-2,796	-2.9
1977-78	24,019	26,057	-1,324	-1.3	-3,361	-3.2
1978-79	26,129	28,272	-1,074	-0.9	-3,216	-2.7
1979-80	30,321	31,642	-702	-0.5	-2,024	-1.5
1980-81	35,993	36,176	-962	-0.6	-1,146	-0.8
1981-82	41,499	41,151	-1,008	-0.6	-660	-0.4
1982-83	45,463	48,810	-1,363	-0.7	-4,711	-2.5
1983-84	49,981	56,990	-1,136	-0.5	-8,144	-3.8
1984-85	58,817	64,853	-922	-0.4	-6,959	-3.0
1985-86	66,206	71,328	-810	-0.3	-5,932	-2.3
1986-87	74,724	77,158	-545	-0.2	-2,979	-1.0
1987-88	83,491	82,039	657	0.2	2,109	0.7
1988-89	90,748	85,326	168	0.0	5,589	1.5
1989-90	98,625	92,684	1,217	0.3	7,159	1.8
1990-91	100,227	100,665	1,563	0.4	1,125	0.3
1991-92	95,840	108,472	2,156	0.5	-10,475	-2.5
1992-93	97,633	115,751	2,471	0.6	-15,647	-3.5
1993-94	103,824	122,009	3,447	0.7	-14,738	-3.2
1994-95	113,458	127,619	1,546	0.3	-12,614	-2.5
1995-96	124,429	135,538	5,188	1.0	-5,921	-1.1
1996-97	133,592	139,689	7,241	1.3	1,142	0.2
1997-98	140,736	140,587	15,154	2.6	15,303	2.6
1998-99	152,063	148,175	6,948	1.1	10,837	1.7
1999-00	166,199	153,192	9,500	1.4	22,507	3.4
2000-01	182,996	177,123	5,673	0.8	11,545	1.6
2001-02	187,588	188,655	3,422	0.5	2,355	0.3
2002-03	204,613	197,243	-229	0.0	7,141	0.9
2003-04	217,775	209,785	-452	-0.1	7,538	0.9
2004-05	235,984	222,407	-1,139	-0.1	12,438	1.3
2005-06	255,943	240,136	-1,647	-0.2	14,160	1.4
2006-07	272,637	253,321	7,403	0.7	26,720	2.5
2007-08	294,917	271,843	5,108	0.4	28,181	2.4
2008-09	292,600	316,046	-7,889	-0.6	-31,336	-2.5
2009-10	284,662	336,900	-4,278	-0.3	-56,516	-4.4

Table 2: Australian Government general government sector net cash flows for investments in financial assets for policy purposes and headline cash balance[(a)] (continued)

	Receipts	Payments	Net cash flows from investments in financial assets for policy purposes(b)		Headline cash balance(c)	
	$m	$m	$m	Per cent of GDP	$m	Per cent of GDP
2010-11	302,024	346,102	-7,028	-0.5	-51,106	-3.6
2011-12	329,874	371,032	-5,866	-0.4	-47,023	-3.2
2012-13	351,052	367,204	-4,802	-0.3	-20,954	-1.4
2013-14	360,322	406,430	-6,371	-0.4	-52,479	-3.3
2014-15(e)	377,309	415,000	-5,500	-0.3	-43,191	-2.7
2015-16(e)	**397,980**	**429,836**	**-12,908**	**-0.8**	**-44,764**	**-2.7**
2016-17(e)	422,461	444,923	-21,397	-1.2	-43,859	-2.5
2017-18(p)	453,595	464,292	-13,983	-0.8	-24,681	-1.3
2018-19(p)	488,233	491,101	-14,452	-0.7	-17,320	-0.9

(a) Data have been revised in the 2015-16 Budget to improve accuracy and comparability through time.
(b) Prior to 1999-2000, net cash flows from investments in financial assets for policy purposes were referred to as ‘net advances’. A negative number reflects a cash outflow, while a positive number reflects a cash inflow.
(c) Headline cash balance is equal to receipts less payments, plus net cash flows from investments in financial assets for policy purposes. Receipts and payments are identical to Table 1.
(e) Estimates.
(p) Projections.

