Budget
2017-18

Budget Strategy and Outlook
Budget Paper No. 1
2017-18

Circulated by

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and

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For the information of honourable members
on the occasion of the Budget 2017-18

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Notes

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

- 'real' means adjusted for the effect of inflation;
- real growth in expenses and payments is calculated using the Consumer Price Index (CPI) as the deflator;
- the Budget year refers to 2017-18, while the forward years refer to 2018-19, 2019-20 and 2020-21; 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nfp	not for publication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 2017-18* 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

Australia's journey to broader-based growth after the mining investment boom is now well advanced.

In its 26th year of consecutive growth, the nation is well placed to build on the hard-won growth secured in recent years and rising optimism about the global outlook.

Real GDP growth is expected to rebound to 2¾ per cent in 2017-18 after slowing in 2016-17 as a result of weather-related factors in early 2016-17 and Tropical Cyclone Debbie more recently. Growth is forecast to increase to 3 per cent in 2018-19.

This Budget seeks to build on that impressive growth story, ensuring that all Australians have the opportunity to enjoy the benefits of a prosperous economy. It seeks to make the right choices to secure better days ahead for Australians, and those right choices are clear.

The Government is focusing on growing the economy to secure more and better paying jobs, by:

- Increasing its total funding and financing commitments to transport infrastructure projects to over $70 billion from 2013-14 to 2020-21, including an equity investment of up to $5.3 billion in a new Commonwealth-owned company, WSA Co, to develop Western Sydney Airport and an additional $8.4 billion equity investment in the Australian Rail Track Corporation to deliver Melbourne to Brisbane Inland Rail;
- Committing more than $533 million in new funding to infrastructure and community projects to improve the resilience, connectedness and adaptability of our regions, including a $472 million Regional Growth Fund;
- Putting Australian jobs first by better targeting skilled visas and introducing a *Skilling Australians Fund* to ensure that employers of foreign workers are investing in training Australians to meet future skills needs, with a particular focus on apprenticeships and traineeships;
- Continuing to support small businesses by extending the $20,000 immediate deductibility threshold for a further 12 months to 30 June 2018 at the higher $10 million annual turnover threshold, following the passage of legislation to lower small business taxes; and
- Encouraging States and Territories to remove unnecessary barriers to competition and regulations that hold back small businesses through targeted payments under a National Partnership on Regulatory Reform.

The Government is guaranteeing essential government services that Australians rely on, by:

- Establishing the Medicare Guarantee Fund so that all Australians can be certain they will continue to have access to timely and affordable health care;
- Fully funding the Commonwealth's contribution to the National Disability Insurance Scheme, through half a percentage point increase in the Medicare levy;
- Providing affordable medicines through new and amended listings on the Pharmaceutical Benefits Scheme; and
- Committing to needs-based schools funding that is fair, simple and transparent.

The Government is tackling cost of living pressures for Australians and their families, by:

- Committing to a comprehensive and targeted plan to reduce pressure on housing affordability. This includes assistance for first home buyers, new programs to increase the supply of affordable housing and the reform of housing-related payments to the States and Territories;
- Delivering more affordable, accessible and flexible childcare; and
- Improving affordability and reliability of energy through practical reforms designed to meet our immediate energy challenges and lay the foundations for a stronger energy system to underpin economic growth.

The Government is living within its means, bringing the budget back to balance, by:

- Pursuing a return to balance by 2020-21 and providing an improving fiscal outlook as the foundation for a growing, thriving economy;
- Strengthening requirements for welfare recipients;
- Reducing opportunities for multinational tax avoidance and addressing issues presented by the black economy to ensure all individuals and businesses who earn income in Australia pay their fair share of tax to help fund essential government services;
- Introducing a major bank levy on banks with liabilities greater than $100 billion to assist with budget repair; and
- Making careful and fair decisions and ensuring the Government delivers on its commitments.

The Government remains committed to budget repair with an improving fiscal trajectory over the forward estimates, building to a projected return to surplus in 2020-21. Although the payments-to-GDP ratio remains a little above its historical average of 24.8 per cent, the ratio is expected to fall to 25.0 per cent by the end of the forward estimates.

The Government's policy decisions since the 2016-17 Mid-Year Economic and Fiscal Outlook (MYEFO) have contributed $6.3 billion to the underlying cash balance over the forward estimates, even after taking into account the reversal of the significant budget savings measures opposed by the Parliament.

The Government is taking action to improve accountability and competition in the financial services sector by introducing a new accountability regime that will hold banks and their executives to account when they fail to meet expectations; and a one-stop shop for financial, credit and superannuation disputes. The Government is continuing to support financial innovation (FinTech) which will allow more choice and more cost-effective and targeted services for Australian individuals and businesses. A robust and innovative financial system underpins the economy more broadly and affects directly and indirectly all Australians and Australian businesses. Further, the Government continues to support innovation, enabling more alternatives to raise capital as part of the reforms to crowd-sourced equity funding.

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STATEMENT 1: BUDGET OVERVIEW

INTRODUCTION

Australia's transition towards broader-based growth is well advanced. The 2017-18 Budget aims to facilitate a smooth transition and ensure that all Australians have the opportunity to benefit from Australia's continued economic growth by guaranteeing essential government services, easing pressure on the cost of living and building on the Government's plan for economic growth and jobs.

Growth is expected to have slowed temporarily to 1¾ per cent in 2016-17 as a result of weather-related factors in early 2016-17 and the more recent impact of Tropical Cyclone Debbie. The economy is expected to rebound to grow at 2¾ per cent in 2017-18 and 3 per cent in 2018-19, supported by growth in household consumption, exports and non-mining business investment as the drag from falling mining investment wanes.

There have been encouraging signs that the global economy will strengthen over the coming years. Economic activity appears to have firmed in a range of countries and there are tentative signs that global trade growth is strengthening from subdued rates. Still, important risks remain.

The underlying cash deficit is expected to be $29.4 billion in 2017–18 and improve over the forward estimates to a projected surplus of $7.4 billion in 2020-21. The average annual pace of fiscal consolidation of 0.6 per cent of GDP is a slight improvement over the 2016–17 MYEFO.

The net operating balance is also expected to improve from $19.8 billion (1.1 per cent of GDP) in 2017-18 to reach a projected surplus of $7.6 billion (0.4 per cent of GDP) in 2019-20 and $17.5 billion (0.8 per cent of GDP) in 2020-21.

Table 1: Budget aggregates

	Actual	Estimates			Projections		
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total(a)
Underlying cash balance ($b)(b)	**-39.6**	**-37.6**	**-29.4**	**-21.4**	**-2.5**	**7.4**	**-45.9**
Per cent of GDP	-2.4	-2.1	-1.6	-1.1	-0.1	0.4	
Net operating balance($b)	**-33.6**	**-38.7**	**-19.8**	**-10.8**	**7.6**	**17.5**	**-5.5**
Per cent of GDP	-2.0	-2.2	-1.1	-0.6	0.4	0.8	

(a) Total is equal to the sum of amounts from 2017-18 to 2020-21.
(b) Excludes expected net Future Fund earnings before 2020-21.

In this Budget the Government is reporting the net operating balance alongside the underlying cash balance to better reflect those Government payments which contribute to recurrent expenditure.

Payments as a proportion of GDP are forecast to fall to 25 per cent by the end of the forward estimates, slightly lower than forecast at the 2016-17 MYEFO, before rising over the medium term.

Receipts as a proportion of GDP are expected to increase across the forward estimates, broadly in line with forecasts at the 2016-17 MYEFO.

Net debt is estimated to be 19.5 per cent of GDP in 2017-18 and to peak as a share of GDP at 19.8 per cent in 2018-19. Net debt is then projected to decline as a share of GDP to 8.5 per cent by 2027-28. Refer to *Statement 7: Debt statement, assets and liabilities* for further information.

ECONOMIC OUTLOOK

Australia's transition to broader-based growth is well advanced despite a temporary slowing in growth in 2016-17. Growth is forecast to rebound to around the economy's potential growth rate in 2017-18 and 2018-19.

Confidence that global growth will strengthen as forecast has improved in recent months. There are encouraging signs of stronger growth in a range of countries and tentative signs that world trade is firming after unusually weak growth in recent years. Chinese GDP growth has ticked up in early 2017 and the United States economy is performing well. There have also been signs of improvement in other advanced economies and in some of the emerging economies that were affected by previous sharp falls in commodity prices. Despite generally sluggish growth in the past few years, some major advanced economies have been growing sufficiently strongly to push down their unemployment rates.

Domestically, it is anticipated that growth will lift following the effects of a number of weather-related events in 2016-17. Real GDP growth is expected to be 2¾ per cent in 2017-18 and 3 per cent in 2018-19. Australia's economic performance continues to compare favourably with most advanced economies, including other major commodity exporters. The lift in economic growth is expected to occur as the drag from falling mining investment diminishes and as growth in household consumption and non-mining business investment improves. Exports are also forecast to continue to grow, supporting greater economic activity and growth.

Nominal GDP growth is expected to increase strongly in 2016-17, driven by the large increase in coal and iron prices in the past year. Nominal GDP growth is forecast to slow to 4 per cent in 2017-18 and 2018-19 as commodity prices are expected to decline from their recent elevated levels. Growth in wages is expected to be subdued, albeit a little stronger than recent rates, over the forecast period. Inflation is forecast to increase moderately in that time. These factors are expected to constrain the pace of nominal GDP growth in 2017-18 and 2018-19.

Commodity prices have been highly volatile in 2016-17. They represent a key uncertainty for the terms of trade and nominal GDP outlook. Following the practice of the 2016-17 MYEFO, the forecasts are based on the judgment — supported by broad and deep market and industry consultation — that it is prudent to assume that prices for metallurgical coal and iron ore will not be sustained at recent levels.

In addition to the volatility of commodity prices, significant uncertainties surround the outlook. Globally, there is heightened policy uncertainty as reforms needed to strengthen productivity have proved difficult to achieve and there appears to be growing support in some countries for protectionist policies. High levels of debt, potential financial imbalances and overcapacity in some sectors remain risks to the Chinese economy, while Europe continues to face legacy issues following the global financial crisis. The recalibration of interest rates in the United States is also a risk. Domestically, there are risks around the momentum in household consumption as well as uncertainty around dwelling investment. The timing and pace of the recovery in non-mining business investment also remains a risk to the domestic outlook.

Table 2: Major economic parameters[(a)]

	Outcomes	Forecasts			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Real GDP	2.6	1 3/4	2 3/4	3	3	3
Employment	1.9	1	1 1/2	1 1/2	1 1/2	1 1/2
Unemployment rate	5.7	5 3/4	5 3/4	5 1/2	5 1/2	5 1/4
Consumer price index	1.0	2	2	2 1/4	2 1/2	2 1/2
Wage price index	2.1	2	2 1/2	3	3 1/2	3 3/4
Nominal GDP	2.3	6	4	4	4 1/2	4 3/4

(a) Year average growth unless otherwise stated. From 2015-16 to 2018-19, employment and the wage price index are through-the-year growth to the June quarter. The unemployment rate is the rate for the June quarter. The consumer price index is through-the-year growth to 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 its strategy of returning the budget to balance by maintaining strong fiscal discipline, strengthening the Government's balance sheet and redirecting government spending to boost productivity and workforce participation.

The 2017-18 Budget charts a responsible pathway back to balance. The underlying cash balance is expected to improve across each year of the forward estimates. The deficit is expected to fall from $29.4 billion (1.6 per cent of GDP) in 2017-18 to $2.5 billion (0.1 per cent of GDP) in 2019-20, with the Budget returning to a projected surplus of $7.4 billion (0.4 per cent of GDP) in 2020-21. The net operating balance is also expected to improve from a deficit of $19.8 billion (1.1 per cent of GDP) in 2017-18, returning to projected surpluses of $7.6 billion (0.4 per cent of GDP) in 2019-20 and $17.5 billion (0.8 per cent of GDP) in 2020-21.

In this year's Budget, the Government is increasing the emphasis and transparency of recurrent and capital spending by reporting, alongside the underlying cash balance, the net operating balance in place of the fiscal balance. The net operating balance is an accrual measure of revenue less expenses (including the depreciation of prior capital investment). It does not include net new capital investment (such as spending on infrastructure or defence assets) as does the underlying cash balance and fiscal balance. As such, it provides information as to how the government is meeting its recurrent obligations from its annual revenues. *Statement 4: Recurrent and Capital Budget* provides further information on the net operating balance.

The payments to GDP ratio in 2017-18 is 25.2 per cent, falling to 25.0 per cent in 2020-21 at the end of the forward estimates period, slightly above the long-run average level of 24.8 per cent. Tax receipts as a share of GDP are forecast to return to the 30-year average in 2017-18. Net debt as a share of GDP is expected to peak in 2018-19 and then decline over the remainder of the forward estimates and the medium term.

The 2017-18 Budget forecasts for tax receipts have been revised up by $6.4 billion over the four years to 2019-20, due to policy decisions including increasing the Medicare levy, introducing a major bank levy, improving the integrity of goods and services tax (GST) on property transactions and introducing a *Skilling Australians Fund* levy. Policy decisions are expected to increase forecast tax receipts by $11.9 billion over the four years to 2019-20, which is partially offset by $5.5 billion of downward revisions owing to parameter and other variations.

Excluding policy decisions, tax receipts have been affected by downwards revisions to the outlook for total wages and upgrades to the outlook for profits, including mining profits. These revisions are reflected in higher taxes from companies, more than offset by lower forecast individuals and other withholding tax, superannuation fund tax and GST.

Since the 2016-17 MYEFO, the underlying cash balance has improved by $11.4 billion over the forward estimates.

The Government remains focused on restraining growth in government spending and aims to achieve a steady trajectory towards a balanced budget and lower government debt. The overall impact of new policy decisions in this Budget is an improvement to the bottom line of $6.3 billion over the four years to 2020-21, including the impact of reversing unlegislated savings of over $13 billion.

The average annual pace of fiscal consolidation across the forward estimates is 0.6 per cent of GDP.

BUDGET PRIORITIES

Jobs and growth

National Infrastructure Plan — Building Australia

The Government is committing over $70 billion from 2013-14 to 2020-21 to transport infrastructure across Australia, using a combination of grant funding, loans and equity investments. The Government is establishing a 10-year allocation for funding road and rail investments, recognising that many transformational projects are planned and built over many years. This will deliver $75 billion in infrastructure funding and financing from 2017-18 to 2016-27.

Well-selected infrastructure investment improves long-run productivity, increasing and spreading Australia’s economic growth and delivering higher incomes for Australians.

The Government is expanding the use of equity and debt financing where appropriate to augment our infrastructure spending. The Government is making an equity investment of up to $5.3 billion in WSA Co, a new Commonwealth-owned company, to fund the first stage of development of Western Sydney Airport. Works will commence by late 2018 and airport operations will begin by 2026. The terminal will have capacity for 10 million passengers each year — about the current size of Adelaide Airport. The Airport is expected to generate around 20,000 direct and indirect jobs in Western Sydney by the early 2030s.

The Government will deliver the Melbourne to Brisbane Inland Rail project by a combination of an additional $8.4 billion equity investment in the Australian Rail Track Corporation and a public private partnership for the most complex elements of the project. Work on this 1,700 km nation building rail investment will commence in 2017-18 and will support 16,000 direct and indirect full-time equivalent jobs at the peak of construction.

The Government is establishing a $10 billion National Rail Program to fund priority regional and urban rail investments, with funding to be provided over 10 years. The Government stands willing to deliver ready and proven rail projects across the nation that better connect our cities and grow the economy. The Budget will also contribute $20 million to the development of up to three business cases for infrastructure projects that will deliver faster rail connections between major cities and major regional centres.

The Government will provide $1 billion in additional infrastructure funding for Victoria, including $500 million to upgrade regional rail and $30 million to support planning for a rail link from the Melbourne CBD to Tullamarine Airport. The funding to upgrade regional rail will include $100 million for the Geelong Rail Line and $100 million for the North East Rail Line. The Government will also provide a further $20.2 million for Murray Basin Rail. The infrastructure funding for Victoria includes funding it would have received had the Victorian Government reached an agreement with the Government under the Asset Recycling Initiative by the 30 June 2016 deadline.

In Queensland, the Government is providing $844 million from 2017-18 for new Bruce Highway priority projects, including for the Pine River to Caloundra upgrade and Deception Bay interchange upgrade.

In Western Australia, the Government is providing $1.6 billion for new projects, including for better road access to the Fiona Stanley Hospital precinct and $700 million towards the METRONET rail project.

Since last year's Budget, the Government has increased the number of major projects under construction and in the pre-construction stage. There are currently around 120 major projects under construction and approximately another 160 in the pre-construction stage involving detailed design and planning works, procurement, geotechnical assessments, environmental assessments and land clearing. Under this Government, around 180 major projects have been completed.

The Government's major projects include $2.9 billion for the Western Sydney Infrastructure Plan; $1.5 billion of funding and a $2.0 billion concessional loan for the WestConnex project in Sydney; $500 million for Stage 2 of the Monash Freeway upgrade and $500 million for the M80 Ring Road in Melbourne; $1.14 billion for the Toowoomba Second Range Crossing and $914 million for the Gateway Upgrade North in Queensland; $833 million for NorthLink in Western Australia; $1.6 billion for three projects to upgrade the North-South Corridor in Adelaide; $400 million for the Midland Highway in Tasmania; and in the Northern Territory $90 million for the Regional Roads Productivity Package and $77 million for the Northern Territory Roads Package. The Government is also providing funding of $600 million for the Northern Australia Roads Programme and $100 million for the Northern Australia Beef Roads Programme.

The Government is also providing $2.3 billion to New South Wales, the Northern Territory and the Australian Capital Territory under Asset Recycling Initiative agreements. The Government is also offering a bilateral Asset Recycling agreement to South Australia. The Asset Recycling Initiative is expected to facilitate over $15 billion in State and Territory asset sales and unlock over $17 billion in State and Territory infrastructure spending, including for the Sydney Metro and Canberra's Capital Metro projects.

The Government is establishing the Infrastructure and Project Financing Agency on 1 July 2017 to assist in the identification, development and assessment of equity and debt financing options for investment in major infrastructure projects.

Extending the immediate tax deductibility threshold for small businesses

Australian small businesses are the engine room of our economy, making up 99 per cent of all businesses. Around 3.2 million small businesses employ 5.6 million Australians and contribute $380 billion to the economy. It is important to support this vibrant part of our economy so small businesses can continue to grow, invest and flourish.

The $20,000 immediate deductibility threshold has been well received by small business and claims of depreciation deductions have increased. Small businesses across Australia are investing in assets that will help them grow and prosper.

The Government is continuing to support small businesses by extending the $20,000 immediate deductibility threshold for a further 12 months to 30 June 2018, improving their cash flow and encouraging them to invest in the assets they need to grow. The concession is available to all small businesses with aggregate annual turnover less than $10 million (five times higher than the previous turnover threshold).

Ten Year Enterprise Tax Plan

The Government is supporting economic growth by cutting the company tax rate for all companies to 25 per cent by 2026-27. A lower corporate tax rate promotes business investment by raising the return from investing in Australia. Increased business capital is expected to raise productivity and real wages and permanently expand the economy by just over one per cent in the long term.

While the Government has successfully delivered lower tax rates for small and medium businesses, legislating the tax cut for companies with an annual turnover above $50 million will allow the economic benefits to be realised in full and let firms take account of the lower tax rate in planning new investment.

An internationally competitive company tax rate is essential to attract more investment. The consequences of not reducing the company tax rate are becoming more severe as other countries announce plans to lower their own corporate tax rates. When Australia previously cut the company tax rate in 2001 there were 19 countries in the Organisation for Economic Cooperation and Development (OECD) with a higher tax rate. In 2017 only four OECD countries have a corporate tax rate higher than 30 per cent, and two of these, France and the USA, have implemented or announced lower tax rates in the future.

Investing in regional growth

Supporting regional growth is critical to the Australian economy with one third of our population living in regional communities.

The Government is committed to ensuring our regions grow and prosper with economic growth occurring broadly across the country. Building resilient and adaptive regions that are economically diverse, supported by modern infrastructure and services and populated by people with a range of skills, is critical to this goal.

Investment in infrastructure is key to unlocking the potential of our regions. This Budget commits more than $8.9 billion in new funding and financing to infrastructure and community projects to improve the resilience, connectedness and adaptability of our regions.

In one of the largest regional investments ever seen in regional Australia, work will commence on the Melbourne-to-Brisbane Inland Rail in 2017-18. The Government will provide an additional $8.4 billion equity investment in the Australian Rail Track Corporation to deliver it. Inland Rail will provide improved access to markets and greater export opportunities for manufactured products, agricultural commodities and mineral resources. During construction and operation Inland Rail will provide significant employment in regional Australia.

The Government will provide $28.5 million to establish the Regional Investment Corporation (RIC) to streamline the delivery of $4 billion in concessional loans, including the $2 billion National Water Infrastructure Loan Facility and the $2 billion Farm Business Concessional Loan Scheme. These loans will help secure growth, investment and resilience in rural and regional communities.

The Regional Growth Fund (RGF) will invest $472 million in regional infrastructure projects that back-in our regions' plans to adapt and harness the opportunities of globalisation and technological change. The RGF will ensure that all levels of government collaborate to create jobs and ensure communities have a say in how their regions are shaped.

The RGF will include $272 million to provide grants of $10 million or more for major transformational projects which support long-term economic growth and create jobs in regions, including those undergoing structural adjustment.

In addition, $200 million will be provided to the Building Better Regions Fund (BBRF) to support the construction of community infrastructure and build the capacity of regional areas. This investment increases the Government's commitment to BBRF to $498 million.

The Stronger Communities Program will invest a further $28 million in small capital projects to deliver social benefits to local communities across Australia. This will make funding more accessible to small organisations with limited capacity to implement necessary upgrades to local infrastructure and facilities or purchase much needed equipment to support community activities.

The economic impacts of structural change can be concentrated for some regional communities. The Government has tasked the Productivity Commission to investigate the factors that drive a region's ability to adapt to structural change. The Transitioning Regional Economies report will help the Government understand factors that help those affected transition as smoothly as possible.

The Government can play a role in bringing diverse skills and job opportunities to those regional economies and is exploring the potential decentralisation of some Commonwealth agencies to regional centres. Through this Budget, the Government will invest in a range of measures to help develop resilient and skilled regional workers.

A skilled workforce

The Government will abolish the Temporary Work (Skilled) (subclass 457) visa for foreign workers and create a new temporary visa restricted to critical skills shortages. This will ensure Australian workers are given first priority for jobs, while still enabling businesses to temporarily meet critical skills needs where Australian workers are not available.

Employers who nominate workers for the new Temporary Skill Shortage visa, and certain permanent skilled visas, will pay a levy that will go into a new *Skilling Australians Fund*. This Fund will ensure an ongoing source of revenue to support Australian skills development and the take-up of apprenticeships and traineeships. The new Fund will replace the existing training benchmarks, which have not been successful in generating training opportunities to allow Australians to fill skill gaps.

Employment

The Government will deliver a suite of reforms to ensure that the most disadvantaged Australians receive the support they require to prepare for work and contribute to our economy. Indigenous and vulnerable new parents will receive tailored support services through ParentsNext to support them on the path to successful employment. This includes working with parents to help them develop pathways to their employment and educational goals, and linking them with services available in their communities to help them reach these goals. These services could include childcare, pre-employment training, financial management and literacy and numeracy classes. These reforms build on the Government's support for young Australians under the Youth Jobs PaTH program, which will help equip up to 120,000 young Australians with the skills and experience they need to get a job.

The Government is also strengthening participation requirements for welfare recipients to better drive participation outcomes. These will be coupled with a new targeted Job Seeker Compliance Framework that will apply stronger financial penalties to persistently non-compliant job seekers, whilst ensuring genuinely disadvantaged and vulnerable job seekers are supported. This includes refocusing Work for the Dole activities towards disadvantaged job seekers, and ensuring job-ready job seekers engage in more cost effective Work for the Dole activities. The changes will encourage and support those who have the capacity to work to do so, while ensuring disadvantaged job seekers have the opportunity to develop the characteristics employers look for, such as strong communication skills, the ability to work effectively with others, and reliability.

Cutting small business red tape

The Government's National Partnership on Regulatory Reform will reward States and Territories (States) that reduce regulatory restrictions on competition, particularly those on small businesses. This will help small businesses to grow and create jobs.

Small businesses are disproportionately affected by red tape and regulations and so disproportionately benefit from the removal of unnecessary restrictions. Reducing red tape and regulations help small businesses by levelling the playing field in the market, decreasing business costs and giving businesses more time to run and grow their business. In 2013, the Government committed to cutting red tape costs by $1 billion every year. Since then, the Government has reduced the annual regulatory burden on businesses and the community by more than $5.8 billion, exceeding its target every year.

However, feedback from small businesses is that States continue to impose a wide range of regulations that unnecessarily prevent them from growing and creating jobs. These regulations impede innovation and entrepreneurship. They can also restrict small businesses' ability to take on foreign competitors, reducing the products and services they can provide or limiting where and when their businesses can operate.

The Government will provide $300 million over two years under the new National Partnership on Regulatory Reform to incentivise the States and local governments to lessen the regulatory burden on small businesses and remove other restrictions that hinder economic growth and competition.

Effective competition encourages businesses to pursue efficiencies and take advantage of new opportunities, leading to faster innovation and deployment of new technology. It rewards the most dynamic and innovative businesses that provide the best services at the lowest cost. It raises productivity and grows our economy, resulting in more and better jobs and higher living standards.

Government services

Medicare

The Government is guaranteeing the funding of Medicare to ensure that all Australians have timely and affordable access to health care.

To do this, the Government is establishing the Medicare Guarantee Fund from 1 July 2017 to provide ongoing funding for the Medicare Benefits Schedule (MBS) and the Pharmaceutical Benefits Scheme (PBS). The Fund will be credited with revenue generated from the Medicare levy (excluding amounts to fund the National Disability Insurance Scheme (NDIS)), as well as a portion of personal income tax receipts sufficient to cover the costs of essential health care provided under the MBS and PBS. Credits to the Fund will be adjusted at every Budget update in line with forecast future growth in MBS and PBS expenditure over the forward estimates.

The Government will provide $1.0 billion to phase in the reintroduction of indexation for certain items on the MBS. The phase-in will commence with General Practitioner (GP) bulk billing incentives which will be indexed from 1 July 2017, to ensure that GPs are encouraged to bulk bill children under the age of 16 and concession card holders. From 1 July 2018, fees for GP and specialist consultation items will be indexed, increasing the Government's contribution to the cost of important health care services. From 1 July 2019, fees for procedures performed by specialists and allied health items will be indexed. On 1 July 2020, targeted diagnostic imaging items will be indexed for the first time since 2004.

In this Budget the Government is providing $16.4 million for new and amended listings on the MBS, to provide subsidised access for patients to new health services. These will include new treatments for stroke and epilepsy related conditions. The Government is meeting its commitment to list new, cost-effective medicines on the PBS. This Budget provides $1.2 billion for new and amended listings on the PBS, including access to Sacubitril with valsartan (Entresto®) to help patients with chronic heart failure.

The Government will provide one-off funding of $730.4 million in 2016-17 to the Tasmanian Government as part of an agreement to transfer the ownership of the Mersey Community Hospital from the Commonwealth to Tasmania on 1 July 2017 and fund the operations of the hospital for ten years to 2026-27. Beyond 2026-27, the Mersey Community Hospital will be operated by the Tasmanian Government with a funding contribution from the Commonwealth, in the same way as other public hospitals are funded. This funding will provide long-term certainty to the hospital's 470 staff and patients, and delivers on the Government's determination to ensure all Australians have access to high quality, well-funded healthcare.

National Disability Insurance Scheme

The Government is committed to a sustainable NDIS to ensure that Australians with permanent and significant disability can access lifetime care and support. From 1 July 2019 the Medicare levy will increase by half a percentage point from 2 to 2.5 per cent of taxable income. This means that one-fifth of the revenue raised by the Medicare levy will be directed to the NDIS Savings Fund to fill the current funding gap for the Commonwealth's contribution to funding the NDIS.

In February 2017 the Commonwealth and Western Australian governments finalised negotiations on a nationally consistent, state-delivered NDIS. This agreement provides complete national consistency around key elements such as eligibility and access to support, providing people with disability access to the support they need no matter where they live.

This Budget also provides funding to establish an independent NDIS Quality and Safeguards Commission to oversee the delivery of quality and safe services for all participants in the NDIS. The Commission will support NDIS participants to exercise choice and control, ensure appropriate safeguards are in place and establish expectations for providers and their staff to deliver quality support. The Commission will perform three core functions: regulation and registration of providers; complaints handling; and reviewing and reporting on restrictive practices.

Schools funding

The Government is committing to a schools funding model that is genuinely needs-based, simple and transparent. Ensuring schools funding continues to increase, the Government will provide an additional $18.6 billion over the period to 2027 for government and non-government schools, building on the $1.2 billion provided in the 2016-17 Budget.

To ensure a smooth transition, the schools reform package will make targeted transitional assistance available over a 10 year period for disadvantaged or vulnerable schools that are above the Schooling Resourcing Standard.

Commonwealth funding will be tied to the reform and accountability efforts made across both the government and non-government sectors to improve educational outcomes. Commonwealth funding will also be dependent on the States and Territories maintaining the real value of their contribution to schools funding. This package is providing genuine needs-based funding for students. The new model will provide schools and States and Territories with certainty around long-term funding arrangements.

Higher Education

In this Budget, students, universities and the Government will all contribute to a fair and sustainable higher education system. From 2018, the Government is rebalancing the student and Commonwealth share of university fees, with increases to student contributions of 7.5 per cent to be phased in over four years. A new set of Higher Education Loan Program (HELP) repayment thresholds will also be introduced from 1 July 2018.

Universities will play their part in building a sustainable system with an efficiency dividend of 2.5 per cent in 2018 and 2019. Universities will also be subject to measures to ensure greater transparency and accountability. This package will deliver a higher education system that will be more responsive to the aspirations of students by creating six new community-owned regional study hubs for regional students, creating more opportunities with sub-bachelor courses and a scholarship system for postgraduate coursework places. Reforms to the Higher Education Participation and Partnerships Program will ensure students from disadvantaged backgrounds have the support they need to participate in higher education.

Community safety

The Government is investing an additional $321.4 million to ensure the Australian Federal Police (AFP) has the specialist capabilities it needs to address criminal and terrorist threats into the future.

This is the largest funding boost to the AFP's domestic policing capabilities in more than a decade.

Cost of living

Affordable Housing for Australians

The Government is committed to reducing pressure on housing affordability across the housing spectrum.

The Government will support Australian households by:

- assisting first home buyers to build a deposit inside superannuation. Voluntary contributions of up to $15,000 per year and $30,000 in total will attract concessional tax treatment under the scheme. The scheme commences on 1 July 2017, and contributions and deemed earnings, net of tax, can be withdrawn from 1 July 2018;

- allowing older Australians to contribute downsizing proceeds into superannuation. From 1 July 2018, individuals aged 65 and older will be able to make a non-concessional contribution of up to $300,000 using proceeds from the sale of a principal residence held for at least 10 years into their superannuation. These downsizing contributions will not be subject to the existing contribution caps;

- working with State and Territory governments to reform Commonwealth funding arrangements under a new National Housing and Homelessness Agreement, retaining current funding and indexation arrangements but requiring concrete outcomes;

- providing additional funding of $375 million over three years from 2018-19 as part of the new National Housing and Homelessness Agreement to fund front line services to address homelessness;

- incentivising increased private investment in affordable housing through tax incentives and by establishing the National Housing Finance and Investment Corporation to operate an affordable housing bond aggregator to provide cheaper and longer-term finance for the community housing sector; and

- providing more security for renters by working with State and Territory governments to standardise use of long-term leases.

Recognising that the key to easing housing affordability now and into the future is building more homes, the Government will boost the supply of housing by:

- working with State and Territory governments to set housing supply targets and facilitate planning and zoning reform under the new National Housing and Homelessness Agreement;

- establishing a $1 billion National Housing Infrastructure Facility to address infrastructure chokepoints that are impeding housing development in critical areas of undersupply;

- establishing an open data Commonwealth land registry that will provide more detailed information about Commonwealth land to external parties, allowing and encouraging proposals for higher-value land use, including housing development proposals;

- releasing suitable surplus Commonwealth land including 127 hectares of Defence land in Maribyrnong, which is less than 10 kilometres from the Melbourne CBD and could support up to 6,000 new residential dwellings; and

- kick-starting planning and zoning reform across eight local government areas facing above-average population growth and affordability pressures in Western Sydney.

Australia's foreign investment policy allows investment in residential real estate in order to increase the total housing stock. This creates more homes for Australians to live in, generates additional jobs in the construction industry and supports economic growth. To build on this policy and ensure that new housing supply is available for the use of Australians, the Government will:

- safeguard the opportunity for Australian buyers to purchase in new developments by introducing a 50 per cent cap on foreign investment approvals for new developments; and

- encourage foreign owners of residential real estate to rent their properties by applying an annual charge to foreign owners who leave their properties unoccupied or not available for rent for six months or more each year.

The Government will make further tax changes to ensure residential property deductions are better targeted by:

- disallowing travel deductions for residential investment property. This will address concerns that some taxpayers have been claiming travel deductions without correctly apportioning costs, or have claimed travel costs that were for private purposes; and

- implementing an integrity measure that will limit deductions for plant and equipment forming part of residential property investments to expenses investors have directly incurred themselves. All plant and equipment forming part of residential investment properties prior to 9 May 2017 (including contracts already entered into at Budget night) will continue to be deductible until either the property is sold or the item reaches the end of its effective life.

Energy reliability and affordability

Australia's energy system is facing change on a scale not seen since its first construction due to changing technology, consumer behaviour and emission reduction targets. The current system was designed for a different time, when demand for electricity was growing; and its supply was predictable, coming almost entirely from large coal fired generators. State government renewable energy targets and gas supply moratoriums are also creating additional uncertainty in the energy market.

The Australian Government is committed to maintaining the reliability, affordability and sustainability of our energy system, and is providing national leadership through the initial phase of an energy security plan. This plan comprises practical reforms designed to meet immediate challenges and lay the foundations for our future energy needs, together with strong economic growth. The Government's plan includes:

- A plan for the Snowy Mountains Scheme 2.0: Through the Snowy Mountains Scheme 2.0, a 50 per cent increase in its generation capacity could deliver 2000 megawatts of additional reliable renewable energy to power 500,000 homes. In order to facilitate the expansion the Australian Government has informed the New South Wales and Victorian State Governments that the Commonwealth is open to acquiring a larger share or outright ownership of Snowy Hydro. Further discussions with New South Wales and Victoria will occur to progress this exciting idea with the following key guiding principles.

  First, all funds received by the States would need to be reinvested in priority infrastructure projects.

  Second, Snowy Hydro's obligations under its water licence would be reaffirmed and the parties would commit to work together to expedite and streamline environmental and planning processes associated with Snowy 2.0, without compromising any standards or controls.

  Third, Snowy Hydro would have to remain in public hands;

- Tackling the current gas crisis: State and Territory governments have imposed restrictions and moratoriums on onshore gas development, which are hindering new supply. The Australian Government is spending around $90 million to address short-term supply issues. The Government has also secured a commitment from the gas industry to guarantee supply during critical peak electricity demand periods and make more gas available for domestic users. The requirement that more gas be available for domestic users is backed up by the potential for export controls. The Government is working with State and Territory governments through the Coalition of Australian Governments (COAG) Energy Council to improve the workings of domestic gas markets. These measures are designed to help deliver cheaper and more reliable energy to households and increase gas supplies for businesses;

- Ensuring consumers and industry get a fair deal: The Government has asked the Australian Competition and Consumer Commission (ACCC) to undertake inquiries into competition in the retail electricity market and begin ongoing monitoring of the gas market; and

- Investing in new technology: The Government is taking a technology neutral approach to improving the security and reliability of the energy system and delivering emissions reductions. The Government has already provided around $1.2 billion in grant funding for renewable technologies through the Australian Renewable Energy Agency (ARENA) and over $3 billion of debt and equity to support low emissions projects through the Clean Energy Finance Corporation (CEFC).

The Government's long-term plan will be informed by independent and expert advice. Australia's Chief Scientist, Dr Alan Finkel AO, has been commissioned to develop a blueprint for the future security and reliability of the national energy market.

Through these actions, the Australian Government is carefully and responsibly leading the energy system through a period of unprecedented change. In doing so, we are ensuring that Australians will have reliable, affordable and sustainable energy, both now and into the future.

Tax integrity

By paying their fair share of tax, all individuals and businesses who earn income in Australia help fund the vital services and infrastructure needed to support the Australian community. The Government is committed to maintaining the integrity of our tax system and levelling the tax playing field by addressing any gaps in our rules and ensuring that the Australian Taxation Office (ATO) has all the tools it requires to enforce those rules. The Government will build on its recent reforms targeting multinational tax avoidance, including the Multinational Anti-Avoidance Law, Country-by-Country Reporting, the Tax Avoidance Taskforce and the Diverted Profits Tax. This work is producing results. To date in 2016-17 the ATO has raised $2.9 billion in tax liabilities from several large multinational companies.

To ensure the integrity of our tax system across a range of areas, the Government is:

- taking action to clamp down on aggressive tax structuring using hybrid instruments to exploit the tax difference between countries, including where they feature as part of capital raising arrangements of banks and insurance companies;
- strengthening the integrity of the Multinational Anti-Avoidance Law by ensuring corporate structures involving foreign partnerships or foreign trusts are subject to the law;
- pursuing and confronting those individuals and businesses participating in serious and organised crime to remove any wealth generated by their criminal activities, and return vital funding to the Australian community;
- expanding the taxable payments reporting system to ensure payments made to contractors in the courier and cleaning industries are reported to the ATO;
- amending the small business capital gains tax concessions to ensure that the concessions can only be accessed in relation to assets used in a small business or ownership interests in a small business;
- introducing legislation as soon as possible to combat GST fraud in the precious metals industry, where some gold traders are exploiting GST loopholes or committing fraud by receiving GST and not paying it, or claiming GST refunds when no GST is paid;
- strengthening GST law to stop some property developers from avoiding GST obligations by making purchasers of newly constructed residential properties or new subdivisions pay the GST directly to the ATO as part of settlement;
- banning technology that modifies or deletes sales records for the purposes of understating business income to avoid paying the correct amount of tax; and
- bolstering the integrity of the capital gains tax rules by:
  - denying foreign and temporary residents access to the main residence exemption when they sell property in Australia; and
  - expanding the foreign resident capital gains tax withholding regime by increasing the withholding rate from 10 per cent to 12.5 per cent and reducing the threshold from $2 million to $750,000.

A more accountable and competitive banking system

The Government is committed to reforming the financial services sector. The financial sector affects all Australians, it enables us to save, make payments, grow our businesses, control for risk and build our wealth. The financial sector plays a critical role in efficiently allocating capital that underpins the economy and supports innovation.

Too often the sector has not met community expectations, so the Government is taking further action to improve accountability in the sector. The Government will legislate for a new Banking Executive Accountability regime with enhanced powers and functions for the Australian Prudential Regulation Authority (APRA) to increase consequences for banks and their senior executives when they fail to meet expectations. The Government will also take action to protect consumers from poor practices in the credit card market.

The Government will create a new framework for dispute resolution with a one-stop shop, the Australian Financial Complaints Authority, to consider all financial disputes to ensure that consumers and small businesses have access to free, fast and binding dispute resolution. To enhance accountability for how complaints are managed, the Australian Securities and Investments Commission will be provided with stronger powers to oversee this new body and to require financial service providers to report on their internal dispute resolution activity.

The Government will also introduce a number of reforms to boost competition in financial services. This includes a new open banking regime to give customers control of data about them and facilitate choice between products and providers; taking action to encourage new entrants to the banking sector; and providing the ACCC with funding to undertake regular in-depth inquiries into financial sector competition issues.

These measures complement reforms the Government is pursuing to facilitate financial innovation (FinTech) to foster greater competition and choice for consumers. This includes enhancements to the financial services regulatory sandbox to enable testing of new financial products and services without having to comply with all of the usual licensing requirements, removing the double taxation of digital currency and extending the legislative framework for crowd-sourced equity funding to include proprietary companies.

The Government will introduce a major bank levy on banks with liabilities greater than $100 billion, raising at least $1.5 billion per year to assist with budget repair. Additional Tier 1 capital and deposits protected by the Financial Claims Scheme will be excluded from the levy. This represents a fair additional contribution from our major banks. It will complement prudential reforms being implemented by the Government and APRA and provide a more level playing field for smaller banks and non-bank competitors.

Productive government spending

The Government is committed to ensuring that spending is directed to generating the strongest public benefits. While some day-to-day spending can generate longer-term benefits, it is useful to broadly distinguish between recurrent spending and capital investment to provide a sense of the sustainability of debt raised to finance that spending.

The Commonwealth has a large capital program, totalling an estimated $50.6 billion in 2017-18. This investment activity takes various forms with different accounting treatments. Taking into account these different forms of capital investment reveals the progress the Government has made in reducing the need to finance recurrent spending by borrowing. It is estimated that — for the first time since the global financial crisis — in 2018-19 the Government will not need to borrow to fund recurrent cash spending. In 2018-19 and the remainder of the forward estimates, cash flow from recurrent activities is expected to be in surplus and so effectively make a contribution to funding capital spending. Further details appear in *Statement 4: Recurrent and Capital Budget*.

Reversing unlegislated measures

Since the 2016 Pre-election Economic and Fiscal Outlook (PEFO), the Government has made significant progress in implementing unlegislated budget repair measures, including through appropriations and regulations. The total impact over the forward estimates of budget repair measures implemented since the 2016 PEFO is over $25 billion. Since the 2013 election, the Government has implemented more than $100 billion in budget repair measures.

While the Government's preference for achieving a path to surplus was predominantly through expenditure restraint, the Parliament has been unwilling to pass all the legislation required. Given the continuing rejection by the Parliament of significant government savings measures from the 2014-15 and 2015-16 Budgets, they have been reversed. The impact of these reversals on the underlying cash balance is more than offset by budget repair measures included in this Budget.

STATEMENT 2: ECONOMIC OUTLOOK

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

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STATEMENT 2: ECONOMIC OUTLOOK

OVERVIEW

Australia is in its 26th consecutive year of economic growth. In 2017-18, growth is expected to rebound to 2¾ per cent after slowing in 2016-17 as a result of weather-related factors in early 2016-17 and more recently Tropical Cyclone Debbie.

The lift in economic growth is expected to occur as the drag from falling mining investment diminishes, growth in household consumption improves and exports continue to grow strongly. Non-mining business investment is also forecast to strengthen. Accommodative monetary policy, a lower exchange rate and a flexible labour market are all helping to facilitate the economic adjustment that has been underway for some time following the peak of the investment phase of the mining boom.

Global growth is expected to recover over the forecast horizon. Last year, the global economy recorded its lowest growth rate since the global financial crisis (GFC) but there are encouraging signs that the outlook is firming. China has entered 2017 with good momentum and the United States economy is performing well. There have also been signs of improvement in other advanced economies and in some of the emerging economies that were affected by previous sharp falls in commodity prices. Some of the major advanced economies are growing above potential, gradually pushing down their unemployment rates. In the United States, this has enabled the Federal Reserve to continue to adjust its monetary policy settings.

Domestically, Australia's transition towards broader-based activity is well advanced. It is anticipated that growth will lift following the impact of a number of weather-related events in 2016-17. Real GDP growth is expected to be 2¾ per cent in 2017-18 and 3 per cent in 2018-19. Australia's economic performance continues to compare favourably with most advanced economies, including other major commodity exporters.

Economic performance across the States and Territories continues to vary widely. The impact of shifts away from mining investment and towards resource exports is being experienced most strongly in Western Australia and Queensland. New South Wales and Victoria are growing faster than their decade averages, supported by lower interest rates, solid population growth and a lower exchange rate.

Mining investment has fallen for the past three financial years and has detracted more than one percentage point a year, on average, from real GDP growth over this period. At the same time, resource exports have made a strong contribution to growth as the adjustment from the investment phase to the production phase of the mining boom has continued. The drag on growth from mining investment is expected to diminish over the forecast horizon and resource exports are forecast to continue to support growth. The last of the major iron ore and liquefied natural gas (LNG) projects are set to reach expected capacity over the forecast period. Other categories of exports are also supporting growth. Service exports are forecast to continue to grow solidly, supported by the sustained depreciation in the exchange rate and strong demand for tourism and education, particularly from Asia. Rural exports are forecast to grow strongly in 2016-17, given the record winter crop, before falling in 2017-18 with an expected return to average seasonal conditions.

Non-mining business investment is expected to benefit as negative spill-overs from the mining sector wane. It will also be supported by a strengthening in domestic demand, solid business conditions and low financing costs. Non-mining business investment is forecast to grow by 4½ per cent in both 2017-18 and 2018-19.

Household consumption growth has been relatively moderate in recent years compared with long-run historical growth rates. It is expected to pick up over the forecast horizon to 2¾ per cent in 2017-18 and 3 per cent in 2018-19. It is expected that consumption will continue to grow by more than household income, resulting in a further decline in the household saving rate.

Dwelling investment is expected to provide near-term support to the economy, with a strong pipeline of residential construction work yet to be done, predominantly in New South Wales and Victoria. As the pipeline comes to completion, growth in dwelling investment is forecast to slow to 1½ per cent in 2017-18. Dwelling investment is expected to fall by 4 per cent in 2018-19.

Over recent years, a slowing in wage and price growth and a significant decline in commodity prices has constrained income growth across the economy. This is affecting households and businesses as well as having a large impact on Government revenue.

The slowdown in wage growth has been widespread across industries and States. Wages growth is expected to improve as domestic demand strengthens but the outlook for wage growth remains subdued in the near term, reflecting spare capacity in the labour market. The near-term outlook for inflation is also subdued.

The prices of some of Australia's major commodity exports rose sharply over the past six months and are providing a temporary boost to national income. Higher commodity prices are expected to lead to a near-term improvement in the trade balance. As in the 2016-17 Mid-Year Economic and Fiscal Outlook (MYEFO), the forecasts are based on the judgment — supported by broad and deep market and industry consultation — that it is prudent to assume that prices for metallurgical coal and iron ore will not be sustained at recent levels.

Higher commodity prices late last year are forecast to result in a sharp rise in Australia's terms of trade in 2016-17. The terms of trade are then forecast to fall in 2017-18 and 2018-19. Led by movements in the terms of trade, nominal GDP is expected to grow by 6 per cent in 2016-17 and 4 per cent in both 2017-18 and 2018-19.

As always, there are a number of uncertainties around the forecasts. Heightened policy uncertainty has emerged in a number of countries, including growing support for policies that could restrict global trade and hence growth. High levels of debt, potential financial imbalances and overcapacity in some sectors also remain as risks to China's economy and Europe continues to face legacy issues following the GFC. The recalibration of interest rates in the United States is also a source of uncertainty for the outlook. In addition, there is greater concern surrounding a number of regional and global strategic issues.

Domestically, the outlook for commodity prices is a key uncertainty for the outlook for nominal GDP. There are also risks to the real economy around the momentum in household consumption, as well as uncertainty around dwelling investment and non-mining business investment. With a significant number of medium-to-high density dwellings due for completion over the forecast horizon, a faster than expected decline in dwelling investment could also constrain overall real output growth. The timing and pace of the recovery in non-mining business investment also remains a risk to the domestic outlook.

Table 1: Domestic economy forecasts(a)

	Outcomes(b)	Forecasts		
	2015-16	2016-17	2017-18	2018-19
Real gross domestic product	**2.6**	**1 3/4**	**2 3/4**	**3**
Household consumption	2.9	2 1/2	2 3/4	3
Dwelling investment	10.6	4 1/2	1 1/2	-4
Total business investment(c)	-10.3	-6	0	3
By industry				
Mining investment	-27.5	-21	-12	-3
Non-mining investment	1.4	1 1/2	4 1/2	4 1/2
Private final demand(c)	0.8	1	2 1/4	2 1/2
Public final demand(c)	3.4	4	2 1/2	3
Change in inventories(d)	-0.1	0	0	0
Gross national expenditure	1.3	1 3/4	2 1/2	2 3/4
Exports of goods and services	6.7	5 1/2	5	4
Imports of goods and services	-0.3	3	3	3
Net exports(d)	1.4	1/2	1/2	1/4
Nominal gross domestic product	2.3	6	4	4
Prices and wages				
Consumer price index(e)	1.0	2	2	2 1/4
Wage price index(f)	2.1	2	2 1/2	3
GDP deflator	-0.3	4	1	1
Labour market				
Participation rate (per cent)(g)	64.8	64 1/2	64 1/2	64 1/2
Employment(f)	1.9	1	1 1/2	1 1/2
Unemployment rate (per cent)(g)	5.7	5 3/4	5 3/4	5 1/2
Balance of payments				
Terms of trade(h)	-10.2	16 1/2	-2 3/4	-4 1/4
Current account balance (per cent of GDP)	-4.4	-1 1/2	-1 1/2	-2

(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 price assumptions for iron ore, metallurgical coal and thermal coal (see Box 4).

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 65 and a US$ exchange rate of around 76 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$55 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

In 2016, the global economy recorded its lowest growth since the GFC, but there are encouraging signs that growth is strengthening in 2017. This marks a welcome break from the prolonged period of downgrades to global growth forecasts since the GFC. Major trading partner growth is forecast to remain higher than for the wider global economy over the forecast period, with Australia's Asian trading partners forecast to grow strongly.

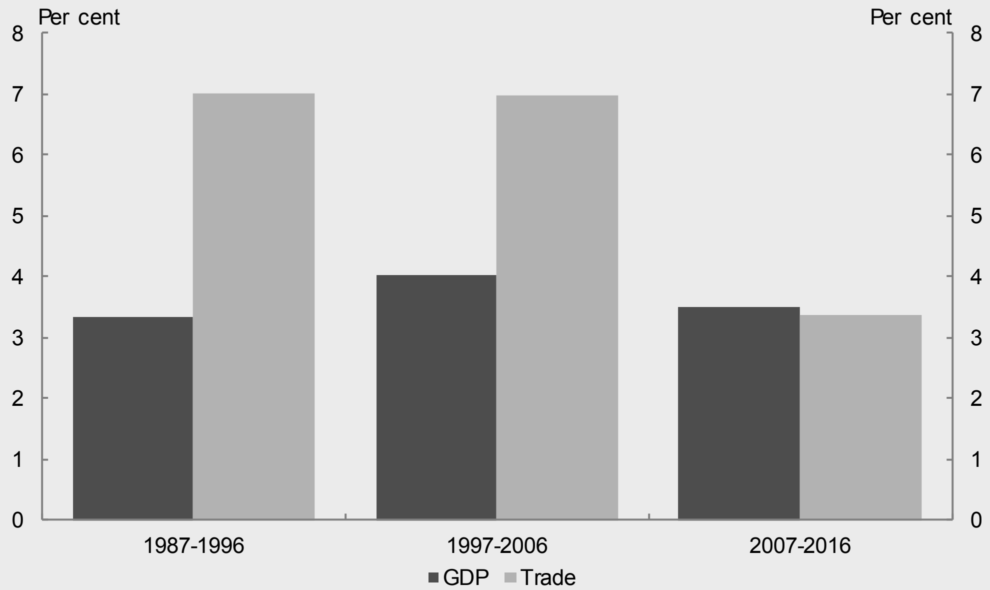
After prolonged weakness, global trade volumes have picked up in recent months and there are signs of an improving outlook for business investment and industrial production in a number of major economies. Business and market sentiment have strengthened as confidence in global prospects has improved.

Box 1: Global trade growth

In the two decades to 2006, the world economy grew at an average annual rate of 3.7 per cent. Over the same period, world trade volumes grew at almost double that rate, averaging 7.0 per cent per year. Trade growth was driven in significant part by the emerging Asian economies pursuing export-oriented growth strategies and increased economic integration in Europe. Exports as a share of the global economy increased from around 18 per cent in 1986 to around 30 per cent in 2006.

In the past decade, world GDP growth has struggled to regain sustained momentum following the GFC, slowing to an annual average rate of 3.5 per cent. Over the same period, growth in trade volumes has more than halved to an annual average rate of 3.4 per cent. Since 2011, export growth has slowed even in the emerging Asian economies. The slowdown in global trade growth has been attributed to a range of factors including soft growth in global industrial production and business investment in the wake of the GFC.

Chart A: Average yearly global GDP and trade volume growth by decade



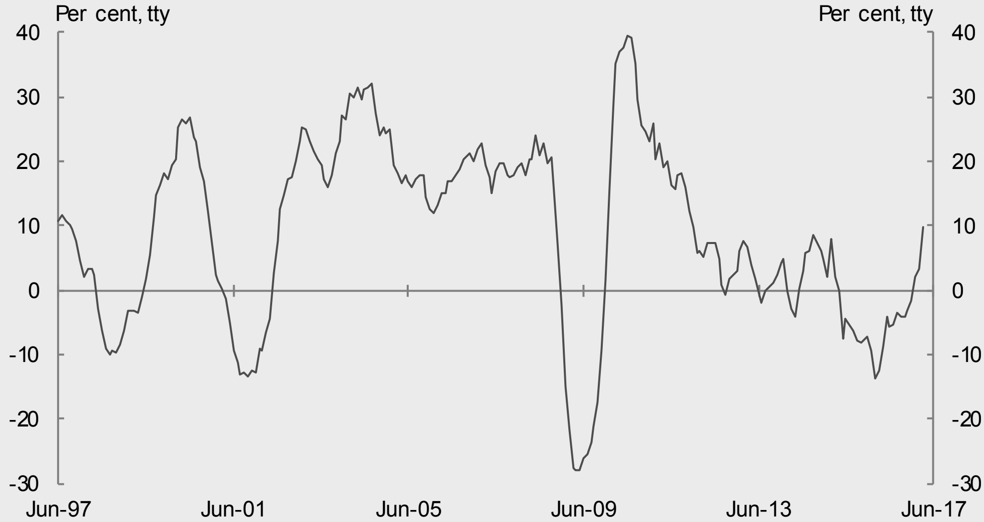
Note: GDP in constant prices and trade in volumes terms.
Source: Thomson Reuters, IMF World Economic Outlook (April 2017).

Box 1: Global trade growth (continued)

More recently, there have been encouraging signs that trade momentum is starting to recover. World merchandise export volumes have picked up over the past six months according to the CPB World Trade Monitor. This lift is broad-based across both advanced and emerging economies. Stronger trade growth will be an important foundation for a more vibrant world economy. This is particularly true for Australia as trade is an important source of growth in the Asian region.

Indeed, there are positive signs in some of Australia's key trading partners in Asia, with China, Japan and South Korea recording recoveries in export value growth in recent months. This follows a period of weakness over the past couple of years that is similar in magnitude to other significant trade downturns of the past 20 years. The recovery in export values partly reflects foreign exchange and commodity price movements, with oil prices regaining some ground over the past year from lows seen in early 2016. However, there is evidence of stronger growth in exports of capital goods from these countries, providing some positive indicators about global demand for investment goods.

Chart B: Growth in combined export values of China, Japan and South Korea



Note: 3-month moving average.
Source: Thomson Reuters, national statistical agencies, Treasury.

Still, a range of uncertainties surround the forecasts for global growth. Heightened policy uncertainty has emerged in a range of countries. High levels of debt, potential financial imbalances and overcapacity in some sectors remain as risks to China's economy, while Europe continues to face a range of persistent issues following the GFC and the European sovereign debt crisis.

In addition, structural drivers of growth are expected to continue to ease in coming years. In many advanced and some key emerging market economies, ageing populations are weighing on potential growth. Productivity growth also remains slow.

Thus, despite relatively subdued growth rates of recent years, major economies including the United States, Japan and the euro area have been growing above potential and drawing down spare capacity in the labour market.

Policy settings will be crucial for sustaining the near-term recovery in the global outlook and to support improvements in productivity and living standards. Reforms required to support productivity growth have proved difficult to achieve and, of more concern, there appears to be growing support in some countries for policies that would restrain global trade. Central banks will need to continue to support the recovery while, in some cases, withdrawing the degree of accommodation of the past few years.

Headline inflation rates have picked up in several major advanced economies, driven in part by an increase in commodity prices. Financial market-based measures of inflation expectations have risen from lows seen over the past year. But core inflation rates have remained more subdued.

Monetary policy settings remain accommodative in advanced economies. In late 2016 the Bank of Japan supplemented its quantitative and qualitative easing programs with a target for longer-term Japanese Government bond yields. The European Central Bank and the Bank of England have also continued quantitative easing programs as well as maintaining policy rates around zero.

By contrast, the United States Federal Reserve has gradually raised interest rates. To date, this process has been relatively smooth. Still, there is a risk of a more abrupt adjustment in markets if economic developments were to force the Federal Reserve to tighten monetary policy beyond current expectations.

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

	Actuals	Forecasts		
	2016	2017	2018	2019
China	6.7	6 1/2	6 1/4	6
India	7.5	7	7 3/4	7 3/4
Japan	1.0	3/4	1/2	1/2
United States	1.6	2 1/4	2 1/4	2 1/4
Euro area	1.7	1 1/4	1 1/4	1 1/4
Other East Asia(b)	3.9	4	4 1/4	4 1/4
Major trading partners	3.9	4	4	4
World	3.1	3 1/4	3 1/2	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 Hong Kong, South Korea, Singapore and Taiwan and the Association of Southeast Asian Nations group of five (ASEAN-5): Indonesia, Malaysia, the Philippines, Thailand and Vietnam.
Source: National statistical agencies, IMF World Economic Outlook (April 2017), Thomson Reuters and Treasury.

The economic expansion in the **United States** following the GFC is forecast to extend to a decade of continuous annual growth. Consumption and housing investment should support growth, while consumer sentiment has increased markedly in recent months.

The US unemployment rate has fallen back to near pre-GFC lows. While wages have previously been slow to respond to the strengthening labour market, there are encouraging signs that wage growth is now picking up as the labour market has neared full employment. Business investment has remained relatively weak, although there have recently been some positive signs across a range of indicators, including business sentiment and spending intentions.

The policy platform of the new US Administration includes measures that could have a range of effects on the US and global economies. The exact impact will depend on the final mix of policies and how they are implemented.

Growth in **China** has gained some momentum over late 2016 and early 2017. This has been underpinned by increasing credit intensity with an associated build-up of risks in the property and financial sectors. Economic stability is expected to remain a top priority for authorities in the short term, with a growth target of 'around 6.5 per cent or higher if possible' in 2017. Growth is expected to moderate thereafter. The Chinese authorities are likely to face policy challenges in managing the risks around a gradual slowing in growth, amid structural shifts in the economy, a declining working age population and high levels of debt. However, authorities still have policy space at their disposal to manage these challenges.

India's economy has shown remarkable resilience in recent years and is expected to remain the world's fastest growing major economy over the forecast period. Growth slowed slightly following the withdrawal and exchange of high-denomination currency from circulation beginning in November 2016 but a recovery is expected through 2017, supported by improved liquidity. The Indian Government's significant program of structural reform — which includes the introduction of a national GST, a new bankruptcy code and measures to promote financial inclusion and improve business conditions — should support high growth over the medium term.

Japan is forecast to continue to grow at a low rate compared with other advanced economies. There has been some pickup in growth over the past year, led by the corporate sector, with strong exports and investment related to the 2020 Olympics and the unemployment rate has fallen to multi-decade lows. Japan's growth is forecast to return to lower rates over the next few years. In the medium term, demographic headwinds, persistent low inflation and high government debt are expected to constrain Japan's growth. The Japanese government is scheduled to increase its consumption tax rate again in October 2019.

The **euro area** economy has registered relatively steady growth over the past couple of years after recovering from the turmoil of 2011-12. Consumption continues to underpin growth and the unemployment rate has been falling from elevated levels. However, there remains a large divergence between key economies. Growth in the region continues to face headwinds associated with the financial weakness of many European banks, potentially limiting their ability and willingness to increase lending.

The euro area and UK economies have remained resilient to date following the June 2016 'Brexit' referendum, although the medium-term effects of Brexit will depend on the exact nature of the final agreement between the UK and EU. An increase in trade barriers following UK-EU negotiations would have negative effects on the euro area and UK economies.

Growth among the **ASEAN-5** economies is forecast to strengthen. Private consumption is expected to support growth in Indonesia. Both Indonesia and Malaysia are benefiting from recent higher commodity prices. Among commodity importers, growth in Thailand is expected to remain subdued but will be supported by public investment and tourism. Strong service exports and manufacturing are expected to support high growth rates in the Philippines and Vietnam.

OUTLOOK FOR THE DOMESTIC ECONOMY

Economic growth is forecast to rebound

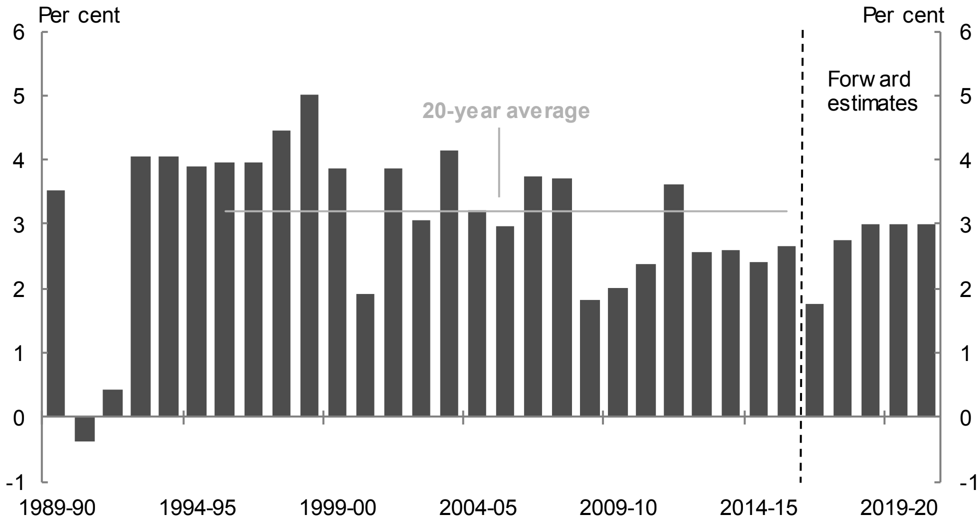
Australia is in its 26th consecutive year of economic growth. As shown in Chart 1, **real GDP growth** is expected to rebound to around its potential rate in 2017-18 and 2018-19 after slowing in 2016-17 owing to weather-related events. Real GDP growth in 2016-17 is forecast to be 1¾ per cent.

The rebound in growth is expected to be driven by a reduction in the extent to which mining investment detracts from growth and an improvement in growth in household consumption and non-mining business investment. Exports are also expected to support growth, while dwelling investment is forecast to contribute to growth in the near term but peak during the forecast period.

Growth is being supported by historically low interest rates, with the Reserve Bank of Australia's (RBA) official cash rate at 1.5 per cent. The accommodative stance of monetary policy is supporting the economy by keeping borrowing costs low for businesses and households. Lending rates faced by businesses are around their lowest levels in at least two decades and have been assisting the modest recovery in non-mining business investment. The standard variable mortgage rate is at its lowest level since the mid-1960s and has supported record levels of dwelling investment and strong increases in house prices in Sydney and Melbourne.

While the Australian dollar has appreciated since the end of 2015, against both the US dollar and on a trade-weighted basis, it remains around 30 per cent lower than its 2011 peak against the US dollar. This has assisted the transition away from resources investment-led growth to broader-based sources.

Chart 1: Real GDP growth



Source: ABS cat. no. 5206.0 and Treasury.

Box 2: Estimated economic impact of Tropical Cyclone Debbie

Tropical Cyclone Debbie hit Australia on 28 March 2017 resulting in loss of life and widespread damage and flooding in Queensland and northern New South Wales.

In terms of the effect on economic activity, the cyclone has significantly disrupted Australia's coal exports and has adversely affected the agricultural and tourism industries.

After significant damage to major coal haulage networks and a number of coal mines in Queensland having issued *force majeure* notices, coal exports have been disrupted. Reflecting the significance of the coal industry in Queensland, which exports more than half of the world's seaborne trade, the metallurgical coal price doubled in the weeks after the cyclone.

There have also been agricultural losses in Queensland and northern New South Wales. The Mackay region, which produces a range of fruit and vegetables, was among the worst hit by the cyclone. This region produces a notable share of Australia's capsicums, sugar cane and fresh tomatoes. A portion of these crops is expected to be lost.

As a result of these agricultural losses, fruit and vegetable prices are expected to rise but the impact on overall inflation is not expected to be significant. The price rises are expected to add less than ¼ of a percentage point to the CPI over the June and September quarters of 2017.

Box 2: Estimated economic impact of Tropical Cyclone Debbie (continued)

The tourism sector has also been affected by the cyclone. The Whitsundays area — which includes major resorts on Daydream, Hamilton and Hayman Islands — has reported infrastructure and environmental damage.

Overall, Tropical Cyclone Debbie is expected to reduce real GDP growth by ¼ of a percentage point in the June quarter of 2017, predominantly through lost coal exports. Reconstruction and the resumption of economic activity are expected to add to real GDP growth in subsequent quarters.

The economic impact of Tropical Cyclone Debbie is expected to be smaller than that of Tropical Cyclone Yasi and the Queensland floods of 2011. Tropical Cyclone Yasi and the Queensland floods together detracted ¾ of a percentage point from real GDP growth in 2010-11 and added ½ of a percentage point to inflation over the March and June quarters of 2011.

The economic drag from falling mining investment is fading

Business investment is forecast to fall in the near term, driven by further declines in mining investment as large resource projects are completed. **Mining investment** has fallen for the past three financial years. In doing so it has detracted more than one percentage point annually, on average, from real GDP growth over this period. With much of this adjustment now complete, the impact on the broader economy from falling investment in the mining sector is expected to wane in 2017-18 and 2018-19. Chart 2 shows the significant movements in mining and non-mining business investment as a share of GDP.

Chart 2: Mining and non-mining business investment as a share of GDP

Source: ABS cat. no. 5204.0 and Treasury.

At the same time, **non-mining business investment** is expected to pick up, supported by strengthening demand, solid business conditions and low financing costs. Overall, total private business investment is forecast to remain flat in 2017-18 and to expand moderately by 3 per cent in 2018-19.

As in many other economies, the subdued recovery in non-mining business investment in Australia remains something of a puzzle, as supportive conditions have been in place for some time. Business borrowing costs are near record lows, business confidence is solid and capacity utilisation in the non-mining sector is above its long-run average.

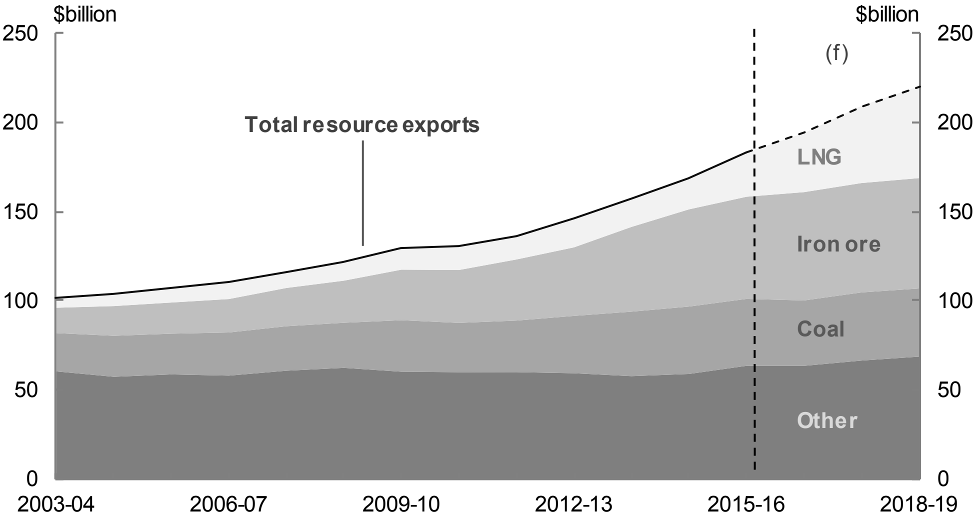
A diminishing drag from mining investment should provide a more supportive environment for non-mining businesses, particularly in the mining-exposed States. Weakness in non-mining investment has been concentrated in Queensland and Western Australia, where non-mining businesses are likely to be more exposed to the scaling back of large mining construction projects. In contrast, non-mining investment in New South Wales and Victoria has been stronger in recent years.

The pace and timing of a pickup in non-mining business investment remains a key source of uncertainty for the outlook. The sensitivity of the forecasts to a different outlook for business investment is discussed in Statement 8.

Mining and services exports will continue to contribute to growth

Total **exports** are forecast to increase by 5 per cent in 2017-18 and 4 per cent in 2018-19. The production phase of the mining boom is well underway and the last of the major iron ore and LNG projects are forecast to reach expected capacity over the forecast period. Accordingly, **resource exports** continue to underpin growth in Australia's outbound trade. As shown in Chart 3, they are expected to grow strongly, rising by 8 per cent in 2017-18 and 5 per cent in 2018-19.

