Budget 2018-19

Budget Strategy and Outlook
Budget Paper No. 1
2018-19

Circulated by

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Treasurer of the Commonwealth of Australia

and

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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 2018-19, while the forward years refer to 2019-20, 2020-21 and 2021-22; 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nfp	not for publication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 2018-19* is one of a series of Budget Papers that provides information to supplement the Budget Speech. A full list of the series is printed on the inside cover of this paper.

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STATEMENT 1: BUDGET OVERVIEW

The 2018–19 Budget brings a further improvement to Australia's fiscal position, reflecting the Government's focus on fiscal discipline to achieve budget surpluses and improved receipts from stronger economic growth.

This outcome recognises the benefits of the Government sticking with its plan to build a stronger economy. To ensure sustainable budget outcomes continue, the Government will continue to strengthen the economy by:

- providing tax relief to encourage and reward working Australians;
- continuing to back business to invest and create more jobs;
- guaranteeing the essential services on which Australians rely;
- keeping Australians safe; and
- ensuring that the Government lives within its means.

The Australian economy has entered its 27th consecutive year of growth and has performed remarkably in adjusting from the investment phase of the mining boom towards broader-based growth.

Real GDP is forecast to grow by 2¾ per cent in 2017–18 and is forecast to accelerate further to 3 per cent growth in 2018–19 and 2019–20 — a pace sufficient to continue to lower the unemployment rate over the next few years.

The 2018–19 Budget delivers further improvements to the fiscal position across the forward estimates and the medium term.

The underlying cash balance is forecast to be a deficit of $14.5 billion in 2018–19. The forecast underlying cash balances for 2017–18 and 2018–19 are the strongest since the onset of the Global Financial Crisis (GFC).

The underlying cash balance is expected to return to a budget balance in 2019–20. An underlying cash surplus is projected in 2020–21, growing to more than 1 per cent of GDP in the medium term. These projections are consistent with the Government's fiscal strategy which requires that tax receipts do not exceed 23.9 per cent of GDP throughout the medium term.

The 2018–19 Budget represents the sixth successive economic and fiscal update where the underlying cash balance is projected to reach a surplus in 2020–21 and be sustained over the following decade.

Through responsible budget management, the Government is no longer borrowing to meet recurrent spending — the first time since the GFC. As a result of the improved budget position in 2017–18, net debt as a share of GDP is expected to peak in 2017–18, one year earlier than expected in the 2017–18 Mid-Year Economic and Fiscal Outlook.

The Government is providing tax relief to encourage and reward working Australians through a seven-year plan to make personal income tax in Australia lower, simpler and fairer. The plan involves:

- immediate relief for low and middle-income earners;
- helping to protect Australians' earnings from bracket creep; and
- ensuring more Australians pay less tax by making personal taxes simpler and flatter.

The Government is continuing to back businesses to invest and create jobs by:

- lowering taxes for small and medium-sized businesses as part of the Enterprise Tax Plan and seeking full implementation of the tax plan to ensure Australian businesses remain internationally competitive;
- extending the $20,000 instant asset write-off for businesses with a turnover of up to $10 million to apply in 2018–19;
- investing $75 billion in transport infrastructure over the coming decade;
- supporting a stronger and smarter economy through an additional investment of $2.4 billion in technology and science over 12 years;
- establishing the $1.3 billion National Health and Medical Industry Growth Plan; and
- promoting Australia's international competitiveness and supporting agricultural and defence industry exports.

The Government is continuing to guarantee the essential services on which Australians rely by:

- helping people to plan for the opportunities a longer life brings through its More Choices for a Longer Life Package;
- continuing to guarantee funding for the Medicare Benefits Schedule and the Pharmaceutical Benefits Scheme;
- fully funding a new hospital agreement with record funding for State and Territory governments;
- ensuring the National Disability Insurance Scheme is fully funded;
- endorsing the recommendations of the *Review to Achieve Educational Excellence in Australian Schools* led by David Gonski AC; and
- pursuing the National Energy Guarantee to provide investment certainty, cut electricity bills and ensure there is enough power to keep the lights on.

The Government is keeping Australians safe by:

- strengthening our aviation, air cargo and international mail security by enhancing security arrangements at airports, and upgrading technologies and infrastructure;
- managing biosecurity risks to protect our environment, exports and agricultural and tourism sectors;
- investing in the Australian Federal Police and the national security agencies;
- maintaining Operation Sovereign Borders to ensure the integrity of our borders and combat the continuing threat from people smugglers; and
- securing justice for the victims of Malaysian Airlines Flight MH17.

The Government is living within its means through careful management of expenditure and action to ensure the integrity of the tax system, including by:

- bringing the budget back into balance and reducing net debt;
- no longer borrowing for recurrent expenditure;
- limiting average annual real growth in payments to 1.6 per cent over the forward estimates;
- keeping taxes as a share of GDP below 23.9 per cent;
- combating the harm the black economy is doing to honest individuals and businesses by implementing a number of recommendations of the Black Economy Taskforce Final Report;
- ensuring multinationals pay their fair share of tax and levelling the playing field for Australian businesses;
- ensuring the Australian Taxation Office has all the tools it requires to enforce the rules; and
- better targeting the Research and Development Tax Incentive.

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STATEMENT 1: BUDGET OVERVIEW

INTRODUCTION

The 2018–19 Budget brings further improvement in the fiscal position, reflecting the Government's focus on fiscal discipline to achieve budget surpluses and improved receipts from stronger economic growth. The Government is continuing to implement its plan to build a stronger economy by providing tax relief to encourage and reward working Australians, backing businesses to invest and create more jobs, guaranteeing the essentials services on which Australians rely, keeping Australians safe and ensuring that the Government lives within its means.

The Australian economy has entered its 27th consecutive year of growth and has performed remarkably well in adjusting from the investment phase of the mining boom towards broader-based growth. As this transition works through, growth is forecast to pick up over the next few years.

The pick-up in growth is expected to support a further lowering in the unemployment rate over the forecast horizon. Almost one million jobs have been added to the economy since September 2013. Employment growth has been strong and a lift in the participation rate is consistent with increased confidence about employment prospects.

The global economy also strengthened in 2017. Global growth has risen to its fastest pace in six years, with broad-based strength across both advanced and emerging economies, which is forecast to continue in 2018. The global cycle is better synchronised than it has been for some time.

Both the 2017–18 and 2018–19 forecast underlying cash balances are the strongest since the GFC. Payments are expected to decline as a proportion of GDP in each year of the forward estimates from 25.4 per cent of GDP in 2018–19 to 24.7 per cent of GDP in 2021–22. The Budget has benefited from the strengthening of the Australian economy.