Table 3: Australian Government general government sector call on resources[(a)]

	Receipts(b)		Headline cash balance(c)		Call on resources(d)	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1970-71	8,290	20.6	50	0.1	8,240	20.4
1971-72	9,135	20.5	-101	-0.2	9,236	20.8
1972-73	9,735	19.6	-629	-1.3	10,364	20.8
1973-74	12,228	20.3	-125	-0.2	12,353	20.5
1974-75	15,643	22.0	-2,467	-3.5	18,110	25.5
1975-76	18,727	22.5	-3,539	-4.3	22,266	26.8
1976-77	21,890	22.8	-2,796	-2.9	24,686	25.7
1977-78	24,019	22.9	-3,361	-3.2	27,380	26.1
1978-79	26,129	22.1	-3,216	-2.7	29,345	24.8
1979-80	30,321	22.6	-2,024	-1.5	32,345	24.1
1980-81	35,993	23.7	-1,146	-0.8	37,139	24.4
1981-82	41,499	23.6	-660	-0.4	42,159	24.0
1982-83	45,463	24.0	-4,711	-2.5	50,174	26.5
1983-84	49,981	23.4	-8,144	-3.8	58,125	27.2
1984-85	58,817	25.0	-6,959	-3.0	65,776	28.0
1985-86	66,206	25.4	-5,932	-2.3	72,138	27.7
1986-87	74,724	26.1	-2,979	-1.0	77,703	27.2
1987-88	83,491	25.8	2,109	0.7	81,382	25.1
1988-89	90,748	24.7	5,589	1.5	85,159	23.2
1989-90	98,625	24.4	7,159	1.8	91,466	22.6
1990-91	100,227	24.2	1,125	0.3	99,102	23.9
1991-92	95,840	22.7	-10,475	-2.5	106,315	25.1
1992-93	97,633	22.0	-15,647	-3.5	113,280	25.5
1993-94	103,824	22.2	-14,738	-3.2	118,562	25.4
1994-95	113,458	22.9	-12,614	-2.5	126,072	25.4
1995-96	124,429	23.5	-5,921	-1.1	130,350	24.6
1996-97	133,592	24.0	1,142	0.2	132,450	23.8
1997-98	140,736	23.9	15,303	2.6	125,433	21.3
1998-99	152,063	24.5	10,837	1.7	141,226	22.8
1999-00	166,199	25.2	22,507	3.4	143,692	21.7
2000-01	182,996	25.9	11,545	1.6	171,451	24.3
2001-02	187,588	24.9	2,355	0.3	185,233	24.6
2002-03	204,613	25.5	7,141	0.9	197,472	24.7
2003-04	217,775	25.3	7,538	0.9	210,237	24.4
2004-05	235,984	25.6	12,438	1.3	223,546	24.2
2005-06	255,943	25.6	14,160	1.4	241,783	24.2
2006-07	272,637	25.1	26,720	2.5	245,918	22.6
2007-08	294,917	25.0	28,181	2.4	266,735	22.6
2008-09	292,600	23.3	-31,336	-2.5	323,935	25.7
2009-10	284,662	22.0	-56,516	-4.4	341,178	26.3
2010-11	302,024	21.5	-51,106	-3.6	353,130	25.1
2011-12	329,874	22.2	-47,023	-3.2	376,898	25.3
2012-13	351,052	23.1	-20,954	-1.4	372,006	24.5
2013-14	360,322	22.8	-52,479	-3.3	412,801	26.1
2014-15(e)	377,309	23.5	-43,191	-2.7	420,500	26.2
2015-16(e)	**397,980**	**24.0**	**-44,764**	**-2.7**	**442,744**	**26.7**
2016-17(e)	422,461	24.2	-43,859	-2.5	466,320	26.7

Table 3: Australian Government general government sector call on resources(a) (continued)

	Receipts(b)		Headline cash balance(c)		Call on resources(d)	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
2017-18(p)	453,595	24.7	-24,681	-1.3	478,276	26.0
2018-19(p)	488,233	25.2	-17,320	-0.9	505,553	26.1

(a) Data have been revised in the 2015-16 Budget to improve accuracy and comparability through time.
(b) Receipts are identical to those in Table 1.
(c) Headline cash balance is equal to receipts less payments, plus net cash flows from investments in financial assets for policy purposes. Headline cash balance is identical to those in Table 2.
(d) Call on resources is equal to receipts less headline cash balance. The call on resources series provides a measure of the aggregate level of receipts (both tax and non-tax) and borrowings required to fund government activities.
(e) Estimates.
(p) Projections.