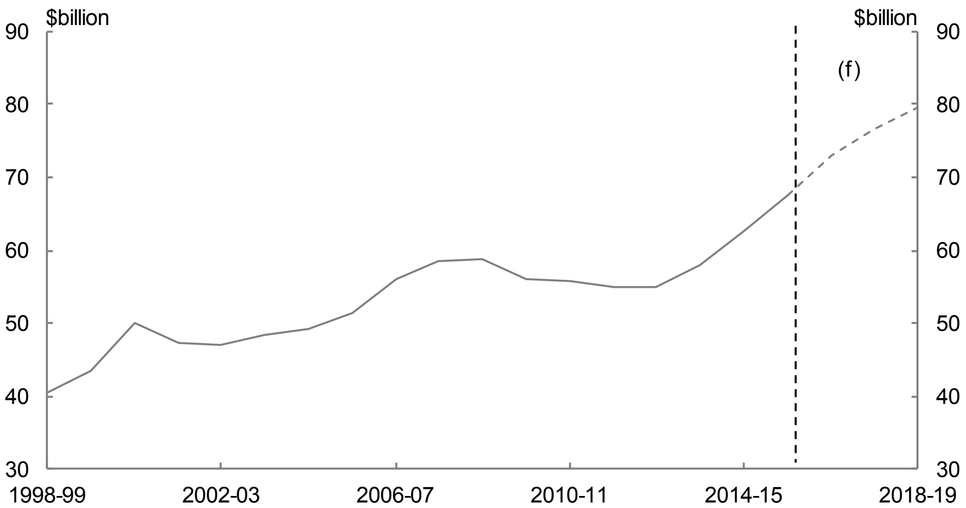
Chart 3: Resource exports



Note: 2014-15 prices. Other category includes a combination of smaller commodities such as metals, metal ores and mineral fuels.
Source: ABS cat. no. 5302.0, ABS Trade Data and Treasury.

Strong demand from Asia for Australia's tourism and education services continues to drive rapid growth in **services exports,** underpinned by robust growth in short-term visitors. A lower exchange rate since its peak in 2011 and streamlining of student visa policy arrangements have also made Australian education exports more attractive in recent years. Services exports are forecast to grow by 4½ per cent in 2017-18 and 4 per cent in 2018-19, as shown in Chart 4.

Chart 4: Services exports



Note: 2014-15 prices.
Source: ABS cat no. 5302.0 and Treasury.

In the rural sector, favourable seasonal conditions have led to unprecedented yields and a record high winter crop in many parts of Australia, providing a welcome income boost to various regional areas of Australia following more subdued activity in recent years. Reflecting this, **rural exports** are expected to grow by a solid 6 per cent in 2016-17 and provide support to economic growth in the near term.

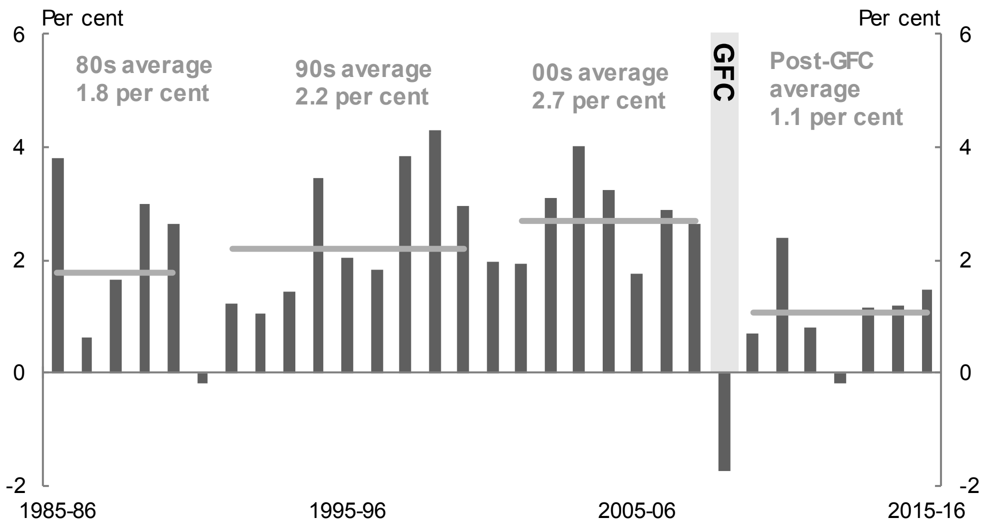
A return to average seasonal conditions is expected to underpin a fall in rural exports in 2017-18. The normalisation of crop production is expected to be mitigated by a pickup in livestock exports.

Imports continue to reflect the transition of the economy to broader-based growth. While capital imports are unlikely to return to levels seen at around the peak of the mining investment boom, other imports are rising in line with growth in the broader economy. Total imports are expected to grow by 3 per cent in both 2017-18 and 2018-19.

Household spending and income growth are subdued

Reflecting subdued growth in household income, **household consumption** growth has been relatively slow in recent years compared with long-run historical growth rates. In the period since the GFC, average consumption per capita growth has fallen to 1.1 per cent. This is well below the averages of the past few decades and this partly reflects weaker per capita income growth than in prior periods (Chart 5).

Chart 5: Real consumption growth per capita pre and post-GFC



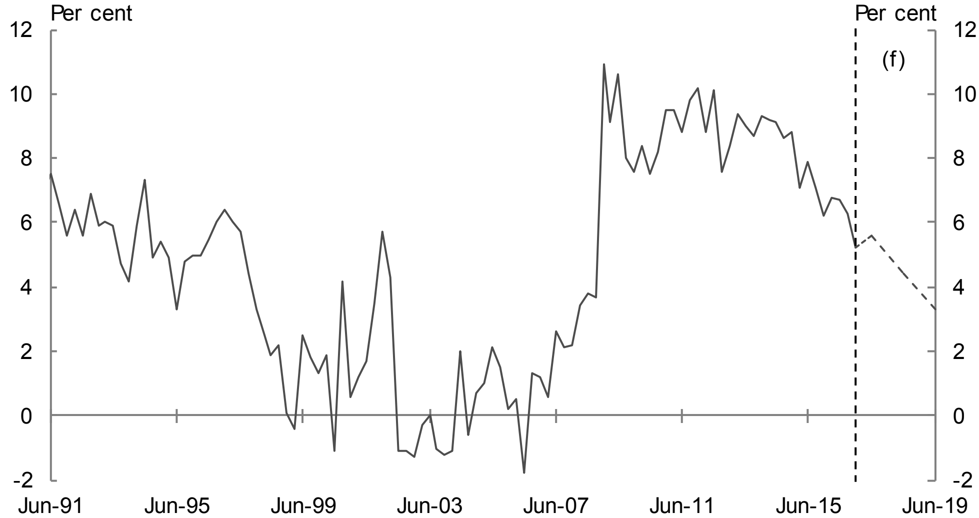
Note: The average growth rate depicted for the 1980s covers the period 1980-81 to 1989-90 due to data availability.
Source: ABS cat. no. 3101.0, 5206.0 and Treasury.

Household consumption expenditure is forecast to continue to grow faster than household income over the forecast horizon. This is expected to result in a lower household saving rate, which is forecast to fall to 3¼ per cent in 2018-19, as shown in

Chart 6. Household consumption is forecast to grow by 2¾ per cent in 2017-18 and 3 per cent in 2018-19.

The extent to which the household saving rate declines is an important source of uncertainty around the forecasts. A change in households' attitudes toward saving or a change in the factors that have driven the decline in the household saving rate over the past few years could lead to household consumption being weaker than forecast.

Chart 6: Household saving ratio



Note: Forecasts are financial year averages.
Source: ABS cat. no. 5206.0 and Treasury.

Although full-time employment has strengthened recently, **labour market conditions** have generally softened after strong employment growth in 2015, with the majority of employment increases since the end of 2015 being in part-time employment. The unemployment rate is currently 5.9 per cent, having partially reversed the decline that occurred through 2015 and most of 2016. In addition, the underemployment rate has edged up, reaching 8.7 per cent in February 2017.

There is some uncertainty around the outlook for the labour market. The modest rise in the unemployment rate is consistent with slower GDP growth on average in the second half of 2016. But other indicators such as job advertisements, vacancies and business survey measures suggest that labour market conditions will improve in the period ahead. Taking all this together, **employment** is forecast to grow by 1 per cent through the year to the June quarter 2017. Employment growth is forecast to be 1½ per cent through the year to the June quarters of 2018 and 2019. The **unemployment rate** is forecast to decline modestly through the forecast period, consistent with the forecast that GDP growth will rebound. The outlook for labour force **participation** is relatively stable, with the participation rate forecast to be at 64½ per cent in the June quarter 2019.

Wage growth has recently been low by historical standards in both the public and private sectors. The Wage Price Index grew by 1.9 per cent through the year to the December quarter 2016, reflecting spare capacity in the labour market. Subdued wage growth has been a feature of many advanced economies over the past few years, even in countries such as the United States, Japan and the United Kingdom, all of which have relatively low unemployment rates. The Wage Price Index is forecast to increase by 2 per cent through the year to the June quarter 2017, before increasing to 2½ per cent through the year to the June quarter 2018 and 3 per cent through the year to the June quarter 2019.

Support from housing construction is moderating

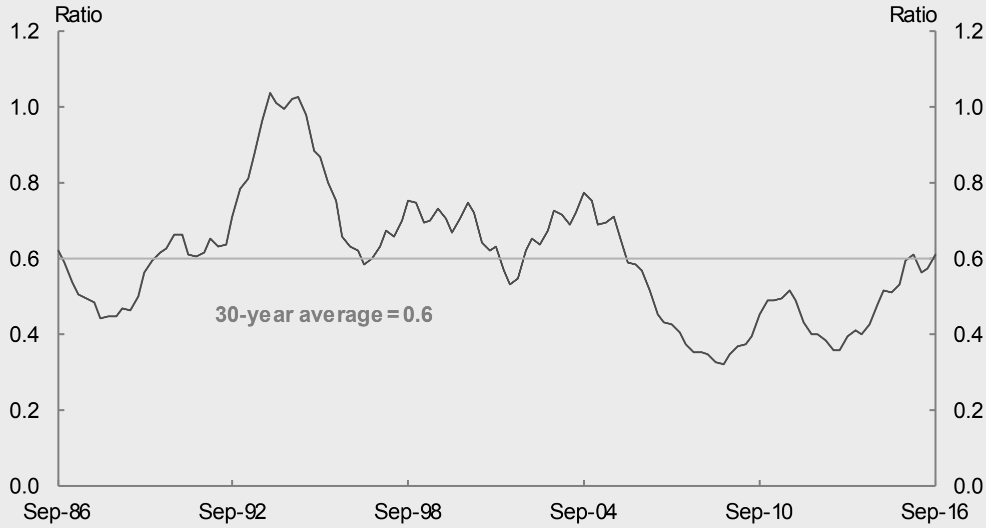
Dwelling investment has grown strongly over the past three years, providing support for the economic transition while starting to address an undersupply of housing stock in some areas. It grew by 10.6 per cent in 2015-16 — the fastest growth observed since the early 2000s — with strong activity in medium-to-high density dwelling construction. Dwelling investment is expected to continue to support growth in the near term, with a strong pipeline of residential construction work yet to be done (Box 3).

Building approvals have softened since around mid-2016, with a moderation in detached house approvals and significant falls observed in approvals for medium-to-high density dwellings (Box 3). As a result, the level of dwelling investment is expected to grow by only 1½ per cent in 2017-18 and to fall by 4 per cent in 2018-19 once the current elevated pipeline of building work comes to completion.

Box 3: Housing market

Australia experienced a period of subdued residential construction activity relative to population growth during the mid-to-late 2000s leading to a state of pent-up demand in the housing market, as the ratio of dwelling completions to population change fell to record lows (Chart A).

Chart A: Ratio of dwelling completions to population change

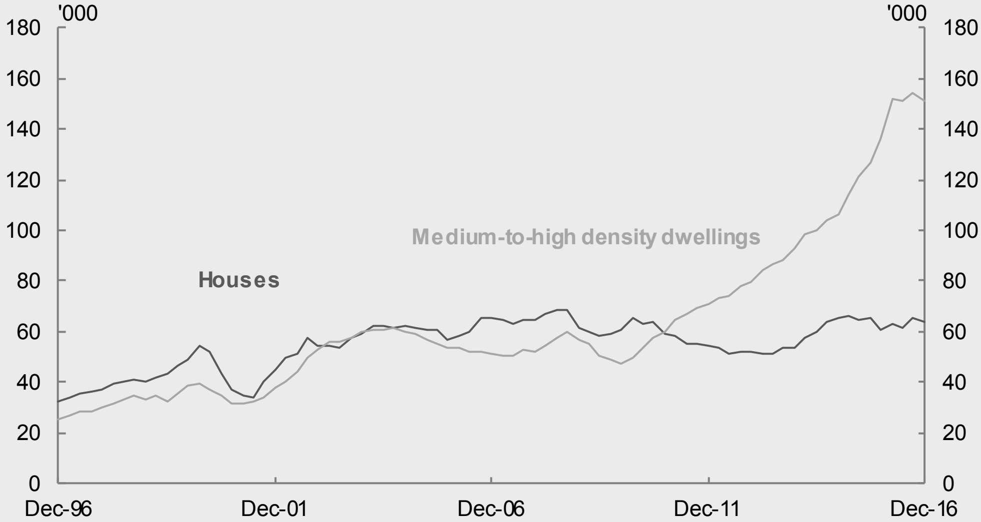


Note: The ratio is of completions to population change, both calculated as 6 quarter moving averages.
Source: ABS cat. no. 3101.0 and 8752.0 and Treasury.

After a decade of lacklustre growth in housing construction, there has been a strong rise in dwelling investment since 2012. A significant proportion of this investment has been in the medium-to-high density segment of the market, particularly in four-or-more storey apartments. As these dwellings typically take longer to complete than detached houses, this has resulted in a large increase in the pipeline of dwellings under construction (Chart B).

Box 3: Housing market (continued)

Chart B: Number of dwelling units under construction



Source: ABS cat. no. 8752.0.

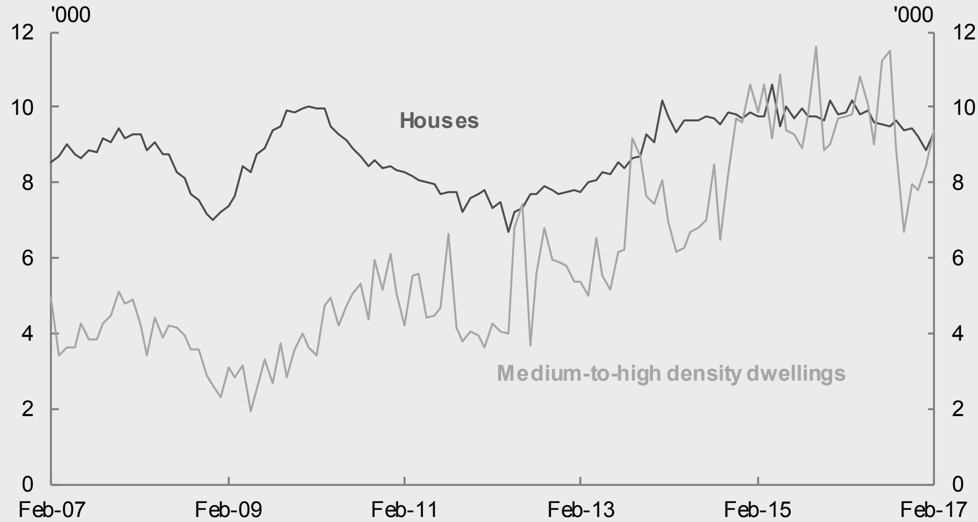
Much of the strength in dwelling construction over the current cycle has been driven by the east-coast States, where demand has been stronger, partly because of higher population growth. Meanwhile, markets in other States have been more subdued, especially in Western Australia.

In the near term, the significant pipeline of work yet to be done is expected to support residential construction activity. That said, building approvals seem to have peaked in mid-2016. As housing projects in the pipeline progressively come to completion over the next two years, dwelling investment is expected to decline as a share of the economy.

A key risk to the outlook for the housing market is the pace of the moderation in dwelling investment. The shift to higher-density residences, such as apartment blocks, has made dwelling approvals more difficult to predict over recent years and introduced more volatility to the housing cycle (Chart C). Additionally, the large increase in prices in some areas has reduced prospective yields. This may eventually weigh on new investment. A sharper than expected fall in higher density approvals would see dwelling investment decline more quickly than anticipated. Equally, a sharper than expected slowing in house price inflation would slow investor demand.

Box 3: Housing market (continued)

Chart C: Building approvals



Source: ABS cat. no. 8731.0.

Rising asset prices have strengthened household balance sheets since the GFC, with household assets now more than five times higher than debt. Notwithstanding this, household debt has grown more rapidly than incomes over the past few years and is elevated by both historical and international standards. Much of the increase in debt has been housing-related, alongside notable house price growth in some metropolitan areas.

Developments in the housing market are a source of uncertainty for the outlook for household consumption and dwelling investment. As such, the Government and regulators are closely monitoring developments in the housing market to ensure that the risks are being effectively managed. The Australian Prudential Regulation Authority has implemented a range of carefully calibrated measures to underpin the quality of residential mortgage lending, particularly to investors.

Commodity prices to boost nominal GDP in the short term

Nominal GDP is expected to grow by 6 per cent in 2016-17, largely as a result of a strong rise in non-rural commodity prices late last year. Nominal GDP is expected to grow by 4 per cent in both 2017-18 and 2018-19 as the terms of trade fall.

The level of nominal GDP is expected to be about $18.8 billion higher over the four years to 2019-20 than at the 2016-17 MYEFO, with upgrades in the outlook for profits, including mining profits and downgrades to the outlook for compensation of employees. Forecast tax receipts, excluding new policy, have been revised down by $5.5 billion over the four years to 2019-20 compared with the 2016-17 MYEFO, in part reflecting these compositional changes (see Statement 5, including Box 1, for further details).

After growing by 2.1 per cent over the year to the March quarter 2017, **consumer prices** are expected to grow by 2 per cent through the year to the June quarters of 2017 and 2018 and by 2¼ per cent through the year to the June quarter 2019.

Downward pressures on inflation are expected to come from subdued wage growth and heightened competition in the retail sector. It is also expected that the damage wrought by Tropical Cyclone Debbie will place upward pressure on fruit and vegetable prices in the near term.

Over recent years, the slowing in wage and price growth has constrained nominal GDP growth. If inflation and wage growth are lower than forecast, slower nominal GDP growth would constrain taxation receipts with a partial offset in payments. For example, if inflation outcomes were consistent with the lower bound of the range presented in the RBA's Statement on Monetary Policy, nominal GDP could be around 0.6 per cent lower than forecast by 2018-19, resulting in a deterioration in the underlying cash balance of around $3 billion by 2018-19.

A near-term boost to national income is expected from the upgraded forecast for the **terms of trade** in 2016-17, as large **commodity price** gains have lifted resource export values. Expected movements in the terms of trade and commodity prices are shown in Chart 7.

As in the 2016-17 MYEFO, the commodity price forecasts are based on the judgment — supported by broad and deep market and industry consultation — that it is prudent to assume that prices for metallurgical coal and iron ore will not be sustained at recent levels.

Significant supply disruptions and changes in Chinese policy in 2016 saw substantial rises in coal prices in the first half of 2016-17.

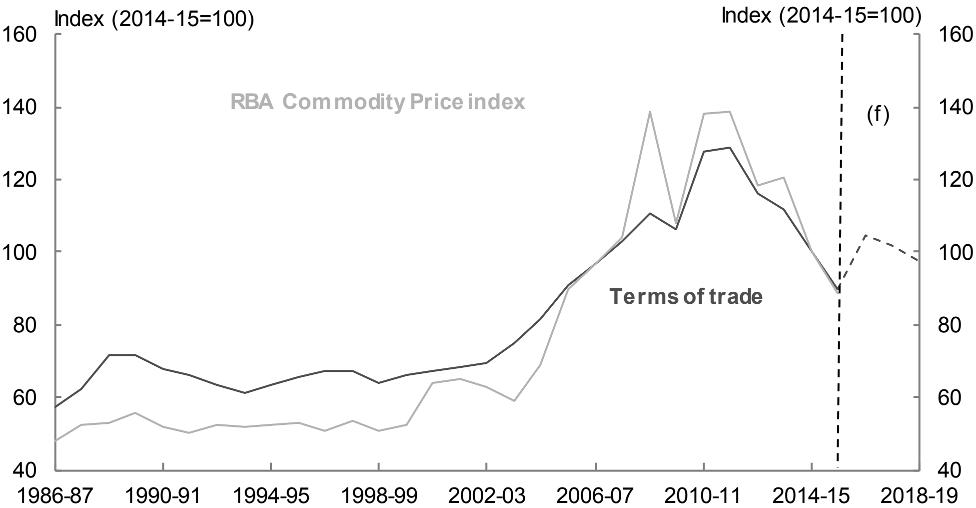
Metallurgical coal prices fell significantly in the first half of 2017 but have risen sharply in response to supply disruptions in Australia's coal sector following Tropical Cyclone Debbie. As a result, the metallurgical coal price remains assumed to decline from US$200 per tonne free-on-board (FOB) over the September and December quarters 2017 to reach US$120 per tonne FOB in the March quarter 2018. Thermal coal prices are higher than expected at MYEFO. This has resulted in an upgrade to the flat price assumption for thermal coal to US$85 per tonne FOB, which reflects a recent average. This is also broadly consistent with the expected current Japanese fiscal year annual contract price.

After strong gains in late 2016 and early 2017, iron ore prices have fallen sharply. The iron ore price is assumed to decline from a recent average of around US$66 per tonne FOB over the September and December quarters of 2017 to reach US$55 per tonne FOB in the March quarter 2018.

These changes have seen a net upgrade to commodity price forecasts in the short term, with the terms of trade now expected to rise by 16½ per cent in 2016-17.

Uncertainty around the outlook for commodity prices continues to pose challenges for the forecasts, projections and in turn the outlook for revenue. Further details on commodity price movements are provided in Box 4. The sensitivity of the forecasts to an alternative path for commodity prices is discussed in Statement 8.

Chart 7: Terms of trade and RBA commodity price index



Source: Reserve Bank of Australia, ABS cat. no. 5206 and Treasury.

Box 4: Recent developments in commodity markets and analysis of price sensitivity

Commodity prices have been volatile through 2016-17. This has had a large impact on the terms of trade and nominal GDP forecasts for that year.

Movements in the coal sector continue to be driven by supply fundamentals

Coal prices surged in late 2016 to levels not seen since the terms of trade boom in 2011. In November 2016, metallurgical coal prices peaked at around US$310 per tonne FOB, while thermal coal prices peaked at around US$115 per tonne FOB.

The significant increases were largely driven by a mix of global supply dynamics. Substantial supply disruptions in global coal markets over 2016 stemmed from flooding and logistical issues in key coal producing regions of the world, including China and Australia, among others. This was amplified by Chinese policy measures to address overcapacity in the sector, which saw a notable contraction in Chinese coal production.

Chart A: Metallurgical coal price

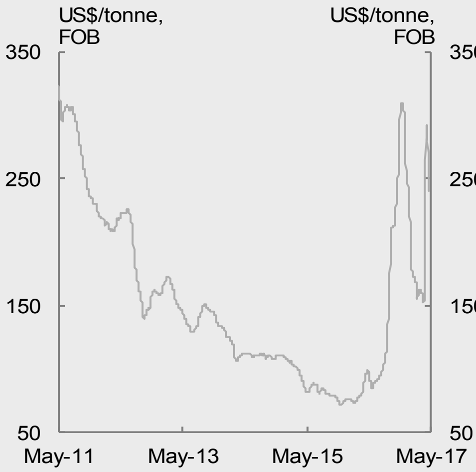
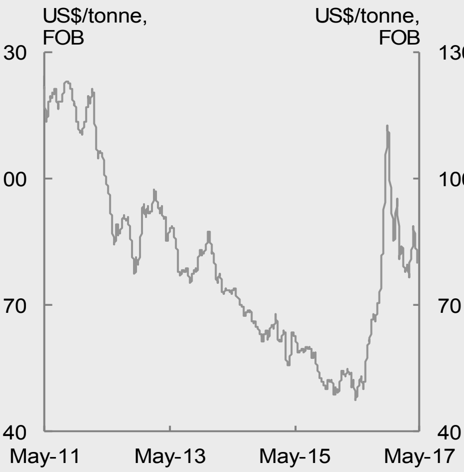


Chart B: Thermal coal price



Note: Spot price data are presented as a seven-day moving average and are expressed in FOB terms which exclude the cost of freight.
Source: S&P Global Platts and Treasury.

A large part of these price increases were unwound through early 2017, as some of the factors contributing to price gains in the coal sector dissipated. This included Chinese authorities adjusting their policy settings to help reduce price pressures.

Subsequently, supply disruptions resulting from Tropical Cyclone Debbie drove a renewed increase in metallurgical coal prices. Queensland's coal production accounts for more than half of global seaborne metallurgical coal trade and the cyclone has caused extensive damage to mining rail infrastructure in the region. This rapidly curbed global supply and sparked a significant rebound in metallurgical coal prices to be briefly above US$300 per tonne FOB. Elevated prices are not expected to be sustained. See Box 2 on the impact of Tropical Cyclone Debbie.

Box 4: Recent developments in commodity markets and analysis of price sensitivity (continued)

Thermal coal prices also increased in early 2017, as weather-related disruptions in Indonesia (the world's largest thermal coal exporter) contributed to tightness in supply. A price assumption of around US$85 per tonne FOB is assumed. This is in line with recent average spot prices and expected annual contract pricing.

Iron ore prices have been volatile

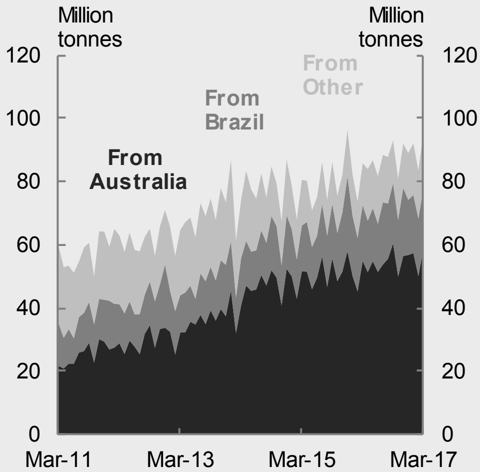
Iron ore prices strengthened after MYEFO, with spot prices peaking at almost US$90 per tonne FOB in early 2017 — levels not seen since mid-2014.

Prices have fallen noticeably more recently as narrowing steel margins and accumulated iron ore inventories are beginning to soften demand (Chart C). Growing global supply, primarily from Australia and Brazil, is another factor that will continue to weigh on the price outlook in coming years. In addition, mining companies may find ways to further reduce costs of production, which would also lower prices.

Chart C: Iron ore price

Note: Spot price data are presented as a seven-day moving average and are expressed in FOB terms which exclude the cost of freight.
Source: S&P Global Platts and Treasury.

Chart D: Chinese imports of iron ore



Source: Bloomberg, General Administration of Customs China and Treasury.

Box 4: Recent developments in commodity markets and analysis of price sensitivity (continued)

Impacts of altered commodity price forecasts on the Budget

Movements in commodity prices can have significant impacts on nominal GDP and government revenue. The below analysis provides an indication of how GDP and revenue could be impacted by altered timing around the metallurgical coal and iron ore price assumptions.

If **metallurgical coal** prices were to remain elevated at US$200 per tonne FOB for two quarters longer, before falling abruptly to US$120 per tonne FOB, nominal GDP could be around $4.4 billion higher than forecast in 2017-18, resulting in an increase in tax receipts of around $0.5 billion in both 2017-18 and 2018-19 (Table A).

By contrast, if metallurgical coal prices were to fall immediately to US$120 per tonne FOB two quarters earlier, nominal GDP could be around $4.2 billion lower than forecast in 2017-18, resulting in a decrease in tax receipts of around $0.5 billion in both 2017-18 and 2018-19.

Table A: Sensitivity analysis of an earlier and later step down in metallurgical coal spot prices

	Later fall to US$120/tonne FOB[a]		Earlier fall to US$120/tonne FOB	
	2017-18	2018-19	2017-18	2018-19
Nominal GDP ($billion)	4.4	-	-4.2	-
Tax receipts ($billion)	0.5	0.5	-0.5	-0.5

(a) FOB is the free on board price which excludes freight costs.
Source: Treasury.

Similarly, if **iron ore** prices were to remain elevated at US$66 per tonne FOB for two quarters longer, before falling abruptly to US$55 per tonne FOB, nominal GDP could be around $3.2 billion higher than forecast in 2017-18, resulting in an increase in tax receipts of around $0.4 billion in 2017-18 and around $0.3 billion in 2018-19 (Table B).

By contrast, if iron ore prices were to fall immediately to US$55 per tonne FOB two quarters earlier, nominal GDP could be around $3.1 billion lower than forecast in 2017-18, resulting in a decrease in tax receipts of around $0.4 billion in 2017-18 and $0.3 billion in 2018-19.

Table B: Sensitivity analysis of an earlier and later step down in iron ore spot prices

	Later fall to US$55/tonne FOB[a]		Earlier fall to US$55/tonne FOB	
	2017-18	2018-19	2017-18	2018-19
Nominal GDP ($billion)	3.2	-	-3.1	-
Tax receipts ($billion)	0.4	0.3	-0.4	-0.3

(a) FOB is the free on board price which excludes freight costs.
Source: Treasury.

Medium-term projections

The fiscal aggregates in this year's Budget are underpinned by economic forecasts for the budget year and the subsequent financial year, and then by economic projections for the following two financial years. These projections are not forecasts. Rather, they are based on a medium-term methodology and some key assumptions.

The current medium-term projection methodology assumes that the spare capacity in the economy is absorbed over five years following the forecast period. The sensitivity of the projections to different adjustment periods is analysed in Statement 8.

As spare capacity is absorbed, 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 2019-20 until 2023-24, real GDP is projected to grow faster than potential at 3 per cent.

Potential GDP is estimated based on an analysis of underlying trends for population, productivity and participation. The growth rate of potential GDP is estimated to be 2¾ per cent over the next few years. The unemployment rate is projected to converge back to 5 per cent over the medium term consistent with estimates of the non-accelerating inflation rate of unemployment. Inflation is projected to be 2½ per cent, consistent with the RBA's medium-term target band. The terms of trade are projected to remain flat at around their 2005 level from 2020-21.

STATEMENT 3: FISCAL STRATEGY AND OUTLOOK

The adjustment of the economy to the end of the mining investment boom is well underway. This Budget builds on measures the Government has already announced or put in place to support this successful transition as part of its national economic plan for jobs and growth. They include tax cuts to Australian businesses to promote business investment, securing export trade deals which open up new markets and opportunities, a comprehensive investment in our defence industry and infrastructure investments which improve long-run productivity and increase economic growth.

The Government is committed to investing in a stronger economy by redirecting spending to boost productivity and support growth and jobs. The Government is also taking action to tackle cost pressures faced by households and businesses and prioritising funding for the key government services on which Australians rely. This includes ensuring the benefits are felt across Australia and particularly in rural and regional areas.

The 2017-18 Budget charts a fair and responsible pathway back to balance. The underlying cash balance is expected to improve from a deficit of $29.4 billion (1.6 per cent of GDP) in 2017-18 to a projected surplus of $7.4 billion (0.4 per cent of GDP) in 2020-21.

This Budget, once again, demonstrates the Government's fiscal discipline. The Government's continuing expenditure restraint and commitment to budget repair has resulted in a projected improvement to the bottom line of $11.4 billion over four years from 2017-18 to 2020-21 compared with the 2016-17 MYEFO. After adjusting for decisions taken in relation to Senate negotiations, all new spending decisions have been offset by reductions in expenditure.

The net operating balance is also expected to improve from a deficit of $19.8 billion (1.1 per cent of GDP) in 2017-18 to reach a projected surplus of $7.6 billion (0.4 per cent of GDP) in 2019-20 and $17.5 billion (0.8 per cent of GDP) in 2020-21.

The underlying cash balance is projected to remain in surplus over the medium term, peaking at 0.5 per cent of GDP in 2024-25, before moderating to 0.4 per cent of GDP by 2027-28.

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

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OVERVIEW

The 2017-18 Budget continues the Government's economic plan to boost growth to support more and better paying jobs and create more opportunities for small businesses. The Government is also taking action to tackle cost pressures facing households and businesses and to guarantee the provision of key government services that Australians rely on.

The 2017-18 Budget charts a fair and responsible pathway back to balance. The underlying cash balance is expected to improve across each year of the forward estimates. The underlying cash balance is expected to improve from a deficit of $29.4 billion (1.6 per cent of GDP) in 2017-18 to a projected surplus of $7.4 billion (0.4 per cent of GDP) in 2020-21.

The net operating balance, which focuses on recurrent expenses and revenue, is presented alongside the underlying cash balance to emphasise the share of Government expenses that relate to operating activities, such as ongoing health, welfare and education programs.

The net operating balance is also expected to improve from a deficit of $19.8 billion (1.1 per cent of GDP) in 2017-18, returning to projected surpluses of $7.6 billion (0.4 per cent of GDP) in 2019-20 and $17.5 billion (0.8 per cent of GDP) in 2020-21, as shown in Table 1.

Table 1: Budget aggregates

	Actual	Estimates			Projections		
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total(a)
Underlying cash balance ($b)(b)	**-39.6**	**-37.6**	**-29.4**	**-21.4**	**-2.5**	**7.4**	**-45.9**
Per cent of GDP	-2.4	-2.1	-1.6	-1.1	-0.1	0.4	
Net operating balance($b)	**-33.6**	**-38.7**	**-19.8**	**-10.8**	**7.6**	**17.5**	**-5.5**
Per cent of GDP	-2.0	-2.2	-1.1	-0.6	0.4	0.8	

(a) Total is equal to the sum of amounts from 2017-18 to 2020-21.
(b) Excludes expected net Future Fund earnings before 2020-21.

The 2017-18 Budget forecasts for tax receipts have been revised up by $6.4 billion over the four years to 2019-20, as a result of policy decisions including increasing the Medicare levy, introducing a major bank levy, improving the integrity of GST on property transactions and introducing a *Skilling Australians Fund* levy.

Since the 2016 Pre-election Economic and Fiscal Outlook (PEFO), the Government has made significant progress in implementing unlegislated budget repair measures. The total impact over the forward estimates of budget repair measures implemented since the 2016 PEFO is more than $25 billion. Since the 2013 election, the Government has implemented more than $100 billion in budget repair measures.

While the Government's preference for achieving a path to balance was predominantly through expenditure restraint, the Parliament has been unwilling to pass all the legislation required. Given the continuing rejection by the Parliament of significant government savings measures from the 2014-15 Budget and later budget updates, they have been reversed. The impact of these reversals on the underlying cash balance is more than offset by budget repair and other policy measures included in this Budget.

The Government's commitment to returning the budget to balance remains. The average annual pace of fiscal consolidation across the forward estimates is a responsible 0.6 per cent of GDP, slightly higher than the average pace of consolidation in the 2016-17 MYEFO.

Over the medium term, the underlying cash balance is projected to peak at 0.5 per cent of GDP in 2024-25, before moderating to 0.4 per cent of GDP by 2027-28.

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. The fiscal strategy underlines the commitment to budget discipline and outlines how the Government will set medium-term fiscal policy while allowing for flexibility in response to changing economic conditions.

The strategy is underpinned by the following four policy elements:

- investing in a stronger economy by redirecting Government spending to quality investment to boost productivity and workforce participation;
- maintaining strong fiscal discipline by controlling expenditure 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;
  - stabilising and then reducing net debt over time;
- supporting revenue growth by supporting policies that drive earnings and economic growth; 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 sustainable budget surpluses building to at least 1 per cent of GDP as soon as possible, consistent with the medium-term fiscal strategy.

The 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 and sustainable surplus is achieved and so long as economic growth prospects are sound and unemployment remains low.

Delivering the Government's economic plan

This year's Budget continues the Government's focus on delivering its national economic plan for jobs and growth. The Government is committed to investing in a stronger economy by redirecting spending to boost productivity and support growth and jobs. This includes ensuring the benefits are felt across Australia and particularly in rural and regional areas. The Government is also taking action to tackle cost pressures faced by households and businesses and to guarantee the provision of key government services which Australians rely on.

The Government is **guaranteeing the funding of Medicare** to ensure that Australians have timely and affordable access to health care.

The Government is establishing the Medicare Guarantee Fund (the Fund) from 1 July 2017 to provide ongoing funding for the Medicare Benefits Schedule (MBS) and the Pharmaceutical Benefits Scheme (PBS). The Fund will be credited with revenue generated from the Medicare levy (excluding amounts to fund the National Disability Insurance Scheme (NDIS)), as well as a portion of personal income tax receipts to ensure that the costs of essential health care provided under the MBS and PBS are covered.

Box 2: Medicare Guarantee Fund

In 2017-18, an estimated $33.8 billion will be credited to the Fund. The Medicare levy will contribute about $12.1 billion, with the remainder drawn from personal income tax receipts. Table 2 shows estimates for the MBS and PBS, along with forecast credits to the Medicare Guarantee Fund over the forward estimates.

The forecast annual contributions to the Fund over the forward estimates will be adjusted at every budget update, in line with forecast MBS and PBS expenditure over the forward estimates.

Table 2: Estimated costs for the MBS and PBS and credits to the Medicare Guarantee Fund

	Estimates		Projections	
	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m
Medicare Benefits Schedule	22,898	24,056	25,730	27,183
Pharmaceutical Benefits Scheme	10,951	10,795	10,813	10,688
Total MBS and PBS	33,849	34,851	36,543	37,871
Credits to the Medicare Guarantee Fund	**33,849**	**34,851**	**36,543**	**37,871**

See *Statement 5: Revenue* for further information on the allocation of Medicare levy revenue to fund the MBS, PBS and the NDIS.

An additional $1.0 billion will be provided to phase-in the reintroduction of indexation for certain items on the MBS, providing support to medical practitioners, allied health professionals and diagnostic imaging providers and encouraging even higher rates of bulk billing. The phase-in will commence with General Practitioner (GP) bulk billing incentives which will be indexed from 1 July 2017. From 1 July 2018, fees for GP and specialist consultation items will be indexed. From 1 July 2019, fees for procedures performed by specialists and allied health items will be indexed. On 1 July 2020, targeted diagnostic imaging items, such as computed tomography scans, mammography, fluoroscopy and interventional radiology, will be indexed for the first time since 2004.

The Government is continuing to meet its commitment to list new medicines on the PBS. The Government will provide additional funding of $1.2 billion for new and amended listings on the PBS, including access to Sacubitril with valsartan (Entresto®) to help patients with chronic heart failure.

The Government is committed to fully fund its share of the costs of the NDIS. From 1 July 2019, the Medicare levy will increase by half a percentage point from 2 to 2.5 per cent of taxable income. One-fifth of the revenue raised by the Medicare levy will be directed to the NDIS Savings Fund to fill the gap left by previous governments in the Commonwealth's contribution to funding the NDIS.

Box 3: National Disability Insurance Scheme

The Government is committed to fully fund its share of the NDIS to ensure that Australians with permanent and significant disability can exercise choice and control in accessing vital care and support.

Spending on the NDIS increases over the next four years as the scheme expands across the country, including Western Australia. When the NDIS reaches full scheme in 2019-20, it is estimated that it will cost approximately $21.0 billion, or around 1.1 per cent of GDP. The Commonwealth's contribution will be approximately $10.8 billion.

Over the transition phase, the Commonwealth's contribution to the NDIS is covered by the Commonwealth's share of the DisabilityCare Australia Fund (DCAF) and repurposing existing Commonwealth disability-related funding. However, these sources of funding are not sufficient to cover the Commonwealth's NDIS contribution in full scheme, leading to a $3.8 billion shortfall in 2019-20, accumulating to $55.7 billion over the medium term.

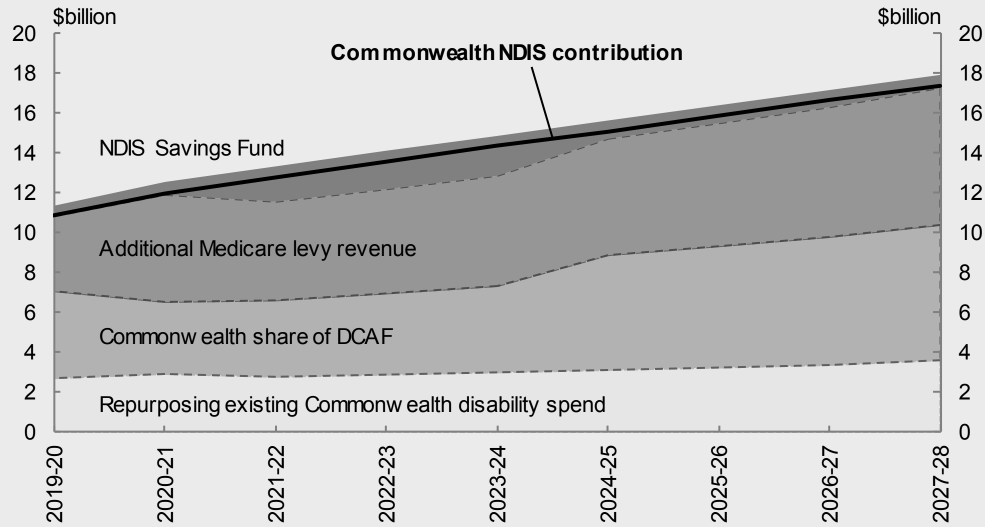
To meet this shortfall, from 1 July 2019 the Medicare levy will increase by half a percentage point from 2 to 2.5 per cent of taxable income. One-fifth of the revenue raised by the Medicare levy from 1 July 2019 will be credited to the NDIS Savings Fund.

Box 3: National Disability Insurance Scheme (continued)

Chart 1 demonstrates the Government's funding for the NDIS from 2019-20, when the NDIS will reach full scheme and the Medicare levy will increase. It includes:

- repurposed Commonwealth programs that have been redirected to the NDIS;
- the Commonwealth's share of debits from the DCAF; and
- debits from the NDIS Savings Fund, comprising:
  - one-fifth of the Medicare levy from 1 July 2019;
  - underspends and realised saves redirected to the NDIS Savings Fund; and
  - uncommitted funds from the Building Australia Fund and Education Investment Fund.

Chart 1: Commonwealth's NDIS contribution and funding sources



Note: This medium-term projection is based on current parameters, including the number of NDIS participants and package costs. The NDIS Savings Fund includes one-fifth of the Medicare levy from 1 July 2019, underspends and realised saves redirected to the NDIS Savings Fund, and uncommitted funds from the Building Australia Fund and Education Investment Fund.
Source: Treasury and Department of Social Services projections.

Debits from the NDIS Savings Fund will be made from 2019-20, when required to meet the Commonwealth's contribution to the NDIS. Credits into the NDIS Savings Fund before 2019-20 will accumulate to meet the Commonwealth's future contribution. Chart 1 represents the expected timing of debits from the NDIS Savings Fund rather than credits into it, based on current estimates.

The total credits include a small provision in the NDIS Savings Fund that is in excess of the estimated Commonwealth contribution. This provision has been spread evenly across the period in Chart 1, but will be drawn upon as needed.

The Government's schools reforms will provide **fairer funding for students** through an additional $18.6 billion over the decade to 2027 to move to a schools funding model that is genuinely needs-based and transparent. Targeted transitional assistance will be made available to assist disadvantaged and vulnerable schools that need assistance to transition to the new model.

The Government will tie schools funding to reform priorities informed by a new Review to Achieve Educational Excellence in Australian Schools, to be chaired by Mr David Gonski AC. Commonwealth funding will also be dependent on the States and Territories maintaining the real value of their contribution to schools funding.

The Government will abolish the Temporary Work (Skilled) (subclass 457) visa for foreign workers and create a new temporary visa restricted to critical skill shortages. This will **ensure Australian workers are given first priority** for jobs, while still enabling businesses to temporarily meet critical skills needs where Australian workers are not available.

Employers who nominate workers for the new Temporary Skill Shortage visa, and certain permanent skilled visas, will contribute to a new *Skilling Australians Fund*. This Fund will ensure an ongoing source of revenue to support Australian skills development, with a focus on apprenticeships and traineeships. The new Fund will replace the existing training benchmarks, which have not been successful in generating training opportunities to allow Australians to fill skill gaps.

The Government is **supporting the workforce participation of the most disadvantaged** Australians. Indigenous and vulnerable new parents will receive tailored support services through ParentsNext to support them on the path to successful employment. The Government will also strengthen participation requirements for welfare recipients to better drive participation outcomes, as well as applying a new, targeted compliance framework.

The Government is investing in **building resilient and adaptive regions** that can share in the benefits of long-term growth. The Government will invest more than $533 million in new infrastructure and community projects for regional areas, focusing on initiatives that allow regions to absorb the benefits of economic growth and take control of their economic future.

The Government's plans for housing and energy affordability are **addressing cost of living pressures** faced by Australian households and businesses.

Securing fit-for-purpose housing improves health, education and workforce participation outcomes for Australians and their families. The Government's comprehensive and targeted plan to **reduce pressure on housing affordability** will deliver a range of measures that will help to ensure that all Australians have access to housing which is affordable and accessible to jobs and services. The Budget includes measures to assist first home buyers and to increase the supply of housing, particularly affordable housing.

Box 4: Reducing pressure on housing affordability

Housing affordability and security improves the stability of families and communities and promotes better health, education and workforce participation outcomes for Australians of all ages.

The Government's comprehensive housing plan will reduce pressure on housing affordability across the housing spectrum by:

- supporting first home buyers to save a deposit and through incentives to encourage more efficient use of Australia's housing stock;
- improving the supply of social and affordable housing, by requiring better outcomes for Commonwealth funding to State and Territory governments; encouraging increased private investment through the establishment of a bond aggregator in the National Housing Finance and Investment Corporation; and through new tax incentives for private investors in affordable housing;
- providing ongoing funding to address homelessness as part of the new National Housing and Homelessness Agreement with State and Territory governments ensuring a greater focus on concrete outcomes from payments to the States;
- working with State, Territory and local governments to improve security of tenure for renters; and
- building more homes through greater financial support for infrastructure that will speed up supply and making surplus Commonwealth land available for housing development.

The Government is **improving affordability and reliability of energy** through an initial phase of practical reforms designed to meet our immediate energy challenges and lay the foundations for a stronger energy system to underpin economic growth.

The Government is committed to **improving accountability and competition in the banking system**. The Government will legislate for a new Banking Executive Accountability Regime to hold banks and their executives to account when they fail to meet expectations. It will also introduce a new framework for dispute resolution with a one-stop shop — the Australian Financial Complaints Authority — to consider all financial disputes. To enhance competition, the Government will reduce barriers for new banking entrants and introduce an open banking regime that will facilitate new products and services by giving customers control of data about them. The Government will also introduce a major bank levy on banks with liabilities greater than $100 billion to assist with budget repair. This represents a fair additional contribution from our major banks. It will complement prudential reforms being implemented by the Government and APRA and provide a more level playing field for smaller banks and non-bank competitors.

Encouraging enterprise and a strong small business sector means more jobs for Australians and more opportunities to build vibrant local communities across the country. The Government will continue to support small businesses to invest in the assets they need to grow their business by extending the $20,000 immediate deductibility threshold for a further 12 months to 30 June 2018. Reducing red tape and regulations will assist small businesses by helping to level the playing field in the market, decreasing business costs and giving businesses more time to run and grow their business. Through its National Partnership on Regulatory Reform, the Government will provide up to $300 million over two years to States and Territories that remove unnecessary regulatory barriers and other restrictions on competition as recommended in the 2015 Competition Policy Review.

The Government's $70 billion **investment in transport infrastructure** from 2013-14 to 2020-21, using a combination of grant funding, loans and equity investments, is a critical part of the Government's national economic plan. The right decisions on infrastructure investments will improve long-run productivity, increasing Australia's economic growth.

Box 5: Infrastructure investment

The Government's investment in infrastructure includes funding as well as equity and debt financing for transport, communications and water infrastructure.

The Government is establishing a 10-year allocation for funding road and rail investments, recognising that many transformational projects are planned and built over many years. This will deliver $75 billion in transport infrastructure funding and financing from 2017-18 to 2026-27. There are currently more than 1,000 projects underway across Australia including roads, airports and rail. These projects will reduce congestion, improve the liveability of our cities, connect regional communities and create new jobs and opportunities.

The Government's historical approach to delivering infrastructure has been to simply provide grants to State and Territory governments, mostly for road and rail projects. However, the exclusive use of grants by the Government can reduce the incentives for State and Territory governments to innovate with infrastructure delivery, such as through the use of financing solutions and developing partnerships with the private sector. While grants will continue to be part of our approach, the Government is looking at more innovative ways to deliver infrastructure and, in particular, the use of equity and debt financing. This approach will deliver more impact from infrastructure spending, allowing more projects to get built.

The Government is currently using equity and debt financing for a number of major infrastructure projects. These include $370 million in equity funding (plus land) towards the Moorebank intermodal freight precinct in NSW, a $2 billion concessional loan for Stage 2 of the WestConnex project in Sydney and establishing the $5 billion Northern Australia Infrastructure Facility.

Box 5: Infrastructure investment (continued)

In this Budget, the Government is actively working to expand the use of financing to support broader infrastructure priorities. We have committed to fully finance the Melbourne to Brisbane Inland Rail project by a combination of an additional $8.4 billion equity investment in the Australian Rail Track Corporation and a public private partnership for the most complex elements of the project.

The Government has also committed to establish a new Commonwealth-owned company, WSA Co, to deliver Western Sydney Airport. The Government is making an equity investment of up to $5.3 billion in WSA Co.

The Government is delivering fast and affordable broadband by providing $29.5 billion in equity and a loan on commercial terms of up to $19.5 billion to NBN Co Limited. The network is on target for completion by 2020 and it will reach over 12 million homes and businesses when it is complete.

To develop and advise on financing solutions to deliver key government projects the Government is establishing the Infrastructure and Project Financing Agency on 1 July 2017. The Agency will work with the private sector to identify, develop and assess innovative financing options for investment in major infrastructure projects prior to Government consideration.

Infrastructure investment is a large part of the Government's broader capital investment program of around $49 billion in 2017-18. This broader program includes direct investment in physical assets and investments in financial assets (such as loans and equity injections). It also includes the Government's grants to the States and Territories for their own capital investment. *Statement 4: Recurrent and Capital Budget* provides further details on the Government's broader capital investment program and how it is financed.

Together these packages deliver on the Government's fiscal strategy of investing in a stronger economy to support jobs and growth, while also supporting and strengthening the government services which Australians rely on.

Returning the budget to balance

The 2017-18 Budget projects a return to balance in 2020-21. The underlying cash balance is expected to improve from a deficit of $29.4 billion in 2017-18 (1.6 per cent of GDP) to a projected surplus of $7.4 billion in 2020-21 (0.4 per cent of GDP), as shown in Table 3.

Table 3: Australian Government general government sector budget aggregates

	Actual	Estimates			Projections		
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total(a)
	$b	$b	$b	$b	$b	$b	$b
Receipts	**386.9**	**405.7**	**433.5**	**462.5**	**496.9**	**526.3**	**1,919.2**
Per cent of GDP	23.4	23.2	23.8	24.4	25.1	25.4	
Payments(b)	**423.3**	**440.5**	**459.7**	**480.4**	**495.6**	**518.9**	**1,954.6**
Per cent of GDP	25.6	25.1	25.2	25.4	25.0	25.0	
Net Future Fund earnings(c)	3.2	2.8	3.2	3.5	3.7	na	10.5
Underlying cash balance(d)	**-39.6**	**-37.6**	**-29.4**	**-21.4**	**-2.5**	**7.4**	**-45.9**
Per cent of GDP	-2.4	-2.1	-1.6	-1.1	-0.1	0.4	
Revenue	**395.1**	**412.1**	**444.4**	**476.1**	**510.8**	**540.4**	**1,971.7**
Per cent of GDP	23.9	23.5	24.4	25.2	25.8	26.0	
Expenses	**428.7**	**450.8**	**464.3**	**486.9**	**503.2**	**522.9**	**1,977.2**
Per cent of GDP	25.9	25.7	25.5	25.7	25.4	25.2	
Net operating balance	**-33.6**	**-38.7**	**-19.8**	**-10.8**	**7.6**	**17.5**	**-5.5**
Per cent of GDP	-2.0	-2.2	-1.1	-0.6	0.4	0.8	
Net capital investment	3.8	2.0	0.5	4.8	4.9	6.0	16.2
Fiscal balance	**-37.5**	**-40.7**	**-20.3**	**-15.5**	**2.7**	**11.4**	**-21.7**
Per cent of GDP	-2.3	-2.3	-1.1	-0.8	0.1	0.6	
Memorandum items:							
Net Future Fund earnings(c)	3.2	2.8	3.2	3.5	3.7	4.0	14.5
Headline cash balance	-49.1	-51.1	-48.4	-37.1	-14.8	11.7	-88.7

(a) Total is equal to the sum of amounts from 2017-18 to 2020-21.
(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(c) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Government superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.
(d) Excludes expected net Future Fund earnings before 2020-21.

Continued discipline will be required to maintain the current trajectory and to sustain surpluses beyond 2020-21, including by ensuring new policy decisions are more than offset by savings and through boosting revenues by implementing policies that grow the economy. This is why, in this budget, the Government has taken decisions which result in an improvement in the underlying cash balance of $6.3 billion over the four years from 2017-18 to 2020-21.

Since the 2016-17 MYEFO, forecasts for tax receipts have been revised up by $6.4 billion over the four years to 2019-20, partly due to policy decisions including increasing the Medicare levy, introducing a major bank levy, improving the integrity of GST on property transactions and introducing a *Skilling Australians Fund* levy. Policy decisions are expected to increase forecast tax receipts by $11.9 billion over the four years to 2019-20, which is partially offset by $5.5 billion of downward revisions owing to parameter and other variations.

Forecast tax receipts have been affected by downward revisions to the outlook for wages and upgrades to the outlook for profits, largely as a result of higher-than-expected commodity prices. While nominal GDP is slightly stronger over the forward estimates, the downward revisions to total tax receipts owing to parameter and other variations reflect the compositional changes between wages and profits.

The revenue outlook will face several challenges, partly from Black Economy issues which the Government is tackling in this Budget, but also from a number of other structural factors, including the ageing population and ongoing trends towards the digital economy, intangible income and highly mobile investment. These will put a strain on our tax system, which is particularly reliant on corporate and individuals' income tax.

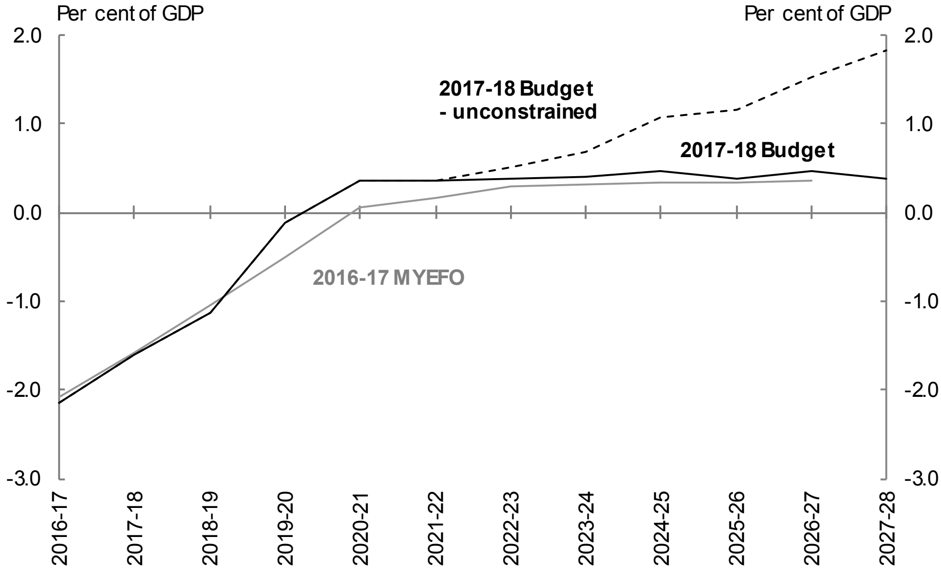
The underlying cash balance is projected to record modest surpluses over the medium term. These projections incorporate tax receipts reaching the tax-to-GDP 'cap' of 23.9 per cent of GDP in 2022-23, as was projected at the 2016-17 MYEFO. Beyond 2022-23, tax receipts are assumed to remain constant as a share of GDP. A tax-to-GDP 'cap' assumption is adopted for technical purposes and does not represent a Government policy or target. It is based on the average tax-to-GDP ratio over the period from the introduction of the GST and to just prior to the global financial crisis. It reflects that a strict no-policy change scenario would be unrealistic, as unconstrained revenue projections imply constantly increasing average tax rates on personal income. In the absence of this assumption, the underlying cash balance is projected to reach a surplus of 1.8 per cent of GDP in 2027-28.

The Government's budget repair strategy is designed to deliver sustainable budget surpluses building to at least one per cent of GDP as soon as possible, consistent with the objective of achieving surpluses on average over the course of the economic cycle.

The medium-term projections indicate that although progress has already been made on the budget repair task, there is more work required in the future, noting that projections over the next ten years are subject to considerable uncertainty.

Chart 2 shows the projection of the underlying cash balance to 2027-28 compared with projections at the 2016-17 MYEFO. The chart also illustrates the underlying cash balance projected to 2027-28 without the tax-to-GDP 'cap' assumption.

Chart 2: Underlying cash balance projected to 2027-28



Note: A tax-to-GDP ‘cap’ of 23.9 per cent is applied to these projections from 2022-23. Net Future Fund earnings are included in projections of the underlying cash balance from 2020-21.
Source: Treasury projections.

Compared with the 2016-17 MYEFO, projections of the underlying cash balance over the medium term have improved. This improvement is primarily driven by a reduction in payments projections once the tax-to-GDP ‘cap’ has been reached in 2022-23. These projections reflect lower total payments over the forward estimates flowing through to the medium term.

Box 6: Impact of alternative yield assumptions

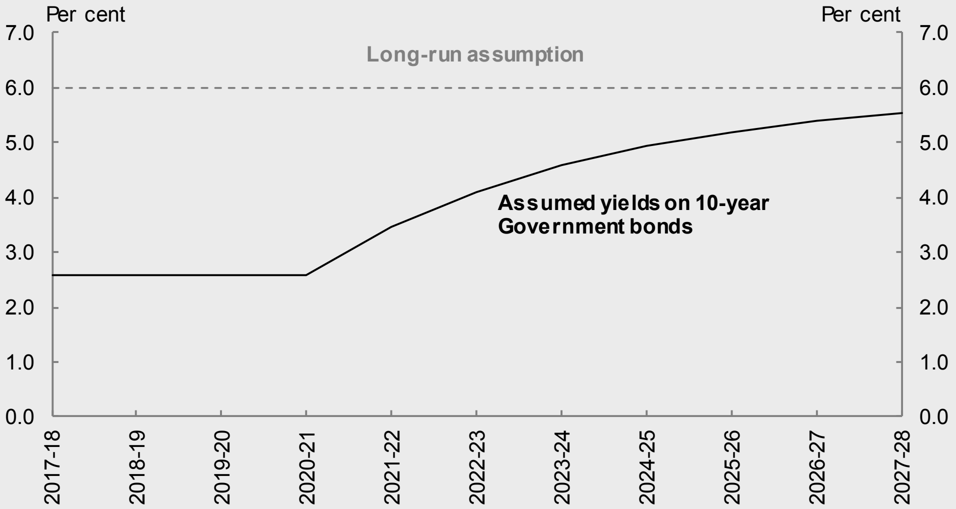
The medium-term fiscal projections are underpinned by a number of technical assumptions. Technical assumptions are generally employed where explicit policy guidance is not available or where replicating recent outcomes produces misleading results or results that are out of line with historical experience.

A technical assumption is made about the path of yields on Government debt over the forward estimates and the medium term. This assumption is required to produce projections of public debt interest (PDI) costs and therefore feeds into projections of the underlying cash balance and gross debt.

Box 6: Impact of alternative yield assumptions (continued)

Over the forward estimates period, yields are assumed to remain fixed at the level observed immediately prior to each economic and fiscal update. Yields are then assumed to converge from this level to an assumed long-run yield curve based on a ten-year yield of 6 per cent over the medium term. This long-run curve is consistent with the Long Term Cost Reports prepared by the Australian Government Actuary. The gap between the yield curve in each year and the long-term yield curve is closed by a quarter of a percentage point every year over the medium term. Chart 3 outlines the path of yields on ten-year bonds over the forward estimates and medium term.

Chart 3: Convergence to the long-run yield curve

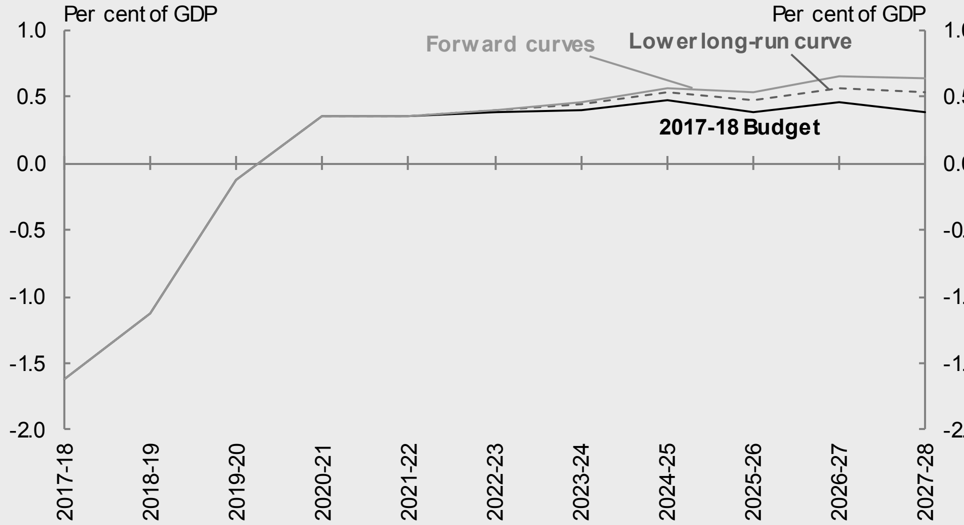


Note: The chart shows the assumed yield on 10-year Government bonds in each year through the forward estimates to the end of the medium term. These are technical assumptions intended for modelling purposes only. They are not forecasts of yields.
Source: Treasury.

In light of conditions observed in bond markets in recent years, alternative approaches to the current technical assumption could include: maintaining the current approach, but converging to a lower long-run yield curve based on a ten-year yield of 5 per cent; or the use of forward yield curves over both the forward estimates and the medium term. Forward yield curves provide an indication of the markets' expectations of future yields as indicated by the current yield curve. Chart 4 shows the impact on the underlying cash balance projections of these alternatives.

Box 6: Impact of alternative yield assumptions (continued)

Chart 4: Impact of alternative yield curve assumptions on underlying cash balance projections



Note: A tax-to-GDP 'cap' is applied to these projections from 2022-23. Net Future Fund earnings are included in these projections from 2020-21.
Source: Treasury projections.

Using a lower assumed long-run curve, the underlying cash balance is projected to improve by around 0.1 per cent of GDP by 2027-28, reflecting lower projected PDI costs as a result of lower assumed yields over the medium term. Improvements in the underlying cash balance would also drive improvements in gross debt projections.

Using implied forward curves, the underlying cash balance is projected to improve relative to Budget projections by around 0.3 per cent of GDP in 2027-28. Moderately higher yields over the forward estimates period increase PDI estimates, driving a small deterioration in underlying cash balance projections. However, the yields implied by forward curves are currently much lower than the assumed yields over the medium term. This generates improvements in PDI projections and thus underlying cash balance projections. These improvements also lead to lower gross debt projections.

See *Statement 8: Forecasting Performance and Scenario Analysis* for information on the sensitivity of fiscal projections to changes in assumptions underpinning the economic forecasts and projections.

Structural budget balance estimates

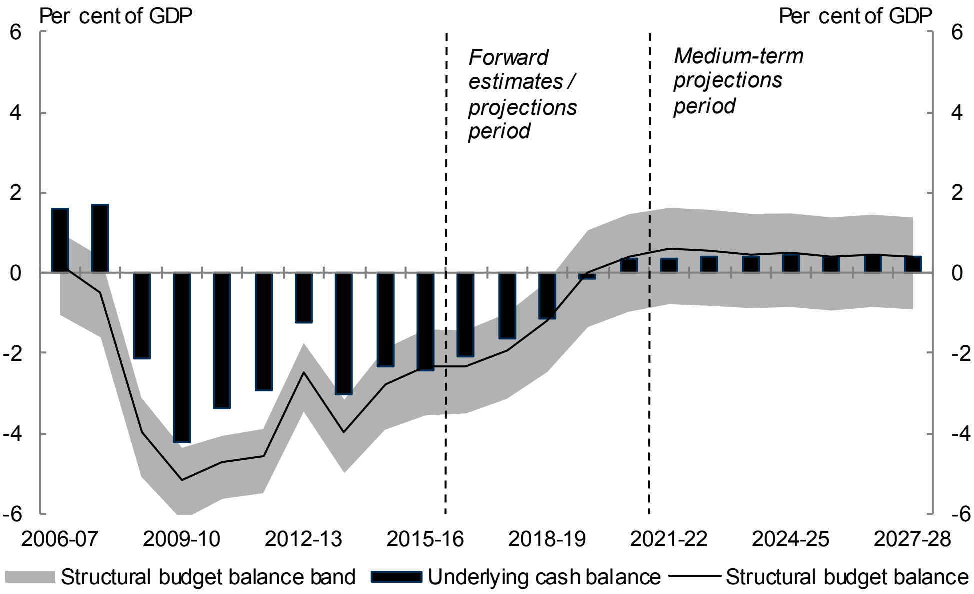
Restoring the structural integrity of the budget is crucial for achieving surpluses on average over the economic cycle and paying down government debt, consistent with the medium-term fiscal strategy.

The structural budget balance estimates seek to 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.

Improvements in the terms of trade since the 2016-17 MYEFO are cyclical. As such, Treasury estimates of the structural budget balance over the forward estimates are largely unchanged since MYEFO.

The overall level of the structural budget balance improves from a deficit of around 2 per cent of GDP in 2017-18, to a series of small surpluses from 2020-21 onwards, converging to the underlying cash balance (Chart 5).

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.

Maintaining strong fiscal discipline

Strong fiscal discipline will continue 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.

The Government's fiscal strategy aims to have the payments-to-GDP ratio and net debt reducing over time.

The payments-to-GDP ratio in 2017-18 is 25.2 per cent, falling to 25.0 per cent in 2020-21 at the end of the forward estimates period.

Since the 2016-17 MYEFO, the payments-to-GDP ratio has been affected by the reversal of unlegislated savings measures. While the Government's preference for achieving a path to balance was predominantly through expenditure restraint, the Parliament has been unwilling to pass all the legislation required and, as a result, significant government savings measures from the 2014-15 Budget and later budget updates have been reversed.

Nonetheless, the Government's commitment to expenditure restraint will ensure that the Government's share of the economy continues to decline over the forward estimates period. By 2020-21, the ratio is expected to be only slightly higher than the 30 year historical average ratio of 24.8 per cent.

Real payments growth over the forward estimates from 2017-18 is expected to be 1.9 per cent per annum on average, the same as at the 2016-17 MYEFO and the 2016-17 Budget. Over the period from 2021-22 to 2027-28, average real growth in payments is projected to be around 2.9 per cent per annum, around one percentage point higher than the estimated average real growth in payments over the forward estimates.

The medium-term projections reflect the assumption that current policy settings do not change over the medium term. A continued focus on ongoing expenditure restraint will be required if the Government is to deliver on its medium-term fiscal strategy and budget repair strategy.

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 4.

Net debt is the sum of selected financial liabilities less the sum of selected financial assets and is a common measure of the strength of a government's financial position. High levels of net debt impose a call on future revenue flows to service that debt.

Net debt is estimated to be 19.5 per cent of GDP in 2017-18 and to peak as a share of GDP at 19.8 per cent in 2018-19, slightly above the peak of 19.0 per cent of GDP expected at the 2016-17 MYEFO due to a range of factors, including changes in the classification of Australia's subscriptions to international financial institutions and an increase in the market value of gross debt due to lower average yields. Net debt is then projected to decline as a share of GDP to 17.6 per cent by 2020-21. Refer to *Statement 7: Debt Statement, Assets and Liabilities* for further information.