The 2018–19 Budget forecasts an underlying cash deficit of $14.5 billion in 2018–19, equal to 0.8 per cent of GDP. The Budget is then forecast to return to balance in 2019-20, before increasing to a surplus in 2020–21 of $11 billion or 0.5 per cent of GDP. In 2021–22, the underlying cash surplus is projected to be $16.6 billion. The average pace of fiscal consolidation amounts to 0.4 per cent of GDP over the forward estimates.

A net operating deficit of $2.4 billion or 0.1 per cent of GDP is forecast in 2018–19. The net operating balance is forecast to improve to a surplus of $8.6 billion or 0.4 per cent of GDP in 2019–20 and is projected to be $27.4 billion or 1.3 per cent of GDP in the final year of the forward estimates.

Table 1: Budget aggregates

	Actual	Estimates			Projections		
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	Total(a)
Underlying cash balance ($b)(b)	**-33.2**	**-18.2**	**-14.5**	**2.2**	**11.0**	**16.6**	**15.3**
Per cent of GDP	-1.9	-1.0	-0.8	0.1	0.5	0.8	
Net operating balance ($b)	**-32.1**	**-12.6**	**-2.4**	**8.6**	**19.6**	**27.4**	**53.2**
Per cent of GDP	-1.8	-0.7	-0.1	0.4	0.9	1.3	

(a) Total is equal to the sum of amounts from 2018–19 to 2021–22.
(b) Excludes expected net Future Fund earnings before 2020–21.

Payments as a proportion of GDP are expected to fall to 24.7 per cent over the forward estimates, lower than at the 2017–18 Mid-Year Economic and Fiscal Outlook (MYEFO), and lower than the 30-year average of 24.8 per cent of GDP.

Receipts as a proportion of GDP are expected to increase over the forward estimates, with tax receipts not increasing above the Government's cap of 23.9 per cent of GDP.

As a result of the improved budget position, net debt is expected to peak at 18.6 per cent of GDP in 2017–18. Net debt is then projected to fall in each year of the forward estimates and medium term, reaching 3.8 per cent of GDP by 2028–29. Refer to *Statement 7: Debt Statement, Assets and Liabilities* for further information.

ECONOMIC OUTLOOK

Momentum in the Australian economy strengthened in the second half of 2017. The transition from the investment phase of the mining boom towards broader-based growth is set to be completed by the end of the forecast period. Growth is forecast to pick up to a pace sufficient to lower the unemployment rate over the next few years.

The Australian economy is being supported by a positive global outlook. Global growth exceeded expectations in 2017, rising to its fastest pace in six years. There has been broad-based strength across both advanced and emerging economies, indicating that the global cycle is better synchronised than it has been for some time. This momentum is expected to carry into the near term before slowing in some regions as major advanced economies start to push up against capacity constraints.

Domestically, conditions remain favourable with consumer and business surveys at above-average levels. Solid contributions from consumption and non-mining business investment should underpin a pick-up in growth, as the drag from the unwinding of the mining investment boom recedes. Mining exports are also forecast to grow solidly. Real GDP is forecast to grow by a solid 2¾ per cent in 2017–18 and is forecast to accelerate further to 3 per cent growth in 2018–19 and 2019–20.

Whilst the unwinding of the mining investment boom in recent years has had a direct effect on growth, it has also resulted in negative spillovers in the broader economy. This effect is diminishing. Capital expenditure in the private sector is also benefiting from a strong pipeline of work in the public sector. A robust outlook for public final demand partly reflects the outlook for strong infrastructure investment by both the States and Territories and the Commonwealth, including significant investment in transport projects.

The labour market has strengthened significantly, with Australia experiencing the largest increase in employment in 2017 ever recorded by the Australian Bureau of Statistics over the course of a calendar year. Full-time jobs accounted for about three-quarters of this growth, with broad-based employment growth across a range of industries. Whilst wage growth remains subdued, it is expected to strengthen as growth in the economy strengthens to an above-potential pace and spare capacity in the labour market is absorbed.

Higher wages and inflation will contribute to a rise in the level of nominal GDP over coming years. Nominal GDP also continues to be influenced by the terms of trade, which are now estimated to be higher in the near term compared with the 2017-18 MYEFO, reflecting recent strength in commodity prices. The terms of trade are then forecast to fall broadly in line with the prudent judgment that prices of some key commodities will not be maintained at recently elevated levels.

As ever, there are a number of risks around the forecasts. Globally, these risks are broadly balanced in the short term, although they are tilted to the downside in the longer term. Key risks include a faster-than-expected tightening of monetary policy, geopolitical tensions and policy uncertainty in relation to trade protectionism. More broadly, a very sharp adjustment in financial markets, which might occur from a range of factors including elevated debt levels in a number of economies, would pose a risk to both global and domestic activity.

Domestically, there are key uncertainties around the strength of the pick-up in non-mining business investment and the degree of spare capacity in the labour market. There are also risks around future household consumption and saving behaviour. All that said, these risks are very hard to quantify and both the Australian and world economies have shown remarkable resilience in recent years.

Table 2: Major economic parameters[(a)]

	Outcomes	Forecasts			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Real GDP	2.1	2 3/4	3	3	3	3
Employment	1.9	2 3/4	1 1/2	1 1/2	1 1/4	1 1/4
Unemployment rate	5.6	5 1/2	5 1/4	5 1/4	5 1/4	5
Consumer price index	1.9	2	2 1/4	2 1/2	2 1/2	2 1/2
Wage price index	1.9	2 1/4	2 3/4	3 1/4	3 1/2	3 1/2
Nominal GDP	5.9	4 1/4	3 3/4	4 3/4	4 1/2	4 1/2

(a) Year average growth unless otherwise stated. From 2016–17 to 2019–20, 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 has delivered on and remains committed to its fiscal and budget repair strategies. The 2018–19 Budget maintains strong fiscal discipline, improves the integrity and sustainability of the tax system, strengthens the Government's balance sheet and redirects government spending to quality investment to strengthen the economy.

Underlying cash balances have improved by $20.2 billion over the forward estimates since the 2017–18 MYEFO.

An underlying cash deficit of $14.5 billion is forecast in 2018–19, equal to 0.8 per cent of GDP. This and the 2017–18 forecast represent the smallest underlying cash deficits since the onset of the GFC.

The Budget is then forecast to return to balance in 2019–20, before increasing to a projected surplus in 2020–21, equal to $11 billion or 0.5 per cent of GDP. Underlying cash surpluses are projected across the medium term.

The 2018–19 Budget represents the sixth successive economic and fiscal update where the underlying cash balance is projected to reach a surplus in 2020–21 and be sustained over the following decade.

The net operating balance is forecast to reach surplus in 2019–20, increasing to a projected 1.3 per cent of GDP in 2021–22.