Table 4: 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	17.9	1,097	2.7	8,290	20.6
1971-72	7,895	17.8	1,240	2.8	9,135	20.5
1972-73	8,411	16.9	1,324	2.7	9,735	19.6
1973-74	10,832	18.0	1,396	2.3	12,228	20.3
1974-75	14,141	19.9	1,502	2.1	15,643	22.0
1975-76	16,920	20.3	1,807	2.2	18,727	22.5
1976-77	19,714	20.5	2,176	2.3	21,890	22.8
1977-78	21,428	20.4	2,591	2.5	24,019	22.9
1978-79	23,409	19.8	2,720	2.3	26,129	22.1
1979-80	27,473	20.5	2,848	2.1	30,321	22.6
1980-81	32,641	21.5	3,352	2.2	35,993	23.7
1981-82	37,880	21.6	3,619	2.1	41,499	23.6
1982-83	41,025	21.7	4,438	2.3	45,463	24.0
1983-84	44,849	21.0	5,132	2.4	49,981	23.4
1984-85	52,970	22.5	5,847	2.5	58,817	25.0
1985-86	58,841	22.6	7,365	2.8	66,206	25.4
1986-87	66,467	23.3	8,257	2.9	74,724	26.1
1987-88	75,076	23.2	8,415	2.6	83,491	25.8
1988-89	83,452	22.7	7,296	2.0	90,748	24.7
1989-90	90,773	22.5	7,852	1.9	98,625	24.4
1990-91	92,739	22.4	7,488	1.8	100,227	24.2
1991-92	87,364	20.7	8,476	2.0	95,840	22.7
1992-93	88,760	20.0	8,873	2.0	97,633	22.0
1993-94	93,362	20.0	10,462	2.2	103,824	22.2
1994-95	104,921	21.2	8,537	1.7	113,458	22.9
1995-96	115,700	21.9	8,729	1.6	124,429	23.5
1996-97	124,559	22.4	9,033	1.6	133,592	24.0
1997-98	130,984	22.2	9,752	1.7	140,736	23.9
1998-99	138,420	22.3	13,643	2.2	152,063	24.5
1999-00	151,313	22.9	14,887	2.3	166,199	25.2
2000-01	170,354	24.2	12,641	1.8	182,996	25.9
2001-02	175,108	23.2	12,481	1.7	187,588	24.9
2002-03	192,131	24.0	12,482	1.6	204,613	25.5
2003-04	206,091	23.9	11,683	1.4	217,775	25.3
2004-05	223,314	24.2	12,669	1.4	235,984	25.6
2005-06	241,215	24.2	14,728	1.5	255,943	25.6
2006-07	257,392	23.7	15,245	1.4	272,637	25.1
2007-08	278,376	23.6	16,540	1.4	294,917	25.0
2008-09	272,627	21.7	19,973	1.6	292,600	23.3
2009-10	260,973	20.1	23,689	1.8	284,662	22.0
2010-11	280,839	19.9	21,185	1.5	302,024	21.5
2011-12	309,943	20.8	19,931	1.3	329,874	22.2
2012-13	326,426	21.5	24,627	1.6	351,052	23.1
2013-14	338,368	21.4	21,954	1.4	360,322	22.8
2014-15(e)	351,452	21.9	25,856	1.6	377,309	23.5

Table 4: Australian Government general government sector taxation receipts, non-taxation receipts and total receipts[(a)] (continued)

	Taxation receipts		Non-taxation receipts		Total receipts(b)	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
2015-16(e)	**370,140**	**22.3**	**27,840**	**1.7**	**397,980**	**24.0**
2016-17(e)	396,422	22.7	26,040	1.5	422,461	24.2
2017-18(p)	422,762	23.0	30,833	1.7	453,595	24.7
2018-19(p)	452,469	23.4	35,764	1.8	488,233	25.2

(a) Data have been revised in the 2015-16 Budget to improve accuracy and comparability through time.
(b) Receipts are equal to receipts from operating activities and sales of non-financial assets. Receipts are identical to Table 1.
(e) Estimates.
(p) Projections.