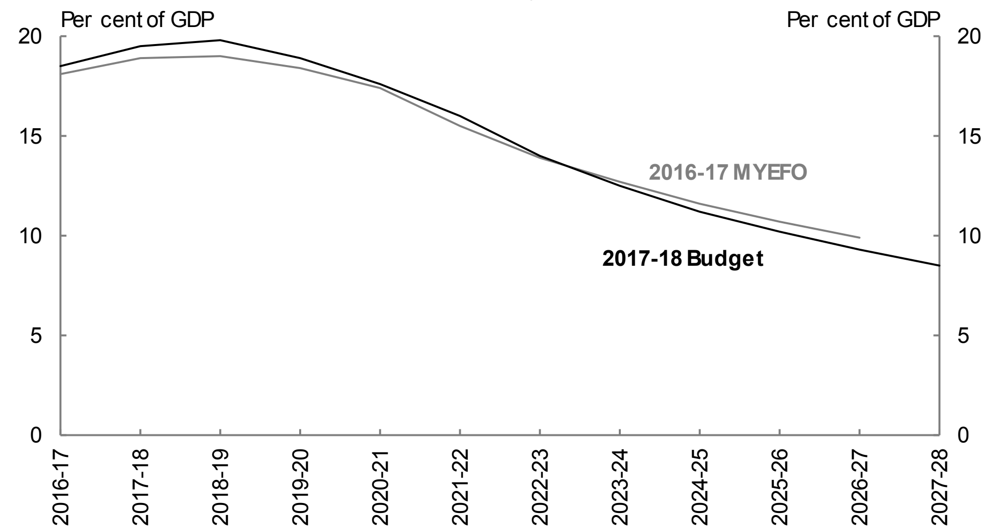
Net debt is projected to continue to improve over the medium term, falling to around 8.5 per cent of GDP by 2027-28 (Chart 6). This is around 1.4 per cent of GDP lower than projected at the 2016-17 MYEFO.

Table 4: Net worth, net financial worth, net debt and net interest payments

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$b	$b	$b	$b	$b
Financial assets	381.0	393.5	422.6	453.9	465.4
Non-financial assets	136.5	139.7	143.9	148.3	153.8
Total assets	**517.5**	**533.2**	**566.5**	**602.2**	**619.2**
Total liabilities	**809.2**	**851.3**	**898.4**	**929.0**	**930.6**
Net worth	**-291.7**	**-318.1**	**-331.9**	**-326.8**	**-311.4**
Net financial worth(a)	**-428.2**	**-457.8**	**-475.8**	**-475.0**	**-465.3**
Per cent of GDP	-24.4	-25.1	-25.1	-24.0	-22.4
Net debt(b)	**325.1**	**354.9**	**375.1**	**374.7**	**366.2**
Per cent of GDP	18.6	19.5	19.8	18.9	17.6
Net interest payments	**12.2**	**13.4**	**13.7**	**13.7**	**15.5**
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.

Chart 6: Net debt projected to 2027-28

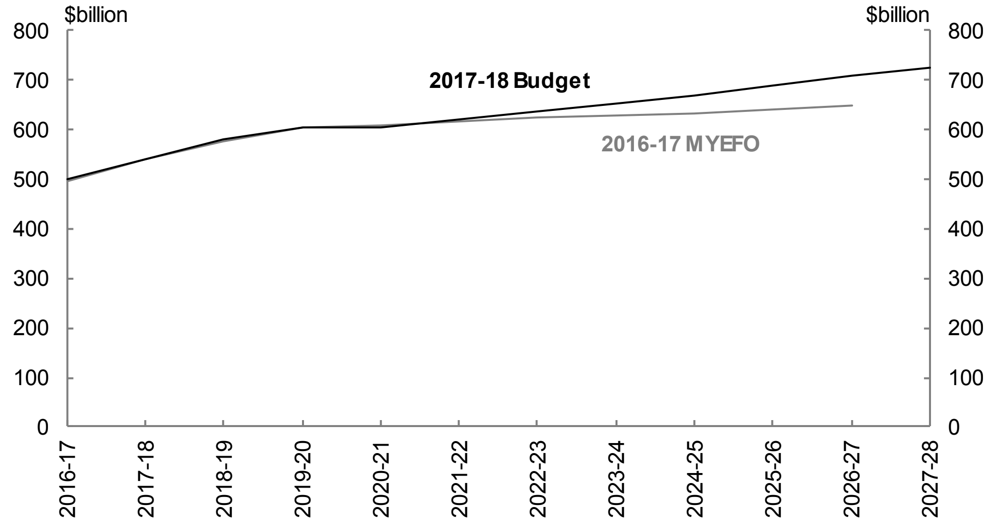


Note: A tax-to-GDP 'cap' of 23.9 per cent is applied to these projections from 2022-23.
Source: Treasury projections.

The face value of Commonwealth Government Securities (CGS) on issue (gross debt) is projected to rise from $540 billion in 2017-18 to $606 billion by the end of the forward estimates. Gross debt is projected to continue to rise to around $725 billion by 2027-28. At the 2016-17 MYEFO, gross debt was projected to be $648 billion in 2026-27. This change reflects an assumption of continuing to build the assets of the Future Fund.

The projected face value of CGS on issue is shown in Chart 7.

Chart 7: Face value of CGS on issue projected to 2027-28



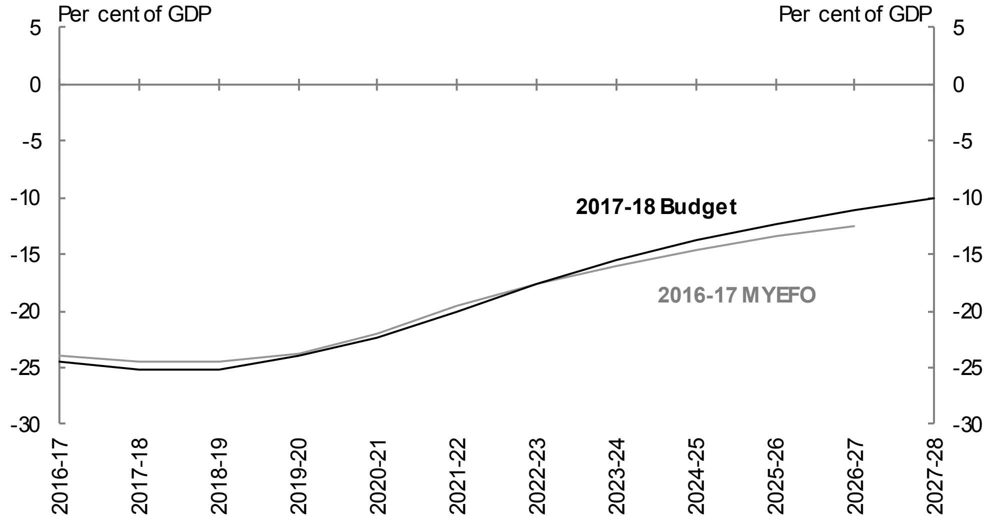
Note: A tax-to-GDP ‘cap’ of 23.9 per cent is applied to these projections from 2022-23.
Source: Australian Office of Financial Management and Treasury projections.

Net financial worth is an indicator of fiscal sustainability in the medium-term fiscal strategy. It provides a broader measure of the Government’s assets and liabilities as it includes both the assets of the Future Fund and the public superannuation liability that the Future Fund seeks to finance.

Net financial worth is estimated to be -$457.8 billion (-25.1 per cent of GDP) in 2017-18, $13.8 billion worse than estimated at the 2016-17 MYEFO. Compared with the 2016-17 MYEFO, net financial worth has deteriorated over the forward estimates. This reflects an increase in the market value of CGS on issue due to a lower weighted average cost of borrowing and a decrease in advances paid and the value of investments held by the Government.

Net financial worth improves as a share of GDP over the medium term, rising to -$301.8 billion (-10.1 per cent of GDP) by 2027-28 (Chart 8).

Chart 8: Net financial worth projected to 2027-28



Source: Treasury projections.

Net worth is expected to be -$318.1 billion in 2017-18, $17.2 billion lower than estimated at the 2016-17 MYEFO. Net worth is expected to be -$311.4 billion by the end of the forward estimates.

Further details on debt and the Government's balance sheet can be found in *Statement 7: Debt statement, assets and liabilities.*

FISCAL OUTLOOK

Budget aggregates

An **underlying cash deficit** of $29.4 billion (1.6 per cent of GDP) is expected in 2017-18, improving to a projected surplus of $7.4 billion (0.4 per cent of GDP) in 2020-21.

In accrual terms, a **net operating deficit** of $19.8 billion (1.1 per cent of GDP) is expected for 2017-18, improving to a projected surplus of $7.6 billion (0.4 per cent of GDP) in 2019-20 and a larger projected surplus of $17.5 billion (0.8 per cent of GDP) in 2020-21.

A **headline cash deficit** of $48.4 billion is expected in 2017-18, improving to a projected surplus of $11.7 billion in 2020-21.

Table 5 provides a summary of the cash flows of the Australian Government general government sector.

Table 5: Summary of Australian Government general government sector cash flows

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$b	$b	$b	$b	$b
Cash receipts					
Operating cash receipts	403.5	432.1	461.8	496.1	526.3
Capital cash receipts(a)	2.2	1.4	0.7	0.8	0.1
Total cash receipts	405.7	433.5	462.5	496.9	526.3
Cash payments					
Operating cash payments	428.6	446.2	466.6	480.9	503.1
Capital cash payments(b)	12.0	13.5	13.8	14.7	15.8
Total cash payments	440.5	459.7	480.4	495.6	518.9
GFS cash surplus(+)/deficit(-)(c)	**-34.8**	**-26.2**	**-17.9**	**1.3**	**7.4**
Per cent of GDP	-2.0	-1.4	-0.9	0.1	0.4
less Finance leases and similar arrangements(c)(d)	0.0	0.0	0.0	0.0	0.0
less Net Future Fund earnings(e)	2.8	3.2	3.5	3.7	na
Underlying cash balance(f)	**-37.6**	**-29.4**	**-21.4**	**-2.5**	**7.4**
Per cent of GDP	-2.1	-1.6	-1.1	-0.1	0.4
Memorandum items:					
Net cash flows from investments in financial assets for policy purposes	-16.2	-22.2	-19.2	-16.1	4.3
plus Net Future Fund earnings(e)	2.8	3.2	3.5	3.7	na
Headline cash balance	**-51.1**	**-48.4**	**-37.1**	**-14.8**	**11.7**
Net Future Fund earnings(e)	2.8	3.2	3.5	3.7	4.0

(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) Due to the implementation of the 2015 ABS GFS Manual, from the 2017-18 Budget, finance leases are not deducted in the derivation of the GFS cash surplus/deficit.
(d) The acquisition of assets under finance leases worsens the underlying cash balance. The disposal of assets previously held under finance leases improves the underlying cash balance.
(e) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Government superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.
(f) Excludes expected net Future Fund earnings before 2020-21.

Underlying cash balance estimates

The estimated underlying cash deficit in 2017-18 has deteriorated by $701 million compared to the 2016-17 MYEFO. Table 6 provides a reconciliation of the variations in the underlying cash balance since the 2016-17 Budget.

Since the 2016-17 MYEFO, policy decisions have resulted in a $6.3 billion improvement in the underlying cash balance in the four years from 2017-18 to 2020-21. The overall impact of policy decisions on the bottom line has been more than fully offset.

Since the 2016-17 MYEFO, the effect of parameter and other variations has resulted in a $7.3 billion reduction in forecast receipts across the four years to 2020-21, more than offset by a $12.0 billion reduction in payments across the four years to 2020-21.

From 2020-21 onwards, net Future Fund earnings are included in the calculation of the underlying cash balance because the Future Fund becomes available to meet the Government's superannuation liabilities from that year. The earnings do not include unrealised gains from the Future Fund that are the basis of the investment mandate provided to the Future Fund by the Government. Net Future Fund earnings are excluded from the calculation of the underlying cash balance between 2005-06 and 2019-20 as, under the *Future Fund Act 2006*, earnings are required to be reinvested to meet the future public sector superannuation liabilities in these years.

Table 6: Reconciliation of underlying cash balance estimates

	Estimates			Projections		
	2016-17	2017-18	2018-19	2019-20	2020-21	Total(a)
	$m	$m	$m	$m	$m	$m
2016-17 Budget underlying cash balance(b)(c)	**-37,081**	**-26,123**	**-15,406**	**-5,955**	**3,897**	**-43,586**
Per cent of GDP	-2.2	-1.4	-0.8	-0.3	0.2	
Changes from 2016-17 Budget to 2016 PEFO						
Effect of policy decisions(d)	-2	0	3	6	0	9
Effect of parameter and other variations	0	0	0	0	0	0
Total variations(e)	**-2**	**0**	**3**	**6**	**0**	**9**
2016 PEFO underlying cash balance(b)	**-37,083**	**-26,123**	**-15,403**	**-5,949**	**3,897**	**-43,578**
Per cent of GDP	-2.2	-1.4	-0.8	-0.3	0.2	
Changes from 2016 PEFO to 2016-17 MYEFO						
Effect of policy decisions(d)	40	313	907	1,223	*	*
Effect of parameter and other variations	529	-2,884	-5,216	-5,266	*	*
Total variations(f)	**569**	**-2,571**	**-4,309**	**-4,043**	**-2,814**	**-13,737**
2016-17 MYEFO underlying cash balance(b)(g)	**-36,514**	**-28,694**	**-19,711**	**-9,992**	**1,083**	**-57,315**
Per cent of GDP	-2.1	-1.6	-1.0	-0.5	0.1	
Changes from 2016-17 MYEFO to 2017-18 Budget						
Effect of policy decisions(d)(h)						
Receipts	*73*	*1,892*	*3,316*	*7,038*	*8,527*	*20,773*
Payments	*1,502*	*4,191*	*4,620*	*3,910*	*1,802*	*14,523*
Total policy decisions impact on underlying cash balance	-1,429	-2,299	-1,303	3,128	6,724	6,250
Effect of parameter and other variations(h)						
Receipts	*-1,699*	*369*	*-1,486*	*-170*	*-5,992*	*-7,279*
Payments	*-2,025*	*-1,012*	*-979*	*-4,435*	*-5,601*	*-12,028*
less Net Future Fund earnings(i)	*-17*	*-217*	*-99*	*-129*	*na*	*-445*
Total parameter and other variations impact on underlying cash balance	343	1,599	-407	4,394	-390	5,195
2017-18 Budget underlying cash cash balance(b)	**-37,600**	**-29,396**	**-21,422**	**-2,470**	**7,417**	**-45,870**
Per cent of GDP	-2.1	-1.6	-1.1	-0.1	0.4	
Memorandum:						
Net Future Fund earnings(i)	*2,784*	*3,205*	*3,513*	*3,745*	*4,001*	*14,463*

*Data is not available.

(a) Total is equal to the sum of amounts from 2017-18.
(b) Excludes expected net Future Fund earnings before 2020-21.
(c) 2020-21 underlying cash balance as published in the medium-term projections, page 3-11 of Budget Paper No. 1: Budget Strategy and Outlook 2016-17.
(d) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.
(e) The medium-term fiscal projections published in the Pre-Election Economic and Fiscal Outlook 2016 did not materially change from those published in the 2016-17 Budget.
(f) 2020-21 shows the total variation between medium-term projections of the underlying cash balance published in the 2016-17 Budget and Mid-Year Economic and Fiscal Outlook 2016-17.
(g) 2020-21 underlying cash balance as published in the medium-term projections, page 27 of the Mid-Year Economic and Fiscal Outlook 2016-17.
(h) A positive number for receipts improves the underlying cash balance, while a positive number for payments worsens the underlying cash balance.
(i) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Government superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.

Offsetting new decisions

The Government remains committed to offsetting all new policy decisions. At this Budget, the overall impact of policy decisions on the bottom line is an improvement of $6.3 billion over the four years from 2017-18 to 2020-21.

Progress on budget repair measures

Since the 2016 PEFO, the Government has made significant progress in implementing unlegislated budget repair measures, including through appropriations and regulations. The total impact of budget repair measures implemented since the 2016 PEFO is over $25 billion.

The Government will no longer proceed with a number of unlegislated measures reported from the 2014-15 Budget and later budget updates. This will cost taxpayers more than $13 billion. A detailed breakdown of decisions taken as a result of Senate positions is provided at *Appendix A: Decisions taken as a result of Senate positions*. The Government is committed to continuing to work with the Parliament to secure the successful passage of all remaining unlegislated measures that contribute to the task of budget repair. The estimated impact over the forward estimates of remaining measures, announced prior to the 2017-18 Budget, and after taking account of parameter changes is a positive $4.4 billion. This comprises around $1.0 billion of receipt increases and around $3.3 billion of payments saves. These measures remain Government policy and will continue to be pursued for passage through the Parliament.

Table 7: Reconciliation of decisions in the 2017-18 Budget for Senate positions (underlying cash balance)

	Estimates		Projections		
	2017-18	2018-19	2019-20	2020-21	Total
	$m	$m	$m	$m	$m
Total impact of policy decisions since the 2016-17 MYEFO					
Receipts	1,892	3,316	7,038	8,527	20,773
Payments	-4,191	-4,620	-3,910	-1,802	-14,523
Total impact of policy decisions prior to Senate positions	**-2,299**	**-1,303**	**3,128**	**6,724**	**6,250**
Less: Decisions taken as a result of Senate positions					
Receipts	194	272	298	392	1,155
Payments	-2,260	-3,424	-4,384	-4,662	-14,729
Total Decisions taken as a result of Senate positions	**-2,067**	**-3,152**	**-4,086**	**-4,270**	**-13,575**
Net Budget impact of new policy decisions in the 2017-18 Budget					
Receipts	1,698	3,045	6,740	8,135	19,618
Payments	-1,931	-1,196	474	2,860	206
Net Budget impact of new policy decisions in the 2017-18 Budget	**-233**	**1,849**	**7,214**	**10,995**	**19,825**

Receipts estimates

Total receipts are expected to be $2.3 billion higher in 2017-18 than estimated at the 2016-17 MYEFO, with tax receipts $700 million higher and non-taxation receipts $1.6 billion higher.

Since the 2016-17 MYEFO, non-taxation receipts have remained broadly unchanged in 2016-17. Non-taxation receipts have been revised up by $1.6 billion in 2017-18, largely reflecting an upwards revision to projected dividend receipts from the Reserve Bank of Australia.

Policy decisions

Policy decisions since the 2016-17 MYEFO are expected to increase receipts by $1.9 billion in 2017-18, $3.3 billion in 2018-19, $7.0 billion in 2019-20 and $8.5 billion in 2020-21. Significant measures include:

- increasing the Medicare levy by half a percentage point from 2 to 2.5 per cent of taxable income from 1 July 2019 to ensure the Commonwealth's share of the NDIS is fully funded. This is estimated to increase tax receipts by $8.2 billion over the forward estimates period. Revenue raised by the increase in the Medicare levy will be credited to the NDIS Savings Fund Special Account when it is established;
- a major bank levy will be introduced for Authorised Deposit-taking Institutions (ADIs) with licensed entity liabilities of at least $100 billion from 1 July 2017. The $100 billion threshold will be indexed to grow in line with nominal GDP. This is estimated to increase tax receipts by $5.5 billion over the forward estimates period; and
- from March 2018, businesses that employ foreign workers on certain skilled visas will be required to pay a levy that will provide revenue for a new *Skilling Australians Fund*. This is estimated to increase tax receipts by $1.2 billion over the forward estimates period.

Further details of Government policy decisions are provided in Budget Paper No. 2, *Budget Measures 2017-18*.

Parameter and other variations

The revisions to total tax receipts reflect a shift in the composition of growth between wages and profits. Given that wages account for the majority of income taxes paid, this results in overall taxes growing more slowly than previously expected.

Improved corporate profitability has contributed to higher forecasts for company tax of $6.9 billion over the four years to 2019-20, excluding new policy. However, aggregate wage growth is expected to be weaker, resulting in downward revisions to forecast individuals and other withholding tax of $6.3 billion, excluding new policy. In addition, the GST has been revised down by $3.9 billion, excluding the impact of new policy decisions.

Further information on expected tax receipts is provided in *Statement 5: Revenue*. Analysis of the sensitivity of the receipts estimates to changes in the economic outlook is provided in *Statement 8: Forecasting performance and scenario analysis*.

Payment estimates

Since the 2016-17 MYEFO, total cash payments for 2017-18 have increased by $3.2 billion and increased by $2.5 billion over the four years to 2020-21. The overall net impact of payment related decisions (excluding the impact of Senate negotiations) has decreased total cash payments by $206 million over the four years to 2020-21.

Policy decisions

Major decreases in payments as a result of policy decisions since the 2016-17 MYEFO include:

- providing an affordable higher education system through a range of initiatives to place the higher education sector on a more sustainable footing, which is expected to decrease payments by $180 million in 2017-18 ($2.5 billion over four years to 2020-21);
- maintaining the current Family Tax Benefit payment rates for two years at their current levels from 1 July 2017, which is expected to decrease payments by $229 million in 2017-18 ($1.9 billion over four years to 2020-21);
- no increase to the maximum rate of Family Tax Benefit Part A, which was announced as part of the 2015-16 MYEFO measure titled *Family Payment Reform – a new families package*. This is expected to decrease payments by $1 million in 2017-18 ($1.9 billion over four years to 2020-21);
- supporting the delivery of the Western Australian NDIS under a nationally consistent, locally administered model. This is expected to decrease payments by $167 million in 2017-18 ($1.3 billion over four years to 2020-21);
- building on existing statutory price reductions for medicines listed on the PBS through a five year agreement with Medicines Australia. This is expected to decrease payments by $25 million in 2017-18 ($1.3 billion over four years to 2020-21); and
- refocusing Work for the Dole and introducing a new Job Seeker Compliance Framework that strengthens penalties for deliberate non-compliance while providing additional help for genuine job seekers to meet their requirements. This is expected to decrease payments by $4 million in 2017-18 ($637 million over four years to 2020-21).

Major increases in payments as a result of policy decisions since the 2016-17 MYEFO include:

- not proceeding with those unlegislated budget repair measures included in the measure, *Unlegislated Budget Repair Measures – not proceeding*, which is expected to increase payments by $2.3 billion in 2017-18 ($15.5 billion over four years to 2020-21, with an associated increase in receipts of $962 million over the same period);

- implementing a new needs-based funding model for schools which delivers a consistent Commonwealth approach for all schools in all States and Territories. This is expected to increase payments by $106 million in 2017-18 ($1.8 billion over four years to 2020-21);

- strengthening compliance with GST law by requiring purchasers of newly constructed residential properties or new subdivisions to remit GST directly to the Australian Taxation Office as part of settlement, which is expected to increase payments by $3 million in 2017-18 ($1.6 billion over four years to 2020-21);

- establishing a permanent *Skilling Australians Fund* to support the skilling of Australians. From 2018-19, funding will be determined by the revenue generated from the *Skilling Australia Fund* levy to be applied under the temporary and permanent employer sponsored migration programs. The *Skilling Australia Fund* is expected to increase payments by $350 million in 2017-18 ($1.5 billion over four years to 2020-21);

- introducing new and amended listings on the PBS and the Repatriation Pharmaceutical Benefits Scheme, which is expected to increase payments by $206 million in 2017-18 ($1.1 billion over four years to 2020-21); and

- re-introducing indexation in phases for certain items on the MBS, which is expected to increase payments by $9 million in 2017-18 ($1.0 billion over four years to 2020-21).

Parameter and other variations

Parameter and other variations since the 2016-17 MYEFO have decreased total cash payments by $1.0 billion in 2017-18 and $12.0 billion over the four years to 2020-21.

Major decreases in payments as a result of parameter and other variations since the 2016-17 MYEFO include:

- payments related to the Infrastructure Investment Programme, largely reflecting a re-profile of the Programme funding to align with the delivery of project milestones. These are expected to decrease payments by $692 million in 2017-18 (although an increase in payments of $1.3 billion is expected over the four years to 2020-21);

- payments relating to the provision of GST to the States and Territories, which are expected to decrease by $460 million in 2017-18 ($3.9 billion over the four years to 2019-20), consistent with a reduction in GST receipts;
- payments relating to the NDIS, which are expected to decrease by $319 million in 2017-18 ($2.7 billion over the four years to 2020-21), largely reflecting the agreement with Western Australia that a State run NDIS will be implemented from 1 July 2017. This decrease in payments made by the National Disability Insurance Agency is offset by a corresponding decrease in receipts in relation to State and Territory contributions;
- payments related to the Income Support for People with Disability program, which are expected to decrease by $314 million in 2017-18 ($1.4 billion over the four years to 2020-21), largely reflecting lower than expected growth in the number of Disability Support Pension recipients; and
- payments related to the Private Health Insurance Rebate, which are expected to decrease by $254 million in 2017-18 ($1.1 billion over the four years to 2020-21), largely reflecting a reduction in the growth in private health insurance participation.

Major increases in payments as a result of parameter and other variations since the 2016-17 MYEFO include:

- payments related to Defence operations, which are expected to increase by $817 million in 2017-18 ($936 million over the four years to 2020-21), largely reflecting continued funding for Australia's military contribution overseas and the protection of Australia's borders and offshore maritime interests;
- payments to the States and Territories for public hospitals, which are expected to increase by $599 million in 2017-18 ($2.2 billion over the four years to 2020-21), largely reflecting revised activity estimates from the States and Territories and the release of the final 2017-18 National Efficient Price and National Efficient Cost determinations;
- payments related to the Job Seeker Income Support program, which are expected to increase by $407 million in 2017-18 ($2.0 billion over the four years to 2020-21), largely reflecting an increase in estimated unemployment benefit recipients; and
- payments related to the States and Territories under the Natural Disaster Relief and Recovery Arrangements program, which are expected to increase by $254 million in 2017-18 ($285 million over the four years to 2020-21), largely reflecting a deferral of payments previously expected to be made in 2016-17.

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 6: Expenses and Net Capital Investment*.

Analysis of the sensitivity of payments estimates to changes in the economic outlook is provided in *Statement 8: Forecasting Performance and Scenario Analysis*.

Net operating balance estimates

The net operating balance is expected to be a deficit of $19.8 billion (1.1 per cent of GDP) in 2017-18, which reflects a deterioration of $0.7 billion compared with the 2016-17 MYEFO. Table 8 provides a reconciliation of the variations in the net operating balance since the 2016-17 Budget. Further information on the net operating balance is provided at Box 7.

Box 7: Net operating balance

This Budget increases prominence of the net operating balance to provide better information as to how closely the government is meeting its recurrent obligations from its annual revenues.

The underlying cash balance will continue to be the main fiscal aggregate reported in the budget papers and remains the key aggregate for the Government's fiscal strategy of achieving a balanced budget over the course of the economic cycle.

If government cannot meet recurrent spending from today's taxes then this spending must be funded by taking on public debt which will have to be funded by higher taxes in the future. For this reason, it is important to pay attention to recurrent expenses and revenues as recognised in the net operating balance.

The net operating balance complements the underlying cash balance by focusing on the management of recurrent obligations. Leaving aside distinctions between cash and accrual, the key difference between the underlying cash balance and the net operating balance is the treatment of capital investment (such as spending on infrastructure). The net operating balance is an accrual measure of revenue less expenses (including the depreciation of prior capital investment). While the underlying cash balance includes net new capital investment, the net operating balance does not. In this way, the net operating balance provides a basis for distinguishing between most recurrent expenditure and capital investment.

Further detailed information on the net operating balance can be found in *Statement 4: Recurrent and Capital Budget*.

Table 8: Reconciliation of net operating balance estimates

	Estimates			Projections		
	2016-17	2017-18	2018-19	2019-20	2020-21	Total(a)
	$m	$m	$m	$m	$m	$m
2016-17 Budget net operating balance	**-33,691**	**-15,287**	**-4,954**	**3,458**	*****	*****
Per cent of GDP	-2.0	-0.8	-0.3	0.2		
Changes from 2016-17 Budget to 2016 PEFO						
Effect of policy decisions(b)	-1	1	3	6	*	*
Effect of parameter and other variations	0	0	0	0	*	*
Total variations	**-1**	**1**	**3**	**6**	*****	*****
2016 PEFO net operating balance	**-33,693**	**-15,287**	**-4,951**	**3,464**	*****	*****
Per cent of GDP	-2.0	-0.8	-0.3	0.2		
Changes from 2016 PEFO to 2016-17 MYEFO						
Effect of policy decisions(b)	521	1,268	1,233	1,374	*	*
Effect of parameter and other variations	-4,359	-5,141	-6,853	-6,114	*	*
Total variations	**-3,837**	**-3,873**	**-5,620**	**-4,741**	*****	*****
2016-17 MYEFO net operating balance	**-37,530**	**-19,159**	**-10,571**	**-1,276**	*****	*****
Per cent of GDP	-2.1	-1.1	-0.6	-0.1		
Changes from 2016-17 MYEFO to 2017-18 Budget						
Effect of policy decisions(b)(c)						
Revenue	0	2,840	3,238	7,680	9,279	23,037
Expenses	1,775	5,004	5,155	3,754	1,783	15,696
Total policy decisions impact on net operating balance	-1,775	-2,163	-1,918	3,926	7,496	7,341
Effect of parameter and other variations(c)						
Revenue	979	351	-201	440	*	*
Expenses	340	-1,124	-1,924	-4,531	*	*
Total parameter and other variations impact on net operating balance	639	1,475	1,724	4,972	*	*
2017-18 Budget net operating balance	**-38,666**	**-19,848**	**-10,765**	**7,622**	**17,471**	**-5,520**
Per cent of GDP	-2.2	-1.1	-0.6	0.4	0.8	
Net capital Investment						
Effect of net capital investment(d)	2,047	484	4,770	4,892	6,037	16,183
2017-18 Budget fiscal balance	**-40,713**	**-20,331**	**-15,535**	**2,729**	**11,434**	**-21,703**
Per cent of GDP	-2.3	-1.1	-0.8	0.1	0.6	

**Data is not available.*

(a) Total is equal to the sum of amounts from 2017-18.

(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 revenue improves the net operating balance, while a positive number for expenses worsens the net operating balance.

(d) A positive number for net capital investment worsens 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 estimates

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

- superannuation benefits, where there is a timing difference with the expense accruing during employment and cash payments occurring during retirement;
- 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; and
- purchases of non-financial assets, which are included in cash payments but not in accrual expenses. The expense estimates include depreciation of non-financial assets rather than recognising the impact at the time of purchase.

Detailed information on expenses can be found in *Statement 6: 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 2017-18 is estimated to be a deficit of $48.4 billion, compared with a deficit of $45.2 billion at the 2016-17 MYEFO. The deterioration in the headline cash balance since the 2016-17 MYEFO has been primarily driven by the Government's equity financing of the Melbourne to Brisbane Inland Rail and Western Sydney Airport.

Table 9: Reconciliation of general government underlying and headline cash balance estimates

	Estimates			Projections		
	2016-17	2017-18	2018-19	2019-20	2020-21	Total(a)
	$m	$m	$m	$m	$m	$m
2017-18 Budget underlying cash balance(b)	**-37,600**	**-29,396**	**-21,422**	**-2,470**	**7,417**	**-45,870**
***plus* Net cash flows from investments in financial assets for policy purposes**						
Student loans	-7,204	-7,944	-8,230	-8,487	-8,974	-33,636
NBN investment	-7,700	-1,525	0	0	0	-1,525
NBN loan	0	-9,286	-6,815	-2,679	18,780	0
Residential mortgage backed securities	881	697	599	337	280	1,913
WestConnex	-617	-722	-576	-85	0	-1,383
Trade support loans	-158	-159	-161	-163	-148	-631
CEFC loans and investments	-914	-596	-580	-689	-750	-2,616
Northern Australia Infrastructure Facility	0	-516	-1,124	-1,166	-958	-3,764
Drought and rural assistance loans	-197	-229	-349	-194	-249	-1,021
National water infrastructure loan facility	0	-100	-200	-500	-500	-1,300
Net other(c)	-337	-1,840	-1,777	-2,451	-3,229	-9,296
Total net cash flows from investment in financial assets for policy purposes	**-16,246**	**-22,221**	**-19,212**	**-16,077**	**4,252**	**-53,258**
plus Net Future Fund earnings(d)	2,784	3,205	3,513	3,745	na	10,463
2017-18 Budget headline cash balance	**-51,061**	**-48,411**	**-37,121**	**-14,802**	**11,669**	**-88,666**
Memorandum:						
Net Future Fund earnings(d)	*2,784*	*3,205*	*3,513*	*3,745*	*4,001*	*14,463*

(a) Total is equal to the sum of amounts from 2017-18 to 2020-21.
(b) Excludes expected net Future Fund earnings before 2020-21.
(c) Net other includes proposed equity payments for infrastructure projects. The amounts have not been itemised for commercial-in-confidence reasons.
(d) Under *the Future Fund Act 2006*, net Future Fund earnings will be available to meet the Government superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.

APPENDIX A: DECISIONS TAKEN AS A RESULT OF SENATE POSITIONS

Table A1: Decisions taken as a result of Senate positions (underlying cash balance)

	Estimates		Projections		
	2017-18	2018-19	2019-20	2020-21	Total
	$m	$m	$m	$m	$m
Reversal of 2013-14 Budget measure 'Department of Human Services — efficiencies'					
Payments	-3	-3	-3	-3	-10
Reversal of 2014-15 Budget measure 'Abolish the Seafarer Tax Offset'					
Payments	0	-7	-7	-7	-21
Reversal of 2014-15 Budget measure 'Education Entry Payment — cessation'					
Payments	-14	-15	-15	-15	-58
Net Impact from reversal of 2014-15 Budget measures 'Expanding Opportunity — expansion of the demand driven system and sharing the cost fairly', 'Expanding Opportunity — FEE-HELP and VET FEE-HELP loan fee — cessation' and 'A Sustainable Higher Education System — Research Training Scheme — student contributions', 2014-15 MYEFO measures 'Higher Education Reforms — amendments' and 'Higher Education — Structural Adjustment Fund — establishment' and revised 2017-18 Budget measures 'Higher Education Reform — a more sustainable higher education sector' and 'Higher Education Reform — a fairer and student-focused higher education system'					
Payments	-225	-355	-296	-121	-997
Receipts	-6	72	98	142	305
Reversal of 2014-15 Budget measure 'Increasing the age of eligibility for Newstart Allowance and Sickness Allowance' and 2015-16 Budget measure 'Growing Jobs and Small Business — increasing the age of eligibility for Newstart Allowance and Sickness Allowance — delay'					
Payments	-123	-144	-168	-199	-633
Reversal of 2014-15 Budget measure 'Payments of memberships to international commodity organisations — changed arrangements'					
Payments	-2	-2	-2	-2	-7

Table A1: Decisions taken as a result of Senate positions (underlying cash balance) (continued)

	Estimates		Projections		
	2017-18	2018-19	2019-20	2020-21	Total
	$m	$m	$m	$m	$m
Reversal of 2014-15 Budget measure 'Pensioner Education Supplement — cessation'					
Payments	-67	-67	-68	-69	-272
Reversal of 2014-15 Budget measure 'Pharmaceutical Benefits Scheme — increase in co-payments and safety net thresholds' and 2015-16 Budget measure 'Pharmaceutical Benefits Scheme — increase in the safety net thresholds on 1 January 2019'					
Payments	-171	-215	-257	-294	-938
Reversal of 2014-15 Budget measure 'Simplifying Medicare safety net arrangements'					
Payments	-65	-74	-83	-92	-314
Reversal of 2014-15 Budget measure 'Stronger Compliance Arrangements for Job Seekers Who Refuse or Persistently Fail to Meet Requirements' and 2015-16 Budget measure 'Growing Jobs and Small Business — further strengthening the job seeker compliance arrangements'					
Payments	2	-8	-9	-9	-24
Reversal of 2015-16 Budget measure 'Australian Working Life Residence — tightening proportionality requirements'					
Payments	-64	-68	-71	-75	-278
Reversal of 2015-16 Budget measure 'Growing Jobs and Small Business — Youth Employment Strategy — revised waiting period for youth income support'					
Payments	-51	-60	-63	-65	-238
Reversal of 2015-16 MYEFO measure 'Addressing Welfare Reliance in Remote Communities'					
Payments	0	0	0	0	0
Reversal of 2015-16 MYEFO measure 'Family payment reform — a new families package' — phasing out end of year supplements and limiting FTB Part B to single families with youngest child aged under 17 years					
Payments	-398	-1,121	-1,816	-1,823	-5,158

Table A1: Decisions taken as a result of Senate positions (underlying cash balance) (continued)

	Estimates		Projections		
	2017-18	2018-19	2019-20	2020-21	Total
	$m	$m	$m	$m	$m
Reversal of 2015-16 MYEFO measure 'Family payment reform — a new families package' — reducing FTB Part B for single parents with youngest child aged 13-16					
Payments	-183	-199	-200	-200	-781
Reversal of 2015-16 MYEFO measure 'Medicare Benefits Schedule — changes to diagnostic imaging and pathology services bulk billing incentives'					
Payments	-217	-227	-241	-250	-935
Reversal of 2015-16 MYEFO measure 'Parental Leave Pay — revised arrangements' and 2013-14 MYEFO measure 'Paid Parental Leave — removing the mandatory obligation for employers to administer payments'					
Payments	-535	-557	-577	-602	-2,272
Receipts	200	200	200	250	850
Reversal of 2015-16 MYEFO measure 'Smaller Government — Attorney-General's Portfolio'					
Payments	0	0	0	0	0
Net impact from reversal of 2014-15 Budget measure 'Students First — indexation of School funding from 2018' and 2016-17 Budget measure 'School Funding — additional funding from 2018', and 2017-18 Budget measure 'Schools Funding from 2018'					
Payments	-106	-296	-511	-840	-1,753
Amendment to 2016-17 MYEFO measure 'Revised Arrangements for Commonwealth Dental Funding'					
Payments	-38	-45	-47	-49	-179
Amendment to 2015-16 Budget measure 'Families Package — child care — Workforce Participation Stream'					
Payments	0	39	49	51	139
Total Payments adjustments and reversals	**-2,260**	**-3,424**	**-4,384**	**-4,662**	**-14,729**
Total Receipts adjustments and reversals	**194**	**272**	**298**	**392**	**1,155**
Total impact of Senate positions	**-2,067**	**-3,152**	**-4,086**	**-4,270**	**-13,575**

STATEMENT 4: RECURRENT AND CAPITAL BUDGET

The *Charter of Budget Honesty* requires that budgets be based on external reporting standards. This includes four well accepted measures of fiscal flows – the underlying cash balance, the headline cash balance, the net operating balance and the fiscal balance. All these measures convey important information about the strength and sustainability of the public finances and the impact of government policy on the broader economy.

Since 1996 governments have focused on the underlying cash balance, which indicates whether the government is meeting its spending and physical capital investment from within its recurrent revenues.

The underlying cash balance will continue to be the primary fiscal aggregate reported in the Budget papers. It reflects the impact of government fiscal settings on the macro-economy and the budget's call on cash resources from other sectors.

To complement the underlying cash balance and assist in distinguishing between recurrent and capital spending, this Budget provides increased prominence to the net operating balance to provide better information as to how closely the government is meeting its recurrent obligations from its annual revenues.

This statement explains the net operating balance and sets out an analysis of how the Government funds its recurrent and capital spending.

The Commonwealth has a large capital program, totalling around $50.6 billion in 2017-18 and around $218 billion over the forward estimates, but this is recorded in separate parts of the financial statements and accounting treatment complicates a clear understanding of the purposes of some payments.

Aggregating the total Commonwealth spend for capital purposes helps to show that from 2018-19 the Government will not need to borrow to fund spending for recurrent purposes. By contrast, the period since the Global Financial Crisis has been characterised by government borrowing to fund recurrent as well as capital spending.

This statement also sets out an analysis that attributes government debt and interest payments to individual government portfolios. This analysis mainly attributes the increase in borrowing and interest costs since 2007-08 to the largest areas of government spending – social services, health and education.

CONTENTS

STATEMENT 4: RECURRENT AND CAPITAL BUDGET

INTRODUCTION

As part of its national plan for economic growth and jobs, the Government is investing in a stronger economy by redirecting spending to higher priorities, productivity-enhancing infrastructure and other capital investments. These investments are providing jobs, creating new opportunities and improving the quality of life for Australians.

All government spending, whether for day-to-day operations (recurrent) or capital, should be closely scrutinised for its quality. This requires a strong commitment to rigorous project assessment and program evaluation to determine which spending generates the strongest public benefits.

A broad distinction can be made, however, between investment in capital assets, which provide a stream of benefits over time, and recurrent spending. If the Government cannot meet recurrent spending from today's taxes then this spending must be funded by taking on public debt which will have to be funded by higher taxes in the future. For this reason, it is important to pay attention to recurrent expenses and revenues as recognised in the net operating balance.

This Budget increases the prominence of the net operating balance to provide better information on managing recurrent obligations. In doing so, this enhanced reporting provides important information about the sustainability and intergenerational equity of government spending.

The remainder of this statement is set out in four sections. The first section provides an overview of the net operating balance as a measure of the recurrent budget. The second section provides a stocktake of the Government's capital spending, including its direct and indirect forms. By taking account of direct and indirect forms of capital spending, the third section outlines the progress the Government has made in reducing the need to finance recurrent spending by borrowing. The statement concludes by analysing and presenting information about the areas of government spending that have grown since the Global Financial Crisis and have been the main drivers of increased borrowing and interest costs.

MEASURING THE RECURRENT BUDGET

The net operating balance is an accrual measure of revenue minus expenses, including non-cash items such as the annual depreciation of existing capital stock. It does not include the impact of the Commonwealth's net new capital expenditure (which is incorporated in the wider fiscal flow measures of the fiscal balance and its cash equivalent, the underlying cash balance).

The net operating balance is an important measure of the sustainability of budget settings. A zero balance implies that current revenues are sufficient to fund recurrent costs, including depreciation of the existing capital stock. A net operating surplus means that government is able to use surpluses to fund capital (increase net assets) or pay down debt. A net operating deficit means the government's net assets are being run down over time.

The underlying cash balance continues to be the primary fiscal aggregate reported in the Budget papers. It is an adjusted measure of the cash balance rather than a measure of the recurrent budget balance. In this context, the net operating balance usefully complements the underlying cash balance by helping to distinguish between recurrent and capital spending. Box 1 provides a more detailed comparison of the underlying cash balance and the net operating balance.

Box 1: Comparing the underlying cash balance and the net operating balance

The use of the underlying cash balance is grounded in the *Charter of Budget Honesty* requirement that fiscal policy is conducted in accordance with principles of sound fiscal management, which recognise the importance of the sustainability of government debt and national saving.

The underlying cash balance broadly reflects the Government's call on resources from other sectors of the economy, shows whether the Government has sufficient cash to cover its activities and also reflects the Government's cash investment-saving balance. In doing so, the underlying cash balance records the Government's net capital investment (including direct spending on infrastructure and other productive capital) as a direct worsening of the bottom line.

By contrast, the net operating balance is an accrual measure of revenue less expenses (including the depreciation of prior capital investment) and does not include net new capital investment (such as spending on infrastructure). Leaving aside distinctions between cash and accrual[1], the key difference between the underlying cash balance and the net operating balance is this treatment of capital investment. While the underlying cash balance includes net new capital investment, the net operating balance does not. In this way, the net operating balance provides a basis for distinguishing between most recurrent expenditure and capital investment. However, as discussed further below, neither the net operating balance nor the underlying cash balance adequately account for the Government's grants for capital purposes, including tied grants made to the States to fund their infrastructure.

The net operating balance is required by external reporting standards and it has been reported in the Budget papers since accrual accounting was adopted, consistent with the requirements of the *Charter of Budget Honesty* and the *Uniform Presentation Framework*.

The net operating balance has been adopted for some time by the States and Territories (the States) and some key international counterparts as the principal focus for budget reporting. All the States report against the net operating balance as the primary fiscal aggregate.[2] New Zealand and Canada also focus on similar measures.

A net operating deficit of $19.8 billion (1.1 per cent of GDP) is expected in 2017-18, improving to a surplus of $17.5 billion (0.8 per cent of GDP) in 2020-21. Table 1 provides a summary of the net operating balance and other key aggregates across the forward estimates period.

1 Cash accounts recognise transactions when cash is received or paid out. Accrual accounts recognise transactions that increase or decrease net worth in the form of revenue, expenses and other economic flows.

2 The ACT reports against an adjusted version of the net operating balance.

Table 1: Australian Government general government sector budget aggregates

	Actual	Estimates			Projections		
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total(a)
	$b	$b	$b	$b	$b	$b	$b
Receipts	**386.9**	**405.7**	**433.5**	**462.5**	**496.9**	**526.3**	**1,919.2**
Per cent of GDP	23.4	23.2	23.8	24.4	25.1	25.4	
Payments(b)	**423.3**	**440.5**	**459.7**	**480.4**	**495.6**	**518.9**	**1,954.6**
Per cent of GDP	25.6	25.1	25.2	25.4	25.0	25.0	
Net Future Fund earnings(c)	3.2	2.8	3.2	3.5	3.7	na	10.5
Underlying cash balance(d)	**-39.6**	**-37.6**	**-29.4**	**-21.4**	**-2.5**	**7.4**	**-45.9**
Per cent of GDP	-2.4	-2.1	-1.6	-1.1	-0.1	0.4	
Revenue	**395.1**	**412.1**	**444.4**	**476.1**	**510.8**	**540.4**	**1,971.7**
Per cent of GDP	23.9	23.5	24.4	25.2	25.8	26.0	
Expenses	**428.7**	**450.8**	**464.3**	**486.9**	**503.2**	**522.9**	**1,977.2**
Per cent of GDP	25.9	25.7	25.5	25.7	25.4	25.2	
Net operating balance	**-33.6**	**-38.7**	**-19.8**	**-10.8**	**7.6**	**17.5**	**-5.5**
Per cent of GDP	-2.0	-2.2	-1.1	-0.6	0.4	0.8	
Net capital investment	3.8	2.0	0.5	4.8	4.9	6.0	16.2
Fiscal balance	**-37.5**	**-40.7**	**-20.3**	**-15.5**	**2.7**	**11.4**	**-21.7**
Per cent of GDP	-2.3	-2.3	-1.1	-0.8	0.1	0.6	
Memorandum items:							
Net Future Fund earnings(c)	3.2	2.8	3.2	3.5	3.7	4.0	14.5
Headline cash balance	-49.1	-51.1	-48.4	-37.1	-14.8	11.7	-88.7

(a) Total is equal to the sum of amounts from 2017-18 to 2020-21.
(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(c) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Government superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.
(d) Excludes expected net Future Fund earnings before 2020-21.

MEASURING THE CAPITAL BUDGET

The Commonwealth's capital spending is significant, totalling around $50.6 billion in 2017-18. This spending is funded and financed in three main ways.

- First, the Government directly spends to acquire physical assets. This spending appears in the cash flow statement as an investment in non-financial assets. It detracts from the underlying cash balance, but not the net operating balance. The resulting assets are recorded on the Commonwealth's balance sheet.

- Second, the Commonwealth provides grants to others (primarily the States) for capital purposes (that is, to acquire their own assets). This spending appears as a grant and detracts from the underlying cash balance and the net operating balance.

- Third, the Government directly spends to acquire financial assets. This spending takes the form of a loan or equity contribution to a third party. It appears in the cash flow statement as an investment in financial assets for policy purposes and does not impact on the underlying cash balance or the net operating balance. It creates a financial asset on the Commonwealth's balance sheet. In some instances, these loan and equity contributions result in another entity investing in physical infrastructure.

Spending in the first category will be around $13.5 billion (or around 3.2 per cent of total government spending) in 2017-18. Much of it relates to military equipment, but it also includes direct spending by Commonwealth Government departments on acquiring infrastructure, buildings, equipment and software.

Spending in the second category will be around $14.2 billion (or around 3.4 per cent of total government spending) in 2017-18. A significant component represents tied funding which goes to the States for capital purposes (such as projects through the Infrastructure Investment Programme, including the Western Sydney Infrastructure Plan, the Toowoomba Second Range Crossing, the North-South Corridor in Adelaide and the Midland Highway in Tasmania). While this Commonwealth spending is for capital purposes, it is recorded as grant spending that reduces the Commonwealth's underlying cash balance, fiscal balance and net operating balance. In effect, this spending creates a financial liability (debt) on the Commonwealth's balance sheet, while contributing to physical assets on the States' balance sheets.[3]

Spending in the third category will be around $22.9 billion (or around 5.5 per cent of total government spending) in 2017-18. This includes cases in which the Government funds capital investment through equity injections and loans. For example, the loan to NBN Co. announced in the 2016-17 MYEFO. Other examples announced in this Budget include an equity investment of $8.4 billion in the Australian Rail Track Corporation to deliver Inland Rail and an equity investment of up to $5.3 billion in WSA Co to develop Western Sydney Airport. These are major infrastructure items presented as financial assets on the Government's balance sheet.

Taking account of all these forms of direct and indirect capital spending, Table 2 outlines estimates of recurrent and capital spending as a proportion of total spending from 2007-08 to 2020-21.

3 If Australia had one level of government, this 'artificial' classification would not occur as the single government would directly fund capital. Reporting of the total Federal and State government accounts (as the OECD does) also produces the same result, as intergovernmental transfers would be eliminated on the consolidation of accounts.

Table 2: Recurrent and capital spending as a proportion of total spending

	Recurrent spending				Capital spending					Total
	Operating payments	Recurrent grants	Total recurrent	Per cent of total spending	Direct capital investment (a)	Capital grants	Financial asset investments (policy purposes)	Total capital	Per cent of total spending	
	$b	$b	$b	%	$b	$b	$b	$b	%	$b
2007-08	164.6	50.0	**214.6**	***95.6%***	7.3	7.6	-5.1	**9.9**	***4.4%***	**224.4**
2008-09	195.8	55.1	**250.9**	***88.8%***	9.7	13.9	7.9	**31.6**	***11.2%***	**282.5**
2009-10	195.2	60.4	**255.6**	***86.2%***	11.2	25.5	4.3	**41.0**	***13.8%***	**296.6**
2010-11	210.6	64.4	**275.1**	***89.3%***	10.0	16.1	7.0	**33.0**	***10.7%***	**308.1**
2011-12	224.8	72.2	**297.0**	***89.8%***	10.5	17.5	5.9	**33.9**	***10.2%***	**330.9**
2012-13	231.5	68.4	**299.9**	***92.6%***	8.0	11.2	4.8	**24.0**	***7.4%***	**323.9**
2013-14	247.8	73.3	**321.1**	***88.0%***	9.6	24.6	9.4	**43.7**	***12.0%***	**364.8**
2014-15	256.2	79.5	**335.7**	***90.7%***	11.4	10.6	12.6	**34.6**	***9.3%***	**370.3**
2015-16	267.0	78.0	**345.0**	***90.9%***	10.5	10.1	14.1	**34.7**	***9.1%***	**379.7**
2016-17(e)	270.9	84.9	**355.8**	***89.3%***	12.0	13.6	17.1	**42.7**	***10.7%***	**398.5**
2017-18(e)	**285.0**	**84.7**	**369.7**	***88.0%***	**13.5**	**14.2**	**22.9**	**50.6**	***12.0%***	**420.3**
2018-19(e)	299.7	89.9	**389.5**	***89.6%***	13.8	11.5	19.8	**45.1**	***10.4%***	**434.6**
2019-20(p)	314.0	89.8	**403.9**	***90.9%***	14.7	9.4	16.4	**40.5**	***9.1%***	**444.4**
2020-21(p)	331.0	92.5	**423.4**	***91.6%***	15.8	8.2	14.8	**38.7**	***8.4%***	**462.2**

(a) Non-financial asset purchases and net acquisition of assets under finance leases.
(e) Estimates.
(p) Projections.
Note: Recurrent payments include pension and income support payments, payments to government employees, payments for goods and services, grants and subsidies not made for capital purposes and specific purpose payments to States for recurrent purposes. Capital payments include the purchase of land and buildings, software and other facilities, grants and subsidies made for capital purposes and specific purpose payments to States for capital purposes.
Note: Investments in financial assets for policy purposes are shown on a gross basis where available after 2012-13, before which data is only available on a net basis.

This analysis shows that the Commonwealth's capital spend is much larger than just its own purchases of non-financial assets – which is often the smallest of the three categories.

In 2017-18, all forms of capital spending will total $50.6 billion, or around 12.0 per cent of total spending. This comprises $13.5 billion of investment in non-financial assets, $14.2 billion of capital grants and $22.9 billion of investments in financial assets.

The three categories of capital spending appear in different places in the financial statements and impact differently on the various measures of the Budget bottom line. As a result, the choice of fiscal measure is important, as each one sheds different light on how the Government is funding its capital spending and the extent to which it is borrowing to meet recurrent or capital costs.

As noted above, the net operating balance is not affected by spending to acquire physical assets. However, neither the net operating balance nor the underlying cash balance adequately account for the Government's payments for capital purposes, such as grants made to the States that are used to fund infrastructure or other capital investments (the second category of capital expenditure described above). These payments are treated as an expense in the Government's operating statement, given that they contribute to assets on the balance sheets of other entities (such as the States) rather than that of the Commonwealth.

By deducting these payments for capital purposes by the Commonwealth, it is possible to construct an adjusted net operating balance, which better reflects the extent to which the Commonwealth is funding its own recurrent budget. Table 3 below presents estimates of an adjusted net operating balance from 2007-08 to 2020-21.

Table 3: Adjusted net operating balance

	Net operating balance	Capital spending within net operating balance	Adjusted net operating balance
	$b	$b	$b
2007-08	23.5	7.1	**30.6**
2008-09	-25.9	12.9	**-13.0**
2009-10	-47.4	23.9	**-23.6**
2010-11	-46.9	15.4	**-31.4**
2011-12	-39.9	15.5	**-24.4**
2012-13	-22.9	10.1	**-12.8**
2013-14	-40.3	21.4	**-19.0**
2014-15	-38.1	9.3	**-28.8**
2015-16	-33.6	8.8	**-24.9**
2016-17 (e)	-38.7	11.9	**-26.8**
2017-18 (e)	**-19.8**	**12.6**	**-7.3**
2018-19 (e)	-10.8	10.2	**-0.6**
2019-20 (p)	7.6	8.4	**16.0**
2020-21 (p)	17.5	7.2	**24.6**

(e) Estimates.
(p) Projections.
Note: Capital spending within net operating balance includes capital grants to the States and other entities.

This adjusted measure shows a significant deficit since the Global Financial Crisis but is estimated to move towards a broad balance in 2018-19 and a surplus in the remainder of the forward estimates. In other words, the Commonwealth's recurrent budget position (even allowing for non-cash expenses) is broadly in balance from 2018-19, once account is taken of grants for capital purposes to the States and other entities.

The implication of Table 3 is that from the Global Financial Crisis up to 2018-19, grants for capital purposes to the States have been funded by Commonwealth Government debt – effectively generating a liability on the Commonwealth Government's balance sheet and assets on State governments' balance sheets. In a similar vein, the amounts in the middle column of Table 3 include grants that boost States' net operating balances, by appearing as revenue in their operating statements but not expenses.[4]

4 Under accounting standards the States' capital expenditures using these grants are reported below the net operating balance in the operating statement.

Increasingly, Commonwealth Government policy is moving in the direction of seeking greater returns from these capital funding arrangements, identifying instances where loans and equity contributions (for which interest or dividends are paid and legal interests exist) can be made instead of grants.

IMPACT OF CAPITAL AND RECURRENT SPENDING ON DEBT

The analysis of the Commonwealth Government's capital budget and the adjusted net operating balance leads to an important question: for what purposes is the Government borrowing? Is the debt incurred today mainly paying for benefits consumed in the present, or in the future?

There are no simple answers to these questions. Three important qualifications should be noted.

First, spending (whether capital or recurrent) can be of high or low quality. Some recurrent spending can generate longer term benefits. Nonetheless, the distinction between borrowing for recurrent purposes, as against capital, can be useful to provide a broad indication of the sustainability of debt raised.

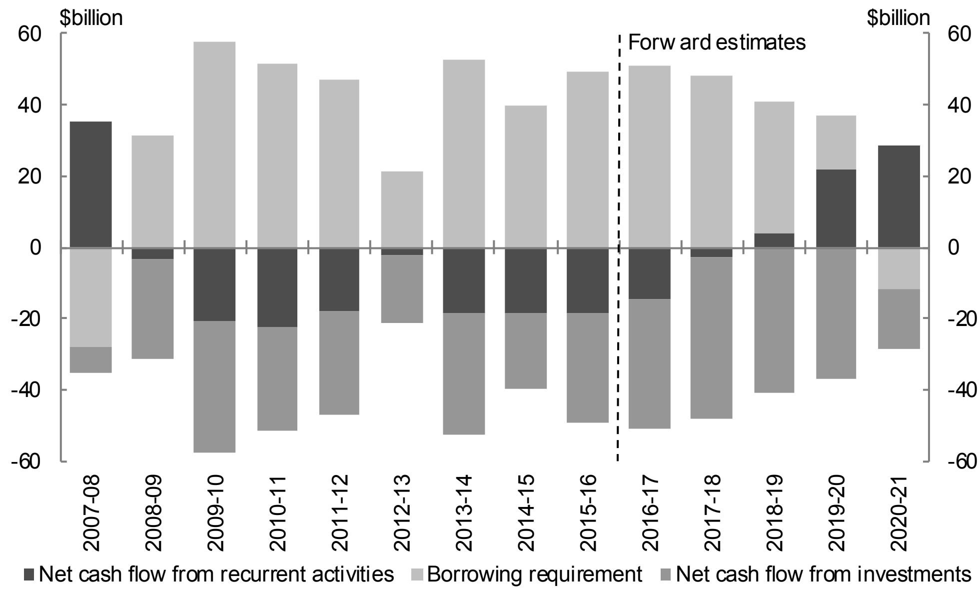
Second, it should not be assumed that all capital spending can or should be funded through debt. Close attention should be paid to overall debt levels and their sustainability, as well as the quality of the investment in generating long-term benefits.

Finally, money is fungible. Except in limited circumstances, government revenue is not tied to specific recurrent or capital expenditure. All of the money flowing to the government – from taxes or borrowing – funds the full suite of government spending, capital and recurrent. Nonetheless, this analysis proceeds on the basis that where borrowing is greater than capital spending, the government can be said to be financing recurrent spending from debt.

The following chart sets out estimates of the government's annual borrowing for capital and recurrent cash spending. It does this by analysing the net cash flows from recurrent activities and the cash flows for investment. Together they indicate the government's requirement for new borrowing in each year to fund the total of capital and recurrent spending.

In this analysis, investment reflects all three of the categories of spending outlined above. Where the net cash flow from recurrent activities is negative, the government can be said to be borrowing for both recurrent and capital purposes. If the net cash flow from recurrent activities is positive, then this is effectively helping to fund some investment activity and the need for new borrowing is less than would otherwise be required for a given level of investment.

Chart 1: Contributions of recurrent and capital spending to government borrowing needs



Note: Net cash flow from investments includes spending to acquire physical assets, spending to acquire financial assets and capital grants to the States and other entities.
Note: The borrowing requirement reflects the amounts to be financed to cover net cash flows from recurrent activities and net cash flows from investments, but does not include the funding required for liquidity purposes or refinancing.

This analysis effectively illustrates that until 2018-19, the Government has been borrowing to pay for both recurrent and capital purposes. In 2018-19 and over the remainder of the forward estimates, the Commonwealth will not need to borrow to raise the cash needed for recurrent spending. In these years, net cash flows from recurrent activities effectively make a contribution to funding capital spending. This would be the first time since the Global Financial Crisis that this has been the case. This reflects the Government's policy to stabilise net debt while still maintaining a strong capital investment program.

IMPACT OF PORTFOLIO SPENDING ON DEBT

Another approach is to attribute government debt and associated interest payments to areas of government spending to get a better sense of the drivers of increased debt.

Governments have run underlying cash deficits since 2008-09, which have been predominantly financed by the issuance of public debt. The face value of Commonwealth Government Securities on issue was around $55 billion in 2007-08 and is projected to increase to around $540 billion in 2017-18. These borrowings help to fund the operations of government across all the portfolios through which government services are provided, such as social security and welfare, health, education and infrastructure. Accordingly, these borrowing needs and their costs can notionally be attributed to different government portfolios and functions, as outlined in Tables 4 to 7.

Table 4 notionally allocates the annual change in borrowing requirements according to portfolios' share of total expenses in each year, over the period from 2008-09 to 2017-18. This approach suggests that the largest share of increased debt is attributable to the Social Services portfolio, followed by the Health and Aged Care portfolio and the Commonwealth's tied payments to the States which are accounted for in the Treasury portfolio.

Table 4: Change in borrowing requirements notionally allocated by portfolio

	Actuals								Estimates		Cumulated
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total
	$b	$b	$b	$b	$b	$b	$b	$b	$b	$b	$b
Change in borrowing requirement	**45.7**	**46.0**	**44.2**	**42.7**	**23.4**	**62.1**	**49.3**	**51.7**	**80.6**	**38.9**	**484.5**
Allocation by portfolio											
Agriculture and Water Resources	0.4	0.3	0.3	0.2	0.1	0.3	0.3	0.3	0.5	0.2	**2.9**
Attorney-General's	0.5	0.5	0.6	0.4	0.2	0.6	0.5	0.5	0.8	0.4	**5.2**
Communications and the Arts	0.4	0.4	0.4	0.4	0.2	0.5	0.4	0.4	0.6	0.3	**4.0**
Defence	5.9	6.1	5.6	5.4	3.0	7.4	6.1	6.6	10.5	4.9	**61.3**
Education and Training	6.0	6.0	6.1	4.7	2.3	5.4	4.8	5.2	8.0	4.0	**52.4**
Employment	0.5	0.5	0.6	0.4	0.2	0.6	0.4	0.3	0.6	0.3	**4.4**
Environment	0.4	0.7	0.3	0.3	0.3	1.0	0.2	0.3	0.4	0.2	**4.0**
Finance	1.1	1.2	1.2	1.1	0.7	1.8	1.5	1.6	2.3	1.0	**13.5**
Foreign Affairs and Trade	0.9	0.8	1.0	0.9	0.5	1.2	1.0	0.9	1.6	0.6	**9.4**
Health and Aged Care	8.5	6.9	7.0	7.0	3.9	9.9	8.2	8.9	14.1	6.9	**81.3**
Immigration and Border Protection	0.4	0.5	0.5	0.5	0.4	1.0	0.7	0.7	1.1	0.4	**6.2**
Industry, Innovation and Science	0.8	0.8	0.8	1.8	1.3	1.5	0.6	0.5	0.7	0.4	**9.1**
Infrastructure and Regional Development	1.3	0.6	0.2	0.2	0.1	0.5	0.8	0.5	1.3	0.4	**5.9**
Parliament	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	**0.3**
Prime Minister and Cabinet	0.1	0.1	0.1	0.1	0.1	0.3	0.4	0.4	0.6	0.3	**2.4**
Social Services	13.0	11.3	11.3	11.7	6.5	19.4	16.7	17.6	26.2	13.1	**146.9**
Treasury	5.6	9.3	8.3	7.4	3.6	10.6	6.7	6.9	11.3	5.5	**75.2**

Note: The impact of most machinery of government changes on portfolios is included from 2013-14, but due to data limitations portfolios that no longer exist are not included in earlier years (other than Education, Employment and Workplace Relations).

Note: The Treasury portfolio excludes General Revenue Assistance to the States and Territories and Australian Government interest payments.

An alternative approach is to examine the changes in government spending by portfolio since 2007-08. Table 5 attributes the total increase in borrowings from 2007-08 to 2017-18 by portfolio, according to the change in portfolio expenses as a share of the change in total expenses over the same period. The table also attributes interest payments in 2017-18 to government portfolios on that same basis. Under this approach, the Social Services portfolio is again attributed the largest component, followed by the Treasury portfolio. Machinery of government changes would have some impact on these outcomes.

Table 5: Total increase in borrowings from 2007-08 to 2017-18 and interest payments in 2017-18 notionally allocated by portfolio

	Increase in borrowings	Interest in 2017-18
	$b	$b
	484.5	**16.6**
Attribution to portfolios		
Agriculture and Water Resources	-2.6	-0.1
Attorney-General's	1.7	0.1
Communications and the Arts	2.9	0.1
Defence	33.0	1.1
Education and Training	2.8	0.1
Employment	-0.4	0.0
Environment	-0.8	0.0
Finance	12.2	0.4
Foreign Affairs and Trade	5.7	0.2
Health and Aged Care	65.7	2.2
Immigration and Border Protection	5.5	0.2
Industry, Innovation and Science	-1.7	-0.1
Infrastructure and Regional Development	-4.8	-0.2
Parliament	0.2	0.0
Prime Minister and Cabinet	7.1	0.2
Social Services	233.0	8.0
Treasury	125.1	4.3

Note: The impact of most machinery of government changes on portfolios is included from 2013-14, but due to data limitations portfolios that no longer exist are not included in earlier years (other than Education, Employment and Workplace Relations).
Note: The Treasury portfolio excludes General Revenue Assistance to the States and Territories and Australian Government interest payments.

A shortcoming of this approach is the difficulty of fully adjusting for machinery of government changes since 2007-08, which impact on the growth in portfolio expenses.

A further approach, which overcomes the impacts of machinery of government changes, is to attribute the rise in debt according to different government functions rather than portfolios. Table 6 notionally allocates the change in borrowing requirements since 2007-08 according to different government functions' shares of total expenses in each year, over the period from 2008-09 to 2017-18. Similar to the portfolio results presented above, this approach would attribute the largest share of increased debt to the social security and welfare, health and education functions.

Table 6: Change in borrowing requirements notionally allocated by function

	Actuals								Estimates		Cumulated
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total
	$b	$b	$b	$b	$b	$b	$b	$b	$b	$b	$b
Change in borrowing requirement	**45.7**	**46.0**	**44.2**	**42.7**	**23.4**	**62.1**	**49.3**	**51.7**	**80.6**	**38.9**	**484.5**
Allocation by function											
General public services	2.9	3.2	3.5	3.2	2.0	6.2	3.6	3.6	6.0	2.2	**36.4**
Defence	3.3	3.3	3.2	3.0	1.6	4.1	3.5	3.9	6.3	3.1	**35.3**
Public order and safety	0.6	0.6	0.6	0.6	0.3	0.8	0.7	0.7	1.1	0.5	**6.5**
Education	3.8	5.8	5.0	4.0	2.1	5.4	4.6	4.8	7.4	3.5	**46.5**
Health	8.4	8.5	8.7	8.6	4.6	11.7	9.7	10.4	16.3	7.9	**94.8**
Social security and welfare	21.2	18.0	18.2	17.6	10.0	25.8	21.7	22.8	34.4	17.2	**206.9**
Housing and community amenities	0.9	1.5	0.9	0.9	0.5	1.5	0.7	0.7	1.0	0.6	**9.1**
Recreation and culture	0.5	0.5	0.5	0.5	0.3	0.7	0.5	0.5	0.8	0.4	**5.3**
Fuel and energy	1.0	1.4	0.9	0.9	0.4	1.2	1.0	1.0	1.5	0.7	**10.1**
Agriculture, forestry and fishing	0.5	0.5	0.4	0.4	0.2	0.4	0.4	0.3	0.6	0.3	**4.0**
Mining, manufacturing and construction	0.3	0.3	0.2	0.3	0.2	0.6	0.5	0.5	0.8	0.4	**4.2**
Transport and communication	1.2	1.1	0.7	1.3	0.4	1.5	0.9	1.1	2.1	1.1	**11.4**
Other economic affairs	1.1	1.4	1.4	1.4	0.8	2.0	1.5	1.4	2.2	1.0	**14.1**

Note: The other purposes function is not included in this table as it contains expenses for General Revenue Assistance to the State and Territory governments (primarily GST), public debt interest, and the conservative bias allowance.

Table 7 attributes the total increase in borrowings from 2007-08 to 2017-18 to government functions, according to the change in functions' expenses as a share of the change in total expenses over the same period. The table also attributes interest payments in 2017-18 to government functions on that same basis. Similar to above, this approach would attribute the largest share of increased debt to the social security and welfare function, followed by the health, education and defence functions.

Table 7: Total increase in borrowings from 2007-08 to 2017-18 and interest payments in 2017-18 allocated by functions

	Increase in borrowings	Interest in 2017-18
	$b	$b
	484.5	**16.6**
Attribution to functions		
General public services	13.5	0.5
Defence	41.0	1.4
Public order and safety	5.1	0.2
Education	50.9	1.7
Health	102.3	3.5
Social security and welfare	219.4	7.5
Housing and community amenities	8.1	0.3
Recreation and culture	1.4	0.0
Fuel and energy	5.2	0.2
Agriculture, forestry and fishing	-2.9	-0.1
Mining, manufacturing and construction	8.0	0.3
Transport and communication	20.8	0.7
Other economic affairs	11.5	0.4

Note: The other purposes function is not included in this table as it contains expenses for General Revenue Assistance to the State and Territory governments (primarily GST), public debt interest, and the conservative bias allowance.