The 2018–19 Budget forecasts the Government will not need to borrow to meet its recurrent spending from 2017–18, a year earlier than was forecast in the 2017-18 Budget.

By restraining expenditure, improving the integrity of the tax base and benefiting from a stronger Australian economy, the Government is maintaining the path to sustainable surplus whilst cutting the personal tax burden.

As a proportion of GDP, payments are forecast to equal 25.4 per cent in 2018–19, falling to a projected 24.7 per cent at the end of the forward estimates. Tax receipts as a share of GDP are expected to be 23.1 per cent in 2018–19 and reach levels just shy of the 23.9 per cent cap by 2021–22.

Over the medium term, tax receipts are expected to remain below the Government's tax cap of 23.9 per cent of GDP as a result of policy decisions to lower the tax burden on Australians, until 2026–27 after which the cap takes effect. Net debt is expected to peak at 18.6 per cent of GDP in 2017–18 and is projected to continue to decline to 3.8 per cent of GDP in the final year of the medium term.

Compared with the 2017–18 MYEFO, the 2018–19 Budget forecasts for tax receipts have been revised up by $12 billion over the four years to 2021–22, driven by upward revisions to parameter and other variations, partly offset by policy decisions to lower the tax burden on Australians including the Government's Personal Income Tax Plan and the policy of retaining the Medicare levy rate at 2 per cent. Policy decisions are expected to decrease tax receipts by $13.9 billion over the four years to 2021–22.

Excluding policy decisions, tax receipts have been revised up by $25.9 billion over the four years to 2021–22, with the strengthening Australian economy creating the conditions for an improved labour market outlook. Stronger forecasts for employment since the 2017–18 MYEFO have contributed to an increase in forecasts for gross income tax withholding of $13 billion over the four years to 2021–22, excluding new policy. Improved mining profitability on the back of higher commodity prices in 2017–18 is expected to increase forecasts for company taxes — particularly in 2018–19 — by $3.7 billion over the four years to 2021–22. Robust consumption forecasts, supported by the stronger labour market outlook and the Government's personal income tax policies, have seen upwards revisions to GST of $4.5 billion and excise and customs duty of $2.8 billion over the four years.

The Government continues to demonstrate fiscal discipline, limiting growth in government spending to help return the budget to balance and lower government debt. The overall impact of new spending decisions in this Budget is an improvement to the bottom line of $404 million over the four years to 2021–22.

Prudent expenditure management has limited the average annual real growth in spending to 1.6 per cent from 2018–19.

Under the Government's medium-term fiscal and budget repair strategies, there will be a fiscal consolidation of about 2 per cent of GDP between 2013–14 and 2017–18. To achieve and maintain surplus, the average annual pace of fiscal consolidation across the forward estimates is 0.4 per cent of GDP. The total turnaround in the underlying cash balance between 2013–14 and 2021–22 is projected to be about $65 billion, or about 3.8 per cent of GDP.

The Government remains committed to achieving surpluses of 1 per cent of GDP as soon as possible, consistent with its medium-term fiscal strategy. The 2018–19 Budget puts Commonwealth finances on a sustainable path to surplus and debt reduction whilst also fostering a stronger economy and maintaining a cap on the overall tax burden. The underlying cash balance is projected to increase through the medium term, with a surplus exceeding 1 per cent of GDP projected in 2026–27.

BUDGET PRIORITIES

Lower, fairer and simpler taxes

The Government is providing tax relief whilst ensuring the integrity of the tax system.

Personal Income Tax Plan

The Government will reduce personal income tax. It is important that the personal income tax system does not act as a disincentive for those taking on additional work or seeking advancement. The progressive nature of the personal income tax system is designed to ensure that those who earn more contribute more. Over time, however, without adjustment to tax brackets, the system can unfairly penalise all taxpayers for earning more as they move into higher tax brackets.

The Government will maintain, as part of its fiscal strategy, its cap on the overall tax burden, consistent with the long-term average of 23.9 per cent of GDP. Whilst the tax system exists to fund the essential services that Australians expect and are entitled to receive, the cap ensures the Government lives within its means by not imposing an increasing tax burden on Australians over time, which would adversely affect growth.

The Government's Personal Income Tax Plan lowers taxes, simplifies the system and means that about 94 per cent of all taxpayers are projected to pay no more than 32.5 cents in the dollar in 2024–25. This plan further helps to protect against bracket creep and builds on the 2016–17 Budget changes which increased the top threshold of the 32.5 per cent bracket from $80,000 to $87,000.

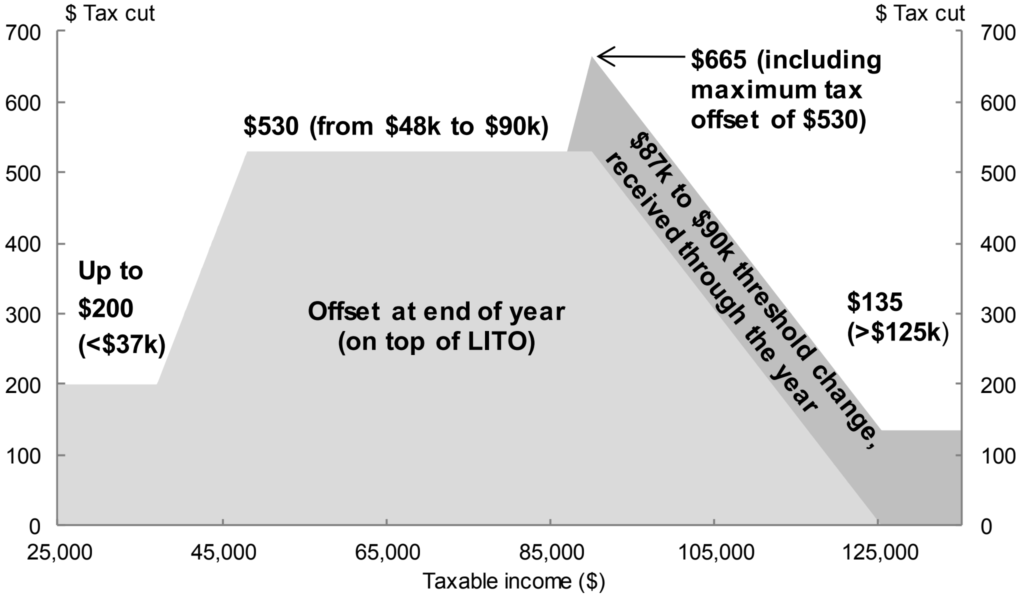
The plan will be delivered in three steps.