Table 5: Australian Government general government sector net debt and net interest payments[(a)]

	Net debt(b)		Net interest payments(c)	
	$m	Per cent of GDP	$m	Per cent of GDP
1970-71	344	0.9	-189	-0.5
1971-72	-496	-1.1	-245	-0.6
1972-73	-790	-1.6	-252	-0.5
1973-74	-1,851	-3.1	-286	-0.5
1974-75	-1,901	-2.7	-242	-0.3
1975-76	-341	-0.4	-330	-0.4
1976-77	898	0.9	-62	-0.1
1977-78	2,896	2.8	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	4.2	620	0.4
1981-82	5,919	3.4	680	0.4
1982-83	9,151	4.8	896	0.5
1983-84	16,015	7.5	1,621	0.8
1984-85	21,896	9.3	2,813	1.2
1985-86	26,889	10.3	3,952	1.5
1986-87	29,136	10.2	4,762	1.7
1987-88	27,344	8.4	4,503	1.4
1988-89	21,981	6.0	4,475	1.2
1989-90	16,123	4.0	4,549	1.1
1990-91	16,915	4.1	3,636	0.9
1991-92	31,041	7.3	3,810	0.9
1992-93	55,218	12.4	3,986	0.9
1993-94	70,223	15.0	5,628	1.2
1994-95	83,492	16.8	7,292	1.5
1995-96	95,831	18.1	8,861	1.7
1996-97	96,281	17.3	9,489	1.7
1997-98	82,935	14.1	8,279	1.4
1998-99	72,065	11.6	8,649	1.4
1999-00	53,869	8.2	7,514	1.1
2000-01	42,719	6.1	6,195	0.9
2001-02	38,180	5.1	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	84,551	6.0	4,608	0.3
2011-12	147,334	9.9	6,609	0.4
2012-13	152,982	10.1	8,285	0.5
2013-14	202,463	12.8	10,843	0.7
2014-15(e)	250,234	15.6	10,906	0.7
2015-16(e)	**285,802**	**17.3**	**11,619**	**0.7**

Table 5: Australian Government general government sector net debt and net interest payments[(a)] (continued)

	Net debt(b)		Net interest payments(c)	
	$m	Per cent of GDP	$m	Per cent of GDP
2016-17(e)	313,356	18.0	11,927	0.7
2017-18(p)	323,723	17.6	12,336	0.7
2018-19(p)	325,447	16.8	13,001	0.7

(a) Data have been revised in the 2015-16 Budget to improve accuracy and comparability through time.
(b) Net debt is equal to 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.
(c) Net interest payments are equal to the difference between interest paid and interest receipts.
(e) Estimates.
(p) Projections.

Table 6: Australian Government general government sector face value of Commonwealth Government Securities (CGS) on issue and interest paid

	Face value of CGS on issue(a)					
	Total CGS on issue(b)		Subject to Treasurer's direction(c)		Interest Paid(d)	
	End of year $m	Per cent of GDP	End of year $m	Per cent of GDP	$m	Per cent of GDP
1970-71	10,887	27.0	-	-	580	1.4
1971-72	11,490	25.8	-	-	614	1.4
1972-73	12,217	24.6	-	-	675	1.4
1973-74	12,809	21.3	-	-	712	1.2
1974-75	14,785	20.8	-	-	893	1.3
1975-76	17,940	21.6	-	-	1,001	1.2
1976-77	20,845	21.7	-	-	1,485	1.5
1977-78	23,957	22.9	-	-	1,740	1.7
1978-79	28,120	23.7	-	-	2,080	1.8
1979-80	29,321	21.8	-	-	2,356	1.8
1980-81	30,189	19.9	-	-	2,723	1.8
1981-82	31,060	17.7	-	-	3,058	1.7
1982-83	37,071	19.6	-	-	3,580	1.9
1983-84	45,437	21.3	-	-	4,558	2.1
1984-85	54,420	23.2	-	-	5,952	2.5
1985-86	63,089	24.2	-	-	7,394	2.8
1986-87	67,172	23.5	-	-	8,339	2.9
1987-88	62,794	19.4	-	-	8,139	2.5
1988-89	56,854	15.5	-	-	8,222	2.2
1989-90	48,399	12.0	-	-	8,064	2.0
1990-91	48,723	11.7	-	-	6,994	1.7
1991-92	58,826	13.9	-	-	6,819	1.6
1992-93	76,509	17.2	-	-	6,487	1.5
1993-94	90,889	19.5	-	-	7,709	1.7
1994-95	105,466	21.3	-	-	9,144	1.8
1995-96	110,166	20.8	-	-	10,325	2.0
1996-97	111,067	20.0	-	-	10,653	1.9
1997-98	93,664	15.9	-	-	9,453	1.6
1998-99	85,331	13.8	-	-	9,299	1.5
1999-00	75,536	11.4	-	-	8,509	1.3
2000-01	66,403	9.4	-	-	7,335	1.0
2001-02	63,004	8.4	-	-	6,270	0.8
2002-03	57,435	7.2	-	-	4,740	0.6
2003-04	54,750	6.4	-	-	4,096	0.5
2004-05	55,151	6.0	-	-	3,902	0.4
2005-06	54,070	5.4	-	-	4,628	0.5
2006-07	53,264	4.9	-	-	3,959	0.4
2007-08	55,442	4.7	-	-	3,754	0.3
2008-09	101,147	8.0	95,103	7.6	3,970	0.3
2009-10	147,133	11.4	141,806	10.9	6,411	0.5