The key message to be taken from the analysis above is that since 2007-08 – whether considered on a portfolio or a functional basis, on a share of total expenses or a growth in expenses basis – government borrowing can be notionally attributed mainly to the areas of social services, education and health. Notwithstanding this overall conclusion, in recent years the Government's strategy of maintaining fiscal discipline has helped constrain spending growth across portfolios and functions. As illustrated in the previous section, this discipline has helped reduce the need to fund the recurrent budget through debt while still maintaining an overall capital investment program of around $218 billion over the forward estimates.

STATEMENT 5: REVENUE

Compared with the 2016-17 MYEFO, the 2017-18 Budget forecasts for tax receipts have been revised up by $6.4 billion over the four years to 2019-20, due to policy decisions including increasing the Medicare levy, introducing a major bank levy, improving the integrity of GST on property transactions and introducing a *Skilling Australians Fund* levy. Policy decisions are expected to increase forecast tax receipts by $11.9 billion over the four years to 2019-20, which is partially offset by $5.5 billion of downward revisions owing to parameter and other variations. Excluding GST, forecast tax receipts have been revised up by $8.9 billion over the four years to 2019-20.

Improved corporate profitability, reflecting higher mining profitability and the economy's transition to broader-based activity, has contributed to higher forecasts for company tax of $6.9 billion over the four years to 2019-20, including new policy. This is partly offset by downward revisions to forecast individuals and other withholding tax of $1.9 billion and superannuation fund tax of $950 million over the four years to 2019-20, including new policy. In addition, the GST has been revised down $2.5 billion over the four years to 2019-20, including new policy.

In 2017-18, tax receipts as a share of GDP are expected to be 22.2 per cent, unchanged from the 2016-17 MYEFO estimate. Tax receipts as a share of GDP are expected to rise to 23.7 per cent by 2020-21, the last year of the forward estimates.

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STATEMENT 5: REVENUE

OVERVIEW

Since the 2016-17 MYEFO, expected tax receipts, including new policy, have been revised up by $700 million in 2017-18 and $6.4 billion over the four years to 2019-20. Excluding GST, tax receipts have been revised up by $1.1 billion in 2017-18 and $8.9 billion over the four years to 2019-20, including new policy. As GST is paid to the States, tax receipts excluding GST represent the tax receipts available to the Australian Government.

Including new policy, tax receipts are forecast to grow by 4.2 per cent in 2016-17 and 7.2 per cent in 2017-18 (Table 1). Tax receipts are expected to grow in line with improving domestic demand, wage growth and domestic price growth. Total tax receipts as a share of GDP are expected to increase from 22.2 per cent in 2017-18 to 23.7 per cent by 2020-21, an increase of 1.5 percentage points. Compared with the 2016-17 MYEFO, the tax-to-GDP ratio is forecast to be lower in 2016-17 and unchanged in 2017-18 but higher from 2018-19.

Table 1: Australian Government general government receipts

	Actual	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Total taxation receipts ($b)	**362.0**	**377.2**	**404.3**	**430.7**	**463.2**	**492.5**
Growth on previous year (%)	2.4	4.2	7.2	6.5	7.5	6.3
Per cent of GDP	21.9	21.5	22.2	22.8	23.4	23.7
Tax receipts excluding GST ($b)	**304.6**	**318.0**	**342.0**	**365.2**	**395.5**	**420.9**
Growth on previous year (%)	1.8	4.4	7.5	6.8	8.3	6.4
Per cent of GDP	18.4	18.1	18.8	19.3	20.0	20.3
Non-taxation receipts ($b)	**25.0**	**28.5**	**29.2**	**31.8**	**33.7**	**33.8**
Growth on previous year (%)	0.6	14.3	2.3	8.8	6.2	0.4
Per cent of GDP	1.5	1.6	1.6	1.7	1.7	1.6
Total receipts ($b)	**386.9**	**405.7**	**433.5**	**462.5**	**496.9**	**526.3**
Growth on previous year (%)	2.3	4.9	6.8	6.7	7.4	5.9
Per cent of GDP	23.4	23.2	23.8	24.4	25.1	25.4

TAX OUTLOOK

Table 2 reconciles the 2017-18 Budget estimates of tax receipts with the 2016-17 Budget, 2016 PEFO and the 2016-17 MYEFO estimates. Since the 2016-17 MYEFO, tax receipts, including new policy, have been revised up by $700 million in 2017-18 and $6.4 billion over the four years to 2019-20.

Table 2: Reconciliation of Australian Government general government taxation receipts estimates from the 2016-17 Budget

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	Total
	$m	$m	$m	$m	$m
Tax receipts at 2016-17 Budget	**382,769**	**410,165**	**438,821**	**468,278**	**1,700,032**
Changes from 2016-17 Budget to 2016 PEFO					
Effect of policy decisions	0	0	0	0	0
Effect of parameter and other variations	0	0	0	0	0
Total variations	0	0	0	0	0
Tax receipts at 2016 PEFO	**382,769**	**410,165**	**438,821**	**468,278**	**1,700,032**
Changes from 2016 PEFO to 2016-17 MYEFO					
Effect of policy decisions	-325	-192	146	71	-299
Effect of parameter and other variations	-3,689	-6,371	-9,627	-10,976	-30,663
Total variations	-4,014	-6,563	-9,481	-10,905	-30,963
Tax receipts at 2016-17 MYEFO	**378,756**	**403,601**	**429,340**	**457,373**	**1,669,070**
Changes from 2016-17 MYEFO to 2017-18 Budget					
Effect of policy decisions	74	1,812	3,138	6,901	11,925
Effect of parameter and other variations	-1,629	-1,111	-1,730	-1,079	-5,548
Total variations	-1,555	701	1,407	5,823	6,377
Tax receipts at 2017-18 Budget	**377,201**	**404,302**	**430,747**	**463,195**	**1,675,446**

The upward revisions to forecast total tax receipts are due to policy decisions including increasing the Medicare levy by half a percentage point from 1 July 2019, introducing a major bank levy, improving the integrity of GST on property transactions and introducing a *Skilling Australians Fund* levy. Policy decisions are expected to increase forecast tax receipts by $11.9 billion over the four years to 2019-20, while parameter and other variations are expected to reduce forecast tax receipts by $5.5 billion over the four years to 2019-20. Excluding GST, forecast tax receipts have been revised up by $8.9 billion over the four years to 2019-20. For more details on policy decisions, see Budget Paper 2.

Revisions owing to parameter and other variations reflect a shift in the composition of growth away from wages to corporate profits (see Box 1). Corporate profitability is expected to improve, consistent with recent higher commodity prices, lifting expected receipts from company tax from 2017-18. However, aggregate wages growth is expected to be weaker, resulting in downward revisions to receipts from personal income tax. Given that wages account for the majority of income taxes paid, this results in overall taxes growing more slowly than previously expected. Aggregate wages growth remains low by historical standards — a phenomenon present in many advanced economies — and is anticipated to be lower in each year from 2016-17 to 2019-20 than expected at the 2016-17 MYEFO. For more details on the economic outlook, see Budget Statement 2.

The Government is supporting business confidence and investment through growth-friendly policies such as the Ten Year Enterprise Tax Plan, announced in the 2016-17 Budget. Under the Ten Year Enterprise Tax Plan, the company tax rate will be progressively reduced to 25 per cent by 2026-27. Legislating the phased tax cuts in advance will allow firms to take account of the lower tax rates in the future for new investment decisions. Higher after-tax returns on investments will attract capital, raising productivity, real wages and jobs in the longer term.

Including new policy, company tax has been revised up by $6.9 billion over the four years to 2019-20, consistent with higher corporate profitability. The effect of the downward revision to aggregate wages growth on individuals tax is partly offset by the increase in the Medicare levy of half a percentage point, resulting in a reduction in individuals tax of $1.9 billion over the four years to 2019-20. The goods and services tax has been revised down by $2.5 billion over the four years to 2019-20, owing to weaker-than-expected collections, lower nominal consumption and, in 2018-19, a fall in dwelling investment, partly offset by the policy decision to improve the integrity of GST on property transactions. Superannuation fund tax has been revised down by $950 million over the four years to 2019-20, reflecting weaker aggregate wages and weaker-than-expected collections.

The 2017-18 Budget continues to include provisions for a number of Free Trade Agreements (FTAs) which have not been finalised:

- Environmental Goods Agreement.
- FTA with the Gulf Cooperation Council (GCC).
- India FTA — Comprehensive Economic Cooperation Agreement (CECA).
- Pacific Agreement on closer economic relations (PACER) plus.
- Regional Comprehensive Economic Partnership (RCEP).
- Australia's accession to the World Trade Organisation (WTO) Government Procurement Agreement (GPA).
- Indonesia Australia Comprehensive Economic Partnership Agreement.

The 2017-18 Budget also includes a new provision for the Australia-Hong Kong Free Trade Agreement.

VARIATIONS IN RECEIPTS ESTIMATES

Table 3 reconciles the 2017-18 Budget estimates of total receipts, which include non-tax receipts, with the 2016-17 Budget, 2016 PEFO and the 2016-17 MYEFO estimates. These differences reflect the impact of policy decisions and the impact of parameter and other variations.

Table 3: Reconciliation of Australian Government general government receipts estimates from the 2016-17 Budget[(a)]

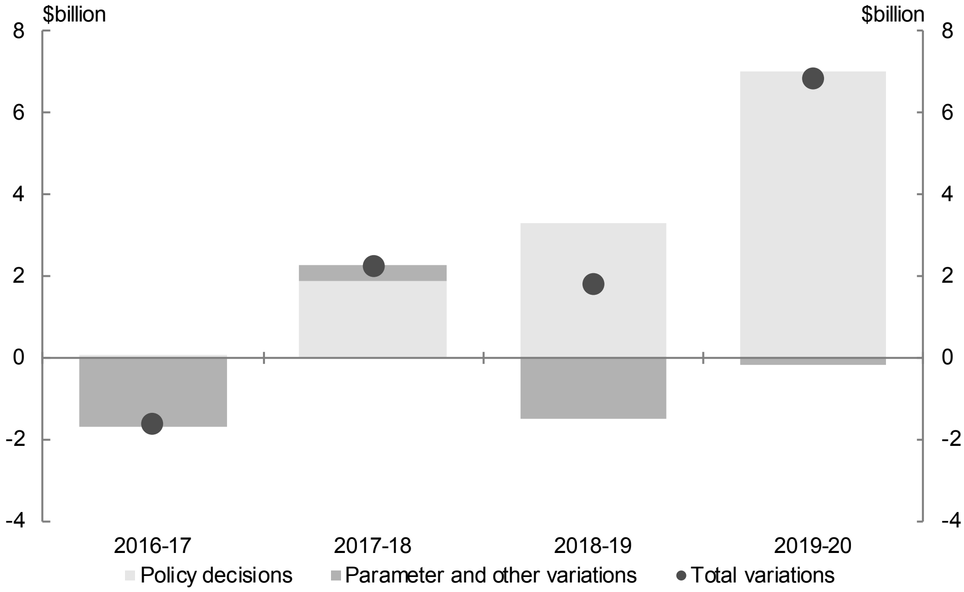
	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	Total
	$m	$m	$m	$m	$m
Receipts at 2016-17 Budget	**411,284**	**437,385**	**469,921**	**500,742**	**1,819,332**
Changes from 2016-17 Budget to 2016 PEFO					
Effect of policy decisions	0	0	0	0	0
Effect of parameter and other variations	0	0	0	0	0
Total variations	**0**	0	**0**	**0**	**0**
Receipts at 2016 PEFO	**411,284**	**437,385**	**469,921**	**500,742**	**1,819,332**
Changes from 2016 PEFO to 2016-17 MYEFO					
Effect of policy decisions	-325	-144	391	543	464
Effect of parameter and other variations	-3,609	-6,008	-9,643	-11,245	-30,505
Total variations	-3,934	-6,153	-9,252	-10,702	-30,040
Receipts at 2016-17 MYEFO	**407,350**	**431,233**	**460,669**	**490,040**	**1,789,292**
Changes from 2016-17 MYEFO to 2017-18 Budget					
Effect of policy decisions	73	1,892	3,316	7,038	12,320
Effect of parameter and other variations	-1,699	369	-1,486	-170	-2,986
Total variations	-1,626	2,261	1,831	6,868	9,333
Receipts at 2017-18 Budget	**405,724**	**433,494**	**462,500**	**496,908**	**1,798,625**

(a) Includes expected Future Fund earnings.

Since the 2016-17 MYEFO, total receipts have been revised up by $9.3 billion over the four years to 2019-20, reflecting an increase of $12.3 billion from policy decisions and a downward revision of $3.0 billion from parameter and other variations. Excluding GST, total receipts have been revised up by $2.7 billion in 2017-18 and $11.8 billion over the four years to 2019-20.

Chart 1 shows the contributions to revisions from policy decisions and from parameter and other variations to estimates for total receipts since the 2016-17 MYEFO over the four years to 2019-20.

Chart 1: Revisions to total receipts estimates since the 2016-17 MYEFO



Source: Treasury.

Parameter and other variations include recent economic conditions, the updated economic outlook, year-to-date tax collections and other non-policy factors. 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 8.

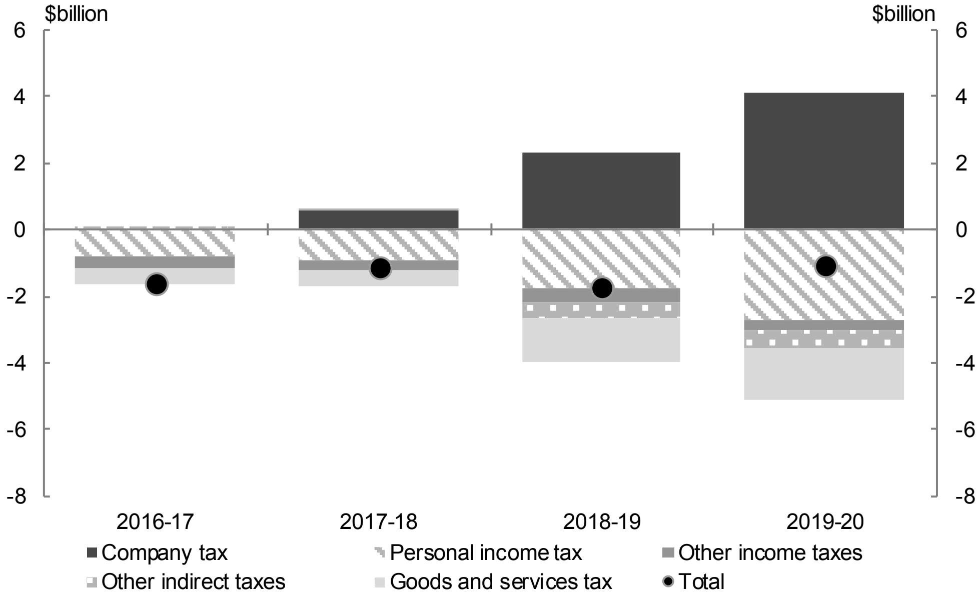
Table 4: Key economic parameters(a)

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
Revenue parameters at 2017-18 Budget					
Nominal gross domestic product	6	4	4	4 1/2	4 3/4
Change since 2016-17 MYEFO	*0*	*1/4*	*- 1/4*	*0*	*na*
Compensation of employees(b)	2 1/4	3 1/2	4 1/4	5	5 1/4
Change since 2016-17 MYEFO	*-1*	*- 1/2*	*- 3/4*	*- 1/4*	*na*
Corporate gross operating surplus(c)	14 1/4	5 3/4	2 3/4	3 1/4	3 1/4
Change since 2016-17 MYEFO	*1 1/2*	*3 1/4*	*1*	*1/2*	*na*
Unincorporated business income	4 1/2	5 3/4	4 1/2	4 3/4	5 3/4
Change since 2016-17 MYEFO	*1 1/2*	*1 1/4*	*1 1/2*	*1 3/4*	*na*
Property income(d)	3 1/4	5 3/4	5 3/4	5 1/4	5 1/4
Change since 2016-17 MYEFO	*-1 1/2*	*- 1/2*	*1*	*1/2*	*na*
Consumption subject to GST	3 1/4	4 3/4	5 1/4	5 3/4	5 3/4
Change since 2016-17 MYEFO	*0*	*- 1/4*	*- 1/4*	*1/2*	*na*

(a) Current prices, per cent change on previous year. Changes since the 2016-17 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 rent, dividends and interest.
na not applicable.

Since the 2016-17 MYEFO, parameter and other variations have reduced forecast tax receipts by $1.6 billion in 2016-17, $1.1 billion in 2017-18 and $5.5 billion over the four years to 2019-20 (Chart 2). Excluding GST, parameter and other variations have reduced forecast tax receipts by $1.1 billion in 2016-17, $650 million in 2017-18 and $1.7 billion over the four years to 2019-20.

Chart 2: Parameter and other variations to tax receipts since the 2016-17 MYEFO



Source: Treasury.

In aggregate, tax receipts are expected to grow by 4.2 per cent in 2016-17 and 7.2 per cent in 2017-18. The contributors to growth are income taxes and indirect taxes, reflecting growth in wages, profits and consumption.

Many jurisdictions including Australia have identified challenges confronting traditional tax bases — primarily personal and corporate income tax — and their ability to raise revenues into the future. Part of the problem may arise from Black Economy issues, which the Government is tackling in this Budget, but there are a number of other structural factors at work. The ageing population and changes in the nature of the global economy — the digital economy, customer direct purchases of foreign goods, intangible income, and highly mobile investment — will continue to put a strain on our tax system. Other issues arise from the trajectory of wage and profit shares over the forecast period and beyond, as discussed in Box 1. While many countries are facing similar issues, our heavy reliance on both corporate and individual income tax at the Commonwealth level heightens the impacts for Australia.

Individuals and other withholding taxation receipts

Gross income tax withholding (ITW) receipts are forecast to grow by 2.9 per cent in 2016-17 and 4.7 per cent in 2017-18. Compared with the 2016-17 MYEFO, ITW receipts are expected to be $700 million lower in 2016-17, $1.8 billion lower in 2017-18 and $4.3 billion lower over the four years to 2019-20. Excluding new policy, ITW receipts are expected to be $750 million lower in 2016-17, $2.1 billion lower in 2017-18 and $8.6 billion lower over the four years to 2019-20. The reduction over the four years to 2019-20 is primarily due to downward revisions to aggregate wages forecasts, partly offset by the policy decision to increase the Medicare levy by half a percentage point from 1 July 2019.

Gross other individuals taxes refers to taxes payable by individuals other than those collected through withholding systems, including PAYG instalments paid directly by individuals and assessments after tax returns are lodged. These amounts primarily reflect tax on income such as unincorporated business profits, capital gains and interest.

Gross other individuals taxes are expected to grow by 4.7 per cent in 2016-17 and 6.9 per cent in 2017-18. Compared with the 2016-17 MYEFO, receipts are expected to be around $700 million lower in 2016-17, $700 million higher in 2017-18 and $1.6 billion higher over the four years to 2019-20. The downward revision in 2016-17 is a result of lower-than-expected collections in 2016-17. This has been more than offset by higher expected growth in unincorporated business income over the forward estimates.

Income tax refunds for individuals, which have a negative effect on receipts, are expected to grow by 0.8 per cent in 2016-17 and 2.5 per cent in 2017-18. Relative to the 2016-17 MYEFO, forecast refunds are $600 million lower (an increase in overall tax receipts) in 2016-17, $550 million lower in 2017-18 and $800 million lower over the four years to 2019-20.

Table 5 presents total revenue attributable to the Medicare levy. This includes a component of other taxes, such as fringe benefits tax, that are usually increased in line with the effective top marginal rate, inclusive of the Medicare levy. These figures include the impact of increasing the Medicare levy by half a percentage point from 2 to 2.5 per cent of taxable income from 1 July 2019, to support the full funding of the National Disability Insurance Scheme (NDIS).

Table 5: Revenue attributable to the Medicare levy(a)

	Estimates			Projections		
	2016-17	2017-18	2018-19	2019-20	2020-21	Total
	$m	$m	$m	$m	$m	$m
Medicare levy	15,260	15,820	16,600	21,760	22,990	92,430
Other taxes	310	320	330	430	460	1,850
Total	**15,570**	**16,140**	**16,930**	**22,190**	**23,450**	**94,280**

(a) Reported on an income year basis.

Table 6 demonstrates the Government's commitment to both supporting the NDIS and guaranteeing Medicare. The Government will continue to credit the DisabilityCare Australia Fund with revenue raised from the 1 July 2014 increase in the Medicare levy of half a percentage point. To secure the Commonwealth's contribution to funding the NDIS, from 1 July 2019 the Medicare levy will increase by half a percentage point from 2 to 2.5 per cent of taxable income. One-fifth of the revenue raised by the Medicare levy will be credited to the NDIS Savings Fund to ensure the Commonwealth's NDIS contribution is fully funded.

In this Budget the Government is also establishing a Medicare Guarantee Fund from 1 July 2017 to secure the ongoing funding of the Medicare Benefits Schedule (MBS) and the Pharmaceutical Benefits Scheme (PBS). The Fund will be credited with revenue generated from the Medicare levy (excluding amounts to fund the NDIS), as well as a portion of personal income tax receipts to meet the cost of essential health care provided under the MBS and PBS.

Further details are set out in Budget Statement 3.

Table 6: How revenue from the Medicare levy is used[(a)]

	Estimates			Projections		
	2016-17	2017-18	2018-19	2019-20	2020-21	Total
	$m	$m	$m	$m	$m	$m
DisabilityCare Australia Fund	3,890	4,040	4,230	4,440	4,690	21,290
NDIS Savings Fund	-	-	-	4,440	4,690	9,130
Remaining Medicare levy revenue(b)	11,680	12,100	12,700	13,310	14,070	63,860
Total	**15,570**	**16,140**	**16,930**	**22,190**	**23,450**	**94,280**

(a) Includes other taxes associated with the Medicare levy.
(b) Available only to the Medicare Guarantee Fund from 2017-18 onwards.

Fringe benefits tax

Receipts from fringe benefits tax (FBT) are forecast to fall by 0.2 per cent in 2016-17 and 0.5 per cent in 2017-18. Relative to the 2016-17 MYEFO, receipts are expected to be $90 million lower in 2016-17, $120 million lower in 2017-18 and $430 million lower over the four years to 2019-20, consistent with lower expected aggregate wages.

Company tax

Company tax receipts are forecast to grow by 7.8 per cent in 2016-17 and 14.7 per cent in 2017-18, consistent with increasing corporate profits. Compared with the 2016-17 MYEFO, receipts are expected to be unchanged in 2016-17, $600 million higher in 2017-18 and $6.9 billion higher over the four years to 2019-20.

Recent higher mining profits from higher-than-expected commodity prices in 2016-17 are expected to contribute to higher company tax receipts in 2017-18, reflecting delays between when profit is accrued and when company tax is paid. However, the impact of higher mining profitability on tax receipts is tempered by the balance of accumulated losses held by some mining companies — a consequence of a period of extended deflated commodity prices — which can be used to reduce tax payable in coming years (see Box 2 for a discussion of losses and company tax timing). Improved corporate profitability across the broader economy, as the economy transitions toward broader-based activity, is expected to increase company tax receipts from 2017-18.

Superannuation fund taxes

Tax receipts from superannuation funds are expected to grow by 13.1 per cent in 2016-17 and 9.4 per cent in 2017-18, supported by growth in capital gains with GFC-related capital losses now largely exhausted. Relative to the 2016-17 MYEFO, receipts are expected to be around $300 million lower in 2016-17, $250 million lower in 2017-18 and $950 million lower over the four years to 2019-20. Lower receipts reflect weaker-than-expected collections and weaker wages.

Petroleum resource rent tax

Petroleum resource rent tax (PRRT) receipts are forecast to grow by around 30 per cent in 2016-17 and remain at a similar level in 2017-18. Since the 2016-17 MYEFO, receipts are expected to be $50 million higher in 2016-17, $100 million higher in 2017-18 and $350 million higher over the four years to 2019-20. The revision to PRRT is consistent with higher Australian dollar oil prices.

PRRT liabilities depend on prices and volumes of the relevant commodities as well as deductions for expenditure, particularly capital expenditure which is immediately deductible. Expenditure deductions can be uplifted and carried forward to future years, so there can be long delays between a project starting production and having to pay PRRT. In a given year, projects may not pay PRRT if their pool of deductible expenditure exceeds their PRRT income.

On 30 November 2016, the Government announced an independent review into the operation of the PRRT, crude oil excise and associated Commonwealth royalties. The report was released on 28 April 2017 and is available on the Treasury website.

The Government has accepted the recommendation of the report for further consultation prior to providing a considered response later in the year.

Goods and services tax

Receipts from GST are forecast to grow by 3.5 per cent in 2016-17 and 5.2 per cent in 2017-18. Compared with the 2016-17 MYEFO, receipts are expected to be around $500 million lower in 2016-17, $400 million lower in 2017-18 and $2.5 billion lower over the four years to 2019-20. Excluding new policy, receipts are expected to be around $500 million lower in 2016-17, $460 million lower in 2017-18 and $3.9 billion lower over the four years to 2019-20. Lower receipts reflect weaker-than-expected collections, lower nominal consumption and, in 2018-19, a forecast fall in dwelling investment. This is partly offset by the decision to require purchasers of newly constructed residential properties or new subdivisions to remit the GST directly to the Australian Taxation Office as part of settlement.

Excise and customs duty

Excise and customs duty receipts are forecast to grow by 0.6 per cent in 2016-17 and 3.5 per cent in 2017-18. As noted in the 2016-17 MYEFO, excise and customs duties continue to be affected by the phasing-in of tariff cuts as part of free trade agreements. This has been offset by strong growth in tobacco excise as a result of the increase in the excise rate and strong growth in diesel excise.

Since the 2016-17 MYEFO, receipts are broadly unchanged in 2016-17, $110 million higher in 2017-18 and $600 million lower over the four years to 2019-20, partly reflecting lower expected customs duty.

Other sales taxes

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

WET receipts are forecast to fall by 1.6 per cent in 2016-17 and grow by 6.0 per cent in 2017-18. Since the 2016-17 MYEFO, forecast WET receipts have been revised down by $160 million over the four years to 2019-20, consistent with weaker-than-expected collections.

LCT receipts are forecast to grow by 7.9 per cent in 2016-17, consistent with strong sales of vehicles subject to LCT. Since the 2016-17 MYEFO, forecast LCT receipts are unchanged over the four years to 2019-20.

Other taxes

Other taxes, which includes the major bank levy and agricultural levies, are forecast to grow by 2.5 per cent in 2016-17 and 22.3 per cent in 2017-18. Since the 2016-17 MYEFO, other taxes are around $110 million higher in 2016-17, $1.2 billion higher in 2017-18 and $5.7 billion higher over the four years to 2019-20. The upward revision over the four years to 2019-20 largely reflects the policy decision to introduce a major bank levy and a *Skilling Australians Fund* levy.

Non-taxation receipts

Since the 2016-17 MYEFO, non-taxation receipts have remained broadly unchanged in 2016-17. Non-taxation receipts have been revised up by $1.6 billion in 2017-18, largely reflecting an upward revision to projected dividend receipts from the Reserve Bank of Australia.

Non-taxation receipts (including Future Fund earnings) are expected to grow by 14.3 per cent in 2016-17, largely reflecting increased receipts from the sale of spectrum licences and increased State and Territory Government contributions to the National Disability Insurance Scheme (NDIS) in line with the expected increase in participants as the NDIS transitions to full Scheme. Non-taxation receipts are expected to grow by 2.3 per cent in 2017-18, primarily due to further increased State and Territory Government contributions to the NDIS.

The changes in the individual heads of revenue relative to the 2016-17 MYEFO are shown in Table 7 and Table 8 for 2016-17 and 2017-18 respectively.

Table 9 shows the Australian Government general government cash receipts from 2015-16 to 2020-21 by head of revenue.

Table 7: Reconciliation of 2016-17 general government (cash) receipts

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	179,200	178,500	-700	-0.4
Gross other individuals	44,400	43,700	-700	-1.6
less: Refunds	28,900	28,300	-600	-2.1
Total individuals and other withholding tax	194,700	193,900	-800	-0.4
Fringe benefits tax	4,450	4,360	-90	-2.0
Company tax	67,800	67,800	0	0.0
Superannuation fund taxes	8,030	7,730	-300	-3.7
Petroleum resource rent tax(a)	950	1,000	50	5.3
Income taxation receipts	**275,930**	**274,790**	**-1,140**	**-0.4**
Goods and services tax	59,953	59,454	-499	-0.8
Wine equalisation tax	880	840	-40	-4.5
Luxury car tax	630	650	20	3.2
Excise and customs duty				
Petrol	6,200	6,100	-100	-1.6
Diesel	9,960	10,230	270	2.7
Other fuel products	1,940	1,900	-40	-2.1
Tobacco	10,670	10,690	20	0.2
Beer	2,400	2,350	-50	-2.1
Spirits	2,120	2,050	-70	-3.3
Other alcoholic beverages(b)	930	920	-10	-1.1
Other customs duty				
Textiles, clothing and footwear	300	270	-30	-10.0
Passenger motor vehicles	500	500	0	0.0
Other imports	1,050	1,050	0	0.0
less : Refunds and drawbacks	420	420	0	0.0
Total excise and customs duty	35,650	35,640	-10	0.0
Major bank levy	-	-	-	-
Agricultural levies	519	532	12	2.4
Other taxes	5,193	5,295	102	2.0
Indirect taxation receipts	**102,826**	**102,411**	**-415**	**-0.4**
Taxation receipts	**378,756**	**377,201**	**-1,555**	**-0.4**
Sales of goods and services	8,766	8,786	20	0.2
Interest received	2,990	3,003	13	0.4
Dividends	5,828	5,820	-9	-0.1
Other non-taxation receipts	11,010	10,914	-96	-0.9
Non-taxation receipts	**28,594**	**28,523**	**-72**	**-0.3**
Total receipts	**407,350**	**405,724**	**-1,626**	**-0.4**
Memorandum:				
Total excise	*21,390*	*21,550*	*160*	*0.7*
Total customs duty	*14,260*	*14,090*	*-170*	*-1.2*
Capital gains tax(c)	*12,000*	*12,700*	*700*	*5.8*

(a) This item includes a small amount of MRRT receipts relating to a pre-2013-14 income year which cannot be separately disclosed owing to taxpayer confidentiality.
(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 8: Reconciliation of 2017-18 general government (cash) receipts

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	188,700	186,900	-1,800	-1.0
Gross other individuals	46,000	46,700	700	1.5
less: Refunds	29,550	29,000	-550	-1.9
Total individuals and other withholding tax	205,150	204,600	-550	-0.3
Fringe benefits tax	4,460	4,340	-120	-2.7
Company tax	77,200	77,800	600	0.8
Superannuation fund taxes	8,710	8,460	-250	-2.9
Petroleum resource rent tax	900	1,000	100	11.1
Income taxation receipts	**296,420**	**296,200**	**-220**	**-0.1**
Goods and services tax	62,960	62,558	-402	-0.6
Wine equalisation tax	930	890	-40	-4.3
Luxury car tax	640	650	10	1.6
Excise and customs duty				
Petrol	6,400	6,250	-150	-2.3
Diesel	10,360	10,630	270	2.6
Other fuel products	1,940	1,920	-20	-1.0
Tobacco	11,440	11,610	170	1.5
Beer	2,450	2,390	-60	-2.4
Spirits	2,180	2,130	-50	-2.3
Other alcoholic beverages(a)	960	950	-10	-1.0
Other customs duty				
Textiles, clothing and footwear	240	170	-70	-29.2
Passenger motor vehicles	500	470	-30	-6.0
Other imports	720	780	60	8.3
less: Refunds and drawbacks	420	420	0	0.0
Total excise and customs duty	36,770	36,880	110	0.3
Major bank levy	-	1,200	1,200	-
Agricultural levies	518	537	19	3.6
Other taxes	5,363	5,387	24	0.5
Indirect taxation receipts	**107,181**	**108,102**	**921**	**0.9**
Taxation receipts	**403,601**	**404,302**	**701**	**0.2**
Sales of goods and services	11,698	11,497	-201	-1.7
Interest received	3,166	3,233	67	2.1
Dividends	3,370	3,996	626	18.6
Other non-taxation receipts	9,398	10,465	1,067	11.4
Non-taxation receipts	**27,632**	**29,191**	**1,560**	**5.6**
Total receipts	**431,233**	**433,494**	**2,261**	**0.5**
Memorandum:				
Total excise	*22,070*	*22,180*	*110*	*0.5*
Total customs duty	*14,700*	*14,700*	*0*	*0.0*
Capital gains tax(b)	*14,100*	*15,500*	*1,400*	*9.9*

(a) ‘Other alcoholic beverages’ are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(b) ‘Capital gains tax’ is part of gross other individuals, company tax and superannuation fund taxes.

Table 9: Australian Government general government (cash) receipts

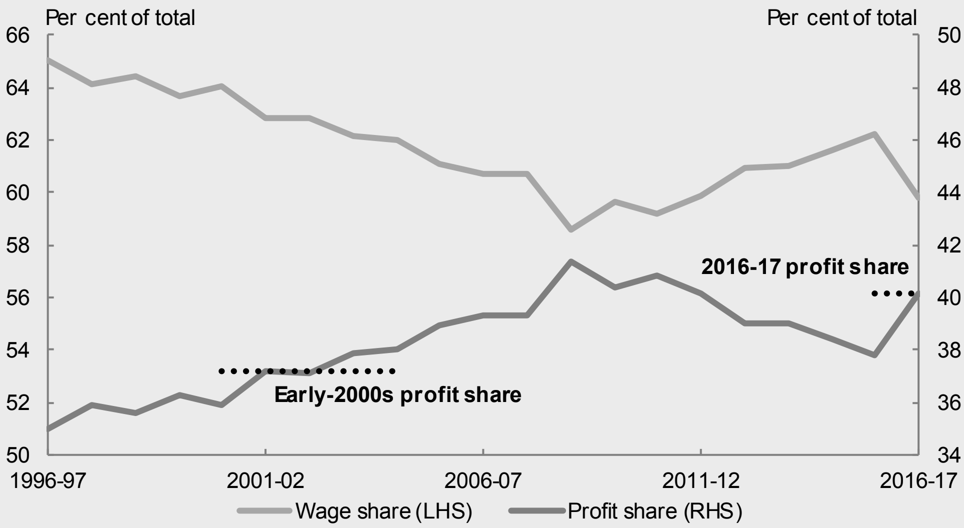
	Actual	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m	$m
Individuals and other withholding taxes						
Gross income tax withholding	173,436	178,500	186,900	198,500	214,500	229,700
Gross other individuals	41,746	43,700	46,700	49,300	53,600	57,800
less: Refunds	28,081	28,300	29,000	30,900	32,700	34,400
Total individuals and other withholding tax	187,101	193,900	204,600	216,900	235,400	253,100
Fringe benefits tax	4,368	4,360	4,340	4,430	4,780	5,040
Company tax	62,897	67,800	77,800	84,600	91,600	95,000
Superannuation fund taxes	6,834	7,730	8,460	9,460	10,660	12,060
Petroleum resource rent tax(a)	741	1,000	1,000	1,000	1,000	1,000
Income taxation receipts	**261,941**	**274,790**	**296,200**	**316,390**	**343,440**	**366,200**
Goods and services tax	57,457	59,454	62,558	65,831	67,925	71,813
Wine equalisation tax	854	840	890	990	1,050	1,090
Luxury car tax	602	650	650	640	690	720
Excise and customs duty						
Petrol	6,150	6,100	6,250	6,400	6,900	7,150
Diesel	9,726	10,230	10,630	11,130	11,880	12,330
Other fuel products	2,115	1,900	1,920	1,920	2,030	2,070
Tobacco	9,816	10,690	11,610	12,720	13,920	15,190
Beer	2,373	2,350	2,390	2,470	2,580	2,670
Spirits	2,068	2,050	2,130	2,210	2,300	2,410
Other alcoholic beverages(b)	912	920	950	980	1,020	1,050
Other customs duty						
Textiles, clothing and footwear	498	270	170	170	170	170
Passenger motor vehicles	614	500	470	480	510	560
Other imports	1,589	1,050	780	780	800	840
less: Refunds and drawbacks	436	420	420	420	420	420
Total excise and customs duty	35,424	35,640	36,880	38,840	41,690	44,020
Major bank levy	-	-	1,200	1,600	1,700	1,800
Agricultural levies	517	532	537	533	537	546
Other taxes	5,167	5,295	5,387	5,923	6,163	6,299
Indirect taxation receipts	**100,021**	**102,411**	**108,102**	**114,357**	**119,755**	**126,288**
Taxation receipts	**361,962**	**377,201**	**404,302**	**430,747**	**463,195**	**492,488**
Sales of goods and services	7,592	8,786	11,497	14,600	15,511	15,694
Interest received	2,936	3,003	3,233	3,840	4,442	4,898
Dividends	5,540	5,820	3,996	3,637	4,323	4,829
Other non-taxation receipts	8,895	10,914	10,465	9,675	9,436	8,413
Non-taxation receipts	**24,962**	**28,523**	**29,191**	**31,752**	**33,712**	**33,834**
Total receipts	**386,924**	**405,724**	**433,494**	**462,500**	**496,908**	**526,322**
Memorandum:						
Total excise	*21,492*	*21,550*	*22,180*	*22,930*	*24,460*	*25,310*
Total customs duty	*13,932*	*14,090*	*14,700*	*15,910*	*17,230*	*18,710*
Capital gains tax(c)	*11,000*	*12,700*	*15,500*	*16,800*	*18,400*	*20,500*

(a) This item includes a small amount of MRRT receipts relating to a pre-2013-14 income year which cannot be separately disclosed owing to taxpayer confidentiality.
(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 2015-16 reported figure is an estimate.

Box 1: How tax receipts are affected by wage and profit income

The amount of tax collected each year depends on both the size and composition of national income. Most income is ultimately earned either as wages or business profits. The relative shares of wages and profits have varied significantly over the last twenty years (Chart 3), as the profit share of income has tended to track with commodity prices. In 2016-17 the profit share would appear to have sharply increased again as a result of increases in commodity prices, particularly for coal. The profit share is expected to decrease over the forward estimates — but not to its 2015-16 level — as key commodity prices are assumed to decline from their recent averages.

Chart 3: Wage and profit shares of income[(a)]



(a) The wage share includes compensation of employees. The profit share includes private corporate gross operating surplus and gross mixed income. 2016-17 is an estimate. Source: ABS Cat. No. 5206.0.

Generally, relatively more tax is collected in the short term as the wage share increases. There are four main reasons for this.

First, wages are subject to a progressive income tax scale, such that the associated tax will grow by more than the growth in wages. Secondly, businesses may access deductions related to their capital investments, such as depreciation, particularly in the mining sector. Thirdly, there are significant differences in the timing of the tax payments, with taxes on wages being paid largely at the time of the income, compared to a time lag between when profit is accrued and when company tax is paid (Box 2). Fourthly, higher wage income also results in higher consumption and superannuation contributions, which are also subject to taxation.

Therefore, when profits rise as a share of the economy and the overall size of the economy remains the same, total tax receipts may fall. By way of a stylised example, if the profit share in 2016-17 was still at the levels of the early-2000s (around 3 percentage points lower) then total tax receipts would be higher by around $5 billion in 2016-17.

Box 2: Company tax timing

The design of the company tax payments system means that there may be significant delays between companies accruing profit and paying the associated tax liability. For example, in 2011-12 company tax grew by 18 per cent while corporate gross operating profits grew by only 5 per cent in that year but by 11 per cent the previous year. Two key reasons for the delays are the operation of the instalment system and deducting prior year losses.

A company pays monthly tax instalments, calculated using the company's ordinary business income ('turnover') multiplied by a rate determined from the company's last assessed tax return, and a balancing payment around six months after their reporting year ends which is the difference between the sum of instalments already paid and their final tax liability.

Because the company's tax instalments are determined from its turnover, rather than its profit, if profitability increases then the instalments paid may not cover the final tax liability. As a result, a large balancing payment may be required in the following year. Therefore, there can be significant delays between increases in income and payment of the tax liability. This situation is illustrated in Chart 4. For a more detailed example see *Mid-Year Economic and Fiscal Outlook 2016-17, Part 3, Box C*.

Turning to company tax losses, if a company makes a loss, then the loss can be used in a later year to offset income. Chart 5 illustrates a company that makes a large loss in 2016-17, which is then used to completely offset its taxable income in 2017-18 and partially offset its taxable income in 2018-19. By 2019-20 the company has exhausted its stock of losses and resumes paying tax on its full profit. Deductibility of prior year losses is particularly important for companies that incur substantial costs before income is earned, such as in the mining industry.

Chart 4: Lags between accrued tax and tax receipts

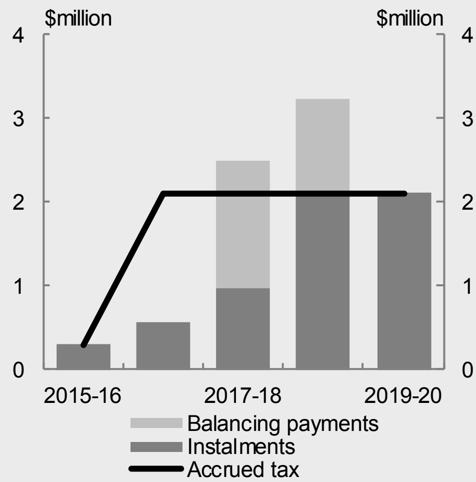
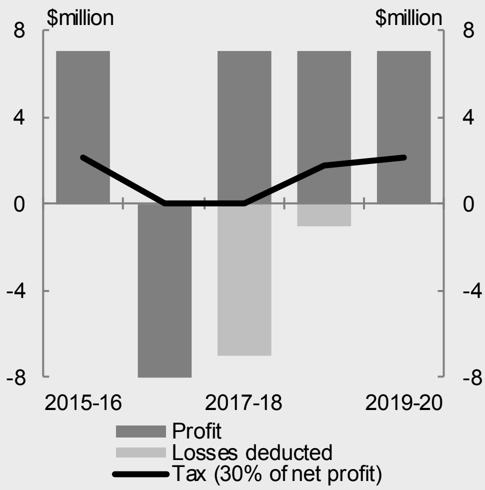


Chart 5: Using prior-year losses to offset taxable income



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 as receipts. Revenue amounts are usually higher than the cash equivalents because the amounts are generally recognised when they are owed rather than when they are paid. The differences between the accrual and cash amounts therefore generally reflect timing differences. Table 10 provides a reconciliation of the Budget's revenue estimates with those at the 2016-17 MYEFO.

Table 10: Reconciliation of Australian Government general government revenue estimates from the 2016-17 MYEFO

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	Total
	$m	$m	$m	$m	$m
Revenue at 2016-17 MYEFO	**411,112**	**441,223**	**473,062**	**502,699**	**1,828,096**
Changes from 2016-17 MYEFO to 2017-18 Budget					
Effect of policy decisions(a)	0	2,840	3,238	7,680	13,758
Effect of parameter and other variations	979	351	-201	440	1,570
Total variations	**979**	**3,191**	**3,037**	**8,120**	**15,328**
Revenue at 2017-18 Budget	**412,091**	**444,414**	**476,099**	**510,819**	**1,843,423**

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

Since the 2016-17 MYEFO, total revenue has been revised up by around $980 million in 2016-17, $3.2 billion in 2017-18 and $15.3 billion over the four years to 2019-20. The factors affecting revisions to tax receipts are also at play with regards to revenue. Higher-than-expected net receivables in 2016-17 have contributed to the upward revisions to total revenue.

The changes to individual heads of revenue accrual estimates since the 2016-17 MYEFO are shown in Tables 11 and 12. For the five year accrual table, the accrual equivalent of Table 9, see Budget Statement 10, Note 3.

Additional revenue and receipts historical tables are available online and can be accessed at www.budget.gov.au.

Table 11: Reconciliation of 2016-17 general government (accrual) revenue

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	180,680	180,150	-530	-0.3
Gross other individuals	46,700	46,730	30	0.1
less: Refunds	28,900	28,300	-600	-2.1
Total individuals and other withholding tax	198,480	198,580	100	0.1
Fringe benefits tax	4,540	4,450	-90	-2.0
Company tax	68,700	68,900	200	0.3
Superannuation fund taxes	8,080	7,760	-320	-4.0
Petroleum resource rent tax(a)	920	1,050	130	14.1
Income taxation revenue	**280,720**	**280,740**	**20**	**0.0**
Goods and services tax	62,410	62,220	-190	-0.3
Wine equalisation tax	910	870	-40	-4.4
Luxury car tax	640	660	20	3.1
Excise and customs duty				
Petrol	6,210	6,100	-110	-1.8
Diesel	9,970	10,240	270	2.7
Other fuel products	1,940	1,900	-40	-2.1
Tobacco	10,670	10,690	20	0.2
Beer	2,400	2,350	-50	-2.1
Spirits	2,120	2,050	-70	-3.3
Other alcoholic beverages(b)	930	920	-10	-1.1
Other customs duty				
Textiles, clothing and footwear	300	270	-30	-10.0
Passenger motor vehicles	500	500	0	0.0
Other imports	1,050	1,050	0	0.0
less: Refunds and drawbacks	420	420	0	0.0
Total excise and customs duty	35,670	35,650	-20	-0.1
Major bank levy	-	-	-	-
Agricultural levies	519	532	12	2.4
Other taxes	5,476	5,501	25	0.4
Indirect taxation revenue	**105,625**	**105,432**	**-193**	**-0.2**
Taxation revenue	**386,345**	**386,172**	**-173**	**0.0**
Sales of goods and services	8,905	8,894	-11	-0.1
Interest	3,771	3,753	-18	-0.5
Dividends	2,687	3,653	966	36.0
Other non-taxation revenue	9,404	9,618	214	2.3
Non-taxation revenue	**24,767**	**25,919**	**1,152**	**4.6**
Total revenue	**411,112**	**412,091**	**979**	**0.2**
Memorandum:				
Total excise	*21,410*	*21,560*	*150*	*0.7*
Total customs duty	*14,260*	*14,090*	*-170*	*-1.2*
Capital gains tax(c)	*12,000*	*12,700*	*700*	*5.8*

(a) This item includes a small amount of MRRT revenue relating to a pre-2013-14 income year which cannot be separately disclosed owing to taxpayer confidentiality.
(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 12: Reconciliation of 2017-18 general government (accrual) revenue

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	190,320	188,750	-1,570	-0.8
Gross other individuals	48,560	49,860	1,300	2.7
less: Refunds	29,550	29,000	-550	-1.9
Total individuals and other withholding tax	209,330	209,610	280	0.1
Fringe benefits tax	4,550	4,430	-120	-2.6
Company tax	78,600	79,400	800	1.0
Superannuation fund taxes	8,790	8,540	-250	-2.8
Petroleum resource rent tax	890	990	100	11.2
Income taxation revenue	**302,160**	**302,970**	**810**	**0.3**
Goods and services tax	65,680	65,710	30	0.0
Wine equalisation tax	940	900	-40	-4.3
Luxury car tax	640	650	10	1.6
Excise and customs duty				
Petrol	6,410	6,250	-160	-2.5
Diesel	10,370	10,640	270	2.6
Other fuel products	1,940	1,920	-20	-1.0
Tobacco	11,440	11,610	170	1.5
Beer	2,450	2,390	-60	-2.4
Spirits	2,180	2,130	-50	-2.3
Other alcoholic beverages(a)	960	950	-10	-1.0
Other customs duty				
Textiles, clothing and footwear	240	170	-70	-29.2
Passenger motor vehicles	520	490	-30	-5.8
Other imports	730	790	60	8.2
less: Refunds and drawbacks	420	420	0	0.0
Total excise and customs duty	36,820	36,920	100	0.3
Major bank levy	-	1,600	1,600	-
Agricultural levies	518	537	19	3.6
Other taxes	6,083	6,141	57	0.9
Indirect taxation revenue	**110,682**	**112,458**	**1,776**	**1.6**
Taxation revenue	**412,842**	**415,428**	**2,586**	**0.6**
Sales of goods and services	11,737	11,496	-241	-2.1
Interest	4,322	4,397	75	1.7
Dividends	3,294	3,517	223	6.8
Other non-taxation revenue	9,028	9,578	550	6.1
Non-taxation revenue	**28,381**	**28,987**	**606**	**2.1**
Total revenue	**441,223**	**444,414**	**3,191**	**0.7**
Memorandum:				
Total excise	*22,090*	*22,190*	*100*	*0.5*
Total customs duty	*14,730*	*14,730*	*0*	*0.0*
Capital gains tax(b)	*14,100*	*15,500*	*1,400*	*9.9*

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

Tax expenditure estimates should be interpreted with caution as they do not indicate the revenue gain to the Budget if tax expenditures were to be abolished by a change of policy. In addition, the characterisation of a provision of the tax law as a tax expenditure does not indicate a view on how an activity or class of taxpayer ought to be taxed.

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.

Consistent with most OECD countries, estimates of the size of tax expenditures 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 gain 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 measure different things. In addition, estimates from different editions of the TES are generally not comparable because benchmarks may have changed.

The CBHA also requires the publication of an annual Tax Expenditures Statement (TES). The 2016 TES was published in January 2017 and provides a detailed description of Australian Government tax expenditures and, where possible, the estimated value or order of magnitude of each tax expenditure.

The information in Table A1 is derived from the 2016 TES and does not include the impact of decisions in this Budget on tax expenditures. Further information on tax expenditures is available in the 2016 TES.

Table A1: Estimates of large measured tax expenditures

Tax expenditure		Estimate $m			
		2017-18	2018-19	2019-20	2020-21
Large positive tax expenditures					
E6	Capital gains tax main residence exemption — discount component	34,500	34,500	36,000	36,000
E5	Capital gains tax main residence exemption	28,500	29,000	30,000	30,000
C4	Concessional taxation of superannuation entity earnings	17,700	20,650	24,050	26,500
C2	Concessional taxation of employer superannuation contributions	16,200	17,800	18,800	20,000
E13	Capital gains tax discount for individuals and trusts	11,080	11,310	12,090	13,060
H28	GST — Food	7,200	7,500	7,800	8,100
H16	GST — Education	4,850	5,250	5,700	6,200
H19	GST — Health — medical and health services	4,300	4,600	4,900	5,250
H2	GST — Financial supplies — input taxed treatment	3,700	3,900	4,200	4,450
A24	Concessional taxation of non-superannuation termination benefits	2,500	2,400	2,300	2,150
B12	Exemption from interest withholding tax on certain securities	2,310	2,310	2,310	2,310
A40	Exemption of Family Tax Benefit payments	2,100	2,110	2,070	2,090
A19	Medicare levy exemption for residents with taxable income below the low-income thresholds	2,090	2,160	2,230	2,300
B2	Local government bodies income tax exemption	2,130	2,410	2,730	3,080
A17	Exemption of the Private Health Insurance Rebate	1,580	1,650	1,750	1,770
A27	Exemption of Child Care Assistance payments	1,745	2,420	2,460	2,485
D14	Exemption for public benevolent institutions (excluding hospitals)	1,600	1,700	1,800	1,900
D10	Exemption for public and not-for-profit hospitals and public ambulance services	1,550	1,650	1,750	1,850
H5	GST — Child care services	1,560	1,840	2,030	2,240
A54	Philanthropy — deduction for gifts to deductible gift recipients	1,350	1,410	1,460	1,510
F7	Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	1,330	1,400	1,510	1,560
B73	Capital works expenditure deduction	1,240	1,320	1,410	1,495
H20	GST — Health — residential care, community care and other care services	1,230	1,320	1,410	1,510
B50	Lower company tax rate	1,300	1,600	1,800	2,200
Large negative tax expenditures					
F11	Higher rate of excise levied on cigarettes not exceeding 0.8 grams of tobacco	-2,420	-2,645	-2,925	-3,210
F23	Customs duty	-1,060	-1,170	-1,340	-1,500

STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

Statement 6 presents estimates of general government sector expenses and net capital investment, allocated according to the various functions of government, on 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. The second part presents trends in net capital investment estimates and is complemented by Statement 4, which includes enhanced reporting on recurrent and capital spending. Estimates are on an Australian Government general government sector basis.

Statement 6 focuses on short to medium term trends in estimated expenses and their underlying drivers. Consistent with this emphasis, much of Statement 6 explains year on year changes across the forward estimates period.

The main trends are:

- in 2017-18 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 2017-18 largely reflects continued investment in defence capital projects.

CONTENTS

STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

OVERVIEW

Australian Government general government sector (GGS) accrual expenses are expected to increase by 1.0 per cent in real terms in 2017-18, with the growth rate increasing to 2.7 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 25.5 per cent in 2017-18 to 25.2 per cent in 2020-21.

Table 1.1: Estimates of general government sector expenses

	MYEFO	Revised	Estimate		Projections	
	2016-17	2016-17	2017-18	2018-19	2019-20	2020-21
Total expenses ($b)	**448.6**	**450.8**	**464.3**	**486.9**	**503.2**	**522.9**
Real growth on previous year (%)(a)	3.0	3.4	1.0	2.7	1.1	1.4
Per cent of GDP	25.6	25.7	25.5	25.7	25.4	25.2

(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. In cash terms, Government spending is forecast to grow by an average of 1.9 per cent per annum in real terms over the four years to 2020-21 and total payments are expected to decline as a percentage of GDP from 25.2 per cent in 2017-18 to 25.0 per cent over the forward estimates.

Table 1.2: Estimates of general government sector payments

	MYEFO	Revised	Estimate		Projections	
	2016-17	2016-17	2017-18	2018-19	2019-20	2020-21
Total payments ($b)	**441.1**	**440.5**	**459.7**	**480.4**	**495.6**	**518.9**
Real growth on previous year (%)(a)	2.6	2.3	2.3	2.3	0.9	2.1
Per cent of GDP	25.2	25.1	25.2	25.4	25.0	25.0

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

Over the forward estimates, expenses are expected to decline to 25.2 per cent of GDP in 2020-21 (see Table 1.1), whereas over the period between 2007-08 and 2013-14, total expenditure rose from 23.7 per cent of GDP in 2007-08, to an estimate of 26.1 per cent of GDP in 2013-14.

Table 2 provides a reconciliation of expense estimates between the 2016-17 Budget, the 2016 *Pre-election Economic and Fiscal Outlook* (PEFO), the 2016-17 *Mid-Year Economic and Fiscal Outlook* (MYEFO) and the 2017-18 Budget showing the effect of policy decisions, and economic parameter and other variations.

Table 2: Reconciliation of expense estimates

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	Total
	$m	$m	$m	$m	$m
2016-17 Budget expenses	**450,553**	**464,812**	**489,324**	**511,604**	**1,916,292**
Changes from 2016-17 Budget to 2016 PEFO					
Effect of policy decisions(a)	1	-1	-3	-6	-9
Effect of parameter and other variations	0	0	0	0	0
Total variations	**1**	**-1**	**-3**	**-6**	**-9**
2016 PEFO expenses	**450,554**	**464,811**	**489,320**	**511,598**	**1,916,283**
Changes from 2016 PEFO to 2016-17 MYEFO					
Effect of policy decisions(a)	-927	-1,138	-367	-270	-2,703
Effect of parameter and other variations	-985	-3,291	-5,321	-7,353	-16,949
Total variations	**-1,912**	**-4,429**	**-5,688**	**-7,623**	**-19,652**
2016-17 MYEFO expenses	**448,642**	**460,382**	**483,632**	**503,975**	**1,896,631**
Changes from 2016-17 MYEFO to 2017-18 Budget					
Effect of policy decisions(a)	1,775	5,004	5,155	3,754	15,688
Effect of economic parameter variations					
Total economic parameter variations	-55	421	-569	-1,042	-1,244
Unemployment benefits	*427*	*714*	*694*	*685*	*2,520*
Prices and wages	*9*	*199*	*138*	*-111*	*235*
Interest and exchange rates	*9*	*-32*	*-62*	*-32*	*-118*
GST payments to the States	*-500*	*-460*	*-1,339*	*-1,583*	*-3,882*
Public debt interest	44	-67	-167	-444	-635
Program specific parameter variations	-365	-236	-851	-788	-2,241
Other variations	716	-1,242	-337	-2,257	-3,119
Total variations	**2,115**	**3,880**	**3,231**	**-777**	**8,449**
2017-18 Budget expenses	**450,757**	**464,262**	**486,863**	**503,198**	**1,905,080**

(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, including the reversal of unlegislated components of certain measures, and variations to program estimates has increased expenses by $8.4 billion over the four years from 2016-17 to 2019-20 compared to the 2016-17 MYEFO. In the same period, the Government has made policy decisions that increase expenses by $3.6 billion (excluding the impact of Senate negotiations). Over the four years from 2016-17 to 2019-20, program specific parameter variations, public debt interest and other variations have decreased expenses by $6.0 billion, and economic parameter variations that have also decreased expenses by $1.2 billion compared to the 2016-17 MYEFO.

Estimated expenses by function

Table 3 sets out the estimates of Australian Government general government sector expenses by function for the period 2016-17 to 2020-21.

Table 3: Estimates of expenses by function

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
General public services	27,172	20,703	21,207	21,887	20,820
Defence	28,464	30,051	29,877	31,708	33,865
Public order and safety	5,162	5,042	4,940	4,927	4,572
Education	33,237	33,800	34,997	36,161	37,856
Health	73,820	75,277	77,511	80,007	82,590
Social security and welfare	155,698	164,059	178,122	184,975	191,206
Housing and community amenities	4,700	5,351	4,876	4,638	4,088
Recreation and culture	3,609	3,632	3,449	3,344	3,469
Fuel and energy	6,790	6,940	7,080	7,426	7,764
Agriculture, forestry and fishing	2,843	2,972	2,845	2,493	2,408
Mining, manufacturing and construction	3,559	3,825	4,188	4,425	4,583
Transport and communication	9,394	10,420	8,592	7,470	6,545
Other economic affairs	9,840	9,411	8,894	8,569	8,426
Other purposes	86,468	92,780	100,285	105,167	114,715
Total expenses	**450,757**	**464,262**	**486,863**	**503,198**	**522,907**

Major expense trends between 2016-17 and 2017-18, and from 2017-18 over the forward years include movements in the following functions:

- **general public services** — the decrease in expenses between 2016-17 and 2017-18 largely reflects the use of different discount rates applied to superannuation expenses. The increase in expenses from 2017-18 to 2019-20 as well as the decrease in expenses from 2019-20 to 2020-21 largely reflects Foreign Aid spending due to multi-year funding cycles for Australia's contributions to multilateral funds;

- **defence** — the increase in expenses between 2017-18 to 2020-21 reflects the funding required to deliver the plans set out in the 2016 Defence White Paper. Defence expenses are projected to grow by 5.3 per cent in real terms (12.7 per cent in nominal terms);

- **education** — the increase in expenses from 2017-18 to 2020-21 largely reflects policy changes announced in the 2017-18 Budget measures *Quality Schools – true needs-based funding for Australia's Schools* and *National Partnership Agreement on Universal Access to Early Childhood Education - extension* and an increase in government school student enrolments;

- **health** — the increase in expenses from 2017-18 to 2020-21 reflects growth in a range of programs within the Medical Services and Benefits, Assistance to the States for public hospitals, and Health Services sub-functions. Higher demand for health services from a growing and ageing population continues to drive increasing health costs;

- **social security and welfare** — the increase in expenses from 2017-18 to 2020-21 largely reflects the impact of the transition to the full National Disability Insurance Scheme to support people with a significant and permanent disability, growth in the support and usage of child care by families and an 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 programs, including access for assistance to veterans and dependants;

- **housing and community amenities** — the decrease in expenses from 2017-18 to 2020-21 largely reflects the scheduled completion of payments made to the States and Territories under National Partnership Agreements and completion of urban and regional development projects;

- **transport and communication** — the declining profile of expenses from 2017-18 to 2020-21 largely reflects the expected completion of major infrastructure projects within the road transport sub-function and the use of innovative financing for some infrastructure projects; and

- **other purposes** — the increase in expenses from 2017-18 to 2020-21 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 58.5 per cent of all government expenses in 2017-18. Further details of spending trends against all functions, including movements in expenses from 2016-17 to 2017-18, are set out under individual function headings.

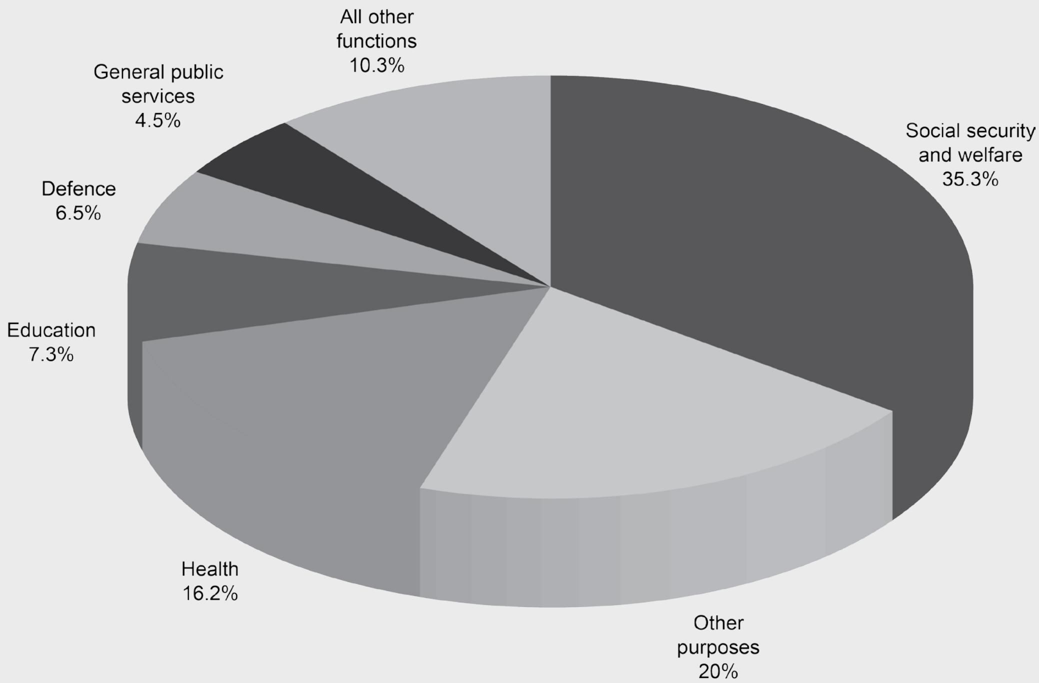
Box 1: Where does government spending go in 2017-18?

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 1: Expenses by function in 2017-18



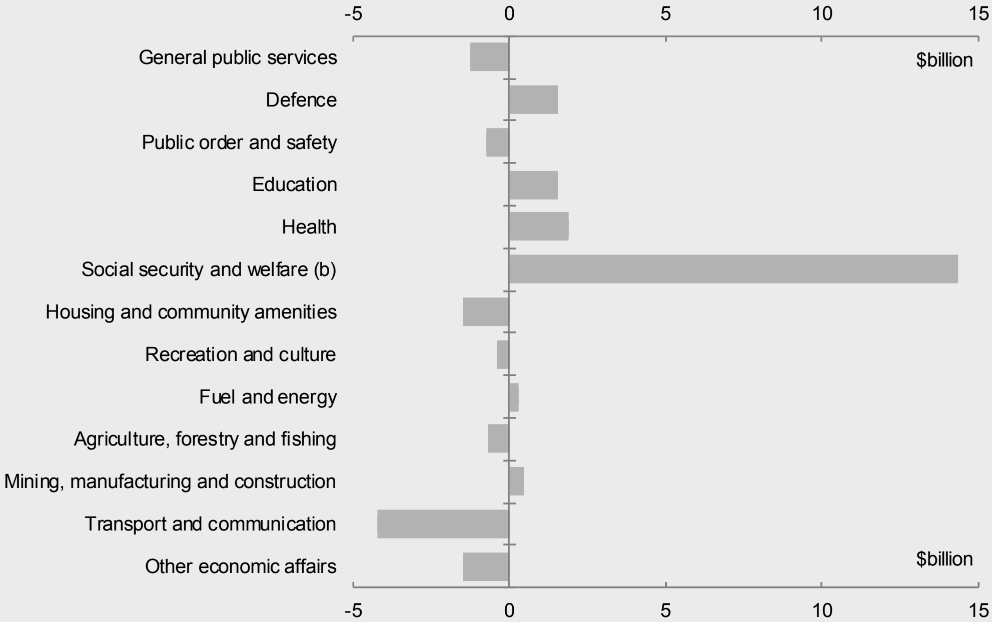
The estimates presented in the chart above are explained in greater detail under each individual function in the following pages.

Box 2: Trends in future spending

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

A number of major health programs will continue to see expenditure grow 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 2: Total real growth in expenses by function — 2017-18 to 2020-21(a)



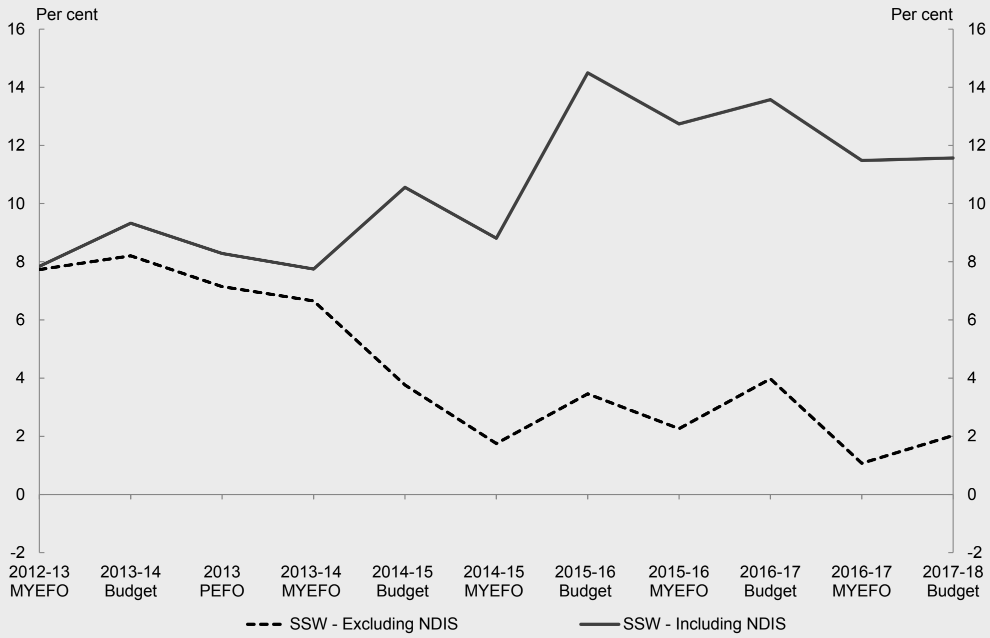
(a) The other purposes function is not included in this chart as it contains expenses for general revenue assistance to the State and Territory governments (primarily GST), public debt interest, and the conservative bias allowance.
(b) The most significant driver of growth in the social security and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

Box 2.1: Trends in social security and welfare spending

Box 2.1: Trends in social security and welfare spending.

Chart 2.1 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. 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 over the forward estimates period.

Chart 2.1: Total real growth rates over the forward estimates at each Budget and Economic update from 2012-13 MYEFO to 2017-18 Budget (a)



(a) The 2016 PEFO is not included in this chart as the figures were unchanged from the 2016-17 Budget update.

Program expenses

Table 3.1 reports the top 20 expense programs in the 2017-18 financial year. These programs represent approximately two thirds of total expenses in that year. More than half of the top 20 expense programs provide financial assistance or services to the aged, families, people with a disability, students, carers and the unemployed.