Step 1 – Tax relief to low and middle-income earners

This first step targets personal income tax cuts to low and middle-income taxpayers, helping to relieve cost of living pressures. A new, non-refundable tax offset, in addition to the Low Income Tax Offset (LITO), will provide tax relief of up to $530 to low and middle-income earners for the 2018–19, 2019–20, 2020–21 and 2021–22 income years. The offset will be received as a lump sum on assessment after individuals lodge their tax returns.

This low and middle-income tax offset will assist over 10 million Australians, with about 4.4 million taxpayers with incomes between $48,000 and $90,000 receiving the full $530 benefit for 2018–19.

Chart 1: Annual tax relief 2018–19 to 2021–22 from the offset and increasing the top threshold of the 32.5 per cent bracket



Source: Treasury.

Step 2 – Protecting middle-income Australians from bracket creep

The second step will ensure Australians take home more of their wages, rather than being penalised through a higher marginal tax rate as their wages grow (bracket creep). As part of the second step of the plan, the following changes will be made to the personal income tax system:

- from 1 July 2018, the top threshold of the 32.5 per cent tax bracket will be increased from $87,000 to $90,000. This will provide a tax cut of up to $135 per year to about 3 million taxpayers and will prevent about 200,000 people from facing a marginal tax rate of 37 per cent in 2018–19. This is expected to prevent average full-time wage earners from facing a higher marginal tax rate of 37 per cent in 2019–20;
- the top threshold of the 32.5 per cent bracket will then be further increased from $90,000 to $120,000 from 1 July 2022, providing tax relief of up to $1,350 each year. This change is projected to prevent about 1.8 million taxpayers from facing a higher marginal tax rate of 37 per cent in 2022–23; and
- the benefits provided by the low and middle-income tax offset will be locked in by increasing the top threshold of the 19 per cent bracket from $37,000 to $41,000 and increasing the LITO from $445 to $645.

Increasing the top threshold of the 32.5 per cent bracket builds on the change in the 2016–17 Budget which increased it from $80,000 to $87,000.

Step 3 – Making personal taxes simpler and flatter

The Government is simplifying and flattening the tax system from 1 July 2024 by reducing the number of income tax brackets from five to four. By increasing the top threshold of the 32.5 per cent bracket, thereby removing the current 37 per cent bracket, working Australians will face the same marginal tax rate for incomes between $41,000 and $200,000. The top marginal tax rate of 45 per cent will remain for incomes above $200,000.

This change is projected to prevent about 1.8 million taxpayers from paying a marginal tax rate of 37 per cent or more in 2024–25.

Australia has a progressive tax system which ensures that those with the greatest ability to pay contribute a larger share of all personal income tax revenue. In 2015–16 the top 20 per cent of taxpayers paid about 61 per cent of all personal income tax. Under the plan, this cohort is projected to continue to contribute a broadly similar share.

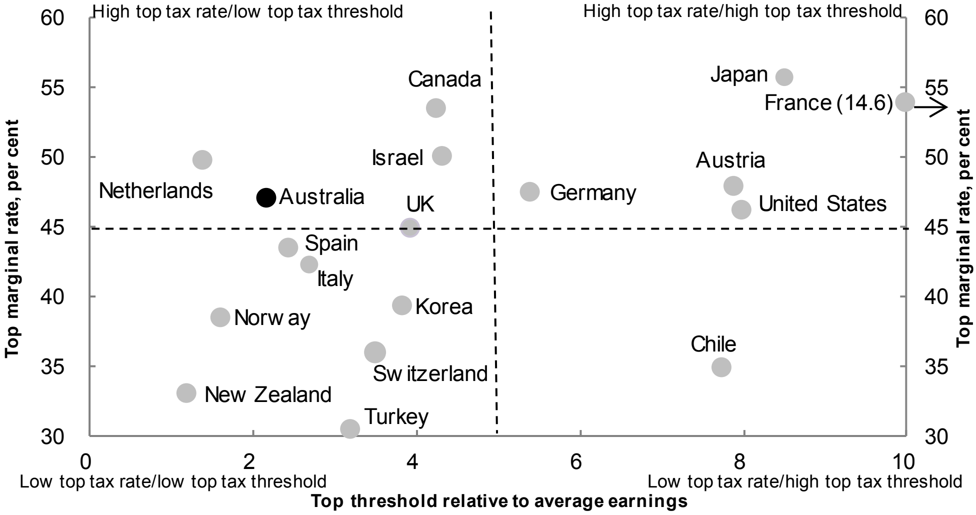
When completed, the plan ensures that about 94 per cent of taxpayers are projected to face a marginal tax rate of 32.5 per cent or less in 2024–25. This compares with a projected 63 per cent of taxpayers in 2024–25 under current settings if there were no changes. The plan provides certainty to the majority of taxpayers that they will face the same marginal tax rate into the future, encouraging Australians to take on additional work, seek advancement and improve their skills.

Table 3: New personal tax rates and thresholds 2018–19, 2022–23 and 2024–25

Rate (%)	Current tax thresholds Income range ($)	New tax thresholds From 1 July 2018 Income range ($)	New tax thresholds From 1 July 2022 Income range ($)	New tax thresholds From 1 July 2024 Income range ($)
Tax free	0 - 18,200	0 - 18,200	0 - 18,200	0 - 18,200
19	18,201 - 37,000	18,201 - 37,000	18,201 - 41,000	18,201 - 41,000
32.5	37,001 - 87,000	37,001 - 90,000	41,001 - 120,000	41,001 - 200,000
37	87,001 - 180,000	90,001 - 180,000	120,001 - 180,000	-
45	>180,000	>180,000	>180,000	>200,000
Low and middle income tax offset	-	Up to 530	-	-
LITO	Up to 445	Up to 445	Up to 645	Up to 645

Chart 2 shows that Australia's top marginal tax rate currently cuts in at about 2.2 times average full-time earnings. This compares with 4 times average full-time earnings in Canada and the UK and 8 times in the US. Without change, Australia's ratio is projected to drop to about 1.7 times average full-time earnings in 2024–25, reducing our international competitiveness and ability to attract and retain talent and skills. Under the plan, this ratio will still fall, but more modestly to about 1.9 in 2024–25.

Chart 2: Top marginal tax rates and top thresholds relative to average full-time earnings, selected OECD countries 2017



Source: Treasury calculations and 2017 OECD Revenue Statistics and Tax Database.

Improving tax system competitiveness and integrity

The Personal Income Tax Plan complements the Government's Enterprise Tax Plan. The Enterprise Tax Plan reduces the tax burden on investment and keeps Australia competitive, with the benefits of the changes flowing through to productivity and then to workers in the form of higher wages. The range of integrity and enforcement measures announced in this Budget, combined with the Diverted Profits Tax and the Multinational Anti-Avoidance Law in addition to other integrity measures, such as changes to the treatment of staples, helps to ensure that Australia has some of the most stringent rules on companies applied globally. Together with the Personal Income Tax Plan, these reforms build a better tax system that is internationally competitive, rewards effort and supports innovation.