Table 6: Australian Government general government sector face value of Commonwealth Government Securities (CGS) on issue and interest paid (continued)

	Face value of CGS on issue(a)					
	Total CGS on issue(b)		Subject to Treasurer's direction(c)		Interest Paid(d)	
	End of year $m	Per cent of GDP	End of year $m	Per cent of GDP	$m	Per cent of GDP
2010-11	191,292	13.6	186,704	13.3	9,551	0.7
2011-12	233,976	15.7	229,389	15.4	10,875	0.7
2012-13	257,378	16.9	252,791	16.6	11,846	0.8
2013-14	319,481	20.2	316,952	20.0	13,972	0.9
2014-15(e)	370,000	23.0	367,000	22.9	14,037	0.9
2015-16(e)	**415,000**	**25.0**	**412,000**	**24.9**	**14,953**	**0.9**
2016-17(e)	477,000	27.3	474,000	27.2	15,464	0.9
2017-18(p)	500,000	27.2	497,000	27.0	16,028	0.9
2018-19(p)	521,000	26.9	518,000	26.7	17,070	0.9

(a) From 2014-15 onwards, data for CGS on issue are projections and are rounded to the nearest $1 billion.

(b) Total CGS on issue includes CGS held on behalf of the States and the Northern Territory, but excludes Commonwealth holdings of CGS.

(c) The face value of CGS subject to the Treasurer’s Direction excludes the stock and securities outlined in subsection 51JA(2A) of the *Commonwealth Inscribed Stock Act 1911*. These are the same stock and securities that were excluded from the previous legislative debt limit. CGS on issue subject to the Treasurer’s Direction are not available prior to 2008-09 because the limit was first introduced in July 2008.

(d) Interest paid consists of all cash interest payments of the general government sector, including those relating to CGS on issue.

(e) Estimates.

(p) Projections.

Table 7: 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	25.5	145,821	26.2	90	0.0	-4,223	-0.8
1997-98	146,820	24.9	148,652	25.2	147	0.0	-1,979	-0.3
1998-99	152,106	24.5	146,772	23.7	1,433	0.2	3,901	0.6
1999-00	167,304	25.3	155,558	23.5	-69	0.0	11,815	1.8
2000-01	186,106	26.4	180,090	25.5	8	0.0	6,007	0.9
2001-02	190,432	25.3	192,984	25.6	382	0.1	-2,935	-0.4
2002-03	206,778	25.8	201,113	25.1	287	0.0	5,377	0.7
2003-04	222,042	25.8	215,235	25.0	660	0.1	6,148	0.7
2004-05	242,354	26.3	229,092	24.8	1,034	0.1	12,228	1.3
2005-06	260,569	26.1	241,665	24.2	2,498	0.3	16,406	1.6
2006-07	277,895	25.6	258,761	23.8	2,333	0.2	16,801	1.5
2007-08	303,402	25.7	279,862	23.7	2,593	0.2	20,948	1.8
2008-09	298,508	23.7	324,188	25.8	4,064	0.3	-29,743	-2.4
2009-10	292,387	22.6	339,829	26.2	6,433	0.5	-53,875	-4.2
2010-11	309,204	22.0	355,667	25.3	5,297	0.4	-51,760	-3.7
2011-12	337,324	22.7	377,220	25.4	4,850	0.3	-44,746	-3.0
2012-13	359,496	23.6	381,980	25.1	987	0.1	-23,472	-1.5
2013-14	374,151	23.7	414,047	26.2	3,850	0.2	-43,746	-2.8
2014-15(e)	384,098	23.9	420,335	26.2	3,138	0.2	-39,375	-2.5
2015-16(e)	**405,350**	**24.5**	**434,469**	**26.2**	**3,854**	**0.2**	**-32,972**	**-2.0**
2016-17(e)	433,427	24.8	452,654	25.9	4,198	0.2	-23,425	-1.3
2017-18(p)	466,178	25.4	471,816	25.7	3,598	0.2	-9,236	-0.5
2018-19(p)	501,288	25.9	499,428	25.8	5,090	0.3	-3,230	-0.2