Table 3.1: Top 20 programs by expenses in 2017-18

		Estimates			Projections	
		2016-17	2017-18	2018-19	2019-20	2020-21
Program(a)	**Function**	$m	$m	$m	$m	$m
Revenue Assistance to the States and Territories	Other purposes	59,976	63,071	66,260	68,325	72,202
Income support for seniors	SSW	44,468	45,391	47,604	49,744	52,304
Medical Benefits(b)	Health	22,197	22,983	24,143	25,815	27,266
Assistance to the States for public hospitals	Health	18,460	19,563	20,639	21,769	22,677
Family tax benefit	SSW	18,601	19,231	18,763	18,845	18,775
Income Support for People with Disability	SSW	16,421	16,923	17,396	18,222	19,140
Residential and flexible care	SSW	11,445	12,014	12,663	13,525	14,270
Pharmaceutical benefits, services and supply	Health	11,995	11,748	11,596	11,631	11,293
Non-government schools National Support	Education	10,597	11,136	11,690	12,309	12,965
Job seeker income support	SSW	10,994	10,038	11,126	11,814	12,547
National Disability Insurance Scheme	SSW	3,435	9,250	15,922	19,502	20,265
Income support for carers	SSW	8,132	8,484	8,801	8,933	9,003
Public sector superannuation(d)	Other purposes; General public services	8,972	7,994	8,181	8,350	8,480
Child Care Fee Assistance(c)		7,207	7,546	0	0	0
Child Care Subsidy(c)	SSW	0	0	8,755	9,566	10,004
Army capabilities	Defence	7,870	7,319	7,365	7,763	8,410
Government schools National Support	Education	6,498	7,081	7,576	8,148	8,743
Commonwealth Grants Scheme	Education	6,922	6,996	6,901	6,931	7,049
Navy capabilities	Defence	6,208	6,480	6,181	6,427	7,153
Fuel Tax Credits Scheme	Fuel and energy	6,194	6,308	6,514	6,884	7,349
National Partnership Payments - Road Transport	Transport and Communication	5,778	6,172	5,163	4,156	2,744
Sub-total		**292,370**	**305,728**	**323,239**	**338,659**	**352,639**
Other programs		158,387	158,534	163,624	164,539	170,268
Total expenses		**450,757**	**464,262**	**486,863**	**503,198**	**522,907**

(a) The entry for each program includes eliminations for inter-agency transactions within that program.
(b) Medical Benefits was formerly the Medicare Services program.
(c) Child Care Fee Assistance includes the Child Care Benefit and Child Care Rebate. From 1 July 2018, the Child Care Benefit and Child Care Rebate will be replaced by the new Child Care Subsidy.
(d) This program is a combination of the public sector superannuation nominal interest and accrual expenses.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Legislative and executive affairs	1,376	1,243	1,473	1,164	1,188
Financial and fiscal affairs	6,359	6,383	6,303	6,397	6,301
Foreign affairs and economic aid	6,687	5,669	5,944	6,859	5,858
General research	2,765	2,831	2,926	3,016	3,053
General services	970	828	828	816	820
Government superannuation benefits	9,015	3,749	3,733	3,635	3,601
Total general public services	**27,172**	**20,703**	**21,207**	**21,887**	**20,820**

Total general public services expenses are estimated to decrease by 25.3 per cent in real terms from 2016-17 to 2017-18 and decrease by 6.0 per cent in real terms over the period 2017-18 to 2020-21.

Expenses under the **legislative and executive affairs** sub-function partly reflect costs incurred by the Australian Electoral Commission to support federal elections in 2016-17 and 2018-19.

Expenses in the **financial and fiscal affairs** sub-function are expected to decrease in real terms from 2016-17 to 2020-21, reflecting mainly a decrease in funding due to terminating compliance programs for the Australian Taxation Office.

Table 4.1 provides further details of the major components of foreign affairs and economic aid sub-function expenses.

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

Component(a)	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Foreign aid(b)	4,346	3,351	3,650	4,654	3,606
Diplomacy(c)	1,121	1,091	1,078	966	978
Payments to international organisations	439	466	489	520	552
Passport services	251	242	245	249	251
International police assistance	242	209	176	166	164
International agriculture research and development	126	128	128	128	133
Consular services	97	89	88	86	86
Finance and insurance services for Australian exporters and investors	17	14	11	9	8
Other	47	80	80	81	81
Total	**6,687**	**5,669**	**5,944**	**6,859**	**5,858**

(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 entities 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 16.9 per cent in real terms from 2016-17 to 2017-18, and are forecast to decrease by 3.4 per cent in real terms across the forward years from 2017-18.

The decline in expenses from 2016-17 to 2017-18 and from 2019-20 to 2020-21 reflect multi-year funding cycles for Australia's contributions to multilateral funds such as the Asian Development Fund and the World Bank's International Development Association. The decrease over the forward estimates reflects the Government's decision to maintain official development assistance at 2018-19 levels in 2019-20 and 2020-21; and the 2017-18 Budget measures *Australia's diplomatic engagement and security arrangements in Iraq - continuation* and *Australia's diplomatic engagement and security arrangements in Afghanistan - continuation* ending in 2018-19.

Table 4.2 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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Research - science services and innovation fund	1,080	1,060	1,117	1,146	1,154
Discovery - research and research training	483	494	495	513	524
Science and technology solutions	318	340	341	353	366
Linkage - cross sector research partnerships	255	267	267	277	283
Supporting science and commercialisation	194	208	246	274	277
Research capacity	176	178	181	185	188
Other	259	284	278	269	261
Total	**2,765**	**2,831**	**2,926**	**3,016**	**3,053**

(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 Department of Education and Training, the Australian Institute of Marine Science (AIMS) and the Australian Research Council (ARC).

Total expenses under this sub-function are expected to increase by 0.4 per cent in real terms from 2016-17 to 2017-18 and increase by 0.8 per cent in real terms from 2017-18 to 2020-21. The increase from 2016-17 to 2020-21 is primarily due to funding provided for the National Collaborative Research Infrastructure Strategy as part of the National Innovation and Science Agenda, which was announced at the 2015-16 MYEFO.

The fall in expenses from 2016-17 to 2017-18 in the **government superannuation benefits** sub-function reflects the use of different discount rates. In accordance with accounting standards, the superannuation expenses for 2016-17 apply a discount rate based on long-term government bonds at the commencement of the financial year (2.7 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).

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Defence	28,464	30,051	29,877	31,708	33,865
Total defence	**28,464**	**30,051**	**29,877**	**31,708**	**33,865**

Total expenses for the **defence** sub-function are estimated to increase by 3.5 per cent in real terms from 2016-17 to 2017-18, and by 5.3 per cent in real terms over the period 2017-18 to 2020-21. The increase over the period reflects the funding required to deliver the *2016 Defence White Paper*. This increase in expenses, together with the increase in Defence's net capital investment, will allow Defence funding to reach two per cent of GDP by 2020-21.

$970.2 million will be provided in the 2017-18 Budget to support major Australian Defence Force (ADF) operations in the Middle East and the protection of Australia's borders.

Expenses do not include the additional cost of major ADF operations beyond 2017-18, other than remediation costs, as operations funding is provided on a year-by-year basis.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Courts and legal services	1,221	1,182	1,151	1,134	882
Other public order and safety	3,941	3,860	3,789	3,794	3,690
Total public order and safety	**5,162**	**5,042**	**4,940**	**4,927**	**4,572**

Total expenses for the **public order and safety** function are estimated to decrease by 4.2 per cent in real terms from 2016-17 to 2017-18, and decrease by 15.3 per cent in real terms over the period 2017-18 to 2020-21.

Expenses within the **courts and legal services** sub-function are estimated to decrease by 5.1 per cent in real terms from 2016-17 to 2017-18 and decrease by 30.2 per cent in real terms from 2017-18 to 2020-21, mainly reflecting the end of the current National Partnership on Legal Aid on 30 June 2020. Funding beyond this period is not for publication pending negotiations.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Policing and law enforcement	2,695	2,623	2,590	2,582	2,531
Border protection(b)	1,246	1,238	1,199	1,211	1,159
Total	**3,941**	**3,860**	**3,789**	**3,794**	**3,690**

(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).

Total expenses within the **other public order and safety** sub-function are expected to decrease by 4.0 per cent in real terms from 2016-17 to 2017-18, which reflects a cessation of capital assistance to industry for the data retention initiative on 30 June 2017. There is an expected decrease of 10.7 per cent in real terms from 2017-18 to 2020-21, which mainly reflects the expected termination of a number of measures that are subject to future Government consideration. This is partially offset by an increase in funding for the Australian Federal Police announced in the 2017-18 Budget.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Higher education	9,395	9,627	9,533	9,656	9,891
Vocational and other education	2,003	1,845	1,877	1,930	1,933
Schools	17,095	18,218	19,266	20,457	21,707
Non-government schools	*10,597*	*11,136*	*11,690*	*12,309*	*12,965*
Government schools	*6,498*	*7,081*	*7,576*	*8,148*	*8,743*
School education - specific funding	673	663	473	151	102
Student assistance	3,760	3,144	3,556	3,688	3,941
General administration	311	304	293	280	282
Total education	**33,237**	**33,800**	**34,997**	**36,161**	**37,856**

Total education expenses are expected to decrease by 0.3 per cent in real terms between 2016-17 and 2017-18, and increase by 4.7 per cent in real terms from 2017-18 to 2020-21.

Expenses under the **higher education** sub-function are expected to increase by 0.5 per cent in real terms from 2016-17 to 2017-18, and to decrease by 4.0 per cent in real terms between 2017-18 and 2020-21. The forecast overall decline in expenses over the forward estimates relates to the reduction of Commonwealth Grant Scheme subsidies and the Government's policy changes announced in the 2017-18 Budget measures *Higher Education Reform – a more sustainable higher education sector* and *Higher Education Reform – a fairer and student-focused higher education system.*

Expenses under the **vocational and other education** sub-function are expected to decrease by 9.7 per cent in real terms from 2016-17 to 2017-18, and decrease by 2.1 per cent in real terms from 2017-18 to 2020-21. The decrease from 2016-17 to 2017-18 reflects the impact of the milestone payments under the ceasing National Partnership Agreement on Skills Reform. The change in expenses over the forward estimates reflects the profile of the National Agreement on Skills and Workforce Development. The expenses over the forward estimates also reflect the Government's policy changes announced in the 2017-18 Budget measure *Skilling Australians Fund*, which will provide an estimated $1.5 billion over four years to establish an ongoing fund to support the skilling of Australian workers.

Aggregate schools funding expenses are expected to increase by 4.5 per cent in real terms between 2016-17 to 2017-18, and by 11.4 per cent in real terms from 2017-18 to 2020-21 reflecting the Government's policy changes announced in the 2017-18 Budget measure *Quality Schools – true needs-based funding for Australia's schools*.

Expenses in the **schools — non-government schools** sub-function are expected to increase by 3.0 per cent in real terms between 2016-17 and 2017-18, and by 8.8 per cent in real terms from 2017-18 to 2020-21. Expenses under the **schools — government schools** sub-function are expected to increase by 6.8 per cent in real terms between 2016-17 and 2017-18, and by 15.4 per cent in real terms from 2017-18 to 2020-21. The increase in expenses over the forward years is attributable to an increase in government student enrolments as well as the impact of the 2017-18 Budget measure *Quality Schools – true needs-based funding for Australia's schools*.

Expenses under the **school education — specific funding** sub-function are expected to decrease by 3.4 per cent in real terms between 2016-17 and 2017-18, and decrease by 85.6 per cent in real terms from 2017-18 to 2020-21. The expected decreases in expenses primarily reflects the conclusion of a number of National Partnerships. The 2017-18 Budget measure *National Partnership Agreement on Universal Access to Early Childhood Education – extension* provides for an additional year of support until 31 December 2018.

Expenses under the **student assistance** sub-function are expected to decrease by 18.0 per cent in real terms from 2016-17 to 2017-18, and increase by 17.1 per cent in real terms from 2017-18 to 2020-21. The decrease from 2016-17 to 2017-18 reflects the impact of converting Student Start-up Scholarships to Student Start-up loans and compliance activities from the 2015-16 Budget measure *Strengthening the Integrity of Welfare Payments,* the 2015-16 MYEFO measure *Enhanced Welfare Payment Integrity* and the 2016-17 MYEFO measure *Better Management of the Social Welfare System*. This activity will continue to influence expense levels in 2018-19 and 2019-20. Thereafter, it is expected that the key influence on expenses will be the increase in Higher Education Loan Program (HELP) Loans due to policy changes announced in the 2017-18 Budget measure *Higher Education Reform – a more sustainable higher education sector*.

Health

The health function includes expenses relating to medical services that are 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 programs; mental health services; and health workforce initiatives.

Table 8: Summary of expenses — health

Sub-function	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Medical services and benefits	30,102	30,995	32,287	34,094	35,714
Pharmaceutical benefits and services	12,670	12,393	12,220	12,246	11,898
Assistance to the States for public hospitals	18,460	19,563	20,639	21,769	22,677
Hospital services(a)	2,285	1,487	1,450	1,388	1,346
Health services	6,444	6,911	7,055	6,738	7,113
General administration	3,062	3,047	2,966	2,841	2,874
Aboriginal and Torres Strait Islander health	798	881	895	932	968
Total health	**73,820**	**75,277**	**77,511**	**80,007**	**82,590**

(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, which is provided under the assistance to the States for public hospitals sub-function.

Expenses for the health function are estimated to remain unchanged in real terms between 2016-17 and 2017-18 and increase by 2.5 per cent in real terms from 2017-18 to 2020-21 reflecting higher demand for health services. This is driven by growth in Medicare under the **medical services and benefits** sub-function and growth in **assistance to the States for public hospitals** sub-function. This growth is partially mitigated in the **pharmaceutical benefits and services** sub-function, due to a decline in spending on high cost Hepatitis C medications from a peak in 2016-17 and savings from the 2016-17 MYEFO measure *Pharmaceutical Benefits Scheme – agreement with Medicines Australia*.

The **medical services and benefits** sub-function, which primarily consists of Medicare and Private Health Insurance Rebate expenses, comprises 41.2 per cent of total estimated health expenses for 2017-18. Growth in Medicare expenses is the major driver of growth in this sub-function.

Table 8.1: Trends in the major components of medical services and benefits sub-function expenses

Component(a)	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Medical benefits	22,197	22,983	24,143	25,815	27,266
Private health insurance	6,288	6,427	6,561	6,696	6,849
General medical consultations and services	800	774	759	744	733
Dental services(b)	332	346	359	370	387
Other	484	465	465	470	480
Total	**30,102**	**30,995**	**32,287**	**34,094**	**35,714**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) Payments under the existing dental National Partnership Agreement in 2015-16 are provided for under the health services sub-function in Table 8.

Expenses for medical benefits are expected to increase by 1.5 per cent in real terms between 2016-17 and 2017-18, and by 10.9 per cent in real terms over the period 2017-18 to 2020-21, as a result of ongoing growth in the use of medical services and the phased reintroduction of indexation of the Medicare Benefits Schedule.

Expenses for private health insurance are expected to remain relatively unchanged in real terms between 2016-17 and 2017-18, and decrease by 0.4 per cent in real terms over the period 2017-18 to 2020-21. The proportion of Australians with private health insurance is around 55.4 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 2.2 per cent in real terms between 2016-17 and 2017-18 and by 4.6 per cent in real terms over the period 2017-18 to 2020-21, reflecting growth in utilisation of the Child Dental Benefits Schedule (CDBS).

The **pharmaceutical benefits and services** sub-function is expected to decrease by 4.1 per cent in real terms between 2016-17 and 2017-18. This is due largely to demand for Hepatitis C medications being brought forward into 2016-17 from across the forward estimates period, as previously reflected in the 2016-17 MYEFO. Expenses are expected to decrease by 10.3 per cent in real terms over the period 2017-18 to 2020-21 largely as a result of amendments to existing pricing policies through the 2017-18 Budget measure *Improving Access to Medicines - cheaper medicines*, that will reduce the cost of medicines listed on the PBS. Estimates for the PBS do not include the potential listing of new medicines or price adjustments to existing listings, which typically increase spending above the 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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Pharmaceutical benefits, services and supply	11,995	11,748	11,596	11,631	11,293
Immunisation	339	316	311	311	310
Veterans' pharmaceutical benefits	336	330	314	304	296
Total	**12,670**	**12,393**	**12,220**	**12,246**	**11,898**

(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, programs that deliver hospital services in the home and emergency department services. Expenditure for this sub-function is expected to increase by 3.9 per cent in real terms from 2016-17 to 2017-18, largely reflecting growth in the volume of services and changes in the efficient price of those services. Expenditure is expected to increase by 8.3 per cent in real terms over the period 2017-18 to 2020-21, following the Government's agreement with States and Territories for the Commonwealth to fund up to 45.0 per cent of the growth in the efficient price of activity based services for public hospitals from 2017-18 to 2019-20, with nominal growth in total Commonwealth funding capped at 6.5 per cent a year for three years. New funding arrangements for public hospitals from 2020-21 are expected to be agreed by the Council of Australian Governments (COAG) in 2018.

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 decrease by 36.2 per cent in real terms between 2016-17 and 2017-18, and by 15.4 per cent in real terms over the period 2017-18 to 2020-21, reflecting the completion of hospital infrastructure projects.

Expenses in the **health services** sub-function include Australian Government expenses associated with the delivery of population health, medical research, mental health, blood and blood products, other allied health services, health infrastructure and disbursement from the Medical Research Future Fund (MRFF). MRFF disbursements are expected to reach $642.9 million by 2020-21 and will provide a sustainable funding stream for medical research.

Health services expenditure is expected to increase by 5.2 per cent in real terms between 2016-17 and 2017-18, and decrease by 3.8 per cent in real terms between 2017-18 and 2020-21 largely reflecting the completion of health infrastructure projects.

The **general administration** 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 decrease by

2.4 per cent in real terms between 2016-17 and 2017-18, and by 11.9 per cent over the period 2017-18 to 2020-21, largely as a result of streamlining workforce programs.

Expenses in the **Aboriginal and Torres Strait Islander health** sub-function are expected to increase by 8.3 per cent in real terms from 2016-17 to 2017-18, and by 2.7 per cent in real terms over the period 2017-18 to 2020-21 as Aboriginal and Torres Strait Islander people across Australia continue to access Indigenous-specific services under the Indigenous Australians Health Program.

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 that has not been included under other functions.

Table 9: Summary of expenses — social security and welfare

Sub-function	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Assistance to the aged	62,270	64,279	67,652	71,071	74,776
Assistance to veterans and dependants	6,475	6,272	6,033	5,913	5,881
Assistance to people with disabilities	31,721	38,538	47,840	49,522	50,710
Assistance to families with children	36,404	36,936	38,020	39,420	40,214
Assistance to the unemployed and the sick	10,994	10,038	11,126	11,814	12,547
Other welfare programs	1,745	1,737	1,711	1,638	1,649
Assistance for Indigenous Australians nec	2,210	2,153	2,083	2,128	2,136
General administration	3,879	4,105	3,657	3,468	3,293
Total social security and welfare	**155,698**	**164,059**	**178,122**	**184,975**	**191,206**

Expenses in the social security and welfare function are estimated to increase by 3.3 per cent in real terms from 2016-17 to 2017-18, and by 8.9 per cent in real terms from 2017-18 to 2020-21.

The most significant driver of this growth is the **assistance to people with disabilities** sub-function, which is expected to grow by 19.1 per cent in real terms from 2016-17 to 2017-18, and by 23.0 per cent in real terms from 2017-18 to 2020-21, reflecting the progressive implementation of the National Disability Insurance Scheme (NDIS). This sub-function includes Commonwealth as well as State and Territory contributions to the NDIS. Other drivers include the **assistance to the aged** sub-function, which is expected to grow by 1.2 per cent in real terms between 2016-17 and 2017-18, and by 8.7 per cent in real terms between 2017-18 and 2020-21; the **assistance to families with children** sub-function, which is expected to increase by 1.7 per cent in real terms between 2017-18 and 2020-21; and the **assistance to the unemployed and the sick** sub-function, which is expected to increase by 16.8 per cent in real terms between 2017-18 and 2020-21.

The principal driver of growth over the forward estimates for the **assistance to the aged** sub-function is income support for seniors, which is estimated to grow by 0.1 per cent in real terms from 2016-17 to 2017-18, and by 7.7 per cent in real terms from 2017-18 to 2020-21, reflecting demographic changes. Growth in these years is partially moderated by the reduction in expenses associated with incremental increases in the age pension age.

Also contributing to growth from 2017-18 to 2020-21 is an increase in expenses associated with home care, home support and residential and flexible aged care programs, largely reflecting demographic factors.

The estimated decrease of 13.3 per cent in real terms from 2017-18 to 2020-21 for veterans' community care and support is mainly attributable to the decrease in the number of veterans and relevant dependants 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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Income Support for Seniors	44,468	45,391	47,604	49,744	52,304
Residential and flexible care	11,445	12,014	12,663	13,525	14,270
Veterans' Community Care and Support	1,389	1,363	1,313	1,270	1,265
Home Support and Care	4,055	4,604	5,464	5,969	6,392
National Partnership Payments - Assistance to the Aged	191	203	0	0	0
Mature Age Income Support	287	242	159	119	93
Aged Care Quality	115	114	117	119	121
Access and information	191	209	210	219	221
Allowances, concessions and services for seniors	102	93	81	68	61
Other	26	46	41	38	49
Total	**62,270**	**64,279**	**67,652**	**71,071**	**74,776**

(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 decrease by 5.0 per cent in real terms from 2016-17 to 2017-18, and by 12.4 per cent in real terms from 2017-18 to 2020-21, predominantly reflecting an expected reduction in the number of beneficiaries.

Expenses for the **assistance to people with disabilities** sub-function are expected to increase by 19.1 per cent in real terms from 2016-17 to 2017-18, and by 23.0 per cent in real terms from 2017-18 to 2020-21, primarily driven by the NDIS. This reflects the increase in the number of people with a disability entering the NDIS under transition arrangements with the States and Territories. Of the total $64.9 billion in NDIS expenses from 2017-18 to 2020-21, the Commonwealth is contributing funding of $33.7 billion, with the States and Territories contributing the remaining funding. Estimates of NDIS expenses in Western Australia only reflect the Commonwealth contribution from 2017-18 to 2019-20 through a state-run NDIS model. NDIS expenses in 2020-21 for Western Australia are not reflected in the sub-function table as full Scheme arrangements in this state are subject to ongoing negotiations. Further information can be found in Budget Paper No. 3.

Subject to negotiations, the Commonwealth will provide payments to the States and Territories of $6.4 billion from the DisabilityCare Australia Fund over the forward estimates. The timing of these payments will result in DisabilityCare Australia Fund expenses peaking at $3.2 billion in 2018-19.

The reduction in the assistance to the States for Disability Services component reflects the progressive withdrawal of the National Disability Specific Purpose Payment (ND SPP) once existing clients in each State or Territory, except Western Australia, have transitioned to the NDIS. As ND SPP payments terminate for each State or Territory, equivalent funding will be redirected to the NDIS. Prior to the ND SPP ceasing, the States and Territories will repay part of their ND SPP payments to the Commonwealth to meet its NDIS costs. These arrangements will temporarily increase total Commonwealth payments, as part of the ND SPP funding will be expensed twice – when the payment is made to the States and Territories, and when the returned funds are expensed on the NDIS. Western Australia will continue to receive the ND SPP, and progressively redirect this funding to the WA NDIS on behalf of the Commonwealth as existing clients enter the Scheme over the three year transition in that state to 30 June 2020.

Expenses for the Disability Support Pension (DSP) are estimated to increase by 1.0 per cent in real terms from 2016-17 to 2017-18. The moderate growth in DSP recipient numbers is underpinned by the ongoing impact of the revised DSP impairment tables, which were announced in the 2009-10 Budget. Expenses are expected to grow by 5.7 per cent in real terms from 2017-18 to 2020-21, reflecting moderate increases to recipient numbers and payment rates over this period.

Expenses for income support for carers are estimated to increase by 2.3 per cent in real terms from 2016-17 to 2017-18, and are expected to decrease by 0.8 per cent in real terms from 2017-18 to 2020-21. This reflects the flattening growth rate in Carer Payment recipient numbers in recent years and the tightening of assessment processes for carer payments, which was announced in the 2015-16 Budget and will commence on 1 January 2018.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Income Support for People with Disability	16,421	16,923	17,396	18,222	19,140
National Disability Insurance Scheme(b)	3,435	9,250	15,922	19,502	20,265
Income Support for Carers	8,132	8,484	8,801	8,933	9,003
Assistance to the States for Disability Services	1,475	1,481	913	147	-39
Disability and Carers	1,008	1,067	1,072	1,061	1,058
National Disability Insurance Scheme Transition Programme	530	473	388	285	268
National Partnership Payments - Assistance to People with Disabilities	721	860	3,349	1,373	1,014
Total	**31,721**	**38,538**	**47,840**	**49,522**	**50,710**

(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 through the National Disability Insurance Agency, which is a Commonwealth agency in the General Government Sector.

Expenses for the **assistance to families with children** sub-function are expected to decrease by 0.5 per cent in real terms from 2016-17 to 2017-18, and increase by 1.7 per cent in real terms from 2017-18 to 2020-21, with growth primarily driven by increased Child Care Fee Assistance expenses. The profile includes an increase in Child Care Fee Assistance expenses of 2.7 per cent in real terms from 2016-17 to 2017-18, and by 23.9 per cent in real terms from 2017-18 to 2020-21. The increase in expenses reflects continued growth in the usage of child care by families and also reflects the commencement of the more generous Child Care Subsidy from 2 July 2018, following the passage of the *Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Bill 2016.*

Family Tax Benefit (FTB) expenses are expected to increase by 1.4 per cent in real terms from 2016-17 to 2017-18, and decrease by 8.8 per cent in real terms from 2017-18 to 2020-21. The growth in 2017-18 is primarily due to the impact of not proceeding with unlegislated elements of the 2015-16 MYEFO measure *Family Payment Reform – a new families package*. The decrease in expenses to 2020-21 is driven by the net impact of policy amendments in the 2016-17 MYEFO measure, *Budget Savings (Omnibus) Bill - amendments*, and the 2017-18 Budget measures *Unlegislated Budget Repair Measures - not proceeding*, *Family Tax Benefit Part A rate increase – not proceeding*, *Consistent income treatment for families receiving Family Tax Benefit Part A* and *Funding the Jobs for Families Package*.

Expenses for Paid Parental Leave (PPL) are estimated to increase by 1.0 per cent in real terms from 2016-17 to 2017-18, and by 3.6 per cent in real terms from 2017-18 to 2020-21. The growth from 2017-18 to 2020-21 is primarily being driven by increasing numbers of eligible primary carers and the impact of the 2017-18 Budget measure *Unlegislated Budget Repair Measures – not proceeding.*

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Family tax benefit	18,601	19,231	18,763	18,845	18,775
Child Care Fee Assistance(b)	7,207	7,546	8,755	9,566	10,004
Child Care Benefit	*3,623*	*3,609*	*0*	*0*	*0*
Child Care Rebate	*3,584*	*3,938*	*0*	*0*	*0*
Child Care Subsidy	*0*	*0*	*8,755*	*9,566*	*10,004*
Parents income support	5,629	5,098	5,400	5,796	6,090
Paid Parental Leave	2,169	2,234	2,323	2,389	2,478
Child support	1,878	1,893	1,915	1,945	1,982
Support for the child care system	331	357	346	351	356
Families and Children	265	267	247	250	253
Family relationship services	163	167	169	168	169
Child Payments	125	110	102	98	94
National Partnership Payments - Child care	23	22	0	0	0
Other	11	11	0	12	12
Total	**36,404**	**36,936**	**38,020**	**39,420**	**40,214**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) From 1 July 2018, 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 decrease by 10.5 per cent in real terms from 2016-17 to 2017-18 and to increase by 16.8 per cent in real terms from 2017-18 to 2020-21. These changes reflect compliance activities resulting from the 2015-16 Budget measure *Strengthening the Integrity of Welfare Payments*, the 2015-16 MYEFO measure *Enhanced Welfare Payment Integrity* and the 2016-17 MYEFO measure *Better Management of the Social Welfare System,* which peak in 2017-18 and conclude by 2019-20.

Expenses for the **assistance for Indigenous Australians (nec)** sub-function are estimated to decrease by 4.4 per cent in real terms from 2016-17 to 2017-18 and decrease by 7.3 per cent in real terms from 2017-18 to 2020-21. This decrease largely reflects the conclusion of a number of Indigenous measures.

Expenses for the **general administration** sub-function are estimated to decrease by 25.0 per cent in real terms from 2017-18 to 2020-21. There is a minor increase in 2017-18 followed by a decrease from 2018-19 to 2020-21, which largely reflects the implementation of measures by the Department of Human Services, involving significant upfront service delivery costs that are projected to 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 programs, the expenses of Defence Housing Australia (DHA), urban and regional development programs and environmental protection initiatives.

Table 10: Summary of expenses — housing and community amenities

Sub-function	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Housing	3,215	3,359	2,998	3,053	2,924
Urban and regional development	582	1,083	1,023	691	311
Environment protection	904	909	855	894	853
Total housing and community amenities	**4,700**	**5,351**	**4,876**	**4,638**	**4,088**

Total expenses under the housing and community amenities function are estimated to increase by 11.6 per cent in real terms from 2016-17 to 2017-18 and decrease by 28.6 per cent in real terms from 2017-18 to 2020-21. The decrease is primarily driven by reduced expenses for the **housing** sub-function related to the scheduled completion of National Partnership payments, and reduced expenses for the **urban and regional development** sub-function driven by the completion of projects under key programs.

The **housing** sub-function includes the Australian Government's contribution to the National Affordable Housing Specific Purpose Payment and associated National Partnerships, the provision of housing for the general public and people with special needs and DHA expenses. The expenses for this sub-function are estimated to increase by 2.4 per cent in real terms from 2016-17 to 2017-18 due to rescheduling of DHA's work program. This sub-function decreases by 18.6 per cent in real terms from 2017-18 to 2020-21. This largely reflects the scheduled completion of National Partnership payments for remote Indigenous housing and a forecast reduction in the construction and acquisition of DHA properties in 2019-20. The decrease is partially offset by the 2017-18 Budget measure *Reducing Pressure on Housing Affordability – a new National Housing and Homelessness Agreement*.

The **urban and regional development** sub-function comprises regional development programs and services to territories, including Community Development Grants, the National Stronger Regions Fund and the Stronger Communities program. This sub-function also reflects funding for a number of election commitments announced in the 2016-17 MYEFO, including the Building Better Regions Fund and the Regional Jobs and Investment Packages, and the 2017-18 Budget measure *Regional Growth Fund*. Expenses are estimated to increase by 82.6 per cent in real terms from 2016-17 to 2017-18, but reduce by 73.2 per cent in real terms from 2017-18 to 2020-21, largely reflecting the completion of projects under key programs, such as Community Development Grants, the Building Better Regions Fund and the Regional Jobs and Investment Packages.

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. Expenses are estimated to decrease by 1.4 per cent in real terms from 2016-17 to 2017-18, primarily reflecting the reprofiling of expenses relating to the Emissions Reduction Fund. There is a 12.4 per cent decrease in real terms from 2017-18 to 2020-21, reflecting the profile of contractual commitments for the Emissions Reduction Fund, and the termination of the Green Army program in 2017-18.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Broadcasting	1,461	1,445	1,418	1,422	1,453
Arts and cultural heritage	1,369	1,361	1,280	1,219	1,282
Sport and recreation	366	416	363	311	307
National estate and parks	414	411	388	392	428
Total recreation and culture	**3,609**	**3,632**	**3,449**	**3,344**	**3,469**

Total expenses under the recreation and culture function are estimated to decrease by 1.3 per cent in real terms from 2016-17 to 2017-18, and by 10.7 per cent in real terms over the period 2017-18 to 2020-21.

Expenses under the **broadcasting** sub-function are expected to decrease by 3.0 per cent in real terms from 2016-17 to 2017-18, and by 6.0 per cent in real terms from 2017-18 to 2020-21. These reductions primarily reflect previous efficiency measures from the 2014-15 Budget and the 2014-15 MYEFO. These have been partially offset by 2016-17 Budget measures which provide operational funding for the Australian Broadcasting Corporation and the Special Broadcasting Service Corporation (SBS), and a 2017-18 Budget measure providing supplementary funding to the SBS.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
ABC general operational activities	898	885	867	880	902
SBS general operational activities	311	305	297	284	289
ABC transmission and distribution services	175	178	181	184	187
SBS transmission and distribution services	77	75	74	74	75
Total	**1,461**	**1,445**	**1,418**	**1,422**	**1,453**

(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 decrease by 2.6 per cent in real terms from 2016-17 to 2017-18, and by 12.0 per cent in real terms over the period 2017-18 to 2020-21. This sub-function includes programs that support funding for the arts and cultural institutions. The estimated decreases reflect the implementation of efficiencies and arts-related savings measures from the 2014-15 Budget, 2015-16 Budget and the 2015-16 MYEFO. This is partially offset by the 2016-17 MYEFO measure *Public Service Modernisation Fund — National Library of Australia and Australian War Memorial* and the 2017-18 Budget measure *Public Service Modernisation Fund – agency sustainability*, which provide funding to support agencies in transitioning to more modern, sustainable and productive operating models.

Expenses under the **sport and recreation** sub-function are estimated to increase by 11.5 per cent in real terms from 2016-17 to 2017-18, and decrease by 31.1 per cent in real terms over the period 2017-18 to 2020-21. The increase in 2017-18 primarily reflects the 2017-18 Budget measure, *Gold Coast 2018 Commonwealth Games – additional Australian Government support*, the 2016-17 MYEFO measure *Sporting Schools Program - extension* and the Government's contribution to the construction of the Townsville Integrated Stadium through the 2016-17 MYEFO measure *Revitalise Jobs and Growth in Townsville*. Estimated decreases in expenses over the forward estimates reflect the termination of the *Sporting Schools Program* on 31 December 2018, the funding for the Townsville Integrated Stadium terminating on 30 June 2020, and ongoing 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 2.6 per cent in real terms from 2016-17 to 2017-18, and decrease by 2.7 per cent in real terms over the period 2017-18 to 2020-21. The decrease from 2016-17 to 2017-18 largely reflects a reduction in expenses for the Australian Antarctic Program. The decrease in expenses from 2017-18 to 2020-21 primarily reflects the cessation of a number of measures over the period, including *Commonwealth Marine Reserves - implementation,* partly offset by an increase in expenses for the Australian Antarctic Program.

Fuel and energy

The fuel and energy function includes expenses for the Fuel Tax Credits and Product Stewardship Waste (Oil) schemes, administered by the Australian Taxation Office. It also includes expenses related to improving Australia's energy efficiency, resource related initiatives, and programs to support the production and use of renewable energy.

Table 12: Summary of expenses — fuel and energy

Sub-function	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Fuel and energy	6,790	6,940	7,080	7,426	7,764
Total fuel and energy	**6,790**	**6,940**	**7,080**	**7,426**	**7,764**

Fuel and energy expenses are estimated to increase by 0.2 per cent in real terms from 2016-17 to 2017-18 and increase by 4.5 per cent in real terms over the period 2017-18 to 2020-21.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Fuel Tax Credits Scheme	6,194	6,308	6,514	6,884	7,349
Resources and Energy	148	135	102	70	61
Renewable Energy	327	357	299	327	214
Other	121	139	164	145	139
Total	**6,790**	**6,940**	**7,080**	**7,426**	**7,764**

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

The major program within this function is the Fuel Tax Credits Scheme, which is estimated to decrease by 0.1 per cent in real terms from 2016-17 to 2017-18 and increase by 8.9 per cent in real terms from 2017-18 to 2020-21.

Expenses under the Resources and Energy component are estimated to decrease by 10.5 per cent in real terms from 2016-17 to 2017-18 and decrease by 57.8 per cent in real terms from 2017-18 to 2020-21. This reflects a number of terminating measures, including the cessation of the Low Emissions Technology Demonstration Fund and Coal Mining Abatement Technology Support Package in 2016-17, and the cessation of funding for the development of a detailed business case for the National Radioactive Waste Management Facility and Carbon Capture and Storage Flagships programs in 2018-19. The decrease in expenditure is partly offset by the Government's decision to fund emerging energy priorities as part of the 2017-18 Budget.

The overall decrease in expenses under the renewable energy component from 2017-18 to 2020-21 reflects the decrease in grants expenses for the Australian Renewable Energy Agency, which is partly offset by an increase in expenditure for the Clean Energy Finance Corporation.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Wool industry	70	70	70	70	70
Grains industry	217	214	212	213	206
Dairy industry	53	51	51	53	53
Cattle, sheep and pig industry	225	238	242	247	252
Fishing, horticulture and other agriculture	331	345	347	352	334
General assistance not allocated to specific industries	34	35	43	37	36
Rural assistance	165	125	161	146	146
Natural resources development	995	1,133	991	695	624
General administration	754	761	728	681	688
Total agriculture, forestry and fishing	**2,843**	**2,972**	**2,845**	**2,493**	**2,408**

Total expenses under this function are estimated to increase by 2.5 per cent in real terms from 2016-17 to 2017-18, and decrease by 24.3 per cent in real terms over the period 2017-18 to 2020-21.

The **rural assistance** sub-function is expected to decrease by 25.5 per cent in real terms from 2016-17 to 2017-18, and increase by 8.8 per cent in real terms over the period 2017-18 to 2020-21. The initial decrease mainly reflects changes to the Farm Household Allowance, which is available to eligible farm households for a maximum of three years. Households that have received the payment continuously since the program's inception will not qualify beyond 2016-17. The subsequent increase in 2018-19 is related to the 2017-18 Budget measure, *Regional Investment Corporation - establishment*, which will administer the Government's Farm Business Concessional Loans Scheme and the National Water Infrastructure Loan Facility.

The majority of expenses under the **natural resources development** sub-function are related to water initiatives, comprising urban and rural programs, 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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Water reform(b)	751	886	748	484	439
Sustainable management - natural resources	13	10	6	0	0
Other	231	236	237	211	186
Total	**995**	**1,133**	**991**	**695**	**624**

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

Expenses under the **natural resources development** sub-function are estimated to increase by 11.6 per cent in real terms from 2016-17 to 2017-18 and decrease by 48.5 per cent in real terms from 2017-18 to 2020-21. The increase in expenses from 2016-17 to 2017-18 reflects increased funding under the program National Partnership Payments - Water and Natural Resources. The subsequent reduction in expenses primarily relates to the scheduled wind down of funding for the Sustainable Rural Water Use and Infrastructure Program from 2018-19.

Mining, manufacturing and construction

The mining, manufacturing and construction function includes expenses for programs designed to promote the efficiency and competitiveness of Australian industries. The major components include the Research and Development Tax Incentive and industry assistance programs.

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

Sub-function	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Mining, manufacturing and construction	3,559	3,825	4,188	4,425	4,583
Total mining, manufacturing and construction	**3,559**	**3,825**	**4,188**	**4,425**	**4,583**

Total expenses under the mining, manufacturing and construction function are expected to increase by 5.4 per cent in real terms from 2016-17 to 2017-18, and increase by 12.0 per cent in real terms from 2017-18 to 2020-21.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Research and Development Tax Incentive	2,874	3,003	3,219	3,461	3,737
Growing Business Investment	485	400	297	252	208
Northern Australia Infrastructure Facility	6	222	471	521	471
Other	194	199	201	192	167
Total	**3,559**	**3,825**	**4,188**	**4,425**	**4,583**

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

The increase in expenses for the Research and Development Tax Incentive, administered by the Australian Taxation Office, reflects 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 over the forward estimates reflecting the reduced demand for assistance under the Automotive Transformation Scheme associated with the closure of vehicle manufacturing firms by the end of 2017, and reduced expenditure in Industry Growth Centres, following their establishment over the period 2015-16 to 2016-17.

The Northern Australia Infrastructure Facility (NAIF) was established on 1 July 2016. The NAIF offers concessional finance of up to $5 billion to encourage and complement private sector investment in infrastructure that benefits northern Australia. The estimated increase in expenses reflects the accounting treatment of concessions expected to be provided as part of the NAIF's operations.

Expenses under the 'Other' component are expected to remain steady over the forward estimates with a decrease in 2020-21, reflecting the completion of the National Resources Development Strategy – Exploring for the Future program.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Communication	696	1,248	1,354	1,458	1,467
Rail transport	1,045	1,218	716	553	1,058
Air transport	239	219	208	205	203
Road transport	6,726	7,024	5,642	4,586	3,163
Sea transport	404	436	423	428	422
Other transport and communication	284	274	249	240	232
Total transport and communication	**9,394**	**10,420**	**8,592**	**7,470**	**6,545**

Total expenses under this function are estimated to increase by 8.7 per cent in real terms between 2016-17 and 2017-18, and to decrease by 41.3 per cent in real terms from 2017-18 to 2020-21.

The estimated expenses for the **communication** sub-function relate to communication activities and support for the digital economy through the Department of Communications and the Arts and the Australian Communications and Media Authority. Total expenses under the this sub-function are estimated to increase by 75.7 per cent in real terms between 2016-17 and 2017-18, and increase by 9.9 per cent in real terms from 2017-18 to 2020-21. The estimated increase primarily reflects movement of funds for the Mobile Black Spots Program from 2016-17 into 2017-18 and increased expenditure for the Regional Broadband Scheme.

Total expenses under the **rail transport** sub-function are estimated to increase by 14.4 per cent in real terms from 2016-17 to 2017-18. This primarily reflects the 2017-18 Budget measure *Infrastructure Investment Programme – Victorian Infrastructure Investment* and movement of funds for rail projects in South Australia. In addition to expenditure on rail transport, in this Budget the Government is investing in the delivery of Inland Rail.

The estimated expenses for the **air transport** and **sea transport** sub-functions primarily relate to activities of the safety regulators — the Civil Aviation Safety Authority, the Australian Maritime Safety Authority (AMSA) and the Australian Transport Safety Bureau (ATSB). Total expenses under the **air transport** sub-functions are estimated to decrease by 9.9 per cent in real terms between 2016-17 and 2017-18, and decrease by 13.5 per cent in real terms from 2017-18 to 2020-21, primarily reflecting the completion of airstrip improvements under the Regional Aviation Access program and preparatory work associated with the Western Sydney Airport site at Badgerys Creek. In addition to expenditure on air transport, the Government in this Budget is investing in the delivery of the Western Sydney Airport. Total expenses under the **sea transport** sub-function are estimated to increase by 5.8 per cent in real terms between 2016-17 and 2017-18, and decrease by 9.6 per cent in real terms from 2017-18 to 2020-21, reflecting reductions in levy revenue and costs associated with the implementation of the National System for Domestic Commercial Vessel Safety for AMSA.

The expenses under the **road transport** sub-function primarily consist of grants provided under the Infrastructure Investment Programme. Expenses are estimated to increase by 2.4 per cent in real terms between 2016-17 and 2017-18, and decrease by 57.9 per cent in real terms from 2017-18 to 2020-21. The increase in expenses over 2016-17 to 2017-18 is largely driven by additional funding for the Roads to Recovery Program announced in the 2015-16 MYEFO. The decrease from 2017-18 to 2020-21 reflects the expected completion of projects including the Toowoomba Second Range Crossing and the Mackay Ring Road – Stage 1 in Queensland, and WestConnex - Stage 1 in New South Wales. This decrease is partially offset by funding for the Bruce Highway.

Total expenses under the **other transport and communication** sub-function are estimated to decrease by 5.4 per cent in real terms between 2016-17 and 2017-18 and by 20.8 per cent in real terms from 2017-18 to 2020-21. This primarily reflects a decrease in departmental funding for the Infrastructure and Regional Development portfolio over the forward estimates, including the cessation of the MH370 funding for the ATSB.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Tourism and area promotion	192	182	160	161	172
Total labour and employment affairs	3,644	3,794	3,799	3,724	3,705
Vocational and industry training	*1,185*	*1,222*	*1,200*	*1,154*	*1,144*
Labour market assistance to job seekers and industry	*1,733*	*1,847*	*1,886*	*1,853*	*1,847*
Industrial relations	*727*	*725*	*713*	*718*	*713*
Immigration	3,847	3,113	2,612	2,512	2,393
Other economic affairs nec	2,157	2,322	2,323	2,172	2,156
Total other economic affairs	**9,840**	**9,411**	**8,894**	**8,569**	**8,426**

Total expenses under the other economic affairs function are expected to decrease by 6.2 per cent in real terms from 2016-17 to 2017-18, and by 16.3 per cent in real terms from 2017-18 to 2020-21.

Expenses under the **vocational and industry training** sub-function are expected to increase by 1.1 per cent in real terms from 2016-17 to 2017-18, and decrease by 12.5 per cent in real terms between 2017-18 and 2020-21. The decline in expenses primarily relates to the cessation of the Industry Skills Fund.

Expenses under the **labour market assistance to job seekers and industry** sub-function are expected to increase by 4.5 per cent in real terms from 2016-17 to 2017-18. Expenses between 2017-18 and 2020-21 are expected to decrease by 6.5 per cent in real terms mainly as a result of the introduction of new pre-employment training arrangements.

Expenses under the **industrial relations** sub-function are expected to decrease by 2.2 per cent in real terms from 2016-17 to 2017-18 and by 8.0 per cent in real terms between 2017-18 and 2020-21, mainly reflecting lower expenditure by the Fair Work Ombudsman.

The main components of the **immigration** sub-function relate to the management of unlawful non-citizens, providing migration and citizenship services and refugee and humanitarian assistance.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Management of unlawful non-citizens	2,594	1,943	1,534	1,472	1,413
Citizenship, visas and migration(b)	711	753	700	662	602
Regional co-operation and refugee and humanitarian assistance	543	418	378	378	377
Other	-2	0	0	0	0
Total other economic affairs	**3,847**	**3,113**	**2,612**	**2,512**	**2,393**

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

Expenses under this sub-function are expected to decrease by 20.7 per cent in real terms between 2016-17 and 2017-18, and by 28.2 per cent in real terms from 2017-18 to 2020-21. The key driver is the reduction in expenditure for managing unlawful non-citizens reflecting forecast lower occupancy rates in onshore and offshore detention.

Expenses under the **other economic affairs (nec)** sub-function are expected to increase by 5.5 per cent in real terms from 2016-17 to 2017-18, and decrease by 13.2 per cent in real terms from 2017-18 to 2020-21.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Promotion of Australia's export and other international economic interests(b)	362	356	355	350	349
Operating costs for:					
Department of Industry, Innovation and Science	435	482	475	461	453
Australian Securities and Investments Commission	459	424	414	453	444
Bureau of Meteorology	342	352	340	328	326
IP Australia	195	191	190	208	217
Australian Competition and Consumer Commission	135	152	139	136	132
Australian Prudential Regulation Authority	132	142	143	141	142
National Partnership Payments - Competition and Productivity Enhancing Reform	0	125	175	0	0
Other	96	99	93	93	93
Total	**2,157**	**2,322**	**2,323**	**2,172**	**2,156**

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

Expenses for the Bureau of Meteorology are projected to decrease by 13.5 per cent in real terms from 2017-18 to 2020-21 following the implementation of the new supercomputer and other information and communications technology.

Expenses for the Australian Securities and Investment Commission are estimated to decrease by 2.0 per cent in real terms from 2017-18 to 2020-21, due to a number of 2016-17 Budget measures transitioning from implementation to maintenance phases. The impact of the transitioning measures is offset in part by additional funding provided in 2017-18 Budget measures.

Expenses for the Australian Competition and Consumer Commission are expected to increase by 10.0 per cent in real terms from 2016-17 to 2017-18 due to additional funding provided in the 2017-18 Budget.

Expenses for the Department of Industry, Innovation and Science are expected to increase by 8.6 per cent in real terms from 2016-17 to 2017-18 and decrease by 12.2 per cent in real terms from 2017-18 to 2020-21. The changes in expenses reflect the current cost associated with implementing Whole-of-Government initiatives such as the Shared and Common Services Program and the Business Grants Hub, and a combination of terminating measures over the 2018-19 to 2020-21 period.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Public debt interest	16,028	17,154	18,090	18,702	18,761
Interest on Commonwealth Government's behalf	*16,028*	*17,154*	*18,090*	*18,702*	*18,761*
Nominal superannuation interest	8,446	10,392	10,761	11,133	11,502
General purpose inter-government transactions	63,448	64,274	68,736	70,902	74,794
General revenue assistance - States and Territories	*59,976*	*63,071*	*66,260*	*68,325*	*72,202*
Local government assistance	*3,472*	*1,203*	*2,476*	*2,576*	*2,592*
Natural disaster relief(a)	82	9	2	0	0
Contingency reserve	-1,536	951	2,696	4,431	9,659
Total other purposes	**86,468**	**92,780**	**100,285**	**105,167**	**114,715**

(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.

Total expenses under the other purposes function are estimated to increase by 5.2 per cent in real terms from 2016-17 to 2017-18, and by 15.5 per cent over the period 2017-18 to 2020-21.

Expenses under the **public debt interest** sub-function are expected to increase by 4.9 per cent in real terms from 2016-17 to 2017-18 and by 2.2 per cent from 2017-18 to 2020-21, reflecting the increased issuance of Australian Government Securities. Statements 4 and 7 of Budget Paper No. 1 provide further information on Government debt, including estimates of the relative contribution of capital and recurrent spending to the Government's annual borrowing task. Expenses under the **nominal superannuation interest** sub-function are projected to increase by 3.4 per cent from 2017-18 to 2020-21, 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 7.

Expenses under the **general purpose inter-government transactions** sub-function are expected to grow by 8.7 per cent from 2017-18 to 2020-21. Nearly all of the expense under this sub-function relates to **general revenue assistance** paid to state and territory governments, 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 2017-18.*

Expenses under **local government assistance** 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. The expenses are expected to decrease by 66.0 per cent in real terms from 2016-17 to 2017-18, reflecting the bringing forward of the first two instalments of the 2017-18 Financial Assistance Grants program for payment in 2016-17. Further information on Australian Government assistance to local governments can be found in Budget Paper No. 3.

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. The financial implications of Tropical Cyclone Debbie, which affected New South Wales and Queensland, has not yet been included in these estimates as costs have not yet been quantified. 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, which is an allowance that principally reflects anticipated events that cannot be assigned to individual programs in the preparation of the Australian Government budget estimates. It 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 and 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 occur.

The **contingency reserve** sub-function in the 2017-18 Budget increases expenses by $951 million in 2017-18, and increases expenses by $2.7 billion in 2018-19, $4.4 billion in 2019-20 and $9.7 billion in 2020-21. The largest component of this is the conservative bias allowance (CBA), which makes provision for the tendency for the estimate of expenses for existing Government policy to be revised upwards in the forward years. The 2017-18 Budget includes a provision of:

- zero in the Budget year 2017-18;
- ½ of a percentage point of total general government sector expenses (excluding GST payments to the States) in the first forward year 2018-19 ($2.1 billion);
- 1 per cent of expenses in the second forward year 2019-20 ($4.3 billion); and

- a 2 per cent provision has been included in the third forward year 2019-20 ($8.8 billion).

The drawdown of the CBA reduced expenses by $996 million in 2017-18; $1.0 billion in 2018-19 and $2.1 billion in 2019-20. This is consistent with long standing practice and does not represent a saving or offset to 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 programs 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.

Government capital spending involves acquisition of physical assets, financial assets and provision of grants and subsidies to others (primarily state and territory government), which they use to acquire assets. Statement 4, includes enhanced reporting of recurrent and capital spending, which complements the information presented below on movements in net capital investment by illustrating the Government's overall investment in infrastructure and other assets.

Australian Government general government sector net capital investment is expected to be $484 million in 2017-18; $1.6 billion lower than the net capital investment in 2016-17. This change is largely due to the reissue and auction by the Australian Communications and Media Authority of spectrum licences in the 700 MHz, 1800 MHz and 2.1GHz bands.

Details of movements are further explained in the following section.

Table 18: Estimates of total net capital investment

	MYEFO	Revised	Estimates		Projections	
	2016-17	2016-17	2017-18	2018-19	2019-20	2020-21
Total net capital investment ($m)	**3,953**	**2,047**	**484**	**4,770**	**4,892**	**6,037**
Per cent of GDP	0.2	0.1	0.0	0.3	0.2	0.3

Reconciliation of net capital investment since the 2016-17 Budget

A reconciliation of the net capital investment estimates, showing the effect of policy decisions and parameter and other variations since the 2016-17 Budget, is provided in Table 19.

Table 19: Reconciliation of net capital investment estimates

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	Total
	$m	$m	$m	$m	$m
2016-17 Budget net capital investment	**3,437**	**3,388**	**4,885**	**5,517**	**17,227**
Changes from 2016-17 Budget to 2016 PEFO					
Effect of policy decisions(a)	1	1	0	0	2
Effect of parameter and other variations	0	0	0	0	0
Total variations	**1**	**1**	**0**	**0**	**2**
2016 PEFO net capital investment	**3,438**	**3,389**	**4,885**	**5,517**	**17,229**
Changes from 2016 PEFO to 2016-17 MYEFO					
Effect of policy decisions(a)	62	64	8	-10	125
Effect of parameter and other variations	453	-334	-166	-347	-394
Total variations	**515**	**-270**	**-158**	**-357**	**-269**
2016-17 MYEFO net capital investment	**3,953**	**3,119**	**4,727**	**5,161**	**16,960**
Changes from 2016-17 MYEFO to 2017-18 Budget					
Effect of policy decisions(a)	1	-105	144	63	102
Effect of parameter and other variations	-1,907	-2,531	-101	-331	-4,869
Total variations	**-1,906**	**-2,635**	**43**	**-268**	**-4,767**
2017-18 Budget net capital investment	**2,047**	**484**	**4,770**	**4,892**	**12,193**

(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 2017-18 has decreased by $2.6 billion since the 2016-17 MYEFO. This decrease is driven by the effect of parameter and other variations of $2.5 billion, and a decrease relating to new policy decisions of $105 million.

Further information on the capital measures since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2017-18*.

Net capital investment estimates by function

Estimates for Australian Government general government sector net capital investment by function for the period 2017-18 to 2020-21 are provided in Table 20.

Table 20: Estimates of net capital investment by function

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
General public services	295	-204	-108	-69	-138
Defence	1,356	2,946	4,299	5,182	6,659
Public order and safety	77	174	-19	-148	-190
Education	13	6	-1	-2	-9
Health	42	85	29	-3	-28
Social security and welfare	188	162	-51	-170	-172
Housing and community amenities	56	57	-91	-181	134
Recreation and culture	48	209	53	63	-118
Fuel and energy	0	3	0	0	-1
Agriculture, forestry and fishing	426	513	641	233	218
Mining, manufacturing and construction	4	10	0	-3	-3
Transport and communication	-555	-3,034	-22	-32	-32
Other economic affairs	84	-17	-147	-135	-154
Other purposes	13	-428	187	158	-128
Total net capital investment	**2,047**	**484**	**4,770**	**4,892**	**6,037**

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** — the negative investments in 2017-18 reflects divestment in the Commonwealth's overseas property portfolio, and the decreasing trend in the forward estimates is mainly due to the Australian Taxation Office shifting to ICT fee for service arrangements;

- **defence** — funding associated with the *2016 Defence White Paper* and the Defence Integrated Investment Program, which identifies spending over the next 10 years on equipment such as ships, aircraft and armoured vehicles, ICT capabilities and infrastructure;

- **public order and safety** — funding in 2017-18 to enhance protective security arrangements for law enforcement agencies and to strengthen Australian Federal Police and national security agency capabilities;

- **social security and welfare** — reflects the Commonwealth's investment in ICT capabilities and infrastructure for the Department of Human Services, including for the following measures published since the 2016-17 Budget: *Welfare Payment Infrastructure Transformation - Tranche 2*, *Better Management of the Social Welfare System* and *Veteran Centric Reform*;

- **housing and community amenities** — reflects movements in Defence Housing Australia's acquisition and construction activities to meet Defence housing needs;
- **recreation and culture** — reflects the completion of the ABC's Melbourne Accommodation Project to rationalise existing property holdings in 2017-18, funding for the Department of the Environment and Energy for the acquisition of a new icebreaker, which reduces from 2018-19 over the forward estimates, and the purchase of assets by arts and cultural heritage entities;
- **agriculture, forestry and fishing** — reflects an increase in water purchases under the Sustainable Rural Water Use and Infrastructure Program in 2016-17 and 2017-18; and
- **transport and communication** — the negative investment in 2016-17 and 2017-18 is largely due to the reissue and auction by the Australian Communications and Media Authority of spectrum licences in the 700 MHz, 1800 MHz and 2.1 GHz bands.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
General public services	1,142	945	711	750	690
Defence	8,191	9,458	10,621	12,019	13,679
Public order and safety	534	635	453	350	299
Education	41	36	30	29	24
Health	103	150	89	55	56
Social security and welfare	532	540	357	233	222
Housing and community amenities	103	104	77	67	95
Recreation and culture	406	543	381	396	241
Fuel and energy	4	6	4	4	3
Agriculture, forestry and fishing	466	561	688	276	261
Mining, manufacturing and construction	11	17	8	5	5
Transport and communication	55	76	44	33	30
Other economic affairs	580	471	353	326	303
Other purposes	13	40	141	112	-174
General government purchases of non-financial assets	**12,181**	**13,582**	**13,958**	**14,655**	**15,735**

APPENDIX A: EXPENSE BY FUNCTION AND SUB-FUNCTION

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

	Actuals	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m	$m
General public services						
Legislative and executive affairs	1,239	1,376	1,243	1,473	1,164	1,188
Financial and fiscal affairs	6,598	6,359	6,383	6,303	6,397	6,301
Foreign affairs and economic aid	5,484	6,687	5,669	5,944	6,859	5,858
General research	2,711	2,765	2,831	2,926	3,016	3,053
General services	731	970	828	828	816	820
Government superannuation benefits	7,447	9,015	3,749	3,733	3,635	3,601
Total general public services	**24,209**	**27,172**	**20,703**	**21,207**	**21,887**	**20,820**
Defence	**26,013**	**28,464**	**30,051**	**29,877**	**31,708**	**33,865**
Public order and safety						
Courts and legal services	1,153	1,221	1,182	1,151	1,134	882
Other public order and safety	3,670	3,941	3,860	3,789	3,794	3,690
Total public order and safety	**4,823**	**5,162**	**5,042**	**4,940**	**4,927**	**4,572**
Education						
Higher education	9,581	9,395	9,627	9,533	9,656	9,891
Vocational and other education	1,837	2,003	1,845	1,877	1,930	1,933
Schools	15,703	17,095	18,218	19,266	20,457	21,707
Non-government schools	*9,958*	*10,597*	*11,136*	*11,690*	*12,309*	*12,965*
Government schools	*5,746*	*6,498*	*7,081*	*7,576*	*8,148*	*8,743*
School education - specific funding	618	673	663	473	151	102
Student assistance	4,054	3,760	3,144	3,556	3,688	3,941
General administration	328	311	304	293	280	282
Total education	**32,121**	**33,237**	**33,800**	**34,997**	**36,161**	**37,856**
Health						
Medical services and benefits	28,848	30,102	30,995	32,287	34,094	35,714
Pharmaceutical benefits and services	12,032	12,670	12,393	12,220	12,246	11,898
Assistance to the States for public hospitals	17,185	18,460	19,563	20,639	21,769	22,677
Hospital services(a)	1,071	2,285	1,487	1,450	1,388	1,346
Health services	6,488	6,444	6,911	7,055	6,738	7,113
General administration	2,952	3,062	3,047	2,966	2,841	2,874
Aboriginal and Torres Strait Islander health	725	798	881	895	932	968
Total health	**69,301**	**73,820**	**75,277**	**77,511**	**80,007**	**82,590**
Social security and welfare						
Assistance to the aged	59,962	62,270	64,279	67,652	71,071	74,776
Assistance to veterans and dependants	6,634	6,475	6,272	6,033	5,913	5,881
Assistance to people with disabilities	28,815	31,721	38,538	47,840	49,522	50,710
Assistance to families with children	38,341	36,404	36,936	38,020	39,420	40,214

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

	Actuals	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m	$m
Social security and welfare (continued)						
Assistance to the unemployed and the sick	11,032	10,994	10,038	11,126	11,814	12,547
Other welfare programmes	1,504	1,745	1,737	1,711	1,638	1,649
Assistance for Indigenous Australians nec	2,199	2,210	2,153	2,083	2,128	2,136
General administration	3,638	3,879	4,105	3,657	3,468	3,293
Total social security and welfare	**152,124**	**155,698**	**164,059**	**178,122**	**184,975**	**191,206**
Housing and community amenities						
Housing	3,192	3,215	3,359	2,998	3,053	2,924
Urban and regional development	663	582	1,083	1,023	691	311
Environment protection	886	904	909	855	894	853
Total housing and community amenities	**4,742**	**4,700**	**5,351**	**4,876**	**4,638**	**4,088**
Recreation and culture						
Broadcasting	1,483	1,461	1,445	1,418	1,422	1,453
Arts and cultural heritage	1,228	1,369	1,361	1,280	1,219	1,282
Sport and recreation	356	366	416	363	311	307
National estate and parks	395	414	411	388	392	428
Total recreation and culture	**3,462**	**3,609**	**3,632**	**3,449**	**3,344**	**3,469**
Fuel and energy	**6,423**	**6,790**	**6,940**	**7,080**	**7,426**	**7,764**
Agriculture, forestry and fishing						
Wool industry	64	70	70	70	70	70
Grains industry	188	217	214	212	213	206
Dairy industry	58	53	51	51	53	53
Cattle, sheep and pig industry	202	225	238	242	247	252
Fishing, horticulture and other agriculture	290	331	345	347	352	334
General assistance not allocated to specific industries	28	34	35	43	37	36
Rural assistance	134	165	125	161	146	146
Natural resources development	636	995	1,133	991	695	624
General administration	661	754	761	728	681	688
Total agriculture, forestry and fishing	**2,259**	**2,843**	**2,972**	**2,845**	**2,493**	**2,408**
Mining, manufacturing and construction	**3,103**	**3,559**	**3,825**	**4,188**	**4,425**	**4,583**
Transport and communication						
Communication	592	696	1,248	1,354	1,458	1,467
Rail transport	267	1,045	1,218	716	553	1,058
Air transport	218	239	219	208	205	203
Road transport	5,321	6,726	7,024	5,642	4,586	3,163
Sea transport	367	404	436	423	428	422
Other transport and communication	318	284	274	249	240	232
Total transport and communication	**7,083**	**9,394**	**10,420**	**8,592**	**7,470**	**6,545**

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

	Actuals	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m	$m
Other economic affairs						
Tourism and area promotion	199	192	182	160	161	172
Total labour and employment affairs	3,078	3,644	3,794	3,799	3,724	3,705
Vocational and industry training	*1,021*	*1,185*	*1,222*	*1,200*	*1,154*	*1,144*
Labour market assistance to job seekers and industry	*1,275*	*1,733*	*1,847*	*1,886*	*1,853*	*1,847*
Industrial relations	*782*	*727*	*725*	*713*	*718*	*713*
Immigration	3,741	3,847	3,113	2,612	2,512	2,393
Other economic affairs nec	2,180	2,157	2,322	2,323	2,172	2,156
Total other economic affairs	**9,199**	**9,840**	**9,411**	**8,894**	**8,569**	**8,426**
Other purposes						
Public debt interest	15,339	16,028	17,154	18,090	18,702	18,761
Interest on Commonwealth Government's behalf	*15,339*	*16,028*	*17,154*	*18,090*	*18,702*	*18,761*
Nominal superannuation interest	9,106	8,446	10,392	10,761	11,133	11,502
General purpose inter-government transactions	59,160	63,448	64,274	68,736	70,902	74,794
General revenue assistance - States and Territories	*58,016*	*59,976*	*63,071*	*66,260*	*68,325*	*72,202*
Local government assistance	*1,144*	*3,472*	*1,203*	*2,476*	*2,576*	*2,592*
Natural disaster relief(b)	224	82	9	2	0	0
Contingency reserve	0	-1,536	951	2,696	4,431	9,659
Total other purposes	**83,829**	**86,468**	**92,780**	**100,285**	**105,167**	**114,715**
Total expenses	**428,691**	**450,757**	**464,262**	**486,863**	**503,198**	**522,907**

(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, which is provided under the assistance to the States for public hospitals sub-function.

(b) 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.

Statement 7: 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 7: Debt statement, Assets and Liabilities

Overview

This statement provides information on current and projected Government net debt. Net debt is expected to be $354.9 billion (19.5 per cent of GDP) in 2017-18. Net debt is projected to peak at 19.8 per cent of GDP in 2018-19, before declining over the medium term to a projected 8.5 per cent of GDP ($255.8 billion) in 2027-28.

The end-of-year face value of Commonwealth Government Securities (CGS) on issue subject to the Treasurer's Direction is expected to be around $537 billion in 2017-18 and is expected to increase to $606 billion in 2020-21. By the end of the medium term (2027-28), the total face value of CGS on issue is projected to rise to $725.0 billion.

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 $533.2 billion in 2017-18 and increase to $619.2 billion by the end of the forward estimates. Total liabilities are estimated to be around $851.3 billion in 2017-18 and increase to $930.6 billion by the end of the forward estimates.

Debt Statement

The Debt Statement provides information on estimated and projected Government net debt, 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 CGS to investors.

Part of the Treasury, the Australian Office of Financial Management (AOFM) is responsible for issuing CGS and the management of the Government's financing activities. The AOFM currently issues three types of securities:

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

Treasury Indexed Bonds (TIBs): medium- 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 outstanding CGS is denominated in Australian dollars and all new CGS issuance is also undertaken in Australian dollars.

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.

The AOFM exercises operational independence in the execution of its duties. Its announced issuance program for each year is therefore determined on the basis of maturing CGS, net new issuance required to fund the Budget, and other operational considerations.

Operational considerations often mean that the annual issuance program may not be equivalent to the financing task for a particular year. For example, the AOFM may decide there is merit in partially pre-funding the following year's financing task. Alternatively, the AOFM might choose to smooth issuance across several financial years in order to minimise changes in CGS supply from one financial year to the next.

In recent years, the 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.

At times when CGS issuance is not required to finance the government's activities, successive governments have continued to issue CGS for policy purposes, such as to maintain a liquid CGS 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 supports the development of a corporate bond market by providing a risk-free benchmark.

Estimates and projections of key debt aggregates

The level of current and projected Government debt on issue is commonly expressed in one of two ways: gross or net debt.

Gross debt measures the face value of CGS on issue at a point in time. While gross debt is measured in face value terms, 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.

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. As net debt incorporates both selected financial assets and liabilities at their fair value, it provides a broader measure of the financial obligations of the Commonwealth than gross debt.

Not all government assets or liabilities are included in the measurement of net debt. For example, neither the Government's unfunded superannuation liability nor the equity holdings of the Future Fund are accounted for in net debt.

Estimates and projections of net debt

Table 1 contains estimates and projections of net debt to the end of the forward estimates period.

In 2017-18, net debt is expected to be $354.9 billion. Over the forward estimates, net debt is projected to peak at 19.8 per cent of GDP in 2018-19. Over the medium term, net debt is projected to decline to 8.5 per cent of GDP ($255.8 billion) in 2027-28.

1 For TIBs, the final repayment amount paid to investors includes an additional amount owing to inflation growth over the life of the security. This amount is not included in the calculation of face value.

Table 1: Liabilities and assets included in net debt from 2016-17 to 2020-21

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Liabilities included in net debt					
Deposits held	217	217	217	217	217
Government securities	546,915	584,562	624,701	646,987	641,691
Loans	15,685	15,065	14,955	15,066	15,216
Other borrowing	1,609	1,569	1,527	1,482	1,435
Total liabilities included in net debt	**564,426**	**601,414**	**641,399**	**663,752**	**658,559**
Assets included in net debt					
Cash and deposits	3,408	3,411	3,452	3,991	4,179
Advances paid	54,073	72,083	88,567	101,390	93,622
Investments, loans and placements	181,854	170,989	174,267	183,656	194,589
Total assets included in net debt	**239,335**	**246,483**	**266,287**	**289,037**	**292,390**
Net debt	**325,091**	**354,931**	**375,112**	**374,715**	**366,169**

Changes in net debt since the 2016-17 MYEFO

Table 2 shows the drivers of change in net debt between the 2016-17 MYEFO and the 2017-18 Budget.

Net debt is estimated to increase across the forward estimates compared with the 2016–17 MYEFO. This is partly due to an increase in the market value of CGS owing to lower average yields. The increase is also partly a result of the updated ABS cat. no. 5514.0 *Government Finance Statistics: Concepts, Sources and Methods* classification change of Australia's International Development Association and Asian Development Fund subscriptions from 'advances paid' to 'equity investments' within the general government sector balance sheet. This has resulted in an increase in net debt of approximately $8 billion.

The classification change impacting net debt has no impact on the Government's net financial worth as Australia's International Development Association and Asian Development Fund subscriptions continue to contribute towards this measure.

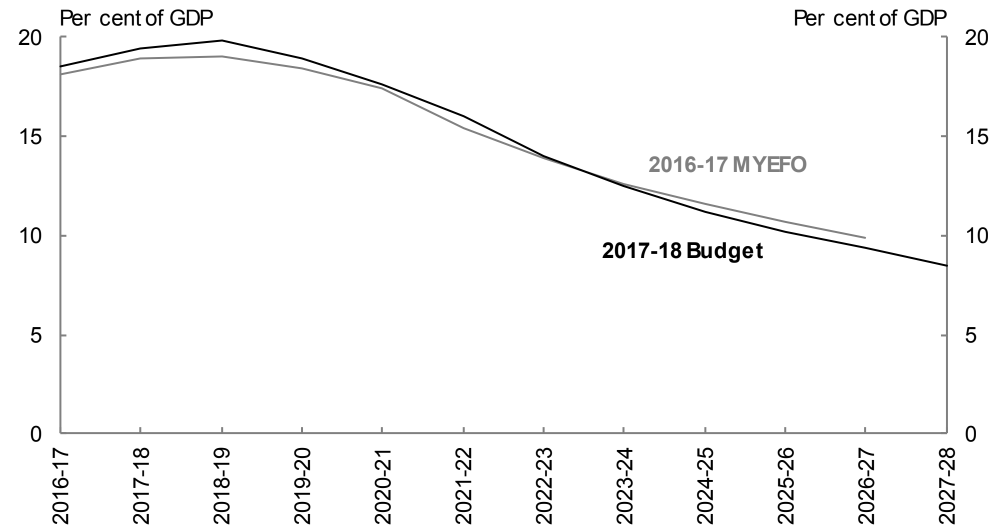
Table 2: Net debt — reconciliation from the 2016-17 MYEFO to the 2017-18 Budget

	2016-17	2017-18	2018-19	2019-20
	$b	$b	$b	$b
Net debt as at 2016-17 MYEFO ($b)	**317.2**	**343.0**	**359.0**	**363.8**
Changes in financing requirement	1.9	-3.9	1.6	-0.2
Impact of yields on CGS	4.8	5.1	4.9	4.7
Asset and other liability movements	1.2	10.8	9.6	6.4
Cash and deposits	*-0.5*	*-0.4*	*0.2*	*0.0*
Advances paid(a)	*5.9*	*6.0*	*4.0*	*2.0*
Investments, loans and placements	*-4.5*	*5.1*	*5.3*	*4.2*
Other movements	*0.2*	*0.1*	*0.0*	*0.2*
Total movements in net debt from 2016-17 MYEFO to 2017-18 Budget	**7.9**	**11.9**	**16.1**	**10.9**
Net debt as at 2017-18 Budget ($b)	**325.1**	**354.9**	**375.1**	**374.7**

(a) Due to the implementation of the 2015 ABS GFS Manual, Australia's subscriptions to the International Development Association and the Asian Development Fund were reclassified in the 2017-18 Budget from 'advances paid' to 'equity - investments' at fair value on the general government sector balance sheet. This has resulted in higher net debt across the forward estimates.