Tackling the black economy

The black economy is a complex and costly problem that undermines the tax base and raises the burden on honest individuals and businesses.

The Government is implementing a number of the Black Economy Taskforce final report's recommendations in this Budget.

Key measures announced in the Budget include increasing enforcement of illicit tobacco, an economy-wide cash payment limit of $10,000 to reduce money laundering and tax evasion, denying deductions for payments to employees and contractors where reporting or withholding obligations are not met and enhancing the ability of enforcement agencies to detect and target black economy participants including the establishment of a taskforce which will allow the sharing of information across different agencies. These measures will help protect Australia's tax base going forward and ensure that everyone is paying their fair share.

Taking further action on multinational tax integrity

The Government is taking action to ensure the integrity of Australia's thin capitalisation rules, which limit the amount of debt deductions multinational entities can claim in Australia. The Government will improve the integrity of these rules by ensuring that asset valuations used to justify debt deductions are robust and that inbound investors cannot access tests that were only intended for outward investors.

The Government will strengthen the definition of a large multinational (or Significant Global Entity) to ensure that it operates as intended. This will ensure that large multinational businesses that are ultimately owned by private entities or investment entities are not inadvertently excluded from the application of tax integrity rules such as the Diverted Profits Tax and the Multinational Anti-Avoidance Law.

The Government will also remove the ability for Managed Investment Trusts (MITs) and Attribution MITs to apply the capital gains tax discount at the trust level. This will ensure that capital gains are taxed in the hands of the investor as if they had invested directly in the asset giving rise to the gain. Investors will still retain the ability to apply the capital gains tax discount themselves in line with the current rules.

Globalisation and digitalisation of the economy present challenges for the international and Australian tax frameworks. Under existing frameworks, digital businesses can have a significant economic presence in Australia without making a significant contribution to tax revenues here. The Government is committed to ensuring that digital businesses pay their fair share of tax in Australia and is actively engaging with the OECD in exploring options for taxing the digital economy. The Government will shortly be consulting on recent international developments and how digital businesses are taxed in Australia.

Improving tax system integrity

By paying their taxes, 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. As a result, the ATO has raised $5.2 billion in tax liabilities from large companies since July 2016.

Maintaining the integrity of the corporate tax base

The Government is tightening the rules on stapled structures to prevent staples being used to convert trading income into more favourably taxed passive income, as well as tightening broader tax concessions for foreign pension funds and sovereign wealth funds. This package of changes ensures that foreign investors will no longer be able to use stapled structures and other concessions to achieve tax rates of 15 per cent or less (or in some cases, almost tax-free) on Australian business income, rather than the 30 per cent that should apply. These measures will raise $400 million over the forward estimates and will result in significant revenue protection benefits.

The Government is improving the integrity of the tax treatment of concessional loans between tax exempt entities by disallowing inappropriate tax deductions that arise on the repayment of loan principal where tax-exempt entities become taxable.

Research and development tax incentive package

The Government is committed to supporting innovation and research in Australia. A key component of this commitment is ensuring that the taxpayer's significant investment through the Research and Development Tax Incentive (R&DTI) is well targeted and achieves the maximum return on investment for Australia's economy.

The 2016 review of the R&DTI found that the program is failing to meet its objectives of encouraging additional R&D and generating the associated flow-on benefits (spillovers) for the Australian economy.

In response, from 1 July 2018, the Government will better target the R&DTI through a new R&D premium for companies with turnover of $20 million or more. This will ensure support for larger companies is directed towards those companies undertaking additional, high-intensity business R&D.

The Government will also impose a cap of $4 million on cash refunds and convert the rate of the R&D tax offsets to a premium above each claimant's company tax rate.

Administrative and compliance improvements that will help improve the ongoing sustainability, transparency and integrity of the R&DTI will also be implemented.

Together these measures will enhance the R&DTI and ensure it is fiscally affordable.

Backing businesses to invest and create jobs

The 2018–19 Budget continues the Government's plan to strengthen the economy and create jobs. The Government is investing in infrastructure and supporting the international competitiveness of Australian industry.

Investing in infrastructure and regional Australia

The Government has a long-term plan for transport infrastructure, promoting regional development and securing the future of the Great Barrier Reef.

Building priority national infrastructure

The Government is funding $24.5 billion in new major transport projects and initiatives that will benefit every State and Territory. These projects and initiatives are part of the Government's $75 billion investment in transport infrastructure from 2018–19 to 2027–28. The investment uses a combination of grant funding, loans and equity investments.

The Government is establishing the Roads of Strategic Importance initiative. Under this initiative, the Government will provide funding of $3.5 billion to upgrade key routes to improve access for businesses and communities to essential services, markets and employment opportunities. The Roads of Strategic Importance initiative includes $1.5 billion for a Northern Australia Package for Queensland, the Northern Territory and Western Australia, $400 million for Tasmania, $220 million for the Bindoon Bypass in Western Australia, $100 million for the Barton Highway Upgrade benefiting New South Wales and the Australian Capital Territory, and $1.3 billion for future national priorities.

The Government is establishing a $1 billion Urban Congestion Fund to tackle urban congestion in cities. Additionally, a Major Project Business Case Fund is being established with a contribution of $250 million for the Commonwealth's early involvement in major project business case development.

The Budget includes funding to invest in a number of new transport infrastructure projects:

- In New South Wales, the Government is providing $1.5 billion for new major projects, including $971 million for the Pacific Highway Coffs Harbour Bypass, $400 million for the Port Botany Rail Line Duplication and $155 million for the Nowra Bridge. In addition to funding these projects, the Commonwealth and New South Wales governments will be equal partners in funding the first stage of the North South Rail Link in Western Sydney.

- In Victoria, the Government is providing $7.8 billion for new major projects, including a commitment of up to $5 billion for the Melbourne Airport Rail Link, $1.8 billion for the North East Link, $475 million for Monash Rail, $225 million for electrification for the Frankston Rail Line to Baxter, $140 million for a Victorian congestion package, $132 million to complete the duplication of the Princes Highway East from Traralgon to Sale and $50 million for Geelong Rail Line upgrades.

- In Queensland, the Government is providing $5.2 billion for new major projects, including an additional $3.3 billion for priority upgrades on the Bruce Highway, an additional $1 billion for the M1 Pacific Motorway, $390 million for the Beerburrum to Nambour Rail Upgrade, $300 million for the Brisbane Metro project and $170 million for the Cunningham Highway — Yamanto to Ebenezer (Amberley Interchange).