(a) Data have been revised in the 2015-16 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 8: Australian Government general government sector net worth and net financial worth[(a)]

	Net worth(b)		Net financial worth(c)	
	$m	Per cent of GDP	$m	Per cent of GDP
1999-00	-7,046	-1.1	-67,036	-10.1
2000-01	-6,618	-0.9	-71,876	-10.2
2001-02	-11,655	-1.5	-78,032	-10.4
2002-03	-15,330	-1.9	-82,931	-10.4
2003-04	-1,152	-0.1	-72,389	-8.4
2004-05	14,556	1.6	-58,882	-6.4
2005-06	17,971	1.8	-59,763	-6.0
2006-07	46,351	4.3	-35,696	-3.3
2007-08	70,859	6.0	-14,690	-1.2
2008-09	19,427	1.5	-71,490	-5.7
2009-10	-45,938	-3.5	-144,485	-11.2
2010-11	-95,386	-6.8	-198,787	-14.1
2011-12	-247,208	-16.6	-355,834	-23.9
2012-13	-202,650	-13.3	-312,724	-20.6
2013-14	-256,045	-16.2	-370,331	-23.4
2014-15(e)	-231,311	-14.4	-350,096	-21.8
2015-16(e)	**-261,440**	**-15.8**	**-383,538**	**-23.2**
2016-17(p)	-280,395	-16.1	-405,998	-23.3
2017-18(p)	-285,316	-15.5	-415,241	-22.6
2018-19(p)	-282,756	-14.6	-417,754	-21.6

(a) Data have been revised in the 2015-16 Budget to improve accuracy and comparability through time.
(b) Net worth is equal to total assets less liabilities.
(c) Net financial worth is equal to financial assets less liabilities.
(e) Estimates.
(p) Projections.

Table 9: 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	23.2	13,896	2.1	167,304	25.3
2000-01	175,877	24.9	10,228	1.5	186,106	26.4
2001-02	178,154	23.6	12,278	1.6	190,432	25.3
2002-03	195,057	24.4	11,720	1.5	206,778	25.8
2003-04	209,833	24.4	12,209	1.4	222,042	25.8
2004-05	229,790	24.9	12,564	1.4	242,354	26.3
2005-06	245,047	24.6	15,522	1.6	260,569	26.1
2006-07	261,995	24.1	15,900	1.5	277,895	25.6
2007-08	285,903	24.3	17,500	1.5	303,402	25.7
2008-09	278,229	22.1	20,280	1.6	298,508	23.7
2009-10	267,620	20.7	24,767	1.9	292,387	22.6
2010-11	288,319	20.5	20,885	1.5	309,204	22.0
2011-12	315,994	21.2	21,330	1.4	337,324	22.7
2012-13	336,659	22.1	22,836	1.5	359,496	23.6
2013-14	351,290	22.2	22,862	1.4	374,151	23.7
2014-15(e)	359,117	22.4	24,981	1.6	384,098	23.9
2015-16(e)	**380,074**	**22.9**	**25,276**	**1.5**	**405,350**	**24.5**
2016-17(e)	406,617	23.3	26,810	1.5	433,427	24.8
2017-18(p)	433,790	23.6	32,388	1.8	466,178	25.4
2018-19(p)	464,205	24.0	37,083	1.9	501,288	25.9

(a) Data have been revised in the 2015-16 Budget to improve accuracy and comparability through time.
(e) Estimates.
(p) Projections.