Net debt is projected to decline over the medium term to 8.5 per cent of GDP ($255.8 billion) in 2027-28 (Chart 1). Net debt is projected to be 9.4 per cent of GDP ($265.9 billion) in 2026‑27, lower than projected net debt of 9.9 per cent of GDP in 2026-27 at the 2016-17 MYEFO.

Chart 1: Net debt projected to 2027-28



Estimates and projections of CGS on issue

Table 3 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 3 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.

Table 3: Estimates and projections of Commonwealth Government Securities on issue subject to the Treasurer's Direction[(a)]

	2017-18 $b	2018-19 $b	2019-20 $b	2020-21 $b
Face value - end of year	537	579	603	606
Per cent of GDP	29.5	30.6	30.5	29.2
Face value - within-year peak(b)	537	579	616	649
Per cent of GDP(b)	29.5	30.6	31.1	31.2
Month of peak(b)	*Jun-18*	*Jun-19*	*Apr-20*	*May-21*
Market value - end of year(c)	580	620	643	642
Per cent of GDP	31.8	32.8	32.5	30.9

(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.

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 cannot be determined with a high degree of accuracy. The timing of the within-year peak is therefore reported to the given month in the particular year.

3 On 9 May 2017, the Treasurer directed that the maximum face value of CGS that can be on issue is $600 billion.

In 2017-18, the end-of-year face value of CGS on issue subject to the Treasurer's Direction is expected to be around $537 billion, compared to $539 billion at the 2016-17 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 $606 billion in 2020-21.

In 2017-18, the face value of CGS on issue is expected to reach a within-year peak of around $537 billion. Over the forward estimates, the face value of CGS on issue is projected to rise to a within-year peak of around $649 billion in 2020-21.

Changes in CGS on issue since the 2016-17 MYEFO

Table 4 shows the change in the projected end of year face value of CGS on issue between the 2016-17 MYEFO and the 2017-18 Budget.

Table 4: Projected CGS on issue subject to the Treasurer's Direction — reconciliation from the 2016-17 MYEFO to the 2017-18 Budget

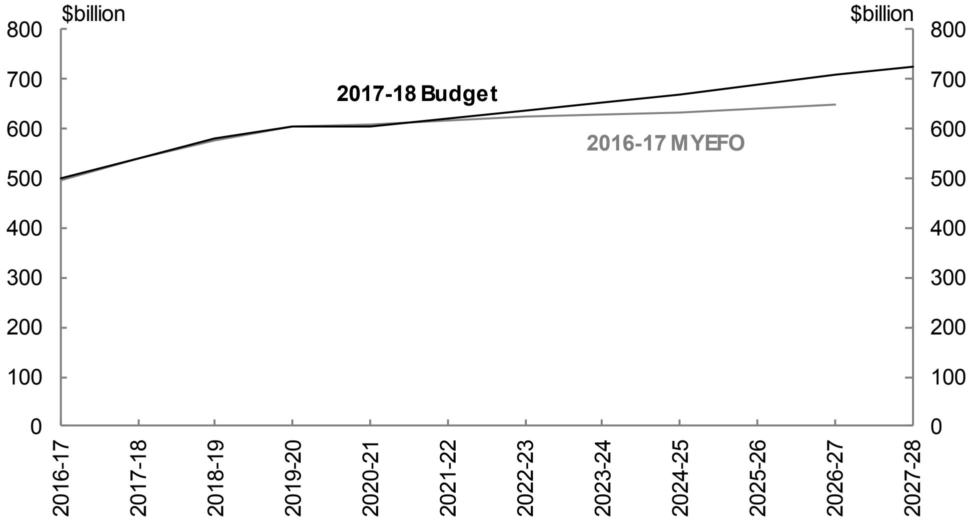
	2016-17	2017-18	2018-19	2019-20
	$b	$b	$b	$b
Total face value of CGS on issue subject to the Treasurer's Direction as at 2016-17 MYEFO	496	539	576	601
Factors affecting the change in face value of CGS on issue from 2016-17 MYEFO to 2017-18 Budget(a)				
Cumulative receipts decisions	-0.1	-2.0	-5.3	-12.3
Cumulative receipts variations	1.7	1.3	2.8	3.0
Cumulative payment decisions	1.5	5.7	10.3	14.2
Cumulative payment variations	-2.0	-3.0	-4.0	-8.5
Cumulative change in net investments in financial assets(b)	0.5	-5.2	-0.4	5.0
Other contributors	1.2	1.5	0.2	0.5
Total face value of CGS on issue subject to the Treasurer's Direction as at 2017-18 Budget	499	537	579	603

(a) Cumulative impact of decisions and variations from 2016-17 to 2019-20. 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 total face value of CGS on issue is projected to rise to $725.0 billion by 2027-28. The face value of CGS on issue is projected to reach $708.8 billion by 2026-27, around $60.8 billion more than the $648.0 billion projected at the 2016-17 MYEFO (Chart 2). This reflects an assumption of continuing to build the assets of the Future Fund.

Further details on the changes to the underlying cash balance since the 2016-17 MYEFO can be found in *Statement 3: Fiscal Strategy and Outlook*.

Chart 2: Face value of CGS on issue projected to 2027-28



Note: A tax to GDP cap of 23.9 per cent is applied to these projections from 2022-23.
Source: Australian Office of Financial Management and Treasury projections.

Breakdown of CGS currently on issue

Table 5 provides a breakdown of the CGS on issue by type of security as at 4 May 2017.

Table 5: Breakdown of current Commonwealth Government Securities on issue

	On issue as at 4 May 2017	
	Face value	Market value
	$m	$m
Treasury Bonds (a)	453,244	487,544
Treasury Indexed Bonds (a)	30,366	39,646
Treasury Notes (a)	3,500	3,490
Total CGS subject to Treasurer's Direction(a)(b)	487,110	530,680
Other stock and securities	2,470	4,643
Total CGS on issue	**489,579**	**535,323**

(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 were excluded from the previous legislative limit are 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 associated annual interest rate (the coupon) and the timing of coupon payments. As at 4 May 2017, there were 24 Treasury Bond lines on issue, with a weighted average term to maturity of around 7.3 years and the longest maturity extending to March 2047.

Since late 2010-11, the AOFM has lengthened the CGS yield curve and biased issuance into longer maturities, including the issue of a 30 year bond. 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. Sustained high levels of global demand for sovereign bonds has resulted in the costs of borrowing being significantly lower than historical experience.

Table 6: Treasury Bonds on issue

Coupon Per cent	Maturity	On issue as at 4 May 2017 $m	Timing of interest payments(a)		
4.25	21-Jul-17	13,866	Twice yearly	21 Jul	21 Jan
5.50	21-Jan-18	17,448	Twice yearly	21 Jan	21 Jul
3.25	21-Oct-18	16,452	Twice yearly	21 Oct	21 Apr
5.25	15-Mar-19	21,633	Twice yearly	15 Mar	15 Sep
2.75	21-Oct-19	24,400	Twice yearly	21 Oct	21 Apr
4.50	15-Apr-20	26,797	Twice yearly	15 Apr	15 Oct
1.75	21-Nov-20	24,500	Twice yearly	21 Nov	21 May
5.75	15-May-21	29,299	Twice yearly	15 May	15 Nov
2.00	21-Dec-21	10,500	Twice yearly	21 Dec	21 Jun
5.75	15-Jul-22	24,100	Twice yearly	15 Jul	15 Jan
5.50	21-Apr-23	24,100	Twice yearly	21 Apr	21 Oct
2.75	21-Apr-24	25,500	Twice yearly	21 Apr	21 Oct
3.25	21-Apr-25	27,900	Twice yearly	21 Apr	21 Oct
4.25	21-Apr-26	32,400	Twice yearly	21 Apr	21 Oct
4.75	21-Apr-27	28,500	Twice yearly	21 Apr	21 Oct
2.75	21-Nov-27	21,500	Twice yearly	21 Nov	21 May
2.25	21-May-28	16,000	Twice yearly	21 May	21 Nov
2.75	21-Nov-28	12,400	Twice yearly	21 Nov	21 May
3.25	21-Apr-29	15,300	Twice yearly	21 Apr	21 Oct
4.50	21-Apr-33	12,100	Twice yearly	21 Apr	21 Oct
2.75	21-Jun-35	6,550	Twice yearly	21 Jun	21 Dec
3.75	21-Apr-37	9,900	Twice yearly	21 Apr	21 Oct
3.25	21-Jun-39	4,000	Twice yearly	21 Jun	21 Dec
3.00	21-Mar-47	8,100	Twice yearly	21 Mar	21 Sep

(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 associated annual interest rate (the coupon) and the timing of coupon payments. As at 4 May 2017, there were 7 TIB lines on issue, with a weighted average term to maturity of around 8.9 years and the longest maturity extending to August 2040.

Table 7: Treasury Indexed Bonds on issue

Coupon Per cent	Maturity	On issue as at 4 May 2017 $m	Timing of interest payments(a)				
1.00	21-Nov-18	5,089	Quarterly	21 Nov	21 Feb	21 May	21 Aug
4.00	20-Aug-20	5,114	Quarterly	20 Aug	20 Nov	20 Feb	20 May
1.25	21-Feb-22	5,540	Quarterly	21 Feb	21 May	21 Aug	21 Nov
3.00	20-Sep-25	7,193	Quarterly	20 Sep	20 Dec	20 Mar	20 Jun
2.50	20-Sep-30	3,743	Quarterly	20 Sep	20 Dec	20 Mar	20 Jun
2.00	21-Aug-35	3,500	Quarterly	21 Aug	21 Nov	21 Feb	21 May
1.25	21-Aug-40	2,650	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 4 May 2017 was $3.5 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 4 May 2017 $m	Timing of interest payment	
23-Jun-17	2,000	At maturity	23 Jun
25-Aug-17	1,500	At maturity	25 Aug

Source: Australian Office of Financial Management.

Non-resident holdings of CGS on issue

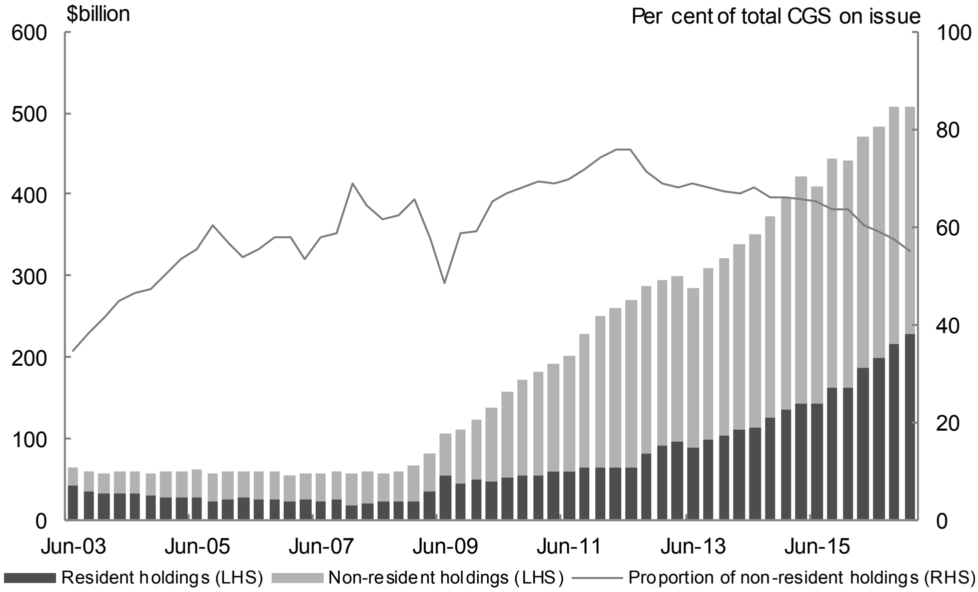
As at the December quarter 2016, non-residents of Australia held 55 per cent of total CGS on issue (Chart 3).

The proportion of CGS held by non-residents declined from a peak of around 76 per cent in 2012. This appears to have been driven by the net result of a significantly reduced rate at which central banks have been introducing Australian dollars to their reserve portfolios (as many have already done this); a reduction in asset balances for some official reserve managers; and increasing interest in CGS from domestic investors, including Authorised Deposit-taking Institutions and fund managers in particular.

Although the proportion of the CGS market held by non-residents has fallen, the *volume* held by these investors has continued to increase in recent years. Investment in CGS by non-resident investors reflects confidence in the Australian sovereign debt market, owing to the relative strength of Australia's public finances, its governance and institutional arrangements, and the Australian economy more broadly. That the Australian dollar is easily traded on global markets is also a factor that has facilitated non-resident investment activity in the CGS market.

CGS yields remain relatively attractive against a backdrop of low government bond yields globally. This has contributed to emerging demand for longer-term CGS and, in turn, a decline in yields to historically low levels over recent years.

Chart 3: 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.

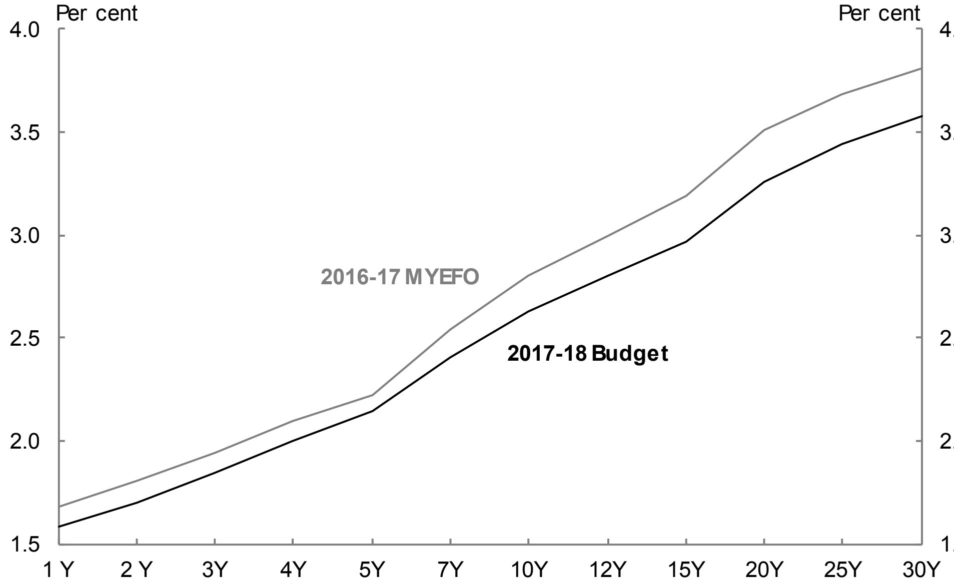
Estimates of the interest payments and expense of CGS on issue include the cost of CGS already on issue and future CGS issuance. The cost of:

- 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 for the 2017-18 Budget result in a weighted average cost of borrowing of around 2.6 per cent for future issuance of Treasury Bonds in the forward estimates period, compared with around 2.7 per cent at the 2016-17 MYEFO. Chart 4 shows the yield curve assumptions underpinning the 2016-17 MYEFO and 2017-18 Budget.

Chart 4: Yield curve assumptions from 2016-17 to 2020-21



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 2017-18 are estimated to be $16.6 billion, of which $16.3 billion relates to CGS on issue (Table 9).

Table 9: Interest payments, interest receipts and net interest payments[(a)]

	2016-17 $m	2017-18 $m	2018-19 $m	2019-20 $m	2020-21 $m
Interest payments on CGS	14,945	16,263	17,227	17,824	20,055
Per cent of GDP	0.9	0.9	0.9	0.9	1.0
Interest payments	15,251	16,589	17,562	18,163	20,404
Per cent of GDP	0.9	0.9	0.9	0.9	1.0
Interest receipts	3,003	3,233	3,840	4,442	4,898
Per cent of GDP	0.2	0.2	0.2	0.2	0.2
Net interest payments(b)	12,248	13,355	13,722	13,721	15,506
Per cent of GDP	0.7	0.7	0.7	0.7	0.7

(a) Interest payments and receipts are a cash measure, with the relevant amount recognised in the period in which the interest payment is made or interest is received.
(b) Net interest payments are equal to the difference between interest payments and interest receipts

The Government's interest expense in 2017-18 is estimated to be $18.5 billion, of which $17.1 billion relates to CGS on issue. In the 2016-17 MYEFO, interest expense in 2017-18 was estimated to be $18.9 billion, of which $17.2 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[(a)]

	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Interest expense on CGS	15,978	17,130	18,067	18,678	18,737
Per cent of GDP	0.9	0.9	1.0	0.9	0.9
Interest expense	17,582	18,544	19,797	20,799	20,445
Per cent of GDP	1.0	1.0	1.0	1.1	1.0
Interest income	3,753	4,397	5,470	6,645	7,685
Per cent of GDP	0.2	0.2	0.3	0.3	0.4
Net interest expense	13,828	14,148	14,327	14,153	12,760
Per cent of GDP	0.8	0.8	0.8	0.7	0.6

(a) Interest expense is an accrual measure, with the relevant amount recognised in the period in which the expense is incurred, but not necessarily paid.

Climate spending

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

Table 11: Climate spending from 2016-17 to 2020-21

	2016-17	2017-18	2018-19	2019-20	2020-21
	$b	$b	$b	$b	$b
Climate spending(a)	2.00	1.60	1.35	1.50	1.20

(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.

The key components of climate spending are:

- the Emissions Reduction Fund, which will provide incentives to support abatement activities across the economy;
- the Clean Energy Finance Corporation, which invests in renewable energy, energy efficiency and low emissions technologies; and
- the Australian Renewable Energy Agency, which involves funding to support research and development of renewable energy and related technologies.

The above figures incorporate the Government's decision to make available up to $110.0 million for an equity investment, if required, to accelerate and secure delivery of a solar thermal project in Port Augusta, South Australia.

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

	2016-17	2017-18	2018-19	2019-20	2020-21
Climate spending ($b) (a)	2.00	1.60	1.35	1.50	1.20
Total Spending ($b) (b)	457	482	500	512	515
Climate spending (per cent of total spending)	0.4	0.3	0.3	0.3	0.2
Change in face value of CGS from previous year ($b) (c)	80.6	38.9	41.8	24.0	0.1
Contribution to change in face value of CGS from climate spending ($b)	0.35	0.13	0.11	0.07	0.00

(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.

THE AUSTRALIAN GOVERNMENT'S MAJOR ASSETS AND LIABILITIES

Assets

The Government's total stock of assets is estimated to be around $517.5 billion at 30 June 2017, increasing to $533.2 billion in 2017-18 and $619.2 billion by the end of the forward estimates.

The Government's financial assets are estimated to be around $381.0 billion at 30 June 2017, increasing to $393.5 billion in 2017-18 and $465.4 billion by the end of the forward estimates.

The Government's non-financial assets are estimated to be around $136.5 billion at 30 June 2017, increasing to $139.7 billion in 2017-18 and $153.8 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 Government sets an Investment Mandate which 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 Future Fund. The Investment Mandate also requires the Board to take an acceptable but not excessive level of risk for the Future 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 average return has been 7.7 per cent per annum.

At 31 March 2017, the Future Fund's return for the financial year to date was 5.6 per cent against the existing benchmark of 5.1 per cent. The Future Fund was valued at $129.6 billion at 31 March 2017.

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 2016.

Table 13: Asset allocation of the Future Fund

Asset class	30 June 2016 $m	31 March 2017 $m
Australian equities	7,697	8,419
Global equities		
Developed markets	*18,712*	*19,655*
Emerging markets	*8,960*	*9,521*
Private equity	12,798	13,714
Property	8,559	7,768
Infrastructure and Timberland	8,243	9,907
Debt securities	14,275	14,624
Alternative assets	16,849	19,560
Cash	26,700	26,475
Total Future Fund assets	122,792	129,644

Note: Figures may not sum due to rounding.

Medical Research Future Fund

The Medical Research Future Fund (MRFF) was established on 26 August 2015 to provide additional funding for medical research and medical innovation.

Table 14: Government contributions to the MRFF

Date	Source(s)	Amount $m
22 September 2015	Uncommitted balance of the Health and Hospitals Fund (HHF)	1,010
1 December 2015	Savings from the Health portfolio and residual balance of the HHF	2,139
2 August 2016	Savings from the Health portfolio and residual balance of the HHF	1,277
	Total	4,427

Note: Figures may not sum due to rounding

The first credit to the MRFF of $1.010 billion, which represented the uncommitted balance of the Health and Hospitals Fund (HHF), occurred on 22 September 2015. The second credit of $2.139 billion, comprising savings from the Health portfolio, and residual amounts from the HHF, was transferred to the MRFF on 1 December 2015. The third credit of $1.277 billion was made on 2 August 2016 and comprised savings from the Health portfolio and residual amounts from the HHF.

Remaining credits to the Fund will consist of the estimated value of health function savings published in the 2014‑15 Budget, adjusted for the effect of any subsequent associated Government decisions, until the capital value of the MRFF reaches $20 billion. The MRFF is expected to reach a balance of $20 billion in 2020-21.

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, with the view to preserve the MRFF's capital in perpetuity.

The MRFF is managed by the Future Fund Board of Guardians (the Board). The Treasurer and Minister for Finance have set an investment mandate for the Fund, which provides broad direction to the Board in relation to its investment strategy. The MRFF Investment Mandate sets a benchmark return of the Reserve Bank of Australia's Cash Rate target plus 1.5 per cent to 2.0 per cent per annum, net of costs, over a rolling ten-year term.

At 31 March 2017, the MRFF's return for the financial year to date was 3.6 per cent against the benchmark of 2.3 per cent. The MRFF was valued at $4.6 billion at 31 March 2017.

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 31 March 2017 the DCAF has received credits totalling $5.9 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.

At 31 March 2017, the DCAF's return for the financial year to date was 2.7 per cent against the benchmark of 2.2 per cent. The DCAF was valued at $6.2 billion at 31 March 2017.

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 2017-18, this fixed amount is $915 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

During the global financial crisis, the previous Government directed the Australian Office of Financial Management (AOFM) to invest in AAA-rated residential mortgage-backed securities (RMBS) to support competition from smaller lenders in the residential mortgage and small business lending markets. Between 2008 and 2012 the AOFM purchased around $15.5 billion in high-quality RMBS.

In May 2015 the Government directed the AOFM to progressively sell down the Commonwealth's holdings of RMBS through a regular competitive auction process, subject to market conditions. Monthly auctions were conducted from June 2015 to October 2015, resulting in total sales of $458 million in amortised face value terms. As at the end of April 2017, the Government's RMBS portfolio was valued at $2.1 billion in amortised face value terms.

To achieve value for money for the Commonwealth, the Treasurer's direction gave the AOFM the discretion to not proceed with a sale where an acceptable price could not be achieved. Consistent with this, and against a background of heightened global volatility, no auctions have occurred since October 2015. The AOFM has advised that RMBS auctions will continue to be suspended until further notice. In the absence of any further sales, the amortised face value outstanding of the RMBS portfolio is expected to be less than $100 million by around the end of 2020.

National Broadband Network

The National Broadband Network (NBN) will deliver fast, affordable broadband to all Australians. The Government has instructed NBN Co Limited (nbn) to complete the NBN using the technology best matched to each area of Australia to ensure the NBN is delivered as soon as possible and at least cost to taxpayers.

The Government will provide $1.5 billion in equity to nbn in 2017‑18, moved from 2016-17. The Government's equity contributions are capped at $29.5 billion.

The Government has agreed to provide a loan of up to $19.5 billion to nbn on commercial terms, to be repaid by 30 June 2021. The Government will provide $9.3 billion in loan drawdowns to nbn in 2017-18.

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 the loan recipient is earning an income above a certain level.

The fair value of HELP is estimated to be around $44.7 billion at 30 June 2017, which is $2.2 billion higher than projected in the 2016-17 MYEFO. The fair value of HELP is projected to grow to around $67.0 billion in 2019-20, which is $7.5 billion higher than estimated in the 2016-17 MYEFO, and to reach $75.9 billion by the end of the forward estimates.

In this Budget, the Government is delivering a package of measures to improve the sustainability of the higher education system. From 2018, the Government will introduce increased student contributions of 7.5 per cent, to be phased in through an annual 1.8 per cent increase over four years from 2018. An efficiency dividend of 2.5 per cent will be applied to the Commonwealth Grant Scheme (CGS) in 2018 and 2019.

The Government will also be introducing a new set of HELP repayment thresholds from 1 July 2018. The new set of thresholds will contain a minimum repayment threshold on annual income in 2018-19 of $42,000 with a one per cent repayment rate, and a maximum income threshold of $119,882 from which a repayment rate of ten per cent applies. From 1 July 2019 onwards, all HELP thresholds will be indexed by the Consumer Price Index (CPI), instead of Average Weekly Earnings (AWE).

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.

On 23 March 2016, the Government announced that it would retain the CEFC.

Liabilities

The Government's total liabilities are estimated to be around $809.2 billion at 30 June 2017, increasing to $851.3 billion in 2017-18 and $930.6 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 $175 billion at 30 June 2017 and approximately $271 billion at 30 June 2050.

The Australian Government has never fully funded its superannuation liabilities in relation to defined benefit schemes. However the Future Fund was established in 2006 to address the Government's unfunded superannuation liability.

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). Following the closure of the MSBS on 30 June 2016, all defined benefit military schemes are now closed to new members. A new military superannuation accumulation scheme, ADF Super, commenced on 1 July 2016. ADF Super is accompanied by a statutory death and disability arrangement ADF cover.

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 $195 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, and members covered by the statutory death and disability arrangement ADF cover.

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.

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 8: Forecasting Performance and Scenario Analysis

The economic and fiscal forecasts presented in the 2017-18 Budget incorporate assumptions and judgments based on information available at the time of preparation. These forecasts are subject to considerable but normal uncertainty.

This Statement provides details of the historical performance of Budget forecasts for the key macroeconomic aggregates of real and nominal GDP as well as for estimates of government receipts. The Statement also presents a number of scenarios seeking to illustrate the sensitivity of budget aggregates to changes in economic forecasts and projections, and some underlying assumptions.

Contents

STATEMENT 8: FORECASTING PERFORMANCE AND SCENARIO ANALYSIS

OVERVIEW

The macroeconomic and fiscal forecasts presented in the 2017-18 Budget incorporate assumptions and judgments based on information available at the time of preparation.

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 contribute to better policy and decision making.

This Statement presents an assessment of the historical performance of Budget forecasts and estimates of uncertainty around these forecasts. This assessment is consistent with the practice of many other international fiscal agencies to improve forecasting performance and, more importantly, to raise awareness of the uncertainties inherent in forecasting.

This Statement also presents an analysis of the sensitivity of 2017-18 Budget estimates to changes in key assumptions as required under the *Charter of Budget Honesty Act 1998*. An analysis of how alternative assumptions over the medium term can affect the economic and fiscal projections is also included.

FORECASTING PERFORMANCE

Macroeconomic forecasting performance

The Government's macroeconomic forecasts are prepared using a range of modelling techniques including macroeconometric models, spreadsheet analysis and accounting frameworks. These are supplemented by survey data, business liaison, professional opinion and judgment.

Forecasts are subject to inherent uncertainties. Generally, these uncertainties tend to increase as the forecast horizon lengthens. Forecast errors (the difference between forecasts and outcomes) can arise for a range of reasons — for example, differences between the assumed path of key variables and outcomes, as well as changes in the relationships between different parts of the economy.

Confidence intervals seek to illustrate that there is a range of plausible outcomes around any forecast. Confidence intervals are based on observed historical patterns of forecast errors. They are a guide to the degree of uncertainty around a forecast and, typically, span a wide range of outcomes.

Real GDP forecasts

Real GDP forecasts in the Budget are based on a number of key assumptions including exchange rates, interest rates and commodity prices. The forecasts also 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 — and also the reliability of the economic relationships embodied in the macroeconomic models used to produce them.

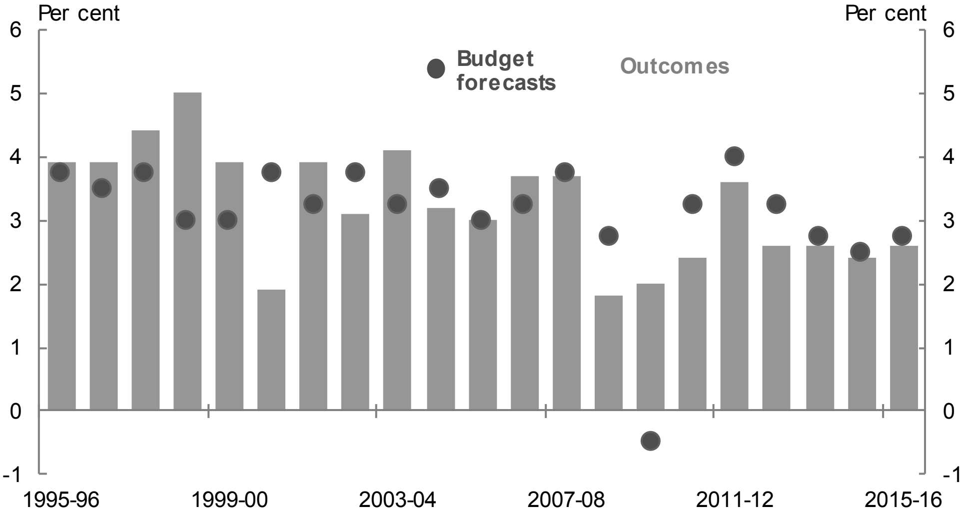
For example, a lower exchange rate than assumed would be expected to result in higher than forecast growth in Australia's export volumes, including in tourism, higher education and manufacturing. At the same time, import prices would be higher, resulting in lower growth in import volumes. Overall, this would lead to a larger contribution from 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 the pace or nature of economic activity during the forecast period. A faster than forecast pick-up in Australia's economic growth in 2017-18 could be driven by stronger consumer spending, underpinned by faster than forecast growth in employment and wages. Faster economic growth could also be driven by stronger than expected major trading partner growth, which could boost exports and, in turn, stimulate incomes and demand throughout the economy.

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 seem to have returned to the usual range.

National Accounts data are not yet available for the whole of 2016-17. Information to date suggests that real GDP growth will be lower than last year's Budget forecast. Within those forecasts, there are also changes at the component level. Stronger growth in dwelling investment is more than offset by softer than expected household consumption. Other components of GDP, including net exports, have so far evolved broadly as forecast in the 2016-17 Budget.

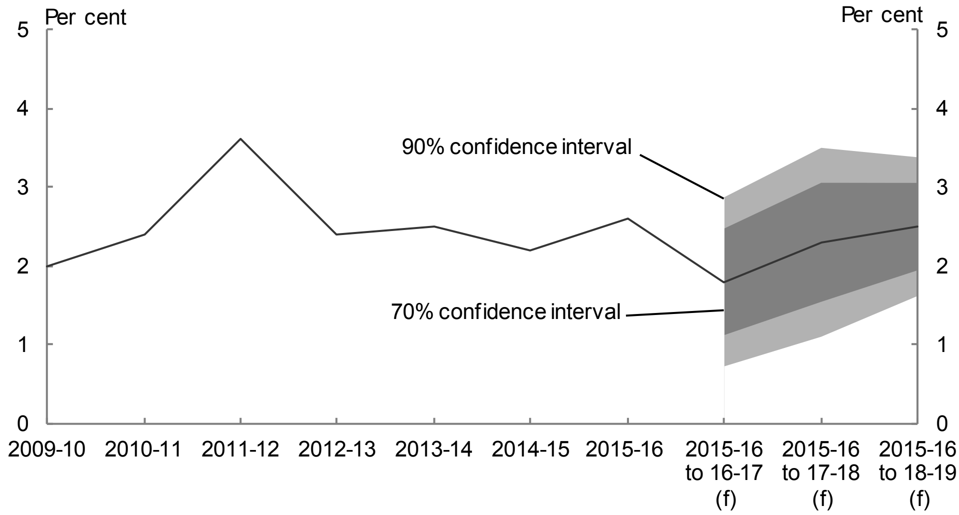
Chart 1: Budget forecasts of real GDP growth



Note: Outcome is as published in the December quarter 2016 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 2017-18 is expected to be around 2¼ per cent, with the 70 per cent confidence interval ranging from 1½ to 3 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 2017-18 Budget forecasts. Annual growth rates are reported for the outcomes. Average annualised growth rates from 2015-16 are reported for 2016-17 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 2016 National Accounts data.
Source: ABS cat. no. 5206.0, Budget papers and Treasury.

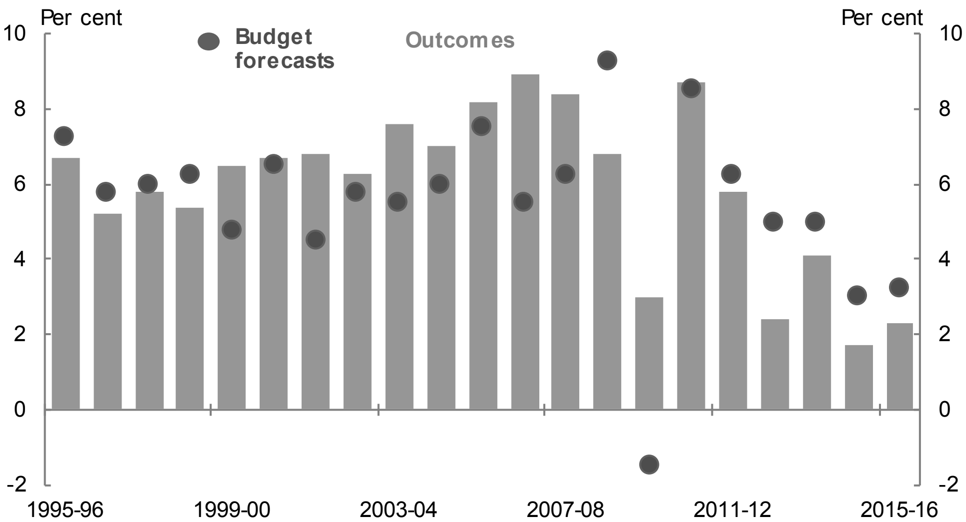
Nominal GDP forecasts

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 greater difficulties in predicting movements in global commodity prices (Chart 3). Larger than expected or assumed falls in the prices of key commodities in recent years — particularly for iron ore — have meant that nominal GDP was overestimated.

In 2016-17, the outcome for nominal GDP growth is expected to be higher than forecast in last year's Budget. This primarily reflects stronger than expected commodity prices which remained at elevated levels for much of the past year.

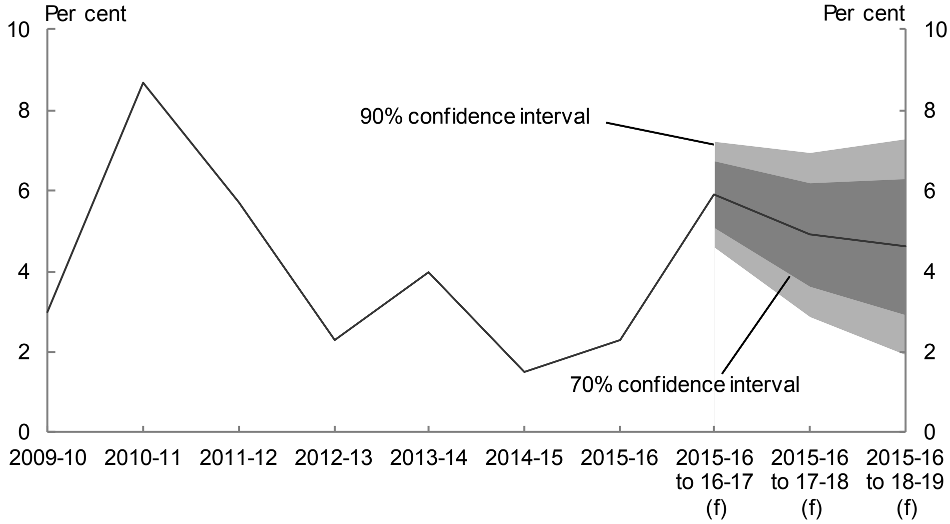
Chart 3: Budget forecasts of nominal GDP growth



Note: Outcome is as published in the December quarter 2016 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 commodity prices. Average annualised growth in nominal GDP in the two years to 2017-18 is expected to be around 5 per cent, with the 70 per cent confidence interval ranging from 3¾ to 6¼ per cent (Chart 4).

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 Budget are based on economic and demographic forecasts and projections as well as estimates of the impact of Government spending and revenue measures. Changes to the economic or demographic forecasts and projections underlying the estimates will affect forecasts for receipts and payments. As such, this will have a direct impact on the profile of the underlying cash balance and government debt. Even small movements in economic forecasts and projections or outcomes that differ from the forecasts and projections can result in large changes to the budget aggregates, for example, decreasing payments or increasing receipts with flow-on effects to the underlying cash balance.

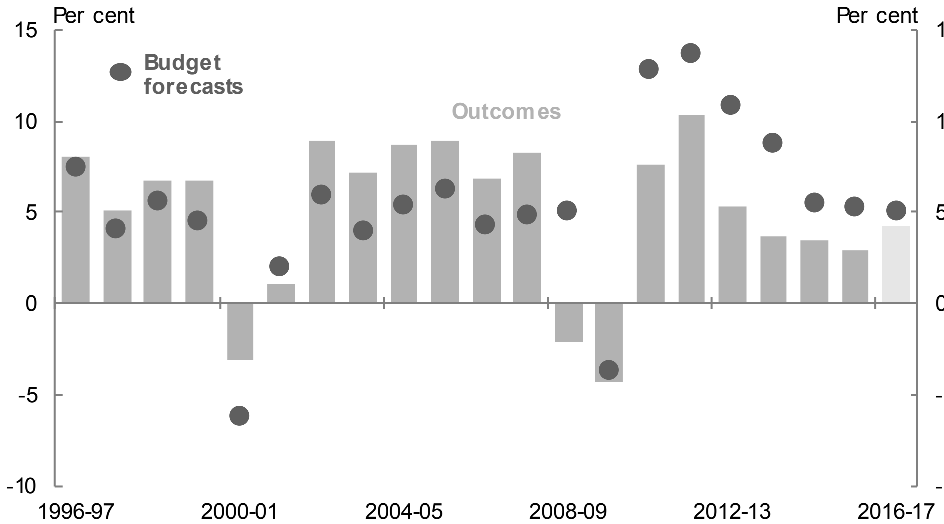
Receipts

The Government's tax receipts estimates are generally prepared using a 'base plus growth' methodology. The last known outcome (2015-16 for the 2017-18 Budget) is used as the base to which estimated growth rates are applied, resulting in tax receipts estimates for the current and future years. Estimates for the current year also incorporate recent trends in tax collections.

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 forecasts of tax receipts growth



Note: Forecast error for 2016-17 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 nominal GDP and its components and the forecasts for tax receipts. On average, economic forecast errors will be magnified in receipts forecast 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 excluding capital gains tax (CGT). It shows that where there has been an underestimate of nominal non-farm GDP growth, tax receipts tend to be underestimated and *vice versa*.

Looking at the medium term and beyond, tax receipts projections are driven by long-term economic trends and tax policy settings. External structural pressures and systemic design factors in Australia's tax system could result in tax receipts from many sources as a proportion of GDP declining over this extended time period.

One driver of this decline could be a continuation of consumer preferences away from highly taxed items such as fuel, alcohol and tobacco. GST revenue growth could also weaken as consumption favours non-GST items. Company tax may also come under pressure from international trends to reduce company tax rates, particularly as capital is increasingly mobile. The Government's Ten Year Enterprise Tax Plan is designed to enable Australia to continue to attract investors within this international context.

A further source of uncertainty in the medium term is the composition of national income, as discussed in Box 1 of Budget Statement 5. If recent trends in the wage share persist then this will put downward pressure on total tax receipts, even in the event of nominal GDP being in line with the projections.

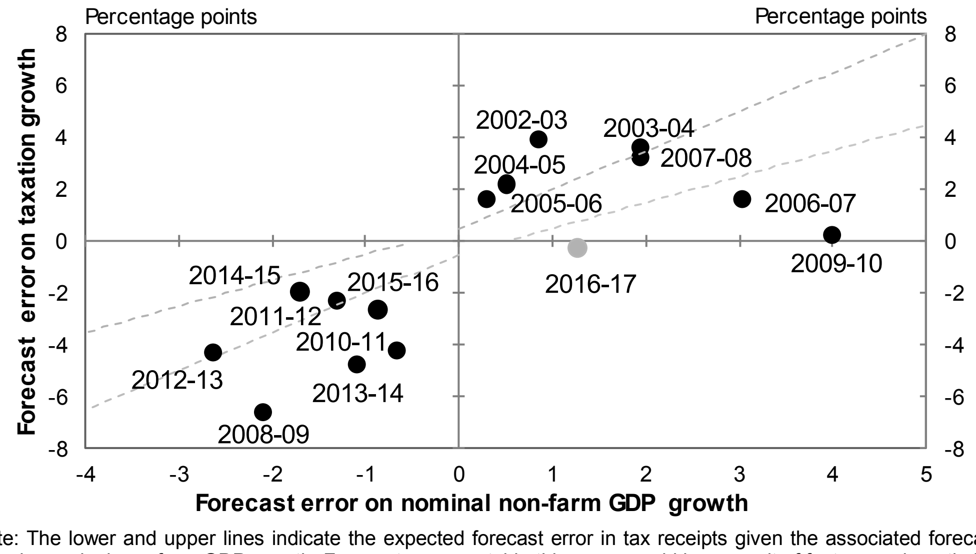
The extent to which the tax system is resilient to these and other factors is highly uncertain and not independent of tax rate differentials, both domestically and internationally.

The forecast for 2016-17 tax receipts (excluding CGT) in the 2016-17 Budget is expected to have been an over-estimate of around 0.3 percentage points, compared with an under-estimate of around 1.3 percentage points for nominal non-farm GDP growth. The shortfall in revenue largely reflects compositional changes in nominal non-farm GDP growth compared to that forecast in the 2016-17 Budget, and the impact of these changes on different heads of revenue. The error is also impacted by the timing of tax receipts. These factors are discussed further in Boxes 1 and 2 in Budget Statement 5.

The largest contributors to the expected forecast error for 2016-17 are gross income tax withholding which is estimated to be $3.4 billion (1.9 per cent) below the forecast of the 2016-17 Budget; GST, which is estimated to be $1.5 billion (2.4 per cent) below the forecast of the 2016-17 Budget; and company tax, which is estimated to be $1.2 billion (1.7 per cent) lower than expected in the 2016-17 Budget. These and other variations are discussed further in Budget Statement 5.

Discussions of earlier years' forecast performance can be found in previous budgets.

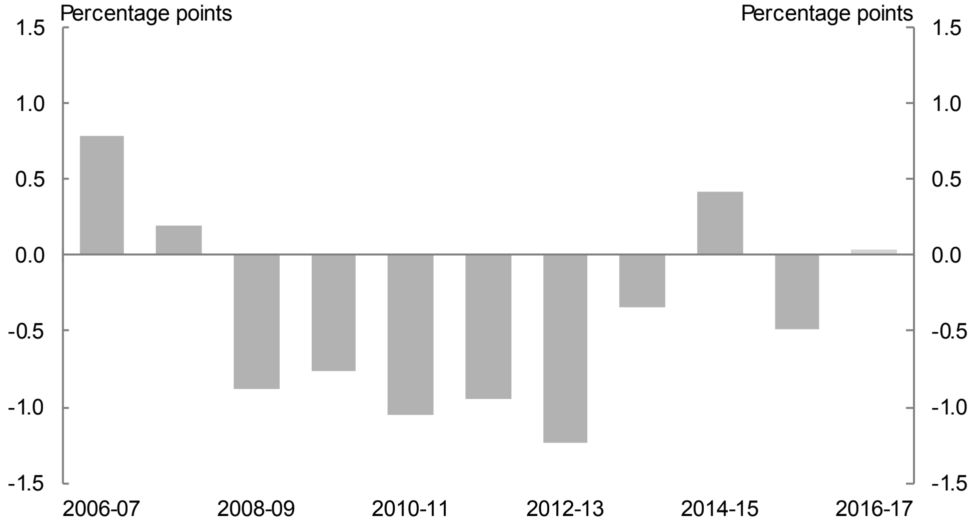
Chart 6: Budget forecast errors on nominal non-farm GDP growth and taxation receipts growth (excluding CGT)



Note: The lower and upper lines indicate the expected forecast error in tax receipts given the associated forecast error in nominal non-farm GDP growth. Forecast errors outside this range could be a result of factors such as timing of tax receipts. The 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. Forecast error for 2016-17 is an estimate.
Source: ABS cat. no. 5206.0, Budget papers and Treasury.

From 2008-09, forecast errors in tax receipts have been affected significantly by the economic downturn following the GFC and, in particular, the impact on CGT (Chart 7).

Chart 7: Forecast error on capital gains tax (contribution to tax receipts growth)



Note: Forecast error for 2016-17 is an estimate.
Source: Treasury.

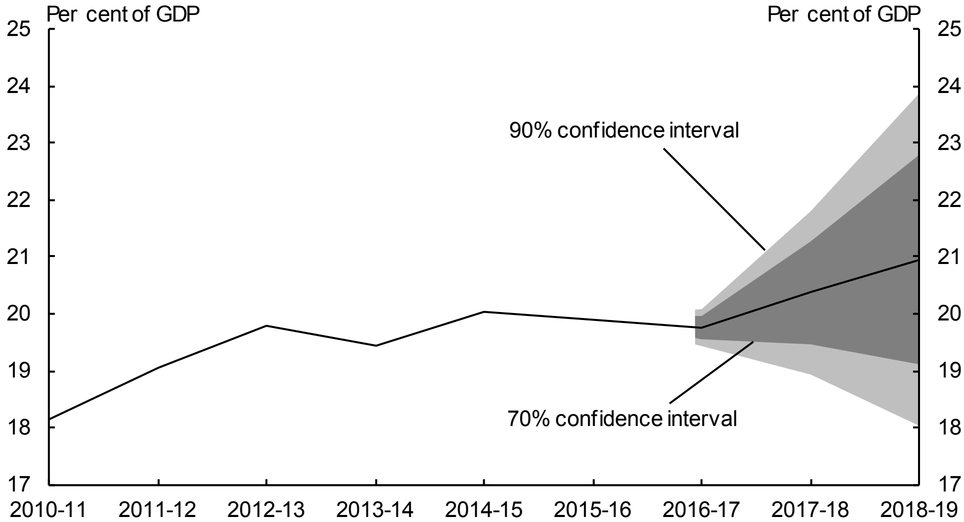
Forecasting CGT is very difficult. Asset price movements above or below the assumption may cause CGT to differ significantly from the forecast. Further, CGT only applies to realised gains, so even if the asset prices are consistent with the assumptions, there may be more or less gains realised than was assumed.

Following the GFC, a large stock of capital losses were carried forward (see Box 2 of Statement 5 of the 2011-12 Budget), and the utilisation of these losses continues to generate large uncertainties 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). 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 2017-18 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 always considerable uncertainty around receipts forecasts and that this uncertainty increases as the forecast horizon lengthens. It suggests that in 2017-18, the width of the 70 per cent confidence interval for the 2017-18 Budget receipts forecast is approximately 1.8 per cent of GDP ($35 billion) and the 90 per cent confidence interval is approximately 2.9 per cent of GDP ($50 billion).

Payments

The Government's payments estimates are predominantly prepared by agencies that comprise the Australian Government general government sector. An assessment of payments forecasting 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 receipts estimates, historical policy decisions are excluded,[2] and future policy decisions are out of scope. Payments estimates include the public debt interest impact of policy decisions.[3]

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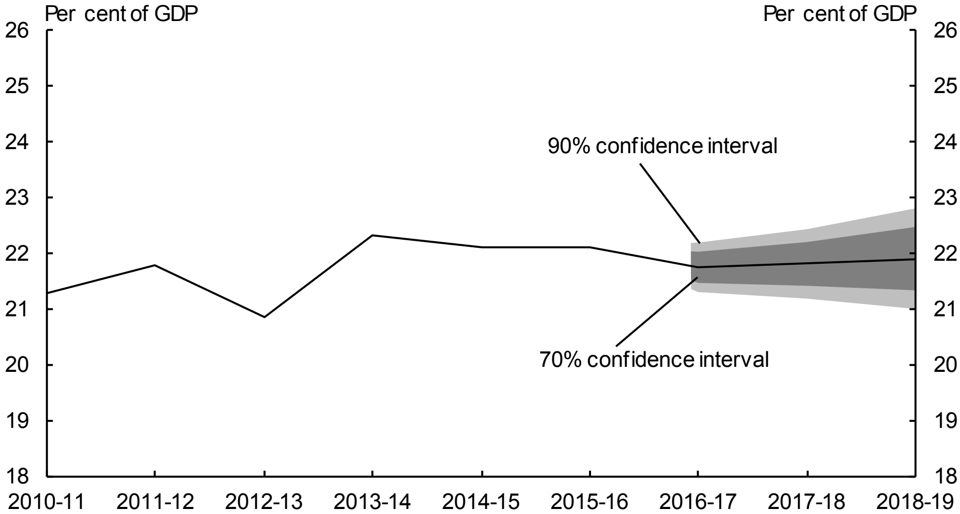
2 The allowance for historical policy includes only new policy decisions made at each update. No allowance is made for other decisions, such as assistance for the impact of natural disasters or changes to the timing of projects announced in previous updates. These decisions will contribute to historical forecast errors and therefore increase the size of the confidence intervals around payments.

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 9: Confidence intervals around payments forecasts



Note: See note to Chart 8.
Source: Treasury.

The chart shows that there is moderate uncertainty around payments forecasts. In 2017-18, the width of the 70 per cent confidence interval for the 2017-18 Budget payments forecast is approximately 0.8 per cent of GDP ($15 billion) and the 90 per cent confidence interval is approximately 1.2 per cent of GDP ($25 billion).

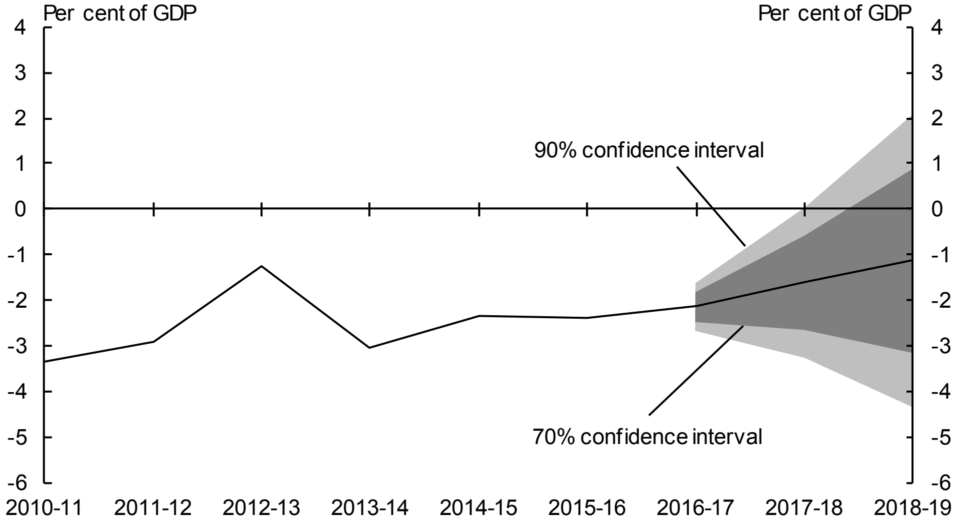
Payments outcomes can differ from forecasts for a number of reasons. Demand-driven programs, such as payments to individuals and some social services, form the bulk of government expenditure. Forecasts of payments associated with a number of these government programs depend on forecasts of economic conditions. For example, higher than forecast unemployment levels will mean that expenditure on related services, including allowances, will be higher than forecast.

Underlying cash balance

The underlying cash balance estimates are sensitive to the same forecast errors that affect estimates of receipts and payments. Confidence interval analysis shows that there is considerable uncertainty around the underlying cash balance forecasts (Chart 10).

In 2017-18, the width of the 70 per cent confidence interval for the 2017-18 Budget underlying cash balance forecast is approximately 2.1 per cent of GDP ($40 billion) and the 90 per cent confidence interval is approximately 3.3 per cent of GDP ($60 billion). In line with receipts forecasts, uncertainty increases over the estimates period.

Chart 10: Confidence intervals around the underlying cash balance forecasts



Note: See note to Chart 8.
Source: Treasury.

SENSITIVITY AND SCENARIO ANALYSIS

Small movements in economic forecasts or projections can improve or worsen the underlying cash balance, depending on their impacts on payments and receipts. This in turn can drive changes in gross and net debt. Consideration of particular scenarios and sensitivity analysis demonstrates the potential impact of these changes. This analysis highlights the uncertainties that governments face should risks eventuate — for example, in meeting budget forecasts or fiscal targets.

The analysis presented in the 2017-18 Budget considers the impact of changes to the economic outlook over both the forecast years and medium-term fiscal projections.

Scenarios 1 and 2 explore the sensitivity of fiscal aggregates to an alternative path for the terms of trade and a delayed recovery in non-mining business investment. These risks are outlined in Statement 2.

Scenarios 3 to 6 illustrate the sensitivity of fiscal aggregates to changes in key assumptions underpinning the medium-term economic projections.

Sensitivity analysis over the forecast period

The following two scenarios provide an indication of the sensitivity of receipts, payments and the underlying cash balance to changes in the economic outlook over the forecast period.

For further information on the sensitivity of the underlying cash balance to changes in inflation, please refer to *Statement 2: Economic Outlook of the 2017 -18 Budget.*

Scenario 1: Alternative path for the terms of trade

This scenario considers the consequences of a permanent 10 per cent movement in world prices of non-rural commodity exports through 2017-18 relative to Budget forecast levels. Such a price rise (fall) is consistent with a rise (fall) in the terms of trade of 4¾ per cent and an increase (decrease) in nominal GDP of 1 per cent by 2018-19. The sensitivity analysis shows the flow-on effects to GDP, the labour market and prices. The impacts in Table 1 are stylised and refer to percentage deviations from the Budget forecast levels due to a permanent rise in non-rural commodity prices. The impacts on the economy of a permanent fall in these prices of the same magnitude would be broadly symmetric.

Table 1: Illustrative impact of a permanent 10 per cent rise in non-rural commodity prices (per cent deviation from the Budget level)[4]

	Impact after 1 year (2017-18)	Impact after 2 years (2018-19)
	per cent	per cent
Real GDP	0	1/4
GDP deflator	1/2	3/4
Nominal GDP	1/2	1
Employment	0	1/4
Wages	1/4	1/2
CPI	0	1/4
Company profits	1 3/4	3 1/4
Nominal household consumption	0	1/2

Assuming no change in exchange rates or interest rates, the increase in export prices leads directly to higher overall output prices (as measured by the GDP deflator) and higher domestic incomes compared with Budget levels. Higher domestic incomes cause both consumption and investment to rise, resulting in higher real GDP and employment and an increase in wages. The rise in aggregate demand puts upward pressure on domestic prices.

On the receipts side, an increase in nominal GDP increases tax collections. The largest impact is on company tax receipts as the increase in export income increases company profits. The impact on company tax is larger in 2018-19, partly owing to lags in tax collections and a larger impact on company profits in the second year of the scenario period. Higher company profits are assumed to flow through to higher Australian equity prices, therefore increasing capital gains tax from individuals, companies and superannuation funds.

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

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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.

The overall estimated expenditure on income support payments (including pensions, unemployment benefits and other allowances) decreases in both years, reflecting a lower number of unemployment benefit recipients. The fall in spending on unemployment benefits in 2018-19 is partially offset by increased expenditure on pensions and allowances reflecting stronger growth in benefit rates resulting from slightly higher inflation. At the same time other payments linked to inflation also rise in line with the stronger growth in prices.

Given these assumptions, the overall impact of the increase in the terms of trade is an improvement in the underlying cash balance of around $2.0 billion in 2017-18 and around $5.9 billion in 2018-19 (see Table 2). The opposite impacts would be broadly expected for a fall in the terms of trade of the same magnitude.

Table 2: Illustrative sensitivity of the budget balance to a permanent 10 per cent rise in non-rural commodity prices

	2017-18	2018-19
	$b	$b
Receipts		
Individuals and other withholding taxes	0.5	1.8
Superannuation fund taxes	0.1	0.2
Company tax	1.2	3.0
Goods and services tax	0.0	0.3
Excise and customs duty	0.0	0.2
Other taxes	0.1	0.3
Total receipts	**1.9**	**5.8**
Payments		
Income support	0.1	0.3
Other payments	0.0	0.0
Goods and services tax	0.0	-0.3
Total payments	**0.1**	**0.0**
Public debt interest	0.0	0.1
Underlying cash balance impact(a)	**2.0**	**5.9**

(a) Estimated impacts fall within the 70 per cent confidence intervals for years 2017-18 and 2018-19, as shown in Charts 8 to 10.

This scenario assumes no change in exchange rates. Under a floating exchange rate, however, an increase in the terms of trade would be expected to lead to an appreciation of the exchange rate. This would likely soften the effects on real GDP, meaning the impact on the fiscal position could be smaller.

The impacts of a US$10 per tonne FOB movement in iron ore prices alone are contained in Box 1.

Box 1: Sensitivity analysis of iron ore price movements

The impacts of a **US$10 per tonne FOB movement in iron ore prices** over the course of a year, based on the sensitivity analysis presented in Scenario 1, is set out in Table A. A US$10 per tonne FOB movement in the iron ore price results in a movement in nominal GDP of around $6.5 billion in 2017-18 and just over $14 billion in 2018-19.

Table A: Sensitivity analysis of a US$10 per tonne movement in iron ore prices

	US$10/tonne FOB(a) fall		US$10/tonne FOB increase	
	2017-18	2018-19	2017-18	2018-19
Nominal GDP ($billion)	-6.5	-14.1	6.5	14.1
Tax receipts ($billion)	-1.3	-4.2	1.3	4.2

(a) Prices are presented in free-on-board (FOB) terms which exclude the cost of freight.
Source: Treasury.

Scenario 2: Delayed recovery in non-mining business investment

This scenario considers the consequences of a weaker outlook for business investment than forecast in the Budget. The scenario involves a 3 and 6 per cent reduction in new business investment in 2017-18 and 2018-19 respectively, compared with Budget levels, as a result of a delayed recovery in non-mining business investment. Under this scenario, the level of non-mining business investment would be broadly flat over this two-year period.

Once again, the sensitivity analysis evaluates the flow-on effects to GDP, the labour market and prices. The impacts in Table 3 are stylised and refer to percentage deviations from the Budget forecast levels.

Table 3: Illustrative impact of a delayed recovery in non-mining business investment (per cent deviation from the Budget level)[5]

	Impact after 1 year (2017-18)	Impact after 2 years (2018-19)
	per cent	per cent
Real GDP	- 1/4	- 1/2
GDP deflator	0	- 1/4
Nominal GDP	- 1/4	- 3/4
Employment	- 1/4	- 1/2
Wages	0	- 1/4
CPI	0	- 1/4
Company profits	-1	-1 3/4
Nominal household consumption	0	- 1/2

Assuming no change in exchange rates or interest rates, the delayed recovery in non-mining business investment leads directly to lower real GDP compared with Budget levels and also lower imports. This fall in output depresses employment and,

5 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.

in turn, wages. This results in lower levels of consumption. The fall in aggregate demand puts downward pressure on domestic prices.

On the receipts side, lower nominal GDP results in lower tax collections. The initial impact is largest on corporate profits and company tax. In the second year, the larger impact on wages and consumption is expected to result in a larger reduction to tax receipts from individuals and the goods and services tax.

On the payments side, overall estimated expenditure on income support payments increases in both years due to a higher number of unemployment benefit recipients. The increase in spending on unemployment benefits in 2018-19 is partially offset by reduced expenditure on pensions and allowances reflecting slightly lower inflation. In addition, other payments linked to inflation fall in line with the reduced growth in prices.

The overall impact of the delayed recovery in non-mining business investment is a decrease in the underlying cash balance of around $1.6 billion in 2017-18 and around $4.3 billion in 2018-19 (see Table 4).

Table 4: Illustrative sensitivity of the budget balance to a delayed recovery in non-mining business investment

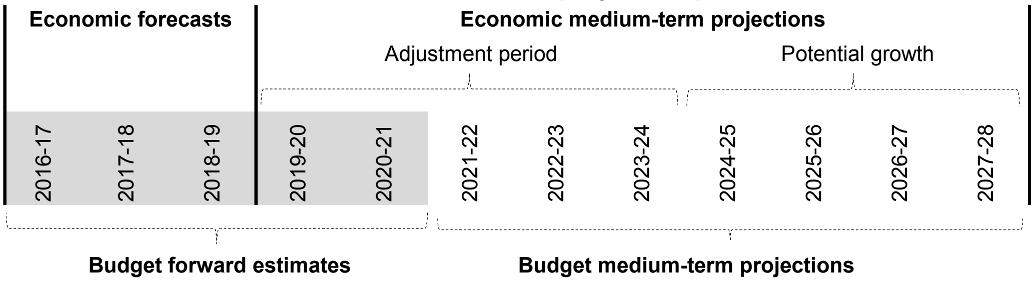
	2017-18	2018-19
	$b	$b
Receipts		
Individuals and other withholding taxes	-0.5	-1.8
Superannuation fund taxes	-0.1	-0.1
Company tax	-0.8	-1.7
Goods and services tax	-0.1	-0.3
Excise and customs duty	-0.1	-0.2
Other taxes	0.0	0.0
Total receipts	**-1.6**	**-4.1**
Payments		
Income support	-0.1	-0.4
Other payments	0.0	0.0
Goods and services tax	0.1	0.3
Total payments	**0.0**	**-0.1**
Public debt interest	0.0	-0.1
Underlying cash balance impact(a)	**-1.6**	**-4.3**

(a) Estimated impacts fall within the 70 per cent confidence intervals for years 2017-18 and 2018-19, as shown in Charts 8 to 10.

Sensitivity analysis over the medium term

The economic estimates underlying the fiscal projections divide the forecast horizon into a near-term forecast period and a medium-term projection period. The forecast period covers the two years following the current financial year. The medium-term projection period covers the remaining nine years (Chart 11). For the fiscal projections, the medium-term projection period is the seven years after the Budget forward estimates.

Chart 11: Medium-term projection period



Source: Treasury.

The economic and fiscal projections are not equivalent to the economic and fiscal forecasts. The forecasts are based on a range of short-run forecasting methodologies informed by professional opinion and information from business liaison. By contrast, the projections are based on a medium-term methodology. It is crucial to note that they are not estimates or judgments about how conditions will unfold over the medium term. An important assumption is that Government policy does not change.

Economic projections framework

Treasury's medium-term economic projection methodology assumes that any spare capacity remaining in the economy at the end of the forecast period will be absorbed over the following five years (the adjustment period). Over this period, labour force variables including employment and the participation rate are assumed to converge to their long-run trend levels as real GDP returns to potential — the maximum output the economy can produce when there is full employment. This assumption is crucial to the methodology. Importantly, the assumed five-year timeframe may not be validated and this would affect the projections. Treasury continues to review and refine the methodology.

Potential GDP is estimated based on analysis of underlying trends for population, productivity and participation. The Budget forecasts imply that real GDP will be lower than potential GDP at the end of the forecast period — that is, there will be a negative output gap. To close the estimated output gap and absorb forecast spare capacity in the economy, real GDP is projected to grow faster than potential over the adjustment period (over the five years from 2019-20). By the end of the adjustment period, the output gap is assumed to have closed completely and real GDP grows at its potential rate thereafter.

Fiscal projections framework

Treasury's medium-term fiscal projections use the Budget forward estimates as a base. They are therefore subject to similar risks and uncertainties that affect the fiscal aggregates discussed earlier in this Statement, but the longer timeframes mean these risks and uncertainties can be amplified.

Beyond the forward estimates, a range of simplifying assumptions are used to project government receipts and payments. The main drivers are movements in economic growth, the size and structure of the population and prices. The medium-term economic projections are a critical driver of the fiscal projections. For payments, a key parameter is expected per person costs (in each age bracket) of major government programs based on current Government policy. The projections assume current Government policy does not change.

Changes to the assumptions underpinning Treasury's estimate of Australia's potential GDP — as well as the pace of adjustment back to potential — can have large impacts on the fiscal projections. The following section illustrates the sensitivity of fiscal aggregates to these assumptions over the medium-term projection period.

Output gap scenarios

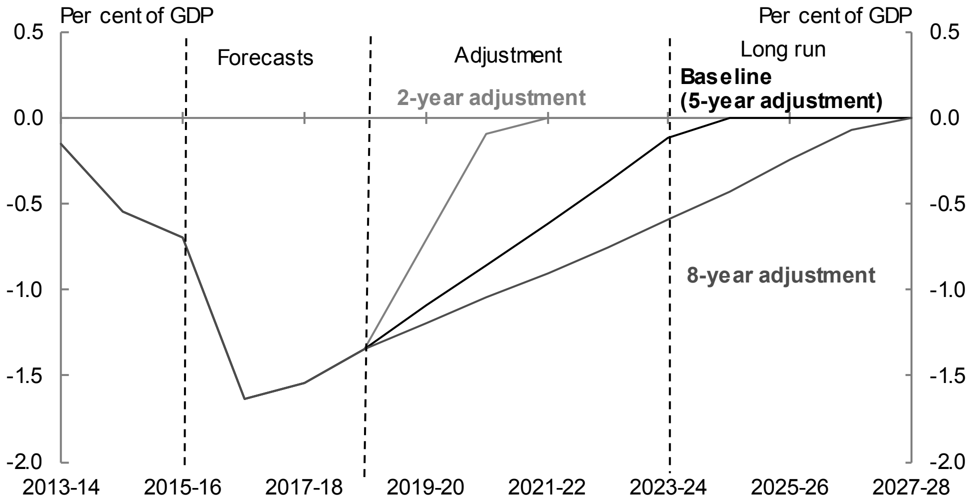
Scenarios 3 and 4: Alternative output gap adjustment period assumptions

As noted above, the assumption that the adjustment takes five years is crucial and is subject to considerable conjecture as to whether it is appropriate. Scenarios 3 and 4 examine the consequences of shorter (2 years) and longer (8 years) adjustment periods, respectively.

Over the five year adjustment period, real GDP is projected to grow at 3 per cent a year — faster than the estimated potential growth rate of the economy of 2¾ per cent — to close an estimated output gap of around 1½ per cent of GDP.

In Scenario 3, a shorter adjustment period requires faster real GDP growth over the adjustment period (Chart 12). In the two-year adjustment period, annual real GDP growth is 0.4 percentage points higher than in the baseline projections to return the economy to its potential level over two years rather than five years.

Chart 12: Output gap — Illustrative impact of closing the output gap over two or eight years



Source: Treasury.

Under this scenario employment grows more quickly than in the Budget projections, leading to lower unemployment over the first five projection years. This in turn generates faster growth in wages and domestic prices. While the long-run level of real GDP is unchanged from Budget, the price level is permanently higher. As a result, closing the output gap over two years increases the level of nominal GDP in 2027-28 by around 1 per cent compared with Budget.

The higher level of nominal GDP also means higher projected tax receipts over the 10-year period to 2027-28. Payments are projected to be lower, driven largely by lower projected unemployment which reduces unemployment benefit recipient numbers.