- In Western Australia, the Government is providing $2.6 billion for new major projects, including a further $1.1 billion for the METRONET rail project, $944 million for a Perth Congestion Package and $560 million for the Bunbury Outer Ring Road.

- In South Australia, the Government is providing $1.8 billion for new major projects, including $1.4 billion for North-South Road Corridor projects, with the Regency Road to Pym Street section of the Corridor to receive $177 million. The Government is providing $220 million for the Gawler Rail Line electrification and $160 million for the Joy Baluch Bridge.

- In Tasmania, the Government is providing $461 million for the Bridgewater Bridge replacement and an additional $59.8 million for the Tasmanian Freight Rail Revitalisation Package.

- In the Australian Capital Territory, the Government is providing $100 million for the Monaro Highway Upgrade.

- In the Northern Territory, the Government is providing $280 million for upgrades of the Central Arnhem Road and the Buntine Highway.

These new major projects will add to the more than 500 major projects that the Government has funded since 2013. There are 141 projects under construction or development, 142 are in the pre-construction stage involving detailed design and planning works, procurements, or environmental assessment and 227 are completed.

Construction on the Western Sydney Airport is due to commence this year and operations by 2026. The Government is providing equity of up to $5.3 billion in WSA Co to deliver stage one of Western Sydney Airport. Western Sydney Airport will support an estimated 28,000 direct and indirect jobs by 2031 and act as a major catalyst for the development of the broader Western Sydney region.

Preparatory work on the Melbourne to Brisbane Inland Rail project is underway and construction is due to commence this year. The Government is delivering Inland Rail by providing $9.3 billion in equity and grant funding to the Australian Rail Track Corporation (ARTC). The ARTC will also enter into a Public Private Partnership to deliver the most complex sections of the project. Inland Rail will support an estimated 16,000 direct and indirect jobs during construction.

The funding received by New South Wales and Victoria for their shares of Snowy Hydro — $4.2 billion and $2.1 billion respectively — will be invested in productive infrastructure in those states.

Regional development

The Government is providing $200 million for a third round of the Building Better Regions Fund to support regional infrastructure and community investment. This is in addition to the Regional Growth Fund, which is investing $272 million in larger regional infrastructure projects that support long-term economic growth and create jobs in regions undergoing structural adjustment.

Securing the future of the Great Barrier Reef

The Government is investing $535.9 million to secure the future of the World Heritage-listed Great Barrier Reef and the jobs it supports. The Reef supports tens of thousands of jobs and many small businesses in regional Australia.

To safeguard this national treasure, the Government will provide $443.8 million to enter into a tied partnership fund with the Great Barrier Reef Foundation, a not-for-profit organisation dedicated to supporting the Reef.

The fund will work to deliver programs addressing the key challenges facing the Reef, including $200.6 million to improve water quality, $100 million to unlock new scientific insights to help strengthen the resilience of the Reef through coral restoration and adaptation research and $58 million to advance programs to combat the crown-of-thorns starfish.

The fund will also deliver $40 million to enhance Reef health monitoring and reporting, and $44.8 million will support delivery of the plan and engagement with Traditional Owners and the broader community to protect the Reef.

A stronger and smarter economy

The Government is continuing to invest in science, medical research and technology to maximise the benefits of the smart economy.

A National Health and Medical Industry Growth Plan

This Budget includes a $1.3 billion National Health and Medical Industry Growth Plan designed to generate economic returns and accelerate Australia's competitive advantage as a global health industry leader in the medical technology, biotechnology and pharmaceuticals sectors.

The Growth Plan includes a ten-year $500 million commitment to the Genomics Health Futures Mission as well as a further $707.3 million in funding from the Medical Research Future Fund to support the Frontier Health and Medical Research program, expanded clinical trial programs, the Targeted Translation Research Accelerator, Biomedtech programs and Industry Researcher Collaborations.

The Government is committed to making it easier for companies, sponsors and investigators to navigate and invest in clinical trial activity across Australia. The Growth Plan also includes a commitment to develop a business case to explore the feasibility of a National Front Door for clinical trial activities and $30 million to enhance the data sharing and release capabilities of the Australian Institute of Health and Welfare.

Investing in science and research infrastructure

Investment in significant infrastructure will support research and technological development. The Government is investing an additional $393.3 million over five years from 2017–18 (about $1.9 billion over 12 years) in Australia's national research infrastructure facilities. These facilities are the foundation of our innovation system. They allow our researchers and firms to deliver better goods and services and better outcomes for consumers.

Australia's research infrastructure facilities support research across a broad range of sectors such as health and marine science. For example, access to research facilities assisted in the development of cervical cancer vaccines and breakthroughs in quantum computing.

The Government is supporting Australians to develop the skills they need in a smarter economy. Building on the National Innovation and Science Agenda measures to develop talent and skills, the Government is providing $4.5 million over four years from 2018–19 to encourage more women into education and careers in science, technology, engineering and mathematics (STEM).

Better GPS and satellite technology access for Australians

In this Budget the Government will invest $224.9 million over four years to provide accurate satellite-based positional, navigation and timing (PNT) capability which will enhance GPS capability across Australia. This measure will deliver PNT data with an accuracy of three to five centimetres for regional and metropolitan areas with mobile phone coverage and up to 10 centimetres elsewhere.

Better GPS will improve productivity by providing the accuracy and precision required for new technology to be used in industries such as aviation, agriculture, and transport. The Digital Earth Australia (DEA) platform provides access to reliable, standardised satellite data that is used by businesses, individuals, researchers and government to build new digital products and services. The Government is providing $36.9 million over three years (and $12.8 million each year ongoing) for DEA in this Budget. This builds on an initial investment of $15.3 million provided in the 2017-18 Budget.

These investments will improve Australia's competitiveness by helping businesses and researchers to develop new products and processes that improve productivity and efficiency.

Digital transformation to improve Government services

The Government is taking advantage of digital transformation opportunities to deliver better quality services to businesses and users. To do this, the Government will provide $19.3 million in 2018–19 to develop a detailed business case for a registry platform for modernised business registers at the Australian Business Register (ABR). The Government will also provide $92.4 million in 2018–19 for the next stages of the Commonwealth digital identity solution, GovPass. The GovPass program will allow users to create their digital identity and use this digital identity to engage with services online. This funding will include a public trial of approximately 100,000 tax file number (TFN) applications being completed online.

Unlocking new opportunities with the use of data

Establishing a Consumer Data Right will give consumers greater control of their personal data and the choice to direct businesses to share consumers' data safely with trusted recipients, who in turn will be able to offer better deals through innovative products and comparison services. The Government will invest $45 million over four years to develop the Consumer Data Right as a safer way for consumers to share and use their data. The Right will commence with the banking, energy and telecommunications sectors and eventually apply economy-wide. Data-driven competition and innovation will grow the economy, creating high-value jobs.