Table 10: 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	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	228,669	9,564
2004-05	235,984	222,407	13,577	29,621	28,071	1,550	257,946	242,818	15,128
2005-06	255,943	240,136	15,757	30,875	31,874	-999	278,254	263,445	14,759
2006-07	272,637	253,321	17,190	16,882	18,641	-1,759	285,336	267,778	15,431
2007-08	294,917	271,843	19,754	7,758	8,232	-473	300,503	277,903	19,281
2008-09	292,600	316,046	-27,013	7,987	8,960	-973	297,421	321,841	-27,986
2009-10	284,662	336,900	-54,494	8,419	9,341	-922	290,681	343,841	-55,416
2010-11	302,024	346,102	-47,463	8,558	9,733	-1,175	308,258	353,511	-48,638
2011-12	329,874	371,032	-43,360	8,845	10,847	-2,002	336,122	379,282	-45,362
2012-13	351,052	367,204	-18,834	9,766	14,135	-4,369	358,088	378,609	-23,203
2013-14	360,322	406,430	-48,456	11,042	16,322	-5,280	368,521	419,910	-53,737
2014-15(e)	377,309	415,000	-41,121	10,821	15,634	-4,814	385,977	428,483	-45,935
2015-16(e)	**397,980**	**429,836**	**-35,115**	**11,097**	**19,124**	**-8,026**	**407,091**	**446,973**	**-43,141**

Table 10: Australian Government cash receipts, payments and surplus by institutional sector ($m)[(a)] (continued)

	General government			Public non-financial corporations			Non-financial public sector		
	Receipts(b)	Payments(c)	Underlying cash balance(d)	Receipts(b)	Payments(c)	Cash surplus	Receipts(b)	Payments(c)	Underlying cash balance(d)
2016-17(e)	422,461	444,923	-25,836	na	na	na	na	na	na
2017-18(p)	453,595	464,292	-14,396	na	na	na	na	na	na
2018-19(p)	488,233	491,101	-6,905	na	na	na	na	na	na

(a) Data have been revised in the 2015-16 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 net Future Fund earnings from 2005-06 onwards. Net Future Fund earnings are shown in Table 1.
(e) Estimates.
(p) Projections.
na Data not available.

Table 11: 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	145,821	-4,223	27,431	26,015	-331	na	na	-4,554
1997-98	146,820	148,652	-1,979	29,618	26,999	2,360	na	na	387
1998-99	152,106	146,772	3,901	27,687	26,088	-816	175,891	168,958	3,085
1999-00	167,304	155,558	11,815	25,485	23,542	1,062	188,841	175,152	11,721
2000-01	186,106	180,090	6,007	25,869	24,762	-826	207,367	200,246	5,181
2001-02	190,432	192,984	-2,935	26,638	25,341	793	212,462	213,718	-2,142
2002-03	206,778	201,113	5,377	24,339	22,916	1,975	225,989	218,944	7,311
2003-04	222,042	215,235	6,148	25,449	23,444	2,143	241,746	232,934	8,291
2004-05	242,354	229,092	12,228	26,965	25,191	1,473	263,434	248,398	13,700
2005-06	260,569	241,665	16,406	28,143	29,531	-2,442	281,927	264,410	13,964
2006-07	277,895	258,761	16,801	15,443	16,360	-1,763	289,551	271,335	15,038
2007-08	303,402	279,862	20,948	6,854	6,686	-584	308,888	285,179	20,364
2008-09	298,508	324,188	-29,743	6,998	7,576	-1,495	303,309	329,566	-31,238
2009-10	292,387	339,829	-53,875	7,288	7,297	-1,079	298,033	345,483	-54,954
2010-11	309,204	355,667	-51,760	7,563	7,787	-1,446	315,001	361,689	-53,205
2011-12	337,324	377,220	-44,746	8,046	8,238	-2,158	343,722	383,810	-46,904
2012-13	359,496	381,980	-23,472	8,863	9,415	-4,189	366,642	389,678	-27,661
2013-14	374,151	414,047	-43,746	9,537	11,127	-6,070	381,971	423,457	-49,816
2014-15(e)	384,098	420,335	-39,375	9,764	11,825	-4,613	392,250	430,548	-43,988
2015-16(e)	**405,350**	**434,469**	**-32,972**	**9,729**	**13,025**	**-8,543**	**413,891**	**446,304**	**-41,515**
2016-17(e)	433,427	452,654	-23,425	na	na	na	na	na	na
2017-18(p)	466,178	471,816	-9,236	na	na	na	na	na	na
2018-19(p)	501,288	499,428	-3,230	na	na	na	na	na	na

(a) Data have been revised in the 2015-16 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.
(e) Estimates.
(p) Projections.
na Data not available.