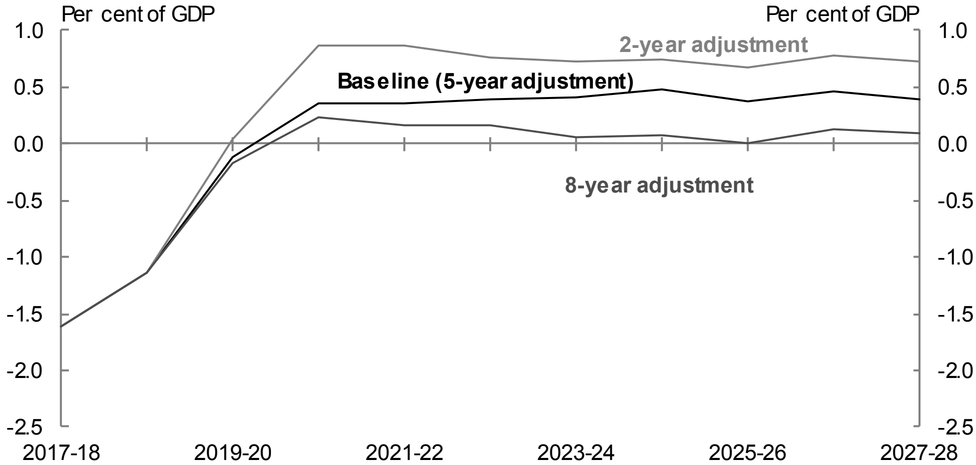
Overall, the faster adjustment in Scenario 3 has a positive impact on the underlying cash balance (Chart 13). In this scenario, the underlying cash balance peaks at 0.9 per cent of GDP in 2021-22, before falling gradually over the medium-term to 0.7 per cent of GDP in 2027-28. This is compared to baseline projections which peak at 0.5 per cent of GDP in 2024-25, before falling to 0.4 per cent of GDP by 2027-28.

The variation in the underlying cash balance would have implications for the level of government debt. Under Scenario 3, gross debt would be lower, reflecting lower Government borrowing associated with the stronger Budget position. Public debt interest payments would also be lower, further contributing to the improvement in the underlying cash balance.

In Scenario 4, a longer adjustment period requires slower real GDP growth over the adjustment period to return the economy to its potential level over eight years rather than five. This leads to higher unemployment over the eight years of the adjustment period and slower growth in wages and domestic prices compared with the Budget projections.

A slower adjustment in Scenario 4 has a negative impact on the underlying cash balance. Receipts are lower across the period and payments higher overall. In this scenario, the underlying cash balance peaks at 0.2 per cent of GDP in 2020-21, deteriorating to broad balance over the medium term. Gross debt and public debt interest payments would be higher than in the baseline scenario.

Chart 13: Underlying cash balance — Illustrative impact of closing the output gap over two or eight years



Source: Treasury projections.

Productivity scenarios

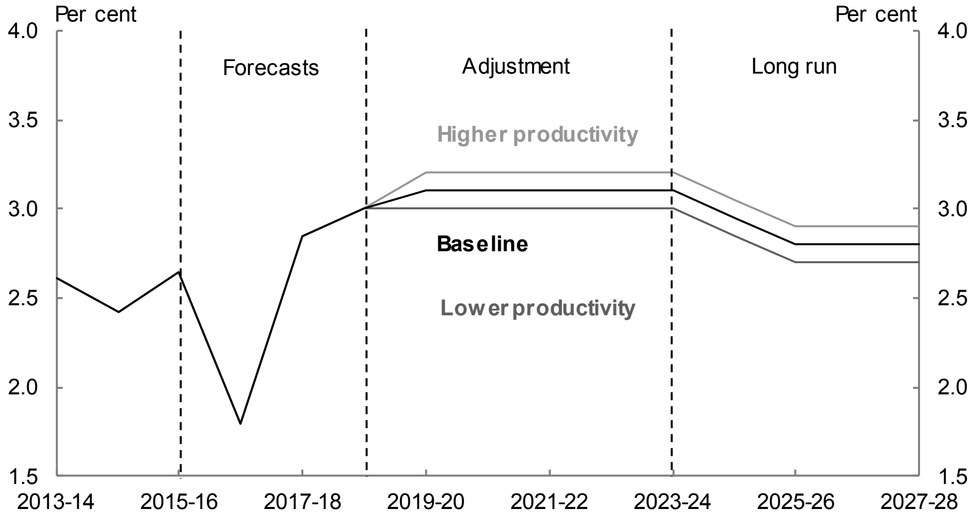
Scenarios 5 and 6: Alternative trend labour productivity growth assumptions

Labour productivity growth is an important determinant of Australia’s potential GDP growth. The Budget projections assume that labour productivity grows at a trend rate of 1.6 per cent a year, in line with its 30-year average annual growth rate.

Scenario 5 examines the consequences of a trend rate of labour productivity growth of 1.5 per cent a year, which is 0.1 percentage points lower than the Budget projections. This reduces the economy’s potential growth rate over the projection period (Chart 14). As a result, real GDP grows more slowly over the adjustment period compared with the baseline projections to close the output gap and absorb spare capacity in the economy.

By the end of the projection period in 2027-28, real GDP is around 1 per cent lower compared with the Budget projections. Lower labour productivity growth also flows through to lower wages. Nominal GDP falls in line with real GDP as there is only a small effect on wages per unit of output (nominal unit labour costs) and, in turn, prices.

Chart 14: Real GDP growth rate — Illustrative impact of higher and lower trend productivity growth



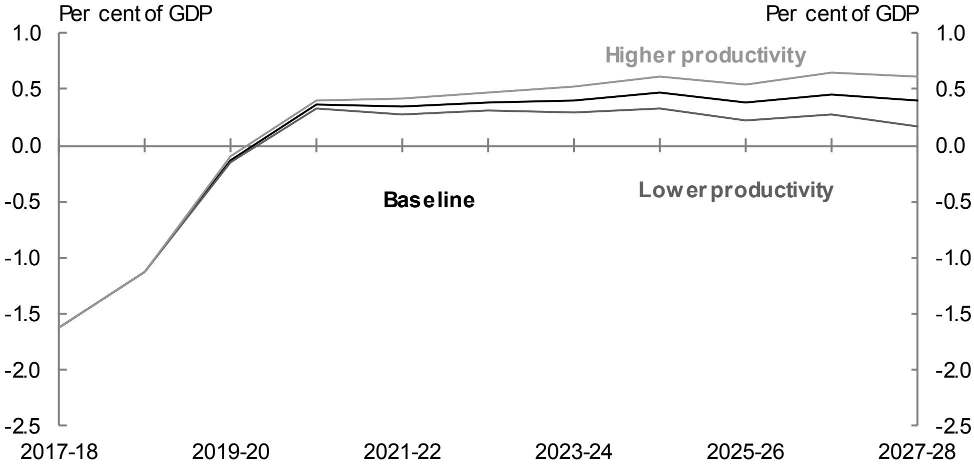
Source: ABS cat. no. 5206.0 and Treasury.

In Scenario 5, the underlying cash balance peaks at around 0.3 per cent of GDP in 2024-25, before falling to 0.2 per cent of GDP in 2027-28. This is because of lower projected receipts, owing to lower nominal GDP and a small increase in government payments. Gross debt would be higher, reflecting higher borrowing associated with larger Budget deficits. Public debt interest would also be higher.

Scenario 6 assumes a trend labour productivity growth rate of 1.7 per cent a year, which is 0.1 percentage points higher than the assumption factored into the Budget projections. This has broadly opposite effects on the economy compared with Scenario 5, resulting in higher real GDP and higher wages.

In Scenario 6, the underlying cash balance peaks at 0.6 per cent of GDP in 2026-27 (Chart 15). Gross debt would be lower, reflecting lower Government borrowing. Public debt interest would also be lower.

Chart 15: Underlying cash balance — Illustrative impact of higher and lower trend productivity growth



Source: Treasury projections.

STATEMENT 9: 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.

CONTENTS

STATEMENT 9: STATEMENT OF RISKS

The forward estimates of revenue and expenses in the 2017-18 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 2017-18 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 8: 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 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 *2016-17 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. Several 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: Economic Outlook* could potentially affect the budget estimates. *Statement 8: Forecasting Performance and Scenario Analysis* examines the impact on receipts and payments of altering some of the key economic assumptions underlying the Budget estimates.

DETAILS OF FISCAL RISKS AND CONTINGENT LIABILITIES

New, revised or unchanged fiscal risks, contingent assets and contingent liabilities 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 described below and summarised in Table 2. Information on both contingent assets and contingent liabilities is also provided in the annual financial statements of departments, entities and non-budget entities.

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2016-17 Budget and the 2016-17 MYEFO[(a)]

Fiscal Risks		Status
Agriculture and Water Resources		
Murray Darling Basin Authority		Modified
Defence		
Major operations of the Australian Defence Force in 2017-18		Modified
Education and Training		
Recovery of inappropriately claimed VET FEE-HELP funds from providers		New
Finance		
Same-Sex Marriage Plebiscite		Unchanged
Health		
2018 Commonwealth Games — Gold Coast		Removed
Industry, Innovation and Science		
Risks to External Revenue		Unchanged
Infrastructure and Regional Development		
Inland Rail — Delivery		Modified
National System for Domestic Commercial Vessels		Removed
Western Sydney Airport		Removed
Immigration and Border Protection		
Regional Processing Arrangements		Modified
Significant but remote contingencies	**Category (b)(c)(d)**	**Status**
Attorney-General's		
Indemnities relating to the Air Security Officer program	Indemnity	New
Communications		
NBN Co Limited — Equity Agreement	Guarantee	Modified
Optus Financial Guarantee	Guarantee	Modified
Telstra Financial Guarantee	Guarantee	Modified
Defence		
ADI Limited — Officers' and Directors' indemnities	Indemnity	Unchanged
Remote contingencies	Indemnity	Modified
Litigation cases	Other	Unchanged
Industry, Innovation and Science		
Liability for damages caused by space activities	Other	Modified
Infrastructure and Regional Development		
Maritime Industry Finance Company Limited — Board Members' Indemnity	Indemnity	Unchanged
Moorebank Intermodal Company Limited — Board Members' Indemnity	Indemnity	Unchanged
Moorebank Intermodal Company Limited — Termination of the Equity Funding Agreement	Indemnity	Unchanged
Moorebank Intermodal Project — Glenfield Waste Site Easement	Indemnity	Modified
Tripartite deeds relating to the sale of federal leased airports	Other	Modified
Treasury		
Asbestos Injuries Compensation Fund (AICF)	Guarantee	Unchanged
Financial Claims Scheme	Guarantee	Modified
Guarantee of State and Territory borrowing	Guarantee	Modified
Guarantees under the *Commonwealth Bank Sale Act 1995*	Guarantee	Modified
Reserve Bank of Australia — guarantee	Guarantee	Modified

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2016-17 Budget and the 2016-17 MYEFO[(a)] (continued)

Contingent Liabilities — unquantifiable	Category	Status
Agriculture and Water Resources		
Compensation claims arising from suspension of livestock exports to Indonesia	Other	Unchanged
Emergency pest and disease response arrangements	Other	Modified
Attorney-General's		
Australian Victims of Terrorism Overseas Payment	Other	Unchanged
Disaster Recovery	Other	Modified
Native Title costs	Other	Modified
Communications		
NBN Co Limited — Board Members' Insolvency Indemnity	Indemnity	Modified
Defence		
Cockatoo Island Dockyard	Indemnity	Modified
Land decontamination, site restoration and decommissioning of Defence assets	Other	Unchanged
Non-remote contingent liabilities	Other	Unchanged
Environment and Energy		
Snowy Hydro Limited — water releases	Indemnity	Unchanged
Liability for costs incurred in a national liquid fuel emergency	Other	Unchanged
Finance		
ASC Pty Ltd — Directors' indemnities	Indemnity	Unchanged
Commonwealth Superannuation Corporation — immunity and indemnity	Indemnity	Unchanged
Future Fund Management Agency and Future Fund Board of Guardians — indemnity	Indemnity	Modified
Googong Dam	Indemnity	Unchanged
Indemnities for the Reserve Bank of Australia and private sector banks	Indemnity	Unchanged
Indemnities relating to other former asset sales, privatisations and information technology outsourcing projects	Indemnity	Modified
Australian Government domestic property	Other	Modified
Australian Government general insurance fund — Comcover	Other	Modified
Health		
Accommodation Payment Guarantee Scheme	Indemnity	Unchanged
Australian Medical Association — Private Mental Health Alliance	Indemnity	Unchanged
Australian Red Cross Society — indemnities	Indemnity	Unchanged
Blood and blood products liability cover	Indemnity	Unchanged
CSL Ltd	Indemnity	Unchanged
Indemnities relating to vaccines	Indemnity	Unchanged
Medical Indemnity Exceptional Claims Scheme	Indemnity	Unchanged
New South Wales Health Administration Council — indemnity	Indemnity	Unchanged
Tobacco plain packaging litigation	Other	Modified
Immigration and Border Protection		
Garrison and welfare services at Regional Processing Countries contract — liability limit	Indemnity	Unchanged
Immigration detention services by state and territory governments — liability limit	Indemnity	Unchanged
Immigration detention services contract — liability limit	Indemnity	Unchanged

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2016-17 Budget and the 2016-17 MYEFO[a] (continued)

Contingent Liabilities — unquantifiable (continued)	Category	Status
Industry, Innovation and Science		
Australian Nuclear Science and Technology Organisation — asbestos contamination	Indemnity	Unchanged
Australian Nuclear Science and Technology Organisation — indemnity	Indemnity	Unchanged
Former British atomic test site at Maralinga	Indemnity	Unchanged
Gorgon liquefied natural gas and carbon dioxide storage project — long-term liability	Indemnity	Unchanged
Land decontamination, site restoration for CSIRO property	Other	Unchanged
Infrastructure and Regional Development		
Indemnity provided to the New South Wales Rural Fire Fighting Service in relation to the Jervis Bay Territory	Indemnity	Modified
Moorebank Intermodal Project — Georges River rail crossing	Indemnity	New
Service Delivery Arrangement Indemnities — External Territories	Indemnity	Modified
Australian Maritime Safety Authority incident costs	Other	Unchanged
Aviation Rescue & Fire Fighting potential Polyfluorinated Chemical Contamination	Other	Modified
Social Services		
Business Wage Assessment Tool	Other	Removed
Treasury		
Terrorism insurance — commercial cover	Guarantee	Modified
Contingent assets — unquantifiable		
Defence		
Non-remote contingent assets	Other	Unchanged
Health		
Legal action seeking compensation from Astra Zeneca	Other	New
Legal action seeking compensation from Sanofi	Other	Unchanged
Legal action seeking compensation from Wyeth	Other	Unchanged
Industry, Innovation and Science		
Wireless Local Area Network	Other	Unchanged
Contingent liabilities — quantifiable		
Defence		
Claims against the Department of Defence	Other	Unchanged
Employment		
Indemnity provided to the Administrator and the Assistant Administrators of the Health Services Union	Indemnity	Unchanged
Environment and Energy		
Low Carbon Australia Limited — Board of Directors' and senior management indemnities	Indemnity	Unchanged
Renewable Energy Target — *Renewable Energy (Electricity) Act 2000* — refunds of large-scale renewable energy shortfall charges	Other	New
Foreign Affairs and Trade		
Export Finance and Insurance Corporation	Guarantee	Modified
Infrastructure and Regional Development		
Virgin Australia Airlines Pty Ltd Confidentiality and Non-Disclosure Agreement	Indemnity	Removed
Australian Government contribution to the East West Link project	Other	Unchanged
Australian Government contribution to the Perth Freight Link project	Other	New

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2016-17 Budget and the 2016-17 MYEFO[(a)] (continued)

Contingent liabilities — quantifiable	Category	Status
Treasury		
Australian Taxation Office — tax disputes	Other	Modified
International financial institutions — uncalled capital subscriptions	Other	Modified
International Monetary Fund	Other	Modified
Contingent assets — quantifiable		
Defence		
Claims by the Department of Defence	Other	Unchanged

(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.

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.

There are 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.

Specific fiscal risks to the budget and forward estimates are detailed below.

Agriculture and Water Resources

Murray Darling Basin Authority

The introduction in the 2014-15 Budget of a 1,500 gigalitre (GL) cap on Australian Government water purchasing under the Basin Plan 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 purchases may 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 2018 when the SDL adjustment mechanism has operated.

Defence

Major operations of the Australian Defence Force in 2017-18

The 2017-18 estimates for the Department of Defence include the cost of major operations of the Australian Defence Force in 2017-18 in Afghanistan, Iraq, Syria, the broader Middle East region, and the protection of Australia's borders and offshore maritime interests. Funding is considered on a year-by-year basis and the forward estimates do not provide for extensions of currently approved operations beyond 2017-18. The Department of Defence will likely have additional funding requirements for major operations beyond 30 June 2018.

Education and Training

Recovery of inappropriately claimed VET FEE-HELP funds from providers

The Government is undertaking compliance action to recover VET FEE-HELP payments from VET providers where loans were inappropriately issued to students by providers. There is a potential financial risk to the Commonwealth in the event that compliance action results in student loan debts being remitted but the Commonwealth is unable to recover the payments from providers.

Finance

Same-Sex Marriage Plebiscite

The Australian Government remains committed to a plebiscite in relation to same-sex marriage, despite the Senate not supporting the *Plebiscite (Same-Sex Marriage) Bill 2016*. To this end, the Australian Government will provide $170 million to conduct a same-sex marriage plebiscite as soon as the necessary legislation is enacted by the Parliament.

Industry, Innovation and Science

Risks to External Revenue

Estimates for the Commonwealth Scientific and Industrial Research Organisation (CSIRO) include revenue from the non-government sector for research undertaken as part of CSIRO's role within the national innovation system. Changes to the economic climate, and the potential for cyber-attacks to compromise CSIRO research, could reduce the value of scientific research and Intellectual Property and lead to lower levels of external revenue.

Infrastructure and Regional Development

Inland Rail — Delivery

The Australian Government has committed to deliver the Inland Rail project through the Australian Rail Track Corporation (ARTC) to provide a direct, high-performance freight rail corridor between Melbourne and Brisbane, as well as a new freight corridor between Brisbane and Perth (via Parkes).

The Government will deliver Inland Rail by a combination of an additional $8.4 billion equity investment in ARTC, and a Public Private Partnership for the complex Toowoomba to Kagaru (Brisbane) section of the project, including major tunnelling works.

Project costs will not be finalised until procurements, alignment and reference designs are completed. The project is sensitive to increases in project cost and lower revenues from users, and these risks could decrease the returns on the Government's investment in the project.

Immigration and Border Protection

Regional Processing Arrangements

The Australian Government funds the care and management of asylum seekers in Regional Processing Centres (RPCs) to support host governments' management, removal and resettlement of these people. Any significant changes in the number of asylum seekers managed under these arrangements, the operations of the facilities, estimates of the number of refugees being resettled, or the outcome of related cases before the courts, may incur a cost or generate cost reductions which are unquantifiable at this time.

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 10.

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 2017. In some cases, other dates are used and those are noted in the relevant section.

SIGNIFICANT BUT REMOTE CONTINGENCIES

Attorney General's

Indemnities relating to the Air Security Officer program

The Australian Government has indemnity agreements with Australian airlines that agree to allow Air Security Officers on board their aircraft. The indemnity agreements limit the Government's exposure to a maximum of $2 billion per incident. The indemnity applies to the extent that any loss is not covered by existing relevant insurance policies held by the airline and only applies where the airline(s) can prove that an action on the part of an Air Security Officer under or in connection with the Air Security Officer program caused a loss.

Communications and the Arts

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 costs arising from that termination. Although the NBN Co Equity Funding Agreement will end in 2019, the Commonwealth would retain obligations to meet NBN Co's costs arising from a termination of the roll-out. As at 28 February 2017, NBN Co's termination liabilities were estimated at $13.3 billion.

Optus financial guarantee

The Australian Government has provided a guarantee in respect of the NBN Co Limited's (NBN Co) financial obligations to Optus Networks Pty Ltd, Optus Internet Pty Limited, Optus Vision Media Pty Limited and SingTel Optus Pty Ltd (collectively, Optus) under the Optus HFC Subscriber Agreement. The Agreement was amended on 19 September 2015. The Agreement extends for the period of the National Broadband Network roll-out in Optus Hybrid Fibre Coaxial areas. The Australian Government is only liable in the event NBN Co does not pay an amount when due under the Agreement. As at 28 February 2017, NBN Co had generated liabilities covered by the Optus Agreement, which are estimated at an amount lower than $70.0 million. There is a low risk that a claim could be made under the Guarantee. The Guarantee will terminate in 2021.

Telstra financial Guarantee

The Australian Government has provided a guarantee in respect of NBN Co Limited's (NBN Co) financial obligations to Telstra Corporation Limited (Telstra) under the Definitive Agreements. The Agreements were amended on 14 December 2014. The Guarantee was not amended at that time and it continues in force in accordance with its terms in respect of the amended Definitive Agreements. The liabilities under the agreements between Telstra and NBN Co arise progressively during the roll-out of the National Broadband Network as Telstra's infrastructure is accessed and Telstra's customers are disconnected from its copper and Hybrid Fibre Coaxial cable networks. The Australian Government is only liable in the event NBN Co does not pay an amount when due under the Definitive Agreements. As at 28 February 2017, NBN Co had generated liabilities covered by the guarantee estimated at $5.6 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.

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 also 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 2017, the Department of Defence carried 1,531 instances of quantifiable remote contingent liabilities valued at $5.6 billion and 23 instances of unquantifiable remote contingent liabilities.

Litigation cases

The Department of Defence is involved in a wide range of litigation and other claims for compensation and/or damages that may result in litigation where the matters are not able to be finalised by use of negotiation. The litigation includes common law liability claims, including for personal injury and property damage. A number of claims have been received seeking compensation for loss, injury or damage caused by the use of a Defence Practice Area. A number of claims have been received seeking compensation for loss, injury or damage arising from the Defence use of aqueous film forming foam (AFFF) that contained man-made per- and poly-fluoroalkyl substances (PFAS). A number of claims have also been received following reviews into Australian Defence Force and Defence culture. There is potential for claims to arise from the disposal of assets to third parties where such assets contain hazardous materials or components that have the potential to cause injury.

Industry, Innovation 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, or take financial responsibility for, damage to third parties for the lesser amount of $750 million or maximum probable loss as determined using the method set out in the *Space Activities Regulations 2001*. 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.

Moorebank Intermodal Company Limited — Termination of the Equity Funding Agreement

The Australian Government has provided an indemnity to cover all costs and liabilities that may be incurred by the Moorebank Intermodal Company Limited (MIC) in the event that the Commonwealth terminates the Equity Funding Agreement between the Commonwealth and MIC, for reasons other than a breach by MIC.

Moorebank Intermodal Project — Glenfield Waste Site Easement

The Australian Government has provided an indemnity to cover all costs and liabilities that may be incurred by the Grantor (the private sector owner of the Glenfield Waste Site) of any easement for the rail spur going across the Glenfield Waste Site, to the extent such costs or liabilities are caused or contributed to by the Commonwealth or its agents.

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 terminating 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

Asbestos Injuries Compensation Fund

In February 2016, the Commonwealth agreed to assume one-third of the default risk associated with a $320 million NSW Government loan to the Asbestos Injuries Compensation Fund (AICF), contingent on all States and Territories agreeing to assume the remaining default risk. States and Territories agreed to assume the remaining default risk in the period following the publication of the 2016-17 Budget.

The AICF provides compensation to Australian asbestos disease related claims against former subsidiaries of the James Hardie Group, and is funded on an ongoing basis through contributions from the James Hardie Group. NSW provided a $320 million loan facility in 2010 to enable AICF to continue to pay compensation as lump sums, rather than on an instalment basis.

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 2016, deposits eligible for coverage under the Financial Claims Scheme were estimated to be $850 billion, compared to an estimated $820 billion as at 30 June 2016, 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. It is not possible to estimate the amounts of any eventual payments that may be required in relation to general insurance claims.

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.

The Australian Prudential Regulation Authority (APRA) is responsible for the Financial Claims Scheme. Under the Financial Claims Scheme, any payments to account-holders with eligible protected accounts or eligible claimants would be made from APRA's Financial Claims Scheme Special Account. Under the legislation, upon activation, up to $20 billion per institution would be available to meet Financial Claims Scheme payments and up to $100 million for administration costs 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 2017, the face value of State and Territory borrowings covered by the guarantee was $6.5 billion, down from $8.2 billion at 30 September 2016.

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: $134 million is attributable to liabilities of the Commonwealth Bank of Australia, as at 31 March 2017; and $4.6 billion is attributable to liabilities of the Commonwealth Bank Officers' Superannuation Corporation, as at 31 March 2017.

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 Australian banknotes on issue. Banknotes on issue amount to $73.1 billion as at 29 March 2017, and the total guarantee is $113.5 billion ($110.0 billion at the 2016-17 Budget).

CONTINGENT LIABILITIES — UNQUANTIFIABLE

Agriculture and Water Resources

Compensation claims arising from suspension of livestock exports to Indonesia

Proceedings have commenced in the Federal Court of Australia 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.

The final quantum of any damages sought cannot be predicted. 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 and Water Resources. The Commonwealth has denied liability.

Emergency pest and disease response arrangements

National emergency response arrangements for animal, plant and environmental pest and disease incursions are largely funded through cost sharing agreements between Australian governments and, where relevant, agricultural industry bodies. Under the terms of the emergency response agreements, the Australian Government is typically liable for 50 per cent of the total government funding for a nationally agreed response to a disease or pest incursion. Limited funding is provided in the forward estimates for the Australian Government's contribution under the emergency response agreements to pay the relevant state or territory government. This funding is unlikely to be sufficient to meet the costs of large-scale pest or disease incursion, additional and multiple responses (noting there are currently 16 national cost shared emergency responses).

The Australian Government may also provide financial assistance to an industry party by funding its share of an emergency response. These contributions may subsequently be recovered from the industry over a period of up to 10 years, usually through an emergency response levy. The Australian Government may also be expected to contribute bilaterally in situations where an incursion is not covered by a cost sharing agreement or where the affected industry body/bodies are not party to an emergency response agreement, depending on the circumstances of the incursion.

Attorney General's

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 Australian residents 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, Australian residents harmed (primary victims) or whose close family members die 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 NDRRA 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.

Cyclone Debbie, which affected NSW and Queensland in March and April 2017, is expected to result in significant, but as yet unquantified, costs to the Commonwealth under the NDRRA. 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.

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 and the Arts

NBN Co Limited — Board Members' Insolvency Indemnity

The Australian Government has provided each Director of NBN Co Limited (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 Funding Agreement, with the exception of any legal expenses incurred by individual Directors arising from this indemnity.

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 profit of 7.5 per cent. Defence continues to manage reimbursement of claims costs incurred by CODOCK.

Land decontamination, site restoration and decommissioning of Defence assets

The Department of Defence has made a financial provision for the estimated costs involved in restoring, decontaminating and decommissioning where a legal or constructive obligation has arisen. For cases where there is no legal or constructive obligation, the potential costs have not been assessed and are unquantifiable contingencies.

Non remote contingent liabilities

The Department of Defence has 36 instances of unquantifiable non-remote contingent liabilities. There is potential for claims to arise from legacy contamination at various Defence locations.

Environment and Energy

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.

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; 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, 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 2017. 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 are listed below. Apart from instances noted elsewhere, Finance does not currently expect any other action to be taken in respect of these indemnities.

Indemnified body	Year(s) raised
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

Indemnified body	Year(s) raised
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
National Transmission Network	1999
Sydney Airports Corporation Ltd	2001
Telstra	1996, 1999 and 2006
Wool International	1999
Albury Wodonga Development Corporation	2014

Australian Government domestic property

The Australian Government's domestic property portfolio managed by the Department of Finance has approximately 110 properties. This number has reduced from approximately 120 reported at the 2016-17 MYEFO due to the ongoing implementation of the measure — *Smaller Government – Surplus Commonwealth Properties – divestment*. A small number of properties have had potential remediation issues identified, which are currently the subject of further investigation. Except for the properties at Lucas Heights, New South Wales 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.

Australian Government general insurance fund — Comcover

The Department of Finance (Finance) provides insurance and risk management services to Australian Government general government sector entities. Insurance liabilities are subject to large potential revisions as the ultimate outcome of claims is subject to events that have not yet occurred. Finance takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures, with estimates and judgements regularly updated based on historical experience and other factors.

Health

Accommodation Payment Guarantee Scheme

The Accommodation Payment Guarantee Scheme (the Guarantee Scheme) guarantees the repayment of aged care residents' refundable accommodation payments (including refundable deposits and accommodation bonds) 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.

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 to participate in, and support the Private Mental Health Alliance. Each party has agreed to indemnify each other party 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 indemnities cover defined sets of potential business, product and employee risks and liabilities. Certain indemnities for specific risk events that operate within the term of the Deed of Agreement are capped, and must meet specified pre-conditions. Other indemnities and the 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. All indemnities 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

The National Managed Fund (NMF) was established by a memorandum of understanding between the Australian Government, the Australian Red Cross Blood

Service (the Blood Service) and State and Territory governments, to cover potential future claims in relation to 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, 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 fora.

Immigration and Border Protection

Garrison and welfare services at Regional Processing Countries contract — liability limit

The Department of Immigration and Border Protection (DIBP) entered into a contract with Broadspectrum Limited (BRS), formerly known as Transfield Services Ltd, which commenced on 24 March 2014, for the provision of garrison and welfare services at Regional Processing Countries on behalf of the Australian Government. The contract terms limit BRS' liability to DIBP to a maximum of any insurance proceeds recovered by BRS up to a value of $50 million.

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 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.

	Service streams		
Jurisdictions	Health	Education	Police
WA	$5 million per claim or event	Uncapped liability	$5 million per claim or event
NSW	N/A	$5 million per claim or event	$5 million per claim or event
VIC	Uncapped liability	Uncapped liability	$5 million per claim or event
QLD/TAS/ACT/NT	N/A	$5 million per claim or event	$5 million per claim or event
SA	$5 million per claim or event	$5 million per claim or event	$5 million per claim or event

DIBP negotiates arrangements as necessary for the provision of correction services. The indemnity provided to States and Territory governments under these arrangements is no more than $30 million per event.

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 term 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, Innovation and Science

Australian Nuclear Science and Technology Organisation — asbestos contamination

The Australian Nuclear Science and Technology Organisation (ANSTO) site contains asbestos in a number of buildings and potentially in soil surrounding these buildings. Although there is potential for claims being made in relation to asbestos related diseases, the potential costs have not been assessed and are unquantifiable contingencies.

Australian Nuclear Science and Technology Organisation — indemnity

On 21 April 2016, the Minister for Industry, Innovation and Science signed a Deed of Indemnity between the Commonwealth Government, ANSTO and ANSTO Nuclear Medicine Pty Ltd (ANM), under which the government has formally agreed to indemnify ANSTO and ANSTO Officers, and ANM and ANM Officers, from any loss or liability arising from claims caused by ionising radiation. This Deed will remain in place until April 2026.

Former 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 (WA) Governments have provided an indemnity to the Gorgon Joint Venture Partners (GJV) against independent third party claims (relating to stored carbon dioxide) under common law following closure of the carbon dioxide sequestration project. The claims are subject to conditions equivalent to those set out in the *Offshore Petroleum and Greenhouse Gas Storage Act 2006*.

The WA Government has indemnified the GJV, and the Australian Government has indemnified the WA Government for 80 per cent of any amount determined to be payable under that indemnity.

Land decontamination and site restoration for CSIRO property

The Commonwealth Scientific and Industrial Research Organisation (CSIRO) has made a financial provision for the estimated costs in restoring and decontaminating land where a legal or constructive obligation has arisen. For cases where there is no legal or constructive obligation, the potential costs have not been assessed and are unquantifiable contingencies.

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 engages the New South Wales Rural Fire Service (NSW RFS) to provide fire management in the Jervis Bay Territory (JBT). To provide these service, the NSW RFS requires the Australian Government to provide an uncapped indemnity against any actions or claims resulting from the actions of the NSW RFS while providing fire management services in the JBT. The indemnity covers the same period of time for which NSW RFS is engaged to provide the fire management services. The likelihood of an event occurring that may result in a liability for the Australian Government is assessed as remote. The risk of a liability is mitigated through a range of risk management measures, including NSW RFS staff training and professional qualifications.

Moorebank Intermodal Project – Georges River rail crossing

The Australian Government has provided an indemnity to cover costs and liabilities that may be incurred by the State of New South Wales arising under the *Native Title Act 1993 (Cth)* associated with the construction of a rail bridge over the Georges River to the Moorebank Intermodal Terminal. The likelihood of costs being incurred has been considered remote and potential costs are unquantifiable.

Service Delivery Arrangement Indemnities — External 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 42 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.

From 1 July 2016, the New South Wales (NSW) Government has provided a range of services to the Norfolk Island community through an SDA. The Australian Government provides certain indemnities for the NSW 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.

Australian Maritime Safety Authority incident costs

In the normal course of operations, the Australian Maritime Safety Authority (AMSA) 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. AMSA 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.

Aviation Rescue & Fire Fighting potential Per- and Poly-Fluoroalkyl Substances (PFAS) Contamination

Airservices Australia has identified a number of sites around the country that potentially have been contaminated with per- and poly-fluoroalkyl substances (PFAS) previously contained in firefighting foams. The foams containing these chemicals were widely used internationally and were used on sites where aviation rescue and fire fighting services were provided between approximately 1980 to 2010. The identified contaminants do not naturally break down in the environment. Airservices continues to implement its PFAS management program which included testing and assessment of the fire training grounds in 2008-09 with additional site assessments conducted in the years following. Costs associated with potential long term management options such as containment and remediation cannot be quantified at this time, but could be considerable given the current lack of practicable management options and the fact that there are potentially 21 federally leased airports and other regional airports involved.

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 (extended in 2017 to mixed-use and high-value residential buildings). The Australian Reinsurance Pool Corporation (ARPC) uses reinsurance premiums paid by insurers to meet its administrative expenses, to maintain a pool of funds and to purchase reinsurance to help meet future claims. The Australian Government guarantees to pay any liabilities of the ARPC, but the responsible Minister (or delegate) 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 six instances of unquantifiable non-remote contingent assets.

Health

Legal action seeking compensation from Astra Zeneca

The Department of Health has initiated legal action to seek compensation from Astra Zeneca, the original patent owner of rosuvastatin (Crestor®), for additional costs to the Pharmaceutical Benefits Scheme (PBS) resulting from a delay in listing a generic version of rosuvastatin. There was no statutory price reduction involving rosuvastatin due to the application of other legislative provisions arising from rosuvastatin having been put into a therapeutic group of statins before a generic brand was listed. The compensation claimed relates primarily to additional subsidies, which were paid during the injunction period when a generic could not list and price-disclosure did not apply.

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. The first generic version of this medicine was listed in 2010 and the first price disclosure-based reduction occurred in 2012. Listing a generic form of clopidogrel on the Australian market earlier than 2010 would have triggered an automatic reduction to the price paid by the Government for clopidogrel through the PBS and would have resulted in further price disclosure reductions.

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. The first generic version of this medicine was listed in 2012 and the first price disclosure-based reduction occurred in 2013. Listing a generic form of venlafaxine on the Australian market earlier than 2012 would have triggered an automatic reduction to the price paid by the Government for venlafaxine through the PBS and would have resulted in further price disclosure-based reductions.

Industry, Innovation 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 one defendant. 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 19 instances of non-remote, quantifiable contingent liabilities in respect of claims on Defence valued at $94.9 million. The estimated figure is determined by conducting an objective analysis of the probable amount payable for all matters managed by Defence through the Attorney-General's Legal Services Multi-Use List 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 and Energy

Low Carbon Australia Limited — Board of Directors' and senior management indemnities

The Australian Government has provided indemnities to directors and company officers of the former Low Carbon Australia Limited (LCAL). A total of seven indemnity deeds were executed in 2014. 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 (to 2020).

Renewable Energy Target — *Renewable Energy (Electricity) Act 2000* — refunds of large-scale renewable energy shortfall charges

Under the *Renewable Energy (Electricity) Act 2000*, liable entities that pay a shortfall charge instead of surrendering certificates may choose to claim a refund if they subsequently surrender certificates for which they initially paid the charge.

Refunds are only allowed during the 'allowable refund period'. This period starts the day after the liable entity lodges its large-scale generation shortfall statement for the year following the year the shortfall charge was paid and ends three years after the charge was paid.

The Clean Energy Regulator has recorded $147.8 million in large-scale generation shortfall charges which are subject to this rule.

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 2017, the Government's total contingent liability was $3.3 billion. The $3.3 billion contingent liability comprises EFIC's liabilities to third parties ($2.6 billion) and EFIC's overseas investment insurance, contracts of insurance and guarantees ($0.7 billion). Of the total contingent liability, $2.7 billion relates to EFIC's Commercial Account and $0.6 billion relates to the National Interest Account.

Infrastructure and Regional Development

Australian Government contribution to the East West Link project

The Australian 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 Australian 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.

Australian Government contribution to the Perth Freight Link project

The Australian Government remains committed to the construction of Perth Freight Link, despite the decision of the Western Australian (WA) Government not to proceed with the project.

To this end, the Australian Government will provide $1.2 billion to the first WA Government willing to build the Perth Freight Link and is therefore recording this commitment as a contingent liability in the Budget.

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 2017, for which a provision has not been made, is $3.0 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. Australia's uncalled capital subscription to the IBRD totals US$3.6 billion (estimated value A$4.7 billion as at 31 March 2017).

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$331.7 million as at 31 March 2017).

The Australian Government has further held an uncalled capital subscription in the Asian Development Bank (ADB) since 1966. Australia's uncalled capital subscription to the ADB totals US$7.0 billion (estimated value A$9.2 billion as at 31 March 2017).

The Australian Government has further held an uncalled capital subscription in the Multilateral Investment Guarantee Agency of US$26.5 million (estimated value A$34.6 million as at 31 March 2017).

The Asian Infrastructure Investment Bank (AIIB) was established on 25 December 2015. The Australian Government has subscribed to shares in the AIIB, which includes an uncalled capital subscription. Australia's uncalled capital subscription to the AIIB totals US$3.0 billion (estimated value A$3.9 billion as at 31 March 2017).

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. This is a contingent loan to help ensure that the IMF has the resources available to maintain stability and support recovery in the global economy. The value of Australia's NAB credit arrangement now stands at Special Drawing Rights (SDR, the IMF's unit of account) SDR2.2 billion (estimated value A$4.0 billion at 31 March 2017). On 4 November 2016, the NAB was renewed by the IMF for an additional five year period to November 2022.

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 SDR4.61 billion (approximately A$8.2 billion at 31 March 2017) 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. On 19 December 2016, the Treasurer agreed to renew Australia's loan agreement with the IMF, subject to domestic approval processes. The renewed agreement would extend Australia's existing funding commitment to December 2019, with the possibility of an additional one-year extension with Australia's consent.

CONTINGENT ASSETS — QUANTIFIABLE

Defence

Claims by the Department of Defence

The Department of Defence has 19 instances of non-remote, quantifiable contingent assets in respect of claims by the Department valued at $5.5 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 2017.

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 Program	44,711	Eligible tertiary education students	Consumer Price Index (CPI)	8.8 years*	Modified
Australian Office of Financial Management					
Commonwealth-State financing arrangements — Housing and Specific Purpose Capital	1,872	State and Northern Territory governments	3.5-6.0 per cent	Up to 30 June 2042	Modified
Clean Energy Finance Corporation					
Clean Energy Finance Corporation	1,086	Approved entities undertaking clean energy technology projects	4.7 per cent	5-15 years	Modified
Department of Infrastructure and Regional Development					
Concessional Loan for Asbestos removal in the ACT — Mr Fluffy loose fill asbestos remediation	983	Australian Capital Territory Government	Commonwealth Government 10-year bond rate	Up to 30 June 2024	Modified
Indigenous Business Australia					
Indigenous Home Ownership, Business Development and Assistance	750	Eligible Indigenous persons	4.3 per cent*	4.3-28.3 years*	Modified
Department of Agriculture and Water Resources					
Drought related and Farm Finance Concessional Loans – Agriculture	749	State Governments (that, through their delivery agencies, on-lend to eligible farm businesses)	Various	Various	Modified
Department of the Treasury					
International Monetary Fund New Arrangements to Borrow	707	International Monetary Fund	0.4 per cent at 31 March 2017	10 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 Infrastructure and Regional Development					
WestConnex Stage 2 Concessional Loan	507	WCX M5 Finco Pty Ltd	3.4 per cent	November 2015 to July 2034	New
Department of Social Services					
Student Financial Supplement Scheme	367	Eligible recipients of Youth Allowance (student), Austudy and ABSTUDY	Consumer Price Index (CPI)	Various	Modified
Department of Health					
Zero Real Interest Loans	304	Residential aged care providers building or extending residential aged care facilities in areas of high need	Consumer Price Index (CPI)	Up to 22 years	Modified
Export Finance and Insurance Corporation					
Papua New Guinea Liquefied Natural Gas	291	Entities associated with the Papua New Guinea Liquefied Natural Gas project	Commercial-In-Confidence	Until 2026	Modified
Indigenous Land Corporation					
Voyages Indigenous Tourism Australia Pty Ltd	286	Voyages Indigenous Tourism Australia Pty Ltd	90 Day bank bill swap reference rate + 5 per cent	9 years, 11 months	Modified
Department of Education and Training					
Trade Support Loans Program	267	Eligible Australian Apprentices	Consumer Price Index (CPI)	—[#]	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
Export Finance and Insurance Corporation					
Development Import Finance Facility	207	The Republic of Indonesia acting through its Ministry of Finance	Various	Various	Modified

* Average

#To be determined after sufficient numbers of compulsory repayments commence.

(a) The Government has established the Northern Australia Infrastructure Facility (NAIF), a concessional financing facility of up to $5 billion, with the objective of increasing private sector investment in infrastructure in northern Australia. At the time of publication, the facility has not granted any financial assistance. Further details are provided in Budget Paper No. 2, *Budget Measures 2015-16* and Budget Paper No.2 *Budget Measures 2016-17*.

(b) The Government has established the *National Water Infrastructure Loan Facility*, available from the 2016-17 Financial Year, to support major water infrastructure projects. The loan facility will make available $2 billion over ten years in loans directly to the States and Territories. At the time of publication, the facility has not granted any financial assistance. Further details are provided in Budget Paper No. 2, *Budget Measures 2016-17*.

(c) The Government has provided NBN Co Limited (NBN Co) with a loan on commercial terms of up to $19.5 billion. This represents the most cost effective way to raise necessary debt and secure funding to complete the rollout of the National Broadband Network. The loan will commence in 2017-18 and the full amount of the loan is to be repaid by 30 June 2021. Further details are provided in *2016-17 Mid-Year Economic and Fiscal Outlook (MYEFO), Appendix A*.

(d) Loan amount is the estimated loan program amounts outstanding as at 30 June 2017 in $ million.

Higher Education Loan Program

The Higher Education Loan Program (HELP) is an income contingent loan program that assists eligible tertiary education students with the cost of their fees. As at 30 June 2017, the fair value of debt outstanding is estimated to be $44.7 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 2,468,939 HELP debtors as at 30 June 2016. The repayment term of a HELP debt can only be determined for people who have fully repaid their debt. As at the end of June 2016, the average time taken to repay HELP debts was 8.8 years.

HELP comprises a number of programs, including the VET Student Loans program, which replaced VET FEE-HELP from 1 January 2017.

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 2017, the estimated amortised value of the advances is $1.87 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, as required by the *Clean Energy Finance Corporation Act 2012*. This portfolio has an acceptable but not excessive level of risk relative to the sector, as required under the *Clean Energy Finance Corporation Investment Mandate Direction 2016 (No.2)* (Investment Mandate).

The CEFC's loan 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 CEFC has predominantly made loans as a co-financier either jointly or in consortiums with private sector financial institutions. Interest rates vary with a current average expected return of approximately 4.7 per cent. Loans have various maturity dates, typically in the range of 5-15 years. As at 30 June 2017 loans contracted and outstanding are expected to total $1.1 billion.

Concessional Loan for Asbestos removal in the ACT — Mr Fluffy loose fill asbestos remediation

On 27 January 2015, the Australian Government provided the ACT Government with a $1.0 billion concessional loan to deliver a program to buy-back and demolish houses in the ACT affected by Mr Fluffy loose fill asbestos.

The ACT Government will make annual repayments to the Australian Government from 2017-18 up to 2023-24.

Indigenous Home Ownership, Business Development and Assistance

Indigenous Business Australia delivers flexible loans with concessional interest rates to improve Indigenous home ownership across Australia, including in remote Indigenous communities. Indigenous Business Australia also provides concessional interest rate business loans and business support to increase Indigenous ownership of small to medium sized enterprises, and support their sustainability and growth. As at 30 June 2017, the fair value of outstanding loans for Indigenous Home Ownership and Business Development and Assistance is estimated to total $750 million.

Drought related and Farm Finance Concessional Loans – Agriculture

As at 30 June 2017, the fair value of drought and dairy farm related loans is estimated to total $753.7 million. These include:

Drought Concessional Loans Scheme: This scheme provides loans to drought affected farm businesses for debt restructuring, operating expenses and drought recovery and preparedness activities. The scheme commenced in June 2014 as a two year loans scheme and operated in Queensland, Victoria, New South Wales, South Australia, Western Australia, Tasmania and the Northern Territory. The Government extended the application period until 31 October 2016 to cover the period until the new 10-year Drought Concessional Loans Scheme was able to commence on 1 November 2016. The Government also extended the Western Australian application period for the Drought Concessional Loans Scheme until 30 June 2017, or until state approvals are in place to open the new Farm Business Concessional Loans Scheme.

As at 1 February 2017, the interest rate is 2.53 per cent, reviewed on a six-monthly basis and revised in accordance with material changes in the five-year Commonwealth bond rate. Loans have a maximum term of five years, with an extenuating circumstances clause in some jurisdictions, which allows a maximum two-year extension to the loan at commercial rates.

Drought Recovery and Dairy Recovery Concessional Loans Scheme(s): The drought recovery component of this scheme provided loans to farm businesses affected by unprecedented drought or, where applicable, Queensland farm businesses directly impacted by the combined effects of drought and the mid-2011 disruption to live cattle exports to Indonesia. The loans are for planting and restocking activities and associated expenses, when seasonal conditions allow. The loans were available from January 2015 and in 2014-15 operated in Queensland and New South Wales. In 2015-16 drought recovery concessional loans were available in Queensland, New South Wales, South Australia and Tasmania.

The dairy recovery component of this scheme provided concessional loans to dairy farm businesses affected by the 2016 reduction in farm gate milk prices by Murray Goulburn, Fonterra and National Dairy Products. Loans were available for debt restructuring, providing new debt for operating expenses or productivity enhancement activities, or a combination of these purposes. Dairy recovery concessional loans became available in Victoria, New South Wales, South Australia and Tasmania from June 2016. Applications closed on 31 October 2016. Dairy Recovery Concessional Loans remain available under the Farm Business Concessional Loans Scheme until 30 June 2017.

As at 1 February 2017, the interest rate is 2.07 per cent, reviewed on a six-monthly basis and revised in accordance with changes in the 10-year Commonwealth bond rate. Loans have a maximum term of 10 years with interest-only payments required for the first five years. Principal and interest repayments will be made in the remaining five years of the loan term.

Farm Business Concessional Loans Scheme: This scheme provides two types of concessional loans — drought assistance and dairy recovery. This scheme is designed to cover a farmer's short-term needs when income is tight and to supplement, rather than replace, commercial finance.

Drought assistance concessional loans are available in Queensland, New South Wales, Victoria, South Australia, Tasmania and the Northern Territory. Loans are available for debt restructuring, operating expenses, drought preparedness activities or drought recovery activities or a combination of these purposes.

Dairy recovery concessional loans are available in New South Wales, Victoria, South Australia and Tasmania. Loans are available for debt restructuring, providing new debt for operating expenses, productivity enhancement activities or a combination of these purposes.

As at 1 February 2017, the interest rate is 2.47 per cent, reviewed on a six-monthly basis and revised in accordance with changes in the 10-year Commonwealth bond rate. Loans have a maximum term of 10 years.

Farm Finance Concessional Loans Scheme: This scheme provided concessional loans to eligible farm businesses experiencing financial difficulties that were considered commercially viable in the long term, and were for productivity enhancements and debt restructuring. Applications for Farm Finance Concessional Loans closed on 30 June 2015.

As at 1 February 2017, the interest rate is 3.03 per cent, reviewed on a six-monthly basis and revised in accordance with material changes in the five-year Commonwealth bond rate. Loans have a maximum 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.

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. On 4 November 2016, the NAB was renewed by the IMF for an additional five year period to November 2022. 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. It is expected that the fair value of loans outstanding to Australia will be approximately A$707 million as at 30 June 2017.

WestConnex Stage 2 Concessional Loan

The WestConnex Concessional Loan is a $2 billion loan facility provided to WCX M5 Finco Pty Ltd, a company wholly owned by the Sydney Motorway Corporation, to accelerate Stage 2 of the WestConnex project. The concessional loan assisted in ensuring finance for the New M5 thereby accelerating delivery of Stage 2 and allowing Stage 1 and Stage 2 of the project to be built concurrently. Stage 2 comprises of the King Georges Road Interchange Upgrade that is now complete and the New M5 that is now under construction.

Student Financial Supplement Scheme

The Student Financial Supplement Scheme (SFSS) was a program under which student income support recipients could trade one dollar of entitlement for two dollars provided as an income contingent loan. The program closed for new recipients on 1 January 2004. The outstanding debt relates to debtors who received loans prior to 2004. As at 30 June 2017, the fair value of loans outstanding is estimated to total $366.6 million.

Zero Real Interest Loans

The Zero Real Interest Loans program provided loans to assist aged care providers to build or extend residential aged care services in areas of high need. Loans provided under the program attract an interest rate equivalent to the Consumer Price Index (updated quarterly). Four funding rounds were completed, with the final round of offers finalised in 2013. No further loans will be allocated under the program. It is estimated that by 30 June 2017, the total amount owing to the Commonwealth will be $304 million.

Papua New Guinea Liquefied Natural Gas

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 2017, the fair value of the loan amount outstanding is estimated to total $291.1 million.

Indigenous Land Corporation-Voyages Indigenous Tourism Australia Pty Ltd

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. As at 30 June 2017, the outstanding loan is estimated to total $286 million.

Trade Support Loans Program

The Trade Support Loans Program is an income contingent, concessional loan program that assists eligible Australian Apprentices by providing financial support of up to $20,000 to assist with the costs of living, learning and completing an apprenticeship.

Eligible Australian Apprentices can access up to $8,000 in their first year, $6,000 in the second, $4,000 in the third and $2,000 in the fourth year. The lifetime limit of $20,000 will be indexed on 1 July 2017 and each year after on 1 July to maintain its real value.

Upon successful completion of an apprenticeship, Australian Apprentices will be entitled to a 20 per cent discount on the loan. The loans become repayable at the same thresholds as the Higher Education Loan Program, which is $54,869 in 2016-17. This is a demand driven program.

Development Import Finance Facility

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 2017, the fair value of loans outstanding is estimated to total $206.8 million.

STATEMENT 10: 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. 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 10: AUSTRALIAN GOVERNMENT BUDGET FINANCIAL STATEMENTS

Table 1: Australian Government general government sector operating statement

		Estimates			Projections	
		2016-17	2017-18	2018-19	2019-20	2020-21
	Note	$m	$m	$m	$m	$m
Revenue						
Taxation revenue	3	386,172	415,428	441,772	474,494	503,741
Sales of goods and services	4	8,894	11,496	14,654	15,563	15,746
Interest income	5	3,753	4,397	5,470	6,645	7,685
Dividend income	5	3,653	3,517	4,125	4,623	3,519
Other	6	9,618	9,578	10,077	9,494	9,687
Total revenue		**412,091**	**444,414**	**476,099**	**510,819**	**540,378**
Expenses						
Gross operating expenses						
Wages and salaries(a)	7	19,926	19,906	20,072	20,165	20,241
Superannuation	7	9,702	4,578	4,617	4,647	4,644
Depreciation and amortisation	8	9,547	9,226	8,981	9,326	9,811
Supply of goods and services	9	91,334	102,477	115,171	122,189	127,083
Other operating expenses(a)	7	5,686	5,761	5,682	5,735	5,809
Total gross operating expenses		*136,195*	*141,948*	*154,523*	*162,062*	*167,588*
Superannuation interest expense	7	8,446	10,392	10,761	11,133	11,502
Interest expenses	10	17,582	18,544	19,797	20,799	20,445
Current transfers						
Current grants	11	134,064	138,221	146,258	148,279	153,352
Subsidy expenses		12,663	12,064	12,465	13,184	13,962
Personal benefits	12	129,941	130,507	132,854	139,379	148,887
Total current transfers		*276,668*	*280,792*	*291,578*	*300,841*	*316,201*
Capital transfers	11					
Mutually agreed write-downs		1,389	1,429	1,521	1,604	1,707
Other capital grants		10,478	11,157	8,683	6,759	5,464
Total capital transfers		*11,867*	*12,586*	*10,204*	*8,363*	*7,171*
Total expenses		**450,757**	**464,262**	**486,863**	**503,198**	**522,907**
Net operating balance		**-38,666**	**-19,848**	**-10,765**	**7,622**	**17,471**
Other economic flows - included in operating result						
Net write-downs of assets (including bad and doubtful debts)		-9,013	-9,310	-9,252	-9,485	-9,345
Assets recognised for the first time		315	285	300	316	332
Liabilities recognised for the first time		0	0	0	0	0
Actuarial revaluations		373	25	14	4	-4
Net foreign exchange gains		157	-125	0	289	311
Net swap interest received		25	0	0	0	0
Market valuation of debt		19,594	1,832	1,558	1,257	778
Other gains/(losses)		6,989	7,572	4,733	5,366	6,073
Total other economic flows - included in operating result		**18,440**	**281**	**-2,647**	**-2,253**	**-1,856**
Operating result(b)		**-20,226**	**-19,567**	**-13,412**	**5,369**	**15,615**

Table 1: Australian Government general government sector operating statement (continued)

		Estimates			Projections	
	Note	2016-17 $m	2017-18 $m	2018-19 $m	2019-20 $m	2020-21 $m
Non-owner movements in equity						
Revaluation of equity investments		-7,075	-6,693	-21	3	4
Actuarial revaluations		-138	8	1	-1	-7
Other economic revaluations		-5,354	-162	-336	-260	-266
Total other economic flows - included in equity		**-12,567**	**-6,847**	**-356**	**-257**	**-270**
Comprehensive result - Total change in net worth		**-32,793**	**-26,414**	**-13,768**	**5,111**	**15,345**
Net operating balance		**-38,666**	**-19,848**	**-10,765**	**7,622**	**17,471**
Net acquisition of non-financial assets						
Purchases of non-financial assets		12,181	13,582	13,958	14,655	15,735
less Sales of non-financial assets		790	4,041	239	390	69
less Depreciation		9,547	9,226	8,981	9,326	9,811
plus Change in inventories		205	177	39	-42	184
plus Other movements in non-financial assets		-2	-8	-6	-5	-3
Total net acquisition of non-financial assets		**2,047**	**484**	**4,770**	**4,892**	**6,037**
Fiscal balance (Net lending/ borrowing)(c)		**-40,713**	**-20,331**	**-15,535**	**2,729**	**11,434**

(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	
		2016-17	2017-18	2018-19	2019-20	2020-21
	Note	$m	$m	$m	$m	$m
Assets						
Financial assets						
Cash and deposits		3,408	3,411	3,452	3,991	4,179
Advances paid(a)	13	54,073	72,083	88,567	101,390	93,622
Investments, loans and placements	14	181,854	170,989	174,267	183,656	194,589
Other receivables	13	49,736	54,322	57,163	59,468	60,263
Equity investments(a)						
Investment in other public sector entities		48,126	44,323	46,128	48,660	52,157
Equity accounted investments		366	479	566	592	544
Investments - shares		43,440	47,905	52,481	56,190	60,018
Total financial assets		*381,003*	*393,511*	*422,625*	*453,947*	*465,373*
Non-financial assets	15					
Land		10,296	10,215	10,119	9,834	9,877
Buildings		25,795	25,883	26,593	27,455	28,295
Plant, equipment and infrastructure		72,022	74,595	77,825	81,782	86,510
Inventories		8,482	8,349	8,072	7,713	7,585
Intangibles		7,912	8,711	9,440	9,699	9,818
Investment properties		164	164	164	164	164
Biological assets		49	49	49	49	49
Heritage and cultural assets		11,439	11,412	11,382	11,351	11,302
Assets held for sale		227	227	144	144	144
Other non-financial assets		111	103	97	92	89
Total non-financial assets		*136,497*	*139,709*	*143,885*	*148,282*	*153,834*
Total assets		**517,500**	**533,220**	**566,510**	**602,230**	**619,207**
Liabilities						
Interest bearing liabilities						
Deposits held		217	217	217	217	217
Government securities		546,915	584,562	624,701	646,987	641,691
Loans	16	15,685	15,065	14,955	15,066	15,216
Other borrowing		1,609	1,569	1,527	1,482	1,435
Total interest bearing liabilities		*564,426*	*601,414*	*641,399*	*663,752*	*658,559*

Table 2: Australian Government general government sector balance sheet (continued)

		Estimates			Projections	
		2016-17	2017-18	2018-19	2019-20	2020-21
	Note	$m	$m	$m	$m	$m
Provisions and payables						
Superannuation liability	17	174,989	181,303	187,684	194,069	200,416
Other employee liabilities	17	18,180	18,560	18,950	19,408	19,825
Suppliers payable	18	5,659	5,874	5,915	5,902	5,879
Personal benefits provisions and payables	18	13,189	13,552	14,007	14,348	14,439
Subsidies provisions and payables	18	451	439	441	447	433
Grants provisions and payables	18	11,537	10,589	10,051	10,604	9,976
Other provisions and payables	18	20,763	19,599	19,938	20,466	21,100
Total provisions and payables		*244,768*	*249,915*	*256,988*	*265,244*	*272,068*
Total liabilities		**809,194**	**851,329**	**898,387**	**928,996**	**930,627**
Net worth(b)		**-291,695**	**-318,109**	**-331,877**	**-326,766**	**-311,421**
Net financial worth(c)		*-428,191*	*-457,818*	*-475,762*	*-475,048*	*-465,255*
Net financial liabilities(d)		*476,317*	*502,141*	*521,889*	*523,709*	*517,412*
Net debt(e)		*325,091*	*354,931*	*375,112*	*374,715*	*366,169*

(a) Due to the implementation of the 2015 ABS GFS Manual, Australia's subscriptions to the International Development Association and the Asian Development Fund were reclassified in the 2017-18 Budget from 'advances paid' to 'equity investments' on the balance sheet.
(b) Net worth is calculated as total assets minus total liabilities.
(c) Net financial worth equals total financial assets minus total liabilities.
(d) Net financial liabilities equals total liabilities less financial assets other than investments in other public sector entities.
(e) 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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Cash receipts from operating activities					
Taxes received	377,201	404,302	430,747	463,195	492,488
Receipts from sales of goods and services	8,786	11,497	14,600	15,511	15,694
Interest receipts	3,003	3,233	3,840	4,442	4,898
Dividends and income tax equivalents	5,820	3,996	3,637	4,323	4,829
Other receipts	8,695	9,104	9,004	8,614	8,344
Total operating receipts	**403,505**	**432,133**	**461,829**	**496,085**	**526,253**
Cash payments for operating activities					
Payments for employees	-27,918	-28,553	-29,061	-29,508	-30,042
Payments for goods and services	-90,127	-101,003	-113,055	-120,159	-125,302
Grants and subsidies paid	-157,615	-161,202	-166,915	-166,894	-172,160
Interest paid	-15,251	-16,589	-17,562	-18,163	-20,404
Personal benefit payments	-132,186	-133,463	-134,709	-140,895	-149,839
Other payments	-5,464	-5,369	-5,289	-5,320	-5,393
Total operating payments	**-428,560**	**-446,179**	**-466,592**	**-480,938**	**-503,140**
Net cash flows from operating activities	**-25,055**	**-14,046**	**-4,763**	**15,147**	**23,113**
Cash flows from investments in non-financial assets					
Sales of non-financial assets	2,219	1,361	671	822	69
Purchases of non-financial assets	-11,979	-13,506	-13,817	-14,695	-15,765
Net cash flows from investments in non-financial assets	**-9,760**	**-12,145**	**-13,146**	**-13,872**	**-15,696**
Net cash flows from investments in financial assets for policy purposes	**-16,246**	**-22,221**	**-19,212**	**-16,077**	**4,252**
Cash flows from investments in financial assets for liquidity purposes					
Increase in investments	-30,734	10,475	-3,118	-6,771	-7,711
Net cash flows from investments in financial assets for liquidity purposes	**-30,734**	**10,475**	**-3,118**	**-6,771**	**-7,711**
Net cash receipts from financing activities					
Borrowing	84,770	41,366	43,368	25,163	0
Other financing	73	0	0	0	0
Total net cash receipts from financing activities	**84,843**	**41,366**	**43,368**	**25,163**	**0**
Net cash payments for financing activities					
Borrowing	0	0	0	0	-357
Other financing	-3,279	-3,427	-3,088	-3,051	-3,413
Total net cash payments for financing activities	**-3,279**	**-3,427**	**-3,088**	**-3,051**	**-3,771**
Net cash flows from financing activities	**81,565**	**37,939**	**40,280**	**22,112**	**-3,771**
Net increase/(decrease) in cash held	**-230**	**3**	**41**	**539**	**188**

Table 3: Australian Government general government sector cash flow statement[(a)] (continued)

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
GFS cash surplus(+)/deficit(-)(b)(c)	**-34,816**	**-26,191**	**-17,909**	**1,275**	**7,417**
less Finance leases and similar arrangements(b)(d)	0	0	0	0	0
less Net Future Fund earnings(e)	2,784	3,205	3,513	3,745	na
Equals underlying cash balance(f)	**-37,600**	**-29,396**	**-21,422**	**-2,470**	**7,417**
plus Net cash flows from investments in financial assets for policy purposes	-16,246	-22,221	-19,212	-16,077	4,252
plus Net Future Fund earnings(e)	2,784	3,205	3,513	3,745	na
Equals headline cash balance	**-51,061**	**-48,411**	**-37,121**	**-14,802**	**11,669**
Memorandum:					
Net Future Fund earnings(e)	2,784	3,205	3,513	3,745	4,001

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) Due to the implementation of the 2015 ABS GFS Manual, from the 2017-18 Budget, finance leases are not deducted in the derivation of the GFS cash surplus/deficit.
(c) GFS cash surplus/deficit equals net cash flows from operating activities and investments in non-financial assets.
(d) The acquisition of assets under finance leases worsens the underlying cash balance. The disposal of assets previously held under finance leases improves the underlying cash balance.
(e) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Government superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.
(f) The term underlying cash balance is not used by the ABS.

Table 4: Australian Government public non-financial corporations sector operating statement

	Estimates	
	2016-17	2017-18
	$m	$m
Revenue		
Current grants and subsidies	120	146
Sales of goods and services	10,614	11,833
Interest income	47	16
Other	16	20
Total revenue	**10,798**	**12,016**
Expenses		
Gross operating expenses		
Wages and salaries(a)	4,289	4,512
Superannuation	387	396
Depreciation and amortisation	2,128	3,008
Supply of goods and services	6,820	9,368
Other operating expenses(a)	482	314
Total gross operating expenses	*14,107*	*17,598*
Interest expenses	521	805
Other property expenses	168	171
Current transfers		
Tax expenses	47	17
Total current transfers	*47*	*17*
Total expenses	**14,843**	**18,591**
Net operating balance	**-4,045**	**-6,575**
Other economic flows	**-1,369**	**-2**
Comprehensive result - Total change in net worth excluding contribution from owners	**-5,414**	**-6,577**
Net acquisition of non-financial assets		
Purchases of non-financial assets	8,991	10,834
less Sales of non-financial assets	79	20
less Depreciation	2,128	3,008
plus Change in inventories	17	5
plus Other movements in non-financial assets	33	-1
Total net acquisition of non-financial assets	**6,834**	**7,810**
Fiscal balance (Net lending/borrowing)(b)	**-10,879**	**-14,385**

(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	
	2016-17	2017-18
	$m	$m
Assets		
Financial assets		
Cash and deposits	2,412	1,670
Investments, loans and placements	528	475
Other receivables	1,624	1,933
Equity investments	400	382
Total financial assets	*4,963*	*4,460*
Non-financial assets		
Land and other fixed assets(a)	30,464	38,947
Other non-financial assets(a)(b)	3,049	3,238
Total non-financial assets	*33,513*	*42,185*
Total assets	**38,476**	**46,645**
Liabilities		
Interest bearing liabilities		
Deposits held	5	5
Advances received	286	286
Loans	2,391	11,441
Other borrowing	6,225	7,800
Total interest bearing liabilities	*8,907*	*19,533*
Provisions and payables		
Superannuation liability	46	46
Other employee liabilities	1,639	1,616
Other provisions and payables(b)	5,687	6,957
Total provisions and payables	*7,372*	*8,619*
Total liabilities	**16,278**	**28,152**
Shares and other contributed capital	**22,198**	**18,493**
Net worth(c)	**22,198**	**18,493**
Net financial worth(d)	*-11,315*	*-23,692*
Net debt(e)	*5,967*	*17,388*

(a) The estimate for intangible produced assets has now been reclassified from land and other fixed assets to other non-financial assets to provide consistency across sectors.
(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 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	
	2016-17	2017-18
	$m	$m
Cash receipts from operating activities		
Receipts from sales of goods and services	11,388	12,337
GST input credit receipts	673	862
Other receipts	136	152
Total operating receipts	**12,197**	**13,350**
Cash payments for operating activities		
Payments to employees	-5,188	-5,134
Payment for goods and services	-7,732	-10,918
Interest paid	-487	-762
GST payments to taxation authority	0	0
Other payments	-47	-17
Total operating payments	**-13,454**	**-16,831**
Net cash flows from operating activities	**-1,257**	**-3,481**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	86	20
Purchases of non-financial assets	-6,290	-7,997
Net cash flows from investments in non-financial assets	**-6,204**	**-7,977**
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	48	145
Net cash flows from investments in financial assets for liquidity purposes	**48**	**145**
Net cash flows from financing activities		
Borrowing (net)	-83	8,979
Other financing (net)	7,518	1,761
Distributions paid (net)	-169	-170
Net cash flows from financing activities	**7,267**	**10,571**
Net increase/(decrease) in cash held	**-146**	**-741**
Cash at the beginning of the year	**2,558**	**2,412**
Cash at the end of the year	**2,412**	**1,670**
Net cash from operating activities and investments in non-financial assets	**-7,461**	**-11,457**
Distributions paid	-169	-170
GFS cash surplus(+)/deficit(-)(b)	**-7,629**	**-11,627**

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) Due to the implementation of the 2015 ABS GFS Manual, from the 2017-18 Budget, finance leases are not deducted in the derivation of the GFS cash surplus/deficit.