Improvements are also being made to how the Government handles and uses the data it collects to deliver better services and outcomes for Australians, whilst protecting information security. A National Data Commissioner will implement and oversee a simpler, safer and more efficient government data use framework. The National Data Commissioner will be the trusted overseer of the Government data system, responsible for proactively monitoring the integrity of the system and engaging with the community.

Developing new industries by investing in digital technologies

Through a $29.9 million investment, the Government will support the development of Australia's artificial intelligence (AI) and machine learning capability. A Technology Roadmap, a Standards Framework and a national AI Ethics Framework will help identify opportunities in AI and machine learning for Australia and support the responsible development of these technologies. This measure will also support Cooperative Research Centre projects, PhD scholarships and school-related learning to increase knowledge and develop the skills needed for AI and machine learning.

Promoting Australia's international competitiveness

The Government is promoting more open trade, improving access to markets and supporting Australia's agricultural and defence industry exports.

Increasing agricultural exports and improving farmers' competitiveness

The Government's agricultural initiatives have helped Australian farmers increase their production and exports by more than one quarter between 2012–13 and 2016–17. This Budget will further increase agricultural access to export markets and enhance the competitiveness and productivity of our primary producers.

Australian farmers are already benefiting from the Government's free trade deals with China, Japan and South Korea. They will benefit further with the implementation of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. This Budget provides $51.3 million to maximise the potential of these agreements by expanding Australia's network of agricultural trade counsellors in export markets in Asia, Europe and Latin America. Investing $128.2 million will help ensure farmers can continue to leverage Australia's favourable pest and disease status in export markets. The Government is also committing $3.6 million over five years to help beef exporters maintain access to the Indonesian market.

The Budget will enhance productivity in Australia's primary industries. The $20 million National Forestry Industry Plan will drive growth in the timber and wood fibre sectors. The Government will provide $6.3 million to improve farmers' access to agricultural and veterinary chemicals. The Budget also includes $4.7 million to improve the collection of agricultural labour force data to better understand the skills and labour gaps that farm businesses face. The Government is allocating $226 million in grant funding and a $50 million concessional loan to projects which will help ensure farmers can access the water they need.

Defence export strategy

The Government's Defence Export Strategy (the Strategy) builds on its defence industry policy by opening new opportunities for the Australian defence industry to grow, innovate and support Defence's future needs. This will support jobs right across the defence industry supply chain throughout Australia. The Government is providing $20 million each year to support defence exports and a new Australian Defence Export Office will be created within the Department of Defence to drive implementation of the Strategy.

More opportunities for Australia to compete globally

The Government will support Australian businesses to capture opportunities around the world, particularly in the fast-growing Asian markets. Increasing funding for local export hubs will help Australian small and medium enterprises gain access to international markets.

The $20 million Asian Innovation Strategy will help Australian businesses and researchers to form overseas partnerships and gain access to new market opportunities, and extend the Australia-India Strategic Research Fund for an additional four years.

The establishment of a national space agency will support Australian researchers and industries to collaborate as well as gain access to international projects and research infrastructure.

Continuing to guarantee the essential services on which Australians rely

Government decisions in the 2018–19 Budget reflect the Government's commitment to ensure essential services for all Australians. The Government is helping people to plan for the opportunities of a longer life through its More Choices for a Longer Life Package, fully funding the National Disability Insurance Scheme (NDIS), continuing to guarantee Medicare and providing significant new funding for hospitals.

More Choices for a Longer Life Package

The Government is delivering its More Choices for a Longer Life Package which maximises the opportunities that a longer life brings. It includes measures which support Australians to be prepared to live a healthy, independent, connected and safe life.

Retirement savings will be enhanced by the one-year work test exemption, allowing recent retirees to make voluntary superannuation contributions for a year after they are no longer working. Expanding the Pension Loans Scheme to facilitate home equity release will give all retirees of Age Pension age, not just part-rate pensioners, greater choice and flexibility to meet their consumption needs in retirement. Full-rate pensioners will be able to support their income by up to $11,799 (singles) or $17,787 (couples) each year by unlocking the equity in their home.

Expanding the Pension Work Bonus, at a cost of $227.4 million over the forward estimates, will support participation by improving age pensioners' labour market incentives. Age Pensioners will be able to earn up to $300 each fortnight, which is an additional $50 each fortnight; without reducing their pension payments, that is an extra $1,300 each year. In addition, for the first time, older Australians who are self-employed will be able to benefit from accessing the Work Bonus, so they too can earn up to $300 each fortnight without reducing their pension; that is an extra $7,800 each year.

Standards of living will also be enhanced by measures to improve choice of retirement income products, notably clarifying the Age Pension treatment of innovative income stream products, and introducing a retirement income covenant for superannuation trustees to formulate a retirement strategy for members and offer a wider variety of products. Retirees will be assisted in making decisions and comparing retirement income products through enhanced disclosure requirements on providers.

These measures build on reforms in the 2016–17 and 2017–18 Budgets which improved flexibility for contributions to superannuation and started to set out a framework for retirement income products.

The Package includes online interactive checks for people aged 45 and 65, to encourage them to start early in preparing for a longer, active and more engaged life. The checks will help people to find tailored information and support in the areas of health, skills, jobs, finances and being connected to their community.

The Government will also implement a series of measures to support individuals to remain engaged in the workforce. The Government will provide $17.7 million to expand the Entrepreneurship Facilitators program to additional locations to support individuals to start their own businesses; and $19.3 million on a new Skills and Training Incentive to allow more mature workers whose jobs may be at risk to undertake training.

To support the mental and physical health of older Australians, the Government is spending $82.5 million to improve access to mental health services, $20 million to support older Australians to remain socially connected to their communities and $22.9 million to promote increased physical activity.

The Government is expanding the aged care system to better support people's choices in how and where they receive care. The Government has committed $1.6 billion to provide about 14,000 additional high-level home care packages, enabling people to live in their own home for longer.

The Government is establishing an Aged Care Quality and Safety Commission and developing a new approach for monitoring quality in the aged care sector to ensure aged care services meet the high standards of care that the community expects. This forms part of the Government's response to the *Review of National Aged Care Quality Regulatory Processes*.

The Package responds to findings of the Australian Law Reform Commission's report *Elder Abuse — A National Legal Response*. The Government will provide $22 million to protect older Australians from abuse, including by funding trials of specialist elder abuse support services. The Government has further committed to working with the States and Territories to develop a national online register for enduring powers of attorney, in addition to developing a National Plan on Elder Abuse.