Table 7: Australian Government total non-financial public sector operating statement

	Estimates	
	2016-17	2017-18
	$m	$m
Revenue		
Taxation revenue	386,125	415,041
Sales of goods and services	18,468	22,316
Interest income	3,782	4,267
Dividend income	3,485	3,346
Other	9,634	9,598
Total revenue	**421,496**	**454,568**
Expenses		
Gross operating expenses		
Wages and salaries(a)	24,215	24,418
Superannuation	10,088	4,974
Depreciation and amortisation	11,676	12,234
Supply of goods and services	97,114	110,833
Other operating expenses(a)	6,168	6,075
Total gross operating expenses	*149,261*	*158,534*
Superannuation interest expense	8,446	10,392
Interest expenses	18,084	19,204
Current transfers		
Current grants	134,064	138,221
Subsidy expenses	12,543	11,548
Personal benefits	129,941	130,507
Total current transfers	*276,548*	*280,276*
Capital transfers	11,867	12,586
Total expenses	**464,207**	**480,991**
Net operating balance	**-42,711**	**-26,423**
Other economic flows	**8,527**	**103**
Comprehensive result - Total change in net worth	**-34,184**	**-26,320**
Net acquisition of non-financial assets		
Purchases of non-financial assets	21,172	24,415
less Sales of non-financial assets	868	4,062
less Depreciation	11,676	12,234
plus Change in inventories	222	183
plus Other movements in non-financial assets	30	-8
Total net acquisition of non-financial assets	**8,881**	**8,293**
Fiscal balance (Net lending/borrowing)(b)	**-51,592**	**-34,716**

(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	
	2016-17	2017-18
	$m	$m
Assets		
Financial assets		
Cash and deposits	5,819	5,081
Advances paid	53,787	71,798
Investments, loans and placements	182,382	171,463
Other receivables	51,206	56,098
Equity investments	68,489	73,045
Total financial assets	*361,683*	*377,486*
Non-financial assets		
Land and other fixed assets	158,497	169,402
Other non-financial assets	11,513	12,492
Total non-financial assets	*170,010*	*181,894*
Total assets	**531,693**	**559,380**
Liabilities		
Interest bearing liabilities		
Deposits held	223	223
Advances received	0	0
Government securities	546,915	584,562
Loans	18,075	26,507
Other borrowing	7,834	9,369
Total interest bearing liabilities	*573,047*	*620,661*
Provisions and payables		
Superannuation liability	175,034	181,349
Other employee liabilities	19,819	20,176
Other provisions and payables	57,133	56,853
Total provisions and payables	*251,986*	*258,378*
Total liabilities	**825,032**	**879,039**
Shares and other contributed capital	**22,198**	**18,493**
Net worth(a)	**-293,340**	**-319,659**
Net financial worth(b)	*-463,350*	*-501,553*
Net debt(c)	*331,059*	*372,319*

(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 public sector cash flow statement(a)

	Estimates	
	2016-17	2017-18
	$m	$m
Cash receipts from operating activities		
Taxes received	377,154	404,286
Receipts from sales of goods and services	18,267	21,959
Interest receipts	3,038	3,112
Dividends and income tax equivalents	5,661	3,832
Other receipts	8,768	9,226
Total operating receipts	**412,889**	**442,415**
Cash payments for operating activities		
Payments to employees	-33,106	-33,687
Payments for goods and services	-95,279	-109,184
Grants and subsidies paid	-157,615	-161,202
Interest paid	-15,719	-17,205
Personal benefit payments	-132,186	-133,463
Other payments	-5,464	-5,369
Total operating payments	**-439,369**	**-460,112**
Net cash flows from operating activities	**-26,481**	**-17,696**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	2,305	1,381
Purchases of non-financial assets	-18,269	-21,503
Net cash flows from investments in non-financial assets	**-15,964**	**-20,122**
Net cash flows from investments in financial assets for policy purposes	**-8,350**	**-20,075**
Cash flows from investments in financial assets for liquidity purposes		
Increase in investments	-30,686	10,621
Net cash flows from investments in financial assets for liquidity purposes	**-30,686**	**10,621**
Net cash flows from financing activities		
Borrowing (net)	84,687	50,346
Other financing (net)	-3,583	-3,811
Net cash flows from financing activities	**81,105**	**46,534**
Net increase/(decrease) in cash held	**-376**	**-738**
Cash at the beginning of the year	**6,196**	**5,819**
Cash at the end of the year	**5,819**	**5,081**
Net cash from operating activities and investments in non-financial assets	**-42,445**	**-37,818**
Distributions paid	0	0
GFS cash surplus(+)/deficit(-)(b)	**-42,445**	**-37,818**

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) Due to the implementation of the 2015 ABS GFS Manual, from the 2017-18 Budget, finance leases are not deducted in the derivation of the GFS cash surplus/deficit.

Table 10: Australian Government public financial corporations sector operating statement

	Estimates	
	2016-17	2017-18
	$m	$m
Revenue		
Current grants and subsidies	143	149
Sales of goods and services	684	668
Interest income	2,111	2,482
Other	79	43
Total revenue	**3,017**	**3,342**
Expenses		
Gross operating expenses		
Wages and salaries(a)	149	157
Superannuation	76	33
Depreciation and amortisation	44	52
Supply of goods and services	505	501
Other operating expenses(a)	205	202
Total gross operating expenses	*978*	*945*
Interest expenses	1,125	1,239
Other property expenses	1,130	635
Current transfers		
Tax expenses	0	0
Total current transfers	*0*	*0*
Total expenses	**3,233**	**2,819**
Net operating balance	**-217**	**523**
Other economic flows	**-2,816**	**-531**
Comprehensive result - Total change in net worth excluding contribution from owners	**-3,032**	**-9**
Net acquisition of non-financial assets		
Purchases of non-financial assets	0	1
less Sales of non-financial assets	0	0
less Depreciation	44	52
plus Change in inventories	-26	0
plus Other movements in non-financial assets	0	0
Total net acquisition of non-financial assets	**-70**	**-51**
Fiscal balance (Net lending/borrowing)(b)	**-147**	**574**

(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 11: Australian Government public financial corporations sector balance sheet[a]

	Estimates	
	2016-17	2017-18
	$m	$m
Assets		
Financial assets		
Cash and deposits	538	528
Investments, loans and placements	180,437	180,080
Other receivables	232	227
Equity investments	396	396
Total financial assets	*181,604*	*181,230*
Non-financial assets		
Land and other fixed assets(b)	772	767
Other non-financial assets(b)(c)	99	97
Total non-financial assets	*871*	*865*
Total assets	**182,475**	**182,095**
Liabilities		
Interest bearing liabilities		
Deposits held	150,451	150,451
Borrowing	6,902	7,025
Total interest bearing liabilities	*157,354*	*157,476*
Provisions and payables		
Superannuation liability	684	684
Other employee liabilities	1,422	1,422
Other provisions and payables(c)	1,272	777
Total provisions and payables	*3,378*	*2,883*
Total liabilities	**160,732**	**160,360**
Shares and other contributed capital	**21,744**	**21,735**
Net worth(d)	**21,744**	**21,735**
Net financial worth(e)	*20,872*	*20,870*
Net debt(f)	*-23,622*	*-23,131*

(a) Assumes no valuation or currency movement.
(b) The estimate of intangible produced assets has now been reclassified from land and other fixed assets to other non-financial assets to provide consistency across sectors.
(c) Excludes the impact of commercial taxation adjustments.
(d) 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.
(e) 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.
(f) Net debt equals the sum of deposits held and borrowing, minus the sum of cash and deposits and investments, loans and placements.

Table 12: Australian Government public financial corporations sector cash flow statement[(a)]

	Estimates	
	2016-17	2017-18
	$m	$m
Cash receipts from operating activities		
Receipts from sales of goods and services	706	671
Grants and subsidies received	0	0
GST input credit receipts	15	0
Interest receipts	2,172	2,543
Other receipts	346	215
Total operating receipts	**3,239**	**3,429**
Cash payments for operating activities		
Payments to employees	-430	-391
Payment for goods and services	-510	-487
Interest paid	-1,159	-1,275
GST payments to taxation authority	0	-9
Other payments	-12	-10
Total operating payments	**-2,110**	**-2,173**
Net cash flows from operating activities	**1,128**	**1,256**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	0	0
Purchases of non-financial assets	0	-1
Net cash flows from investments in non-financial assets	**0**	**-1**
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	-17,833	-1,181
Net cash flows from investments in financial assets for liquidity purposes	**-17,833**	**-1,181**
Net cash flows from financing activities		
Borrowing (net)	-8	-40
Deposits received (net)	16,171	0
Other financing (net)	3,947	13
Distributions paid (net)	-3,279	-58
Net cash flows from financing activities	**16,831**	**-85**
Net increase/(decrease) in cash held	**125**	**-11**
Cash at the beginning of the year	**413**	**538**
Cash at the end of the year	**538**	**528**
Net cash from operating activities and investments in non-financial assets	**1,128**	**1,256**
Distributions paid	-3,279	-58
GFS cash surplus(+)/deficit(-)(b)	**-2,151**	**1,198**

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) Due to the implementation of the 2015 ABS GFS Manual, from the 2017-18 Budget, finance leases are not deducted in the derivation of the GFS cash surplus/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, 2015* (cat. no. 5514.0), which in turn is based on the International Monetary Fund (IMF) accrual GFS framework;[1] 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

1 From 1 July 2017, the 2015 ABS GFS Manual replaces the 2005 ABS GFS Manual (current at the time of publication). The 2015 ABS GFS Manual has been updated to incorporate the changes included by the International Monetary Fund outlined in its IMF GFS Manual 2014.

aggregates, the Uniform Presentation Framework (UPF) requires disclosure of net debt, net financial worth and net financial liabilities.

AASB 1049 and the UPF also provide a basis for reporting of the public non-financial corporations (PNFC) and public financial corporations (PFC) sectors and the total non-financial public sector (NFPS).

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 6: Expenses and Net Capital Investment*. In accordance with the UPF, purchases of non-financial assets by function are also disclosed in *Statement 6*.

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 2016-17* (MYEFO) are disclosed in *Statement 3: Fiscal Strategy and Outlook*, with decisions taken since the MYEFO disclosed in Budget Paper No. 2 *Budget Measures 2017-18*. All policy decisions taken between the 2016-17 Budget and the 2016-17 MYEFO are disclosed in Appendix A of the MYEFO.

Details of the Australian Government's GGS contingent liabilities are disclosed in *Statement 9: 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*, 2015 (cat. no. 5514.0).

Table 13: Major differences between AAS and ABS GFS

Issue	AAS treatment	ABS GFS treatment[2]	Treatment adopted
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
Valuation of loans	Loans at amortised cost are valued using discounted cash flows at the contractual interest rate. Changes in the valuation of loans are treated as an expense.	Loans are valued using discounted cash flows at the market interest rate. Changes in the valuation of loans are treated as an other economic flow.	AAS for valuation. ABS GFS for changes in valuation.
Concessional loans	Concessional elements are treated as an expense.	Concessional elements are treated as an other economic flow.	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	Capitalised when the asset is purchased.	Capitalised when make-good activity takes place.	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
Dividends paid by the Reserve Bank of Australia	Dividends are recognised in the year profit was earned.	Dividends are recognised when the Treasurer makes a determination.	AAS
Interest expense measurement	Interest expense will be recorded on a contractual (debtor) rate basis.	Interest expense will be recorded on a market (creditor) rate basis.	AAS

2 From 1 July 2017, the 2015 ABS GFS Manual replaces the 2005 ABS GFS Manual (current at the time of publication). The 2015 ABS GFS Manual has been updated to incorporate the changes included by the International Monetary Fund outlined in its IMF GFS Manual 2014.

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			
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 differences			
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 licences 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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Individuals and other withholding taxes					
Gross income tax withholding	180,150	188,750	200,400	216,520	231,770
Gross other individuals	46,730	49,860	52,720	57,030	61,220
less Refunds	28,300	29,000	30,900	32,700	34,400
Total individuals and other withholding taxation	198,580	209,610	222,220	240,850	258,590
Fringe benefits tax	4,450	4,430	4,520	4,870	5,130
Company tax	68,900	79,400	86,400	93,300	95,900
Superannuation fund taxes	7,760	8,540	9,510	10,720	12,120
Petroleum resource rent tax(a)	1,050	990	990	1,030	1,000
Income taxation revenue	**280,740**	**302,970**	**323,640**	**350,770**	**372,740**
Goods and services tax	62,220	65,710	68,460	71,030	75,230
Wine equalisation tax	870	900	1,000	1,060	1,100
Luxury car tax	660	650	640	690	720
Excise and customs duty					
Petrol	6,100	6,250	6,410	6,790	7,150
Diesel	10,240	10,640	11,140	11,690	12,340
Other fuel products	1,900	1,920	1,920	2,000	2,070
Tobacco	10,690	11,610	12,720	13,920	15,190
Beer	2,350	2,390	2,470	2,520	2,670
Spirits	2,050	2,130	2,210	2,300	2,410
Other alcoholic beverages(b)	920	950	980	1,020	1,050
Other customs duty					
Textiles, clothing and footwear	270	170	170	170	170
Passenger motor vehicles	500	490	500	520	560
Other imports	1,050	790	790	810	840
less: Refunds and drawbacks	420	420	420	420	420
Total excise and customs duty	35,650	36,920	38,890	41,320	44,030
Major bank levy	-	1,600	1,700	1,800	1,900
Agricultural levies	532	537	533	537	546
Other taxes	5,501	6,141	6,910	7,287	7,475
Mirror taxes	530	559	582	612	630
less Transfers to States in relation to mirror tax revenue	530	559	582	612	630
Mirror tax revenue	0	0	0	0	0
Indirect taxation revenue	**105,432**	**112,458**	**118,132**	**123,724**	**131,001**
Taxation revenue	**386,172**	**415,428**	**441,772**	**474,494**	**503,741**

Note 3: Taxation revenue by type (continued)

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Memorandum:					
Total excise	*21,560*	*22,190*	*22,950*	*24,070*	*25,320*
Total customs duty	*14,090*	*14,730*	*15,940*	*17,250*	*18,710*
Capital gains tax(c)	*12,700*	*15,500*	*16,800*	*18,400*	*20,500*

(a) This item includes a small amount of MRRT revenue relating to a pre-2013-14 income year which cannot be separately disclosed owing to taxpayer confidentiality.
(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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Taxes on income, profits and capital gains					
Income and capital gains levied on individuals	203,020	214,040	226,740	245,720	263,720
Income and capital gains levied on enterprises	77,720	88,930	96,900	105,050	109,020
Total taxes on income, profits and capital gains	**280,740**	**302,970**	**323,640**	**350,770**	**372,740**
Taxes on employers' payroll and labour force	635	635	668	673	697
Taxes on the provision of goods and services					
Sales/goods and services tax	63,750	67,260	70,100	72,780	77,050
Excises and levies	22,092	22,727	23,483	24,607	25,866
Taxes on international trade	14,090	14,730	15,940	17,250	18,710
Total taxes on the provision of goods and services	**99,932**	**104,717**	**109,523**	**114,637**	**121,626**
Taxes on the use of goods and performance of activities	4,866	7,106	7,942	8,414	8,678
Total taxation revenue	**386,172**	**415,428**	**441,772**	**474,494**	**503,741**

Note 4: Sales of goods and services revenue

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Sales of goods	1,469	1,655	1,724	1,776	1,588
Rendering of services	5,408	7,821	10,859	11,574	11,888
Operating lease rental	89	86	91	93	89
Fees from regulatory services	1,927	1,934	1,980	2,119	2,181
Total sales of goods and services revenue	**8,894**	**11,496**	**14,654**	**15,563**	**15,746**

Note 5: Interest and dividend revenue

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Interest from other governments					
State and Territory debt	51	59	71	85	100
Housing agreements	124	119	114	109	103
Total interest from other governments	**175**	**178**	**185**	**194**	**203**
Interest from other sources					
Advances	58	80	106	109	139
Deposits	109	95	95	95	95
Bank deposits	134	108	113	119	118
Indexation of HELP receivable and other student loans	560	822	1,115	1,520	1,737
Other	2,718	3,112	3,857	4,609	5,393
Total interest from other sources	**3,578**	**4,218**	**5,285**	**6,452**	**7,482**
Total interest	**3,753**	**4,397**	**5,470**	**6,645**	**7,685**
Dividends					
Dividends from other public sector entities	1,340	848	1,296	1,608	300
Other dividends	2,313	2,669	2,829	3,015	3,219
Total dividends	**3,653**	**3,517**	**4,125**	**4,623**	**3,519**
Total interest and dividend revenue	**7,407**	**7,913**	**9,595**	**11,268**	**11,204**

Note 6: Other sources of non-taxation revenue

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Industry contributions	124	121	121	119	117
Royalties	963	926	838	838	804
Seigniorage	98	86	81	75	70
Other	8,432	8,444	9,037	8,462	8,696
Total other sources of non-taxation revenue	**9,618**	**9,578**	**10,077**	**9,494**	**9,687**

Note 7: Employee and superannuation expense

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Wages and salaries expenses	**19,926**	**19,906**	**20,072**	**20,165**	**20,241**
Other operating expenses					
Leave and other entitlements	2,298	2,295	2,267	2,228	2,229
Separations and redundancies	145	85	62	62	59
Workers compensation premiums and claims	1,045	1,056	1,052	1,073	1,106
Other	2,198	2,325	2,301	2,372	2,415
Total other operating expenses	**5,686**	**5,761**	**5,682**	**5,735**	**5,809**
Superannuation expenses					
Superannuation	9,702	4,578	4,617	4,647	4,644
Superannuation interest cost	8,446	10,392	10,761	11,133	11,502
Total superannuation expenses	**18,147**	**14,970**	**15,378**	**15,779**	**16,146**
Total employee and superannuation expense	**43,759**	**40,637**	**41,131**	**41,679**	**42,197**

Note 8: Depreciation and amortisation expense

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Depreciation					
Specialist military equipment	5,294	5,051	4,805	5,169	5,653
Buildings	1,414	1,319	1,295	1,272	1,265
Other infrastructure, plant and equipment	1,512	1,498	1,502	1,512	1,536
Heritage and cultural assets	81	83	83	84	84
Total depreciation	**8,301**	**7,951**	**7,684**	**8,037**	**8,538**
Total amortisation	**1,247**	**1,275**	**1,297**	**1,289**	**1,272**
Total depreciation and amortisation expense	**9,547**	**9,226**	**8,981**	**9,326**	**9,811**

Note 9: Supply of goods and services expense

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Supply of goods and services	28,037	30,669	29,870	29,701	30,698
Operating lease rental expenses	2,401	2,512	2,543	2,510	2,517
Personal benefits – indirect(a)(b)(c)(d)	53,954	61,871	75,499	82,801	86,869
Health care payments	4,772	4,813	4,677	4,558	4,497
Other	2,170	2,612	2,583	2,620	2,503
Total supply of goods and services expense	**91,334**	**102,477**	**115,171**	**122,189**	**127,083**

(a) Includes the Child Care Subsidy, which commences from 2018-19, with the majority of payments to be made directly to child care providers. See also Note 12, Personal benefits expense.

(b) Includes reclassification between Personal benefits expenses (Note 12) and Supply of goods and services expense — 'personal benefits — indirect' (Note 9) made in the 2015-16 Final Budget Outcome, reflecting more accurate information about the nature of benefits provided.

(c) Includes reclassification for Home care packages from subsidy expenses to 'personal benefits – indirect' made in the 2016-17 MYEFO to reflect legislative changes to the program.

(d) Includes reclassification since the 2016-17 MYEFO for the payments under the National Disability Insurance Scheme from grants expenses (Note 11) to indirect personal benefits expenses (Note 9), to reflect the nature of benefits provided to households.

Note 10: Interest expense

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Interest on debt					
Government securities(a)	15,978	17,130	18,067	18,678	18,737
Loans	1	1	1	1	1
Other	199	214	223	236	249
Total interest on debt	**16,178**	**17,345**	**18,291**	**18,914**	**18,987**
Other financing costs	**1,404**	**1,200**	**1,507**	**1,885**	**1,458**
Total interest expense	**17,582**	**18,544**	**19,797**	**20,799**	**20,445**

(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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Current grants expense					
State and Territory governments	106,227	109,584	117,332	118,604	123,350
Local governments	2	0	0	0	0
Private sector(a)	7,923	8,333	8,314	8,290	8,391
Overseas	4,298	3,604	3,920	4,549	3,932
Non-profit organisations(a)	3,833	4,145	4,123	4,110	3,845
Multi-jurisdictional sector	10,201	10,464	10,393	10,492	10,726
Other(a)(b)	1,579	2,091	2,176	2,233	3,109
Total current grants expense	**134,064**	**138,221**	**146,258**	**148,279**	**153,352**
Capital grants expense					
Mutually agreed write-downs	1,389	1,429	1,521	1,604	1,707
Other capital grants					
State and Territory governments	8,785	8,714	7,038	5,648	4,673
Local governments	793	670	355	379	379
Non-profit organisations(a)	309	308	276	69	71
Private sector(a)	428	954	858	499	165
Multi-jurisdictional sector	141	145	155	164	176
Other(a)	22	366	1	0	0
Total capital grants expense	**11,867**	**12,586**	**10,204**	**8,363**	**7,171**
Total grants expense	**145,931**	**150,807**	**156,463**	**156,642**	**160,523**

(a) Includes reallocation of some programs between grants to non-profit organisations, private sector and other in the 2015-16 Final Budget Outcome reflecting more accurate information about the grants.
(b) Includes reclassification since the 2016-17 MYEFO for the payments under the National Disability Insurance Scheme from grants expenses (Note 11) to indirect personal benefits expenses (Note 9), to reflect the nature of benefits provided to households.

Note 12: Personal benefits expense

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Social welfare - assistance to the aged	44,857	45,726	47,844	49,931	52,459
Assistance to veterans and dependants	5,416	5,140	4,979	4,850	4,795
Assistance to people with disabilities	24,552	25,407	26,196	27,155	28,143
Assistance to families with children(a)	32,805	32,961	28,902	29,543	29,922
Assistance to the unemployed	10,992	10,017	11,093	11,785	12,544
Student assistance	3,120	2,570	2,930	3,056	3,289
Other welfare programs	1,190	1,098	1,142	1,168	1,188
Financial and fiscal affairs	318	317	310	321	333
Vocational and industry training	29	29	30	30	30
Other(b)	6,661	7,241	9,428	11,541	16,184
Total personal benefits expense	**129,941**	**130,507**	**132,854**	**139,379**	**148,887**

(a) The majority of payments under the Child Care Subsidy, which commences from 2018-19, are to be made directly to child care providers. See also Note 9, Supply of goods and services expense.
(b) Includes reclassification between Personal benefits expenses (Note 12) and Supply of goods and services expense — 'personal benefits — indirect' (Note 9) made in the 2015-16 Final Budget Outcome, reflecting more accurate information about the nature of benefits provided.

Note 13: Advances paid and other receivables

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Advances paid					
Loans to State and Territory governments	3,969	4,211	4,506	4,900	5,298
Higher Education Loan Program	44,711	51,712	59,126	67,172	76,071
Student Financial Supplement Scheme	367	317	267	217	168
Other(a)	5,312	16,236	25,189	29,762	12,902
less Provision for doubtful debts	285	393	521	662	817
Total advances paid	**54,073**	**72,083**	**88,567**	**101,390**	**93,622**
Other receivables					
Goods and services receivable	1,009	951	942	936	935
Recoveries of benefit payments	5,667	7,254	7,281	7,286	6,973
Taxes receivable	21,033	23,924	26,333	28,740	30,477
Prepayments	4,423	4,509	4,592	4,653	4,633
Other	19,797	20,790	21,646	21,849	21,345
less Provision for doubtful debts	2,193	3,107	3,632	3,996	4,100
Total other receivables	**49,736**	**54,322**	**57,163**	**59,468**	**60,263**

(a) Due to the implementation of the 2015 ABS GFS Manual, Australia's subscriptions to the International Development Association and the Asian Development Fund were reclassified in the 2017-18 Budget from 'advances paid' to 'equity investments' on the balance sheet.

Note 14: Investments, loans and placements

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Investments - deposits	60,405	50,804	52,194	47,903	48,289
IMF quota	11,859	11,657	11,657	12,084	12,531
Other	109,590	108,527	110,416	123,669	133,769
Total investments, loans and placements	**181,854**	**170,989**	**174,267**	**183,656**	**194,589**

Note 15: Non-financial assets

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Land and buildings					
Land	10,296	10,215	10,119	9,834	9,877
Buildings	25,795	25,883	26,593	27,455	28,295
Total land and buildings	**36,091**	**36,099**	**36,712**	**37,289**	**38,171**
Plant, equipment and infrastructure					
Specialist military equipment(a)	56,703	58,097	60,759	64,070	68,327
Other	15,319	16,498	17,066	17,712	18,183
Total plant, equipment and infrastructure	**72,022**	**74,595**	**77,825**	**81,782**	**86,510**
Inventories					
Inventories held for sale	1,428	1,482	1,395	1,235	1,356
Inventories not held for sale	7,053	6,867	6,677	6,478	6,229
Total inventories	**8,482**	**8,349**	**8,072**	**7,713**	**7,585**
Intangibles					
Computer software	4,165	4,493	4,597	4,596	4,477
Other	3,747	4,217	4,843	5,103	5,341
Total intangibles	**7,912**	**8,711**	**9,440**	**9,699**	**9,818**
Total investment properties	**164**	**164**	**164**	**164**	**164**
Total biological assets	**49**	**49**	**49**	**49**	**49**
Total heritage and cultural assets	**11,439**	**11,412**	**11,382**	**11,351**	**11,302**
Total assets held for sale	**227**	**227**	**144**	**144**	**144**
Total other non-financial assets	**111**	**103**	**97**	**92**	**89**
Total non-financial assets	**136,497**	**139,709**	**143,885**	**148,282**	**153,834**

(a) 'Specialist military equipment' is included at fair value to align with AASB 1049 which requires harmonisation with ABS GFS treatment.

Note 16: Loans

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Promissory notes	9,534	9,142	9,117	9,094	9,096
Special drawing rights	5,563	5,469	5,469	5,669	5,878
Other	587	455	369	304	242
Total loans	**15,685**	**15,065**	**14,955**	**15,066**	**15,216**

Note 17: Employee and superannuation liabilities

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Total superannuation liability(a)	**174,989**	**181,303**	**187,684**	**194,069**	**200,416**
Other employee liabilities					
Leave and other entitlements	7,772	7,899	8,006	8,115	8,213
Accrued salaries and wages	212	213	219	272	277
Workers compensation claims	2,788	2,758	2,741	2,733	2,733
Other	7,408	7,691	7,985	8,288	8,602
Total other employee liabilities	**18,180**	**18,560**	**18,950**	**19,408**	**19,825**
Total employee and superannuation liabilities	**193,168**	**199,863**	**206,634**	**213,477**	**220,241**

(a) For budget reporting purposes, a discount rate of 6 per cent used by actuaries in preparing Long-Term Cost Reports is used to value the superannuation liability. This reflects the average annual rate estimated to apply over the term of the liability and it reduces the volatility in reported liabilities that would occur from year to year if the long-term government bond rate were used. Consistent with Australian Accounting Standards, for the 2015-16 Final Budget Outcome the long-term government bond rate as at 30 June 2016 was used to calculate the superannuation liability. This rate was 2.7 per cent.

Note 18: Provisions and payables

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Suppliers payable					
Trade creditors	4,163	4,244	4,295	4,297	4,286
Operating lease rental payable	421	440	432	420	402
Other creditors	1,076	1,190	1,188	1,185	1,191
Total suppliers payable	**5,659**	**5,874**	**5,915**	**5,902**	**5,879**
Total personal benefits provisions and payables(a)	**13,189**	**13,552**	**14,007**	**14,348**	**14,439**
Total subsidies provisions and payables	**451**	**439**	**441**	**447**	**433**
Grants provisions and payables					
State and Territory governments	63	98	117	152	153
Non-profit organisations	195	202	205	209	213
Private sector	345	342	341	341	341
Overseas	2,308	1,956	1,737	2,531	2,219
Other(a)	8,625	7,991	7,650	7,369	7,050
Total grants provisions and payables	**11,537**	**10,589**	**10,051**	**10,604**	**9,976**
Other provisions and payables					
Provisions for tax refunds	2,978	2,994	2,988	2,982	2,993
Other	17,785	16,605	16,950	17,484	18,107
Total other provisions and payables	**20,763**	**19,599**	**19,938**	**20,466**	**21,100**

(a) Includes reclassification for the payments under the National Disability Insurance Scheme from grants to indirect personal benefits to reflect the nature of benefits provided to households.

Note 19: Reconciliation of cash

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m
Net operating balance (revenues less expenses)	**-38,666**	**-19,848**	**-10,765**	**7,622**	**17,471**
less **Revenues not providing cash**					
Other	2,379	2,407	3,077	3,501	4,185
Total revenues not providing cash	**2,379**	**2,407**	**3,077**	**3,501**	**4,185**
plus **Expenses not requiring cash**					
Increase/(decrease) in employee entitlements	10,009	6,702	6,772	6,841	6,757
Depreciation/amortisation expense	9,547	9,226	8,981	9,326	9,811
Mutually agreed write-downs	1,389	1,429	1,521	1,604	1,707
Other	888	985	956	919	892
Total expenses not requiring cash	**21,833**	**18,342**	**18,231**	**18,691**	**19,167**
plus **Cash provided/(used) by working capital items**					
Decrease/(increase) in inventories	-205	-177	-39	42	-184
Decrease/(increase) in receivables	-6,138	-10,674	-10,218	-10,048	-7,461
Decrease/(increase) in other financial assets	2,659	2,834	2,546	2,697	2,547
Decrease/(increase) in other non-financial assets	-188	-44	-35	-25	47
Increase/(decrease) in benefits, subsidies and grants payable	-1,121	-392	92	1,011	-476
Increase/(decrease) in suppliers' liabilities	593	152	10	-53	-69
Increase/(decrease) in other provisions and payables	-1,445	-1,832	-1,508	-1,288	-3,744
Net cash provided/(used) by working capital	**-5,844**	**-10,133**	**-9,152**	**-7,664**	**-9,339**
equals (Net cash from/(to) operating activities)	-25,055	-14,046	-4,763	15,147	23,113
plus (Net cash from/(to) investing activities)	-56,740	-23,890	-35,476	-36,721	-19,155
Net cash from operating activities and investment	**-81,795**	**-37,936**	**-40,239**	**-21,574**	**3,958**
plus (Net cash from/(to) financing activities)	81,565	37,939	40,280	22,112	-3,771
***equals* Net increase/(decrease) in cash**	**-230**	**3**	**41**	**539**	**188**
Cash at the beginning of the year	**3,638**	**3,408**	**3,411**	**3,452**	**3,991**
Net increase/(decrease) in cash	-230	3	41	539	188
Cash at the end of the year	**3,408**	**3,411**	**3,452**	**3,991**	**4,179**

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 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. 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 (including the PNFC and PFC sectors) and GGS outcome reporting, 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 2014.*[3]

3 Additional information on the Australian accrual GFS framework is available in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2015* (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.[4]

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 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 during a period. The majority of 'other economic flows' for the Australian Government GGS arise from price movements in its assets and liabilities.

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4 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.

Net operating balance

The net operating balance is the excess of revenue from transactions over expenses from transactions. The net operating balance excludes expenditure on the acquisition of capital assets, but includes non-cash costs such as accruing superannuation entitlements and the consumption of capital (depreciation). By including all accruing costs, including depreciation, the net operating balance encompasses the full cost of providing government services. This makes it a measure of the sustainability of the government's fiscal position over time and provides an indication of the sustainability of the existing level of government services.

The net operating balance is a flow measure on the statement of operations.

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.[5]

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

5 The net operating balance includes consumption of non-financial assets because depreciation is an expense.

worth is a broader measure than net debt, in that it incorporates provisions made (such as superannuation) as well as holdings of equity. Net financial worth includes all classes of financial assets and all liabilities, only some of which are included in net debt. As non-financial assets are excluded from net financial worth, this is a narrower measure than net worth. However, it avoids the concerns inherent with the net worth measure relating to the valuation of non-financial assets and their availability to offset liabilities.

Net financial liabilities

Net financial liabilities comprises total liabilities less financial assets but excludes equity investments in the other sectors of the jurisdiction. Net financial liabilities is a more accurate indicator than net debt of a jurisdiction's fiscal position as it includes substantial non-debt liabilities such as accrued superannuation and long service leave entitlements. Excluding the net worth of other sectors in government results in a purer measure of financial worth than net financial worth as, in general, the net worth of other sectors of government, in particular the PNFC sector, is backed up by physical assets.

Net debt

Net debt is the sum of selected financial liabilities (deposits held, advances received, government securities, loans, and other borrowing) less the sum of selected financial assets[6] (cash and deposits, advances paid, and investments, loans and placements). This includes financial assets (excluding equities) 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.

The 2015 ABS GFS Manual presents debt in a matrix format, with no single net debt aggregate identified. The Commonwealth Government continues to report net debt in accordance with the UPF as described above.

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.

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6 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.

Underlying cash balance

The underlying cash balance plus net Future Fund earnings is the cash counterpart of the fiscal balance, reflecting the Australian Government's cash investment-saving balance.

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

equals

ABS GFS cash surplus/deficit[7]

less

Net acquisitions of assets acquired under finance leases and similar arrangements[8]

less

Net Future Fund cash earnings

equals

Underlying cash balance

Under the *Future Fund Act 2006*, earnings are required to be reinvested to meet the Government's future public sector superannuation liabilities. The Government excludes net Future Fund cash earnings from the calculation of the underlying cash balance between 2005-06 and 2019-20. From 2020-21 onwards, net Future Fund cash earnings are included in the calculation of the underlying cash balance because the Future Fund becomes available to meet the Government's superannuation liabilities from that year.

In contrast, net Future Fund earnings are included in the net operating balance and fiscal balance for all years because superannuation expenses relating to future cash payments are recorded in the net operating balance and fiscal balance.

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7 In accordance with the 2015 ABS GFS Manual, finance leases are not deducted in the derivation of the cash surplus/deficit. This has removed the distinction between the calculation of the cash surplus/deficit under AASB 1049 and the ABS GFS standards that existed under the 2005 ABS GFS Manual.

8 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.

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 11: Historical Australian Government Data*.

Headline cash balance

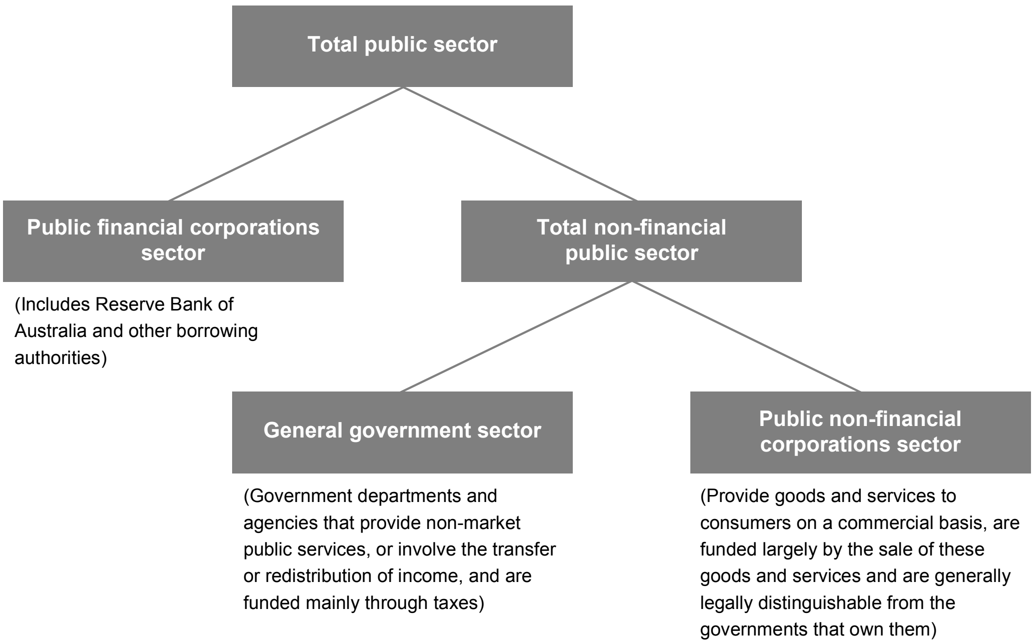
The headline cash balance is calculated by adding net cash flows from investments in financial assets for policy purposes and net Future Fund earnings to the underlying cash balance.

Cash flows from investments in financial assets for policy purposes include equity transactions and net advances.[9] 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



9 Cash flows from investments in financial assets for policy purposes are often referred to as net advances.

All entities are classified as GGS entities except for the following list of portfolio entities that are classified as PFC or PNFC (Table A1).

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/Entity_List_May_2017.pdf.

Table A1: Entities outside of the general government sector

Public financial corporations
Employment Portfolio
• Coal Mining Industry (Long Service Leave Funding) Corporation
Foreign Affairs and Trade Portfolio
• Export Finance and Insurance Corporation
Industry, Innovation and Science Portfolio
• CSIRO General Partner Pty Ltd
• CSIRO General Partner 2 Pty Ltd
Treasury Portfolio
• Australia Reinsurance Pool Corporation
• Reserve Bank of Australia
Public non-financial corporations
Communications and the Arts Portfolio
• Australian Postal Corporation
• NBN Co Ltd
Finance Portfolio
• ASC Pty Ltd*
• Australian Naval Infrastructure Pty Ltd*
Industry, Innovation 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

*The government has announced that ASC Pty Ltd will be separated into three individual Government owned companies. Australian Naval Infrastructure Pty Ltd was established under this structural separation. Full separation is expected to be completed during 2017.

^The government has announced that it will establish a government corporation to deliver Stage 1 of the Western Sydney Airport at Badgerys Creek. It is expected that the corporation will be established in the 2017-18 financial year.

APPENDIX B: AUSTRALIAN LOAN COUNCIL ALLOCATION

Under the Loan Council arrangements, every year the Commonwealth and each State 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);
- net cash flows from investments in financial assets for policy purposes; and
- memorandum items, which involve transactions that are not formally borrowings but nevertheless have many of the characteristics of borrowings.

LCA nominations are considered by the Loan Council, having regard to each jurisdiction's fiscal position and infrastructure requirements, as well as the macroeconomic implications of the aggregate figure.

As set out in Table B1, the Commonwealth's revised estimate for the 2017-18 LCA is a $60.8 billion deficit. This compares with its LCA nomination of a $51.5 billion deficit. The LCA Budget estimate falls outside the tolerance limit set at nomination, partly due to the change in expected net cash flows from investments in financial assets for policy purposes.

Table B1: Commonwealth's Loan Council Allocation budget update for 2017-18

		2017-18 Nomination $m	2017-18 Budget estimate $m
	GGS cash surplus(-)/deficit(+)	25,273	26,191
	PNFC sector cash surplus(-)/deficit(+)	7,571	11,627
	NFPS cash surplus(-)/deficit(+)(a)	32,844	37,818
equals	ABS GFS cash surplus(-)/deficit(+)	32,844	37,818
minus	Net cash flows from investments in financial assets for policy purposes(b)	-19,947	-22,221
plus	Memorandum items(c)	-1,277	757
	Loan Council Allocation	**51,514**	**60,796**
	2017-18 tolerance limit(d)	8,831	8,848

(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; the net financing requirement of the Australian National University; and from this Budget, NFPS acquisitions under finance leases and similar arrangements.

(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 11: 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 11: HISTORICAL AUSTRALIAN GOVERNMENT DATA

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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).

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.

As a result of the updated ABS cat. no. 5514.0 *Government Finance Statistics: Concepts, Sources and Methods*, the 2017-18 Budget includes revisions to the historical net debt, net worth, expenses, net operating balance, and fiscal balance series to reflect the reclassification and revaluations of Australia's subscriptions to the International Development Association (IDA) and Asian Development Fund (ADF). The classification change of Australia's IDA and ADF subscriptions from 'advances paid' to 'equity investments' within the general government sector balance sheet and the change in valuation of these financial assets from their nominal value to their fair value results in higher net debt. The net debt historical series has been back-cast from 1999-00. The valuation change of these assets also worsens net worth. The net worth historical series has been back-cast from 1999-00. The valuation change also results in higher expenses and worsens the net operating balance and fiscal balance. The expenses, net operating balance and fiscal balance series have been back-cast from 2008-09.

Under the *Future Fund Act 2006*, earnings of the Future Fund are required to be reinvested to meet the Government's future public sector superannuation liabilities. The forward estimates before 2020-21 reflect this treatment by excluding net Future Fund earnings from the underlying cash balance.

The Future Fund becomes available to meet the Government's superannuation liabilities from 2020-21. From 2020-21, the underlying cash balance includes expected net Future Fund earnings. As net Future Fund earnings are reported alongside the underlying cash balance, users have sufficient information to calculate the underlying cash balance in 2020-21 excluding net Future Fund earnings.

INTRODUCTION OF THE REAL PER CAPITA SERIES

The 2017-18 Budget introduces a set of real per capita series in Table 11. These real per capita series are calculated using the Consumer Price Index (CPI) as the deflator. Cash data for the real per capita series has been prepared on a basis consistent with the underlying cash balance data series.

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(f)	Per cent of GDP	$m	$m	Per cent of GDP
1970-71	8,290	20.5	7,389	na	18.3	-	901	2.2
1971-72	9,135	20.5	8,249	4.1	18.5	-	886	2.0
1972-73	9,735	19.6	9,388	7.7	18.9	-	348	0.7
1973-74	12,228	20.3	11,078	4.2	18.4	-	1,150	1.9
1974-75	15,643	22.0	15,463	19.9	21.7	-	181	0.3
1975-76	18,727	22.5	20,225	15.7	24.3	-	-1,499	-1.8
1976-77	21,890	22.8	23,157	0.6	24.1	-	-1,266	-1.3
1977-78	24,019	22.9	26,057	2.7	24.8	-	-2,037	-1.9
1978-79	26,129	22.0	28,272	0.3	23.8	-	-2,142	-1.8
1979-80	30,321	22.5	31,642	1.5	23.5	-	-1,322	-1.0
1980-81	35,993	23.6	36,176	4.6	23.8	-	-184	-0.1
1981-82	41,499	23.6	41,151	2.9	23.4	-	348	0.2
1982-83	45,463	24.0	48,810	6.3	25.8	-	-3,348	-1.8
1983-84	49,981	23.4	56,990	9.4	26.7	-	-7,008	-3.3
1984-85	58,817	25.0	64,853	9.1	27.6	-	-6,037	-2.6
1985-86	66,206	25.4	71,328	1.5	27.4	-	-5,122	-2.0
1986-87	74,724	26.1	77,158	-1.1	27.0	-	-2,434	-0.9
1987-88	83,491	25.7	82,039	-0.9	25.3	-	1,452	0.4
1988-89	90,748	24.6	85,326	-3.1	23.2	-	5,421	1.5
1989-90	98,625	24.4	92,684	0.6	22.9	-	5,942	1.5
1990-91	100,227	24.1	100,665	3.1	24.2	-	-438	-0.1
1991-92	95,840	22.6	108,472	5.7	25.6	-	-12,631	-3.0
1992-93	97,633	22.0	115,751	5.6	26.0	-	-18,118	-4.1
1993-94	103,824	22.2	122,009	3.5	26.1	-	-18,185	-3.9
1994-95	113,458	22.9	127,619	1.4	25.7	-	-14,160	-2.9
1995-96	124,429	23.5	135,538	1.9	25.6	-	-11,109	-2.1
1996-97	133,592	24.0	139,689	1.7	25.1	-	-6,099	-1.1
1997-98	140,736	23.9	140,587	0.6	23.9	-	149	0.0
1998-99	152,063	24.5	148,175	4.1	23.9	-	3,889	0.6
1999-00	166,199	25.1	153,192	1.0	23.2	-	13,007	2.0
2000-01	182,996	25.9	177,123	9.1	25.1	-	5,872	0.8
2001-02	187,588	24.9	188,655	3.5	25.0	-	-1,067	-0.1
2002-03	204,613	25.5	197,243	1.4	24.6	-	7,370	0.9
2003-04	217,775	25.3	209,785	3.9	24.3	-	7,990	0.9
2004-05	235,984	25.6	222,407	3.5	24.1	-	13,577	1.5
2005-06	255,943	25.6	240,136	4.6	24.1	51	15,757	1.6
2006-07	272,637	25.1	253,321	2.5	23.3	2,127	17,190	1.6
2007-08	294,917	25.0	271,843	3.8	23.1	3,319	19,754	1.7
2008-09	292,600	23.2	316,046	12.7	25.1	3,566	-27,013	-2.1
2009-10	284,662	21.9	336,900	4.2	26.0	2,256	-54,494	-4.2
2010-11	302,024	21.4	346,102	-0.4	24.5	3,385	-47,463	-3.4
2011-12	329,874	22.1	371,032	4.8	24.9	2,203	-43,360	-2.9
2012-13	351,052	23.0	367,204	-3.2	24.0	2,682	-18,834	-1.2

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(f)	Per cent of GDP	$m	$m	Per cent of GDP
2013-14	360,322	22.7	406,430	7.8	25.6	2,348	-48,456	-3.0
2014-15	378,301	23.4	412,079	-0.3	25.5	4,089	-37,867	-2.3
2015-16	386,924	23.4	423,328	1.3	25.6	3,202	-39,606	-2.4
2016-17 (e)	405,724	23.2	440,540	2.3	25.1	2,784	-37,600	-2.1
2017-18 (e)	**433,494**	**23.8**	**459,684**	**2.3**	**25.2**	**3,205**	**-29,396**	**-1.6**
2018-19 (e)	462,500	24.4	480,409	2.3	25.4	3,513	-21,422	-1.1
2019-20 (p)	496,908	25.1	495,632	0.9	25.0	3,745	-2,470	-0.1
2020-21 (p)	526,322	25.4	518,905	2.1	25.0	4,001	7,417	0.4

(a) Data have been revised in the 2017-18 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) Between 2005-06 and 2019-20, the underlying cash balance is equal to receipts less payments, less net Future Fund earnings. For the years 1970-71 to 2004-05 and from 2020-21 onwards, the underlying cash balance is equal to receipts less payments.
(e) Estimates.
(f) Real spending growth is calculated using the Consumer Price Index as the deflator.
(p) Projections.

Table 2: Australian Government general government sector net cash flows from 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	-2.4	-3,539	-4.2
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	0.6
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 from 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)	
				Per cent		Per cent
	$m	$m	$m	of GDP	$m	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	378,301	412,079	-5,158	-0.3	-38,936	-2.4
2015-16	386,924	423,328	-12,684	-0.8	-49,088	-3.0
2016-17 (e)	405,724	440,540	-16,246	-0.9	-51,061	-2.9
2017-18 (e)	**433,494**	**459,684**	**-22,221**	**-1.2**	**-48,411**	**-2.7**
2018-19 (e)	462,500	480,409	-19,212	-1.0	-37,121	-2.0
2019-20 (p)	496,908	495,632	-16,077	-0.8	-14,802	-0.7
2020-21 (p)	526,322	518,905	4,252	0.2	11,669	0.6

(a) Data have been revised in the 2017-18 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 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	17.8	1,097	2.7	8,290	20.5
1971-72	7,895	17.7	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	19.7	2,720	2.3	26,129	22.0
1979-80	27,473	20.4	2,848	2.1	30,321	22.5
1980-81	32,641	21.4	3,352	2.2	35,993	23.6
1981-82	37,880	21.5	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	23.2	8,257	2.9	74,724	26.1
1987-88	75,076	23.1	8,415	2.6	83,491	25.7
1988-89	83,452	22.7	7,296	2.0	90,748	24.6
1989-90	90,773	22.4	7,852	1.9	98,625	24.4
1990-91	92,739	22.3	7,488	1.8	100,227	24.1
1991-92	87,364	20.6	8,476	2.0	95,840	22.6
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	21.1	8,537	1.7	113,458	22.9
1995-96	115,700	21.8	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	25.1
2000-01	170,354	24.1	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	206,478	23.9	11,296	1.3	217,775	25.3
2004-05	223,723	24.2	12,262	1.3	235,984	25.6
2005-06	241,681	24.2	14,262	1.4	255,943	25.6
2006-07	257,973	23.7	14,665	1.3	272,637	25.1
2007-08	279,018	23.7	15,899	1.3	294,917	25.0
2008-09	273,379	21.7	19,221	1.5	292,600	23.2
2009-10	261,864	20.2	22,798	1.8	284,662	21.9

Table 3: 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
2010-11	281,767	20.0	20,257	1.4	302,024	21.4
2011-12	310,972	20.8	18,902	1.3	329,874	22.1
2012-13	327,589	21.4	23,464	1.5	351,052	23.0
2013-14	339,962	21.4	20,359	1.3	360,322	22.7
2014-15	353,494	21.9	24,807	1.5	378,301	23.4
2015-16	361,962	21.9	24,962	1.5	386,924	23.4
2016-17 (e)	377,201	21.5	28,523	1.6	405,724	23.2
2017-18 (e)	**404,302**	**22.2**	**29,191**	**1.6**	**433,494**	**23.8**
2018-19 (e)	430,747	22.8	31,752	1.7	462,500	24.4
2019-20 (p)	463,195	23.4	33,712	1.7	496,908	25.1
2020-21 (p)	492,488	23.7	33,834	1.6	526,322	25.4

(a) Data have been revised in the 2017-18 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 4: 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	58,075	8.8	7,514	1.1
2000-01	47,216	6.7	6,195	0.9
2001-02	42,671	5.7	5,352	0.7
2002-03	34,234	4.3	3,758	0.5
2003-04	27,764	3.2	3,040	0.4
2004-05	16,976	1.8	2,502	0.3
2005-06	1,515	0.2	2,303	0.2
2006-07	-23,100	-2.1	228	0.0
2007-08	-38,834	-3.3	-1,015	-0.1
2008-09	-10,398	-0.8	-1,196	-0.1
2009-10	49,020	3.8	2,386	0.2

Table 4: 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
2010-11	91,651	6.5	4,608	0.3
2011-12	154,713	10.4	6,609	0.4
2012-13	161,088	10.5	8,285	0.5
2013-14	211,104	13.3	10,843	0.7
2014-15	247,753	15.3	10,868	0.7
2015-16	305,454	18.5	12,041	0.7
2016-17 (e)	325,091	18.6	12,248	0.7
2017-18 (e)	**354,931**	**19.5**	**13,355**	**0.7**
2018-19 (e)	375,112	19.8	13,722	0.7
2019-20 (p)	374,715	18.9	13,721	0.7
2020-21 (p)	366,169	17.6	15,506	0.7

(a) Data have been revised in the 2017-18 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. Due to the implementation of the 2015 ABS GFS Manual, Australia's subscriptions to the International Development Association and the Asian Development Fund were reclassified in the 2017-18 Budget from 'advances paid' to 'equity — investments' at fair value on the general government sector balance sheet. This has resulted in higher net debt historically and across the forward estimates. Back-casting occurs from 1999-00.
(c) Net interest payments are equal to the difference between interest paid and interest receipts.
(e) Estimates.
(p) Projections.

Table 5: Australian Government general government sector face value of Commonwealth Government Securities (CGS) on issue and interest paid[(a)]

	Face value of CGS on issue(b)					
	Total CGS on issue(c)		Subject to Treasurer's Direction(d)		Interest paid(f)	
	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	24.5	-	-	675	1.4
1973-74	12,809	21.2	-	-	712	1.2
1974-75	14,785	20.8	-	-	893	1.3
1975-76	17,940	21.5	-	-	1,001	1.2
1976-77	20,845	21.7	-	-	1,485	1.5
1977-78	23,957	22.8	-	-	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	19.8	-	-	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	23.1	-	-	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	19.3	-	-	8,139	2.5
1988-89	56,854	15.4	-	-	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	1.9
1996-97	111,067	19.9	-	-	10,653	1.9
1997-98	93,664	15.9	-	-	9,453	1.6
1998-99	85,331	13.7	-	-	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	6.3	-	-	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	11.3	141,806	10.9	6,411	0.5

Table 5: Australian Government general government sector face value of Commonwealth Government Securities (CGS) on issue and interest paid[a] (continued)

	Face value of CGS on issue(b)					
	Total CGS on issue(c)		Subject to Treasurer's Direction(d)		Interest paid(f)	
	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	13.2	9,551	0.7
2011-12	233,976	15.7	229,389	15.4	10,875	0.7
2012-13	257,378	16.8	252,791	16.5	11,846	0.8
2013-14	319,481	20.1	316,952	19.9	13,972	0.9
2014-15	368,738	22.8	366,202	22.6	13,924	0.9
2015-16	420,420	25.4	417,936	25.3	14,977	0.9
2016-17 (e)	501,000	28.6	499,000	28.5	15,251	0.9
2017-18 (e)	**540,000**	**29.7**	**537,000**	**29.5**	**16,589**	**0.9**
2018-19 (e)	582,000	30.7	579,000	30.6	17,562	0.9
2019-20 (p)	606,000	30.6	603,000	30.5	18,163	0.9
2020-21 (p)	606,000	29.2	606,000	29.2	20,404	1.0

(a) Data have been revised in the 2017-18 Budget to improve accuracy and comparability through time.
(b) From 2016-17 onwards, data for CGS on issue are projections and are rounded to the nearest $1 billion.
(c) Total CGS on issue includes CGS held on behalf of the States and the Northern Territory, but excludes Commonwealth holdings of CGS.
(d) 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.
(e) Estimates.
(f) Interest paid consists of all cash interest payments of the general government sector, including those relating to CGS on issue.
(p) Projections.

Table 6: Australian Government general government sector revenue, expenses, net operating balance, net capital investment and fiscal balance[(a)]

	Revenue		Expenses(b)		Net operating balance(b)(c)		Net capital investment		Fiscal balance(b)(d)	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1996-97	141,688	25.4	145,821	26.2	-4,133	-0.7	90	0.0	-4,223	-0.8
1997-98	146,820	24.9	148,652	25.2	-1,832	-0.3	147	0.0	-1,979	-0.3
1998-99	152,106	24.5	146,772	23.6	5,334	0.9	1,433	0.2	3,901	0.6
1999-00	167,304	25.3	155,558	23.5	11,746	1.8	-69	0.0	11,815	1.8
2000-01	186,106	26.4	180,090	25.5	6,016	0.9	8	0.0	6,007	0.9
2001-02	190,432	25.2	192,984	25.6	-2,553	-0.3	382	0.1	-2,935	-0.4
2002-03	206,778	25.8	201,113	25.1	5,665	0.7	287	0.0	5,377	0.7
2003-04	222,042	25.8	215,235	25.0	6,808	0.8	660	0.1	6,148	0.7
2004-05	242,354	26.3	229,092	24.8	13,261	1.4	1,034	0.1	12,228	1.3
2005-06	260,569	26.1	241,665	24.2	18,904	1.9	2,498	0.3	16,406	1.6
2006-07	277,895	25.6	258,761	23.8	19,134	1.8	2,333	0.2	16,801	1.5
2007-08	303,402	25.7	279,862	23.7	23,540	2.0	2,593	0.2	20,948	1.8
2008-09	298,508	23.7	324,387	25.8	-25,879	-2.1	4,064	0.3	-29,943	-2.4
2009-10	292,387	22.5	339,829	26.2	-47,442	-3.7	6,433	0.5	-53,875	-4.2
2010-11	309,204	21.9	356,084	25.2	-46,880	-3.3	5,297	0.4	-52,176	-3.7
2011-12	337,324	22.6	377,220	25.3	-39,896	-2.7	4,850	0.3	-44,746	-3.0
2012-13	359,496	23.5	382,397	25.0	-22,901	-1.5	987	0.1	-23,888	-1.6
2013-14	374,151	23.5	414,500	26.1	-40,349	-2.5	3,850	0.2	-44,198	-2.8

Table 6: Australian Government general government sector revenue, expenses, net operating balance, net capital investment and fiscal balance[(a)] (continued)

	Revenue		Expenses(b)		Net operating balance(b)(c)		Net capital investment		Fiscal balance(b)(d)	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
2014-15	379,455	23.5	417,514	25.8	-38,059	-2.4	2,706	0.2	-40,764	-2.5
2015-16	395,055	23.9	428,691	25.9	-33,636	-2.0	3,829	0.2	-37,464	-2.3
2016-17 (e)	412,091	23.5	450,757	25.7	-38,666	-2.2	2,047	0.1	-40,713	-2.3
2017-18 (e)	**444,414**	**24.4**	**464,262**	**25.5**	**-19,848**	**-1.1**	**484**	**0.0**	**-20,331**	**-1.1**
2018-19 (e)	476,099	25.2	486,863	25.7	-10,765	-0.6	4,770	0.3	-15,535	-0.8
2019-20 (p)	510,819	25.8	503,198	25.4	7,622	0.4	4,892	0.2	2,729	0.1
2020-21 (p)	540,378	26.0	522,907	25.2	17,471	0.8	6,037	0.3	11,434	0.6

(a) Data have been revised in the 2017-18 Budget to improve accuracy and comparability through time.
(b) Due to the implementation of the 2015 ABS GFS Manual, Australia's subscriptions to the International Development Association and the Asian Development Fund were revalued in the 2017-18 Budget from their nominal value to their fair value. This has resulted in higher expenses and worsens net operating balance and fiscal balance historically and across the forward estimates. Back-casting occurs from 2008-09.
(c) Net operating balance is equal to revenue less expenses.
(d) Fiscal balance is equal to revenue less expenses less net capital investment.
(e) Estimates.
(p) Projections.

Table 7: 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	-10,838	-1.6	-67,036	-10.1
2000-01	-10,701	-1.5	-71,876	-10.2
2001-02	-15,738	-2.1	-78,032	-10.3
2002-03	-19,686	-2.5	-82,931	-10.3
2003-04	-5,509	-0.6	-72,389	-8.4
2004-05	9,693	1.1	-58,882	-6.4
2005-06	13,109	1.3	-59,763	-6.0
2006-07	41,489	3.8	-35,696	-3.3
2007-08	65,997	5.6	-14,690	-1.2
2008-09	14,565	1.2	-71,490	-5.7
2009-10	-51,529	-4.0	-144,485	-11.1
2010-11	-101,495	-7.2	-198,787	-14.1
2011-12	-253,317	-17.0	-355,834	-23.9
2012-13	-209,262	-13.7	-312,724	-20.5
2013-14	-263,141	-16.6	-370,331	-23.3
2014-15	-310,326	-19.2	-422,009	-26.1
2015-16	-425,661	-25.7	-542,919	-32.8
2016-17 (e)	-291,695	-16.6	-428,191	-24.4
2017-18 (e)	**-318,109**	**-17.5**	**-457,818**	**-25.1**
2018-19 (e)	-331,877	-17.5	-475,762	-25.1
2019-20 (p)	-326,766	-16.5	-475,048	-24.0
2020-21 (p)	-311,421	-15.0	-465,255	-22.4

(a) Data have been revised in the 2017-18 Budget to improve accuracy and comparability through time.
(b) Net worth is equal to total assets less liabilities. Due to the implementation of the 2015 ABS GFS Manual, Australia's subscriptions to the International Development Association and the Asian Development Fund were revalued in the 2017-18 Budget from their nominal value to their fair value. This worsens net worth historically and across the forward estimates. Back-casting occurs from 1999-00.
(c) Net financial worth is equal to financial assets less total liabilities.
(e) Estimates.
(p) Projections.

Table 8: 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	153,409	23.2	13,895	2.1	167,304	25.3
2000-01	175,876	24.9	10,229	1.4	186,106	26.4
2001-02	178,154	23.6	12,278	1.6	190,432	25.2
2002-03	195,057	24.3	11,719	1.5	206,778	25.8
2003-04	210,220	24.4	11,822	1.4	222,042	25.8
2004-05	230,198	24.9	12,155	1.3	242,354	26.3
2005-06	245,512	24.6	15,056	1.5	260,569	26.1
2006-07	262,576	24.1	15,320	1.4	277,895	25.6
2007-08	286,544	24.3	16,858	1.4	303,402	25.7
2008-09	278,981	22.2	19,528	1.6	298,508	23.7
2009-10	268,512	20.7	23,875	1.8	292,387	22.5
2010-11	289,247	20.5	19,957	1.4	309,204	21.9
2011-12	317,023	21.3	20,301	1.4	337,324	22.6
2012-13	337,823	22.1	21,673	1.4	359,496	23.5
2013-14	352,884	22.2	21,267	1.3	374,151	23.5
2014-15	355,884	22.0	23,570	1.5	379,455	23.5
2015-16	368,939	22.3	26,116	1.6	395,055	23.9
2016-17 (e)	386,172	22.0	25,919	1.5	412,091	23.5
2017-18 (e)	**415,428**	**22.8**	**28,987**	**1.6**	**444,414**	**24.4**
2018-19 (e)	441,772	23.3	34,326	1.8	476,099	25.2
2019-20 (p)	474,494	24.0	36,325	1.8	510,819	25.8
2020-21 (p)	503,741	24.3	36,637	1.8	540,378	26.0

(a) Data have been revised in the 2017-18 Budget to improve accuracy and comparability through time.
(e) Estimates.
(p) Projections.

Table 9: Australian Government cash receipts, payments and surplus by institutional sector ($m)[a][b]

	General government			Public non-financial corporations			Non-financial public sector		
	Receipts(c)	Payments(d)	Underlying cash balance(f)	Receipts(c)	Payments	Cash surplus	Receipts(c)	Payments	Cash surplus
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	14,809
2006-07	272,637	253,321	17,190	16,882	18,641	-1,759	285,336	267,778	17,566
2007-08	294,917	271,843	19,754	7,758	8,232	-473	300,503	277,903	22,651
2008-09	292,600	316,046	-27,013	7,987	8,960	-973	297,421	321,841	-24,352
2009-10	284,662	336,900	-54,494	8,419	9,341	-922	290,681	343,841	-52,904

Table 9: Australian Government cash receipts, payments and surplus by institutional sector ($m)[(a)(b)] (continued)

	General government			Public non-financial corporations			Non-financial public sector		
	Receipts(c)	Payments(d)	Underlying cash balance(f)	Receipts(c)	Payments	Cash surplus	Receipts(c)	Payments	Cash surplus
2010-11	302,024	346,102	-47,463	8,558	9,733	-1,175	308,258	353,511	-44,970
2011-12	329,874	371,032	-43,360	8,845	10,847	-2,002	336,122	379,282	-42,779
2012-13	351,052	367,204	-18,834	9,766	14,135	-4,369	358,088	378,609	-20,521
2013-14	360,322	406,430	-48,456	11,042	16,322	-5,280	368,521	419,910	-51,388
2014-15	378,301	412,079	-37,867	11,256	15,544	-4,288	386,643	424,709	-38,067
2015-16	386,924	423,328	-39,606	11,606	18,281	-6,675	395,842	438,921	-43,079
2016-17 (e)	405,724	440,540	-37,600	12,283	19,913	-7,629	415,194	457,639	-42,445
2017-18 (e)	**433,494**	**459,684**	**-29,396**	**13,371**	**24,998**	**-11,627**	**443,797**	**481,614**	**-37,818**
2018-19 (e)	462,500	480,409	-21,422	na	na	na	na	na	na
2019-20 (p)	496,908	495,632	-2,470	na	na	na	na	na	na
2020-21 (p)	526,322	518,905	7,417	na	na	na	na	na	na

(a) Data have been revised in the 2017-18 Budget to improve accuracy and comparability through time.
(b) From 2016-17, due to the implementation of the 2015 ABS GFS Manual, finance leases are not deducted in the derivation of the GFS cash surplus/deficit; payments in the public non-financial corporations and non-financial public sectors are equal to payments for operating activities and purchases of non-financial assets. Before 2016-17, finance leases are deducted in the derivation of the GFS cash surplus/deficit; payments in the public non-financial corporations and non-financial public sectors also include net acquisition of assets under finance leases.
(c) Receipts are equal to receipts from operating activities and sales of non-financial assets.
(d) Payments in the general government sector are equal to payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(e) Estimates.
(f) Between 2005-06 and 2019-20, the underlying cash balance is equal to receipts less payments, less net Future Fund earnings. For the years 1970-71 to 2004-05 and from 2020-21 onwards, the underlying cash balance is equal to receipts less payments.
(p) Projections.
na Data not available.

Table 10: Australian Government accrual revenue, expenses and fiscal balance by institutional sector ($m)[(a)]

	General government(b)			Public non-financial corporations			Non-financial public sector(b)		
	Revenue	Expenses	Fiscal balance(c)	Revenue	Expenses	Fiscal balance(c)	Revenue	Expenses	Fiscal balance(c)
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	324,387	-29,943	6,998	7,576	-1,495	303,309	329,766	-31,438
2009-10	292,387	339,829	-53,875	7,288	7,297	-1,079	298,033	345,483	-54,954
2010-11	309,204	356,084	-52,176	7,563	7,787	-1,446	315,001	362,106	-53,622
2011-12	337,324	377,220	-44,746	8,046	8,238	-2,158	343,722	383,810	-46,904
2012-13	359,496	382,397	-23,888	8,863	9,415	-4,189	366,642	390,094	-28,077
2013-14	374,151	414,500	-44,198	9,537	11,127	-6,070	381,971	423,910	-50,269
2014-15	379,455	417,514	-40,764	9,987	11,850	-4,856	387,719	427,641	-45,620

Table 10: Australian Government accrual revenue, expenses and fiscal balance by institutional sector ($m)[(a)] (continued)

	General government(b)			Public non-financial corporations			Non-financial public sector(b)		
	Revenue	Expenses	Fiscal balance(c)	Revenue	Expenses	Fiscal balance(c)	Revenue	Expenses	Fiscal balance(c)
2015-16	395,055	428,691	-37,464	10,044	12,809	-7,486	403,868	440,270	-44,950
2016-17 (e)	412,091	450,757	-40,713	10,798	14,843	-10,879	421,496	464,207	-51,592
2017-18 (e)	**444,414**	**464,262**	**-20,331**	**12,016**	**18,591**	**-14,385**	**454,568**	**480,991**	**-34,716**
2018-19 (e)	476,099	486,863	-15,535	na	na	na	na	na	na
2019-20 (p)	510,819	503,198	2,729	na	na	na	na	na	na
2020-21 (p)	540,378	522,907	11,434	na	na	na	na	na	na

(a) Data have been revised in the 2017-18 Budget to improve accuracy and comparability through time.
(b) Due to the implementation of the 2015 ABS GFS Manual, Australia's subscriptions to the International Development Association and the Asian Development Fund were revalued in the 2017-18 Budget from their nominal value to their fair value. This has resulted in higher expenses and worsens fiscal balance historically and across the forward estimates. Back-casting occurs from 2008-09.
(c) 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.

Table 11: Australian Government general government sector receipts, payments, underlying cash balance, net debt and net interest payments presented on a real per capita basis[(a)]

	Taxation receipts	Non-taxation receipts	Total receipts	Payments	Underlying cash balance	Net debt	Net interest payments
1970-71	5,494	838	6,331	5,643	688	263	-144
1971-72	5,524	868	6,391	5,771	620	-347	-171
1972-73	5,484	863	6,348	6,122	227	-515	-164
1973-74	6,138	791	6,930	6,278	652	-1,049	-162
1974-75	6,797	722	7,519	7,433	87	-914	-116
1975-76	7,125	761	7,886	8,516	-631	-144	-139
1976-77	7,212	796	8,008	8,471	-463	329	-23
1977-78	7,073	855	7,928	8,601	-672	956	1
1978-79	7,066	821	7,887	8,534	-647	1,504	77
1979-80	7,430	770	8,200	8,557	-358	1,689	119
1980-81	7,954	817	8,771	8,815	-45	1,549	151
1981-82	8,208	784	8,992	8,916	75	1,283	147
1982-83	7,861	850	8,712	9,353	-642	1,754	172
1983-84	7,956	910	8,866	10,110	-1,243	2,841	288
1984-85	8,889	981	9,870	10,883	-1,013	3,674	472
1985-86	8,978	1,124	10,102	10,883	-782	4,103	603
1986-87	9,131	1,134	10,265	10,600	-334	4,003	654
1987-88	9,453	1,060	10,512	10,329	183	3,443	567
1988-89	9,628	842	10,470	9,844	625	2,536	516
1989-90	9,555	827	10,382	9,756	625	1,697	479
1990-91	9,153	739	9,893	9,936	-43	1,670	359
1991-92	8,368	812	9,180	10,390	-1,210	2,973	365
1992-93	8,341	834	9,175	10,877	-1,703	5,189	375
1993-94	8,532	956	9,488	11,150	-1,662	6,417	514
1994-95	9,191	748	9,938	11,179	-1,240	7,314	639
1995-96	9,608	725	10,333	11,255	-922	7,958	736
1996-97	10,096	732	10,828	11,322	-494	7,804	769
1997-98	10,511	783	11,294	11,282	12	6,655	664
1998-99	10,852	1,070	11,922	11,617	305	5,650	678
1999-00	11,455	1,127	12,582	11,597	985	4,397	569
2000-01	12,010	891	12,901	12,487	414	3,329	437
2001-02	11,864	846	12,710	12,782	-72	2,891	363
2002-03	12,483	811	13,294	12,815	479	2,224	244
2003-04	12,967	709	13,677	13,175	502	1,744	191
2004-05	13,550	743	14,293	13,470	822	1,028	152
2005-06	13,994	826	14,820	13,904	912	88	133
2006-07	14,254	810	15,064	13,997	950	-1,276	13
2007-08	14,614	833	15,447	14,239	1,035	-2,034	-53
2008-09	13,603	956	14,559	15,726	-1,344	-517	-60
2009-10	12,538	1,092	13,629	16,131	-2,609	2,347	114

Table 11: Australian Government general government sector receipts, payments, underlying cash balance, net debt and net interest payments presented on a real per capita basis[(a)] (continued)

	Taxation receipts	Non-taxation receipts	Total receipts	Payments	Underlying cash balance	Net debt	Net interest payments
2010-11	12,903	928	13,831	15,849	-2,174	4,197	211
2011-12	13,682	832	14,514	16,325	-1,908	6,807	291
2012-13	13,855	992	14,848	15,531	-797	6,813	350
2013-14	13,794	826	14,620	16,491	-1,966	8,566	440
2014-15	13,905	976	14,881	16,210	-1,490	9,746	428
2015-16	13,848	955	14,803	16,196	-1,515	11,686	461
2016-17 (e)	13,972	1,057	15,029	16,318	-1,393	12,042	454
2017-18 (e)	**14,462**	**1,044**	**15,506**	**16,443**	**-1,051**	**12,696**	**478**
2018-19 (e)	14,860	1,095	15,955	16,573	-739	12,941	473
2019-20 (p)	15,385	1,120	16,505	16,462	-82	12,446	456
2020-21 (p)	15,700	1,079	16,779	16,543	236	11,673	494

(a) The real levels are derived using the Consumer Price Index (CPI). The current reference period for the CPI is 2011-12, which means the real levels per capita are reported in 2011-12 dollars. The ABS periodically updates the reference period for the CPI. The next update, which will be for the 2015-16 reference year, is planned for the December quarter 2017.
(e) Estimates.
(p) Projections.