Protecting Australians' superannuation

The Government is committed to protecting Australians' retirement savings from undue erosion by fees and insurance premiums. The Government is reforming key aspects of the superannuation regulatory framework so members are not subject to unfair fees and are not charged insurance premiums for unnecessary or inappropriate cover. By modernising the current lost and unclaimed superannuation regime, the Government will also ensure that lost and inactive accounts held by the ATO are automatically returned to members where possible.

Investing in the health of Australians

The Government has fully funded a new five-year public hospital agreement from 2020–21 to 2024–25. This agreement will deliver an additional $30 billion compared with the previous five years.

This Budget includes $1.4 billion for new and amended listings on the Pharmaceutical Benefits Scheme (PBS) including medicines for spinal muscular atrophy, breast cancer, refractory multiple myeloma, relapsing-remitting multiple sclerosis and the prevention of HIV, ensuring Australians continue to have access to affordable medicines.

The Government is continuing to guarantee funding for the Medicare Benefits Schedule (MBS) and the PBS through the Medicare Guarantee Fund (MGF). A total of $34.4 billion has been credited to the MGF for 2017–18. A further credit of $35.3 billion will be made to meet expected PBS and MBS expenditure for the 2018–19 year.

The Government is fully funding its share of the NDIS. The Government is contributing $43 billion to fund the NDIS from 2018–19 to 2021–22, out of a total of $83.2 billion.

This Budget also includes $154.3 million for a range of initiatives to encourage school children and members of the community to be more active and healthy and protect the integrity of Australian sport.

The Government is building on its $30 million social impact investing commitments in the 2017–18 Budget which included trials aimed at improving housing and welfare outcomes for young people at risk of homelessness. In this Budget, the Government is announcing that it will work in partnership with Impact Investing Australia to examine opportunities to leverage private sector capital and community sector engagement to build the impact investment market to scale in Australia and tackle issues that affect Australian families and communities.

Achieving excellence in Australian schools

The Government has endorsed the recommendations of the *Review to Achieve Educational Excellence in Australian Schools* led by David Gonski AC and is working with the States and Territories to deliver the blueprint for reform. The reforms will help to build a stronger school system and provide schools, teachers and parents with the tools and capabilities they need to enable all Australian students to reach their full potential. The Government is making sure that record levels of funding committed in the 2017–18 Budget deliver better educational outcomes for every student.

The Government is supporting rural and regional Australia by delivering on the recommendations of the *Independent Review into Regional, Rural and Remote Education*. The Government will provide $28.2 million to expand access to sub-bachelor (including enabling) places to allow greater access to higher education for rural and regional students. The Government will also provide $14 million to fund additional Commonwealth supported places for bachelor students studying at Regional Study Hubs.

Concerted action to deliver affordable, reliable and sustainable energy

The Government is taking action to ensure the Australian energy market delivers affordable, reliable and sustainable energy for Australian households and businesses. The Government has accepted the Energy Security Board's recommendation for a new National Energy Guarantee to deliver a reliable National Electricity Market while reducing electricity sector emissions in line with our international commitments.

The Government is promoting competition and consumer choice by designating energy as one of the three priority sectors for the new Consumer Data Right. Being able to share their data safely with comparison services will make it easier for consumers to get the best deal. This builds on the many steps the Government has taken since the last Budget to promote choice and lower prices including:

- securing an agreement from major electricity retailers to ensure that Australians get the best deal on their electricity;
- asking the Australian Energy Market Commission to ban misleading discounting practices by electricity retailers; and

- abolishing the Limited Merits Review regime which allowed electricity network businesses to appeal regulatory decisions and charge more for electricity.

In addition, the ACCC will continue to investigate the competitiveness of retail electricity and gas markets at the direction of the Government. Since the last Budget, the ACCC has released a preliminary report on retail electricity in the National Electricity Market, as well as three interim reports on the gas market.

The Government has also moved to ensure that Australians have a secure domestic supply of gas. Following an agreement in October last year, major east coast gas exporters need to ensure that sufficient gas is made available for domestic users before choosing to export gas. Government action has helped gas market conditions ease and wholesale price offers fall.

The Government is investing in significant infrastructure to harness the opportunities from the rapidly-changing energy system. The Government has reached agreement with NSW and Victoria to take full ownership of Snowy Hydro, paving the way for the Snowy Hydro 2.0 project which will provide 2,000 megawatts of extra electricity capacity and enough storage to power 500,000 homes for a week.

Keeping Australians safe

The Government is investing additional funding to protect Australians. The establishment of the Home Affairs Portfolio reflects the Government's commitment to a stronger, safer and secure Australia and is a direct response to the increasingly complex and challenging security environment. The 2018–19 Budget includes funding to: increase airport and airline security; increase biosecurity; support border security; enhance the capabilities of the Australian Federal Police and the security agencies; establish a National Criminal Intelligence System; and secure justice for the victims of Malaysian Airlines Flight MH17.

Enhancing aviation security

The Government is investing $293.6 million in aviation security to safeguard Australia against evolving threats in the civil aviation, air cargo and international mail sectors. This includes:

- $50.1 million to enhance security arrangements at 64 regional airports with new and upgraded screening technologies and associated infrastructure;
- $121.6 million to enhance screening capability for inbound air cargo and international mail with new and upgraded equipment and advanced technology; and
- $121.9 million to increase the presence and specialist capabilities of the Australian Federal Police and Australian Border Force at nine major domestic and international airports.

Managing biosecurity risks

Our favourable pest and disease status is critical to protecting our agricultural production, exports and tourism sector, as well as Australia's unique natural environment. The Government is investing $102 million to manage biosecurity risks before and at the border with a seamless border clearance process and enhanced capacity to plan for and respond to emerging pest and disease priorities. The Budget also includes $20 million to help combat the fruit fly outbreak in Tasmania. A further $6.6 million will help manage the impact of established pests and weeds on the agriculture sector.

Protecting Australia's borders

Australia enjoys a safe and secure border as a result of the Government's strong and consistent border protection policies. Under Operation Sovereign Borders, the Government has halted the people smugglers, ended the deaths at sea and removed all children from detention. Maintaining the integrity of the border and combating the continuing threat from people smugglers requires consistent effort. Therefore the Government is providing $62.2 million for the continuation of Operation Sovereign Borders. This includes maintaining Australian Border Force Cutter Ocean Shield at surge capacity, continuing to invest in regional cooperation arrangements and supporting international engagement activities to prevent and disrupt people smuggling.

Investing in national security agencies

The Government is strengthening Australia's security and intelligence agencies to address an increasingly complex security environment. Through establishing the Office of National Intelligence and providing funding for a Joint Capability Fund, the Government will enhance cooperation between our domestic security and law enforcement agencies.

In line with the recommendations of the Independent Intelligence Review, the Government is providing $70.2 million to augment the Office of the Inspector-General of Intelligence and Security and to undertake a comprehensive review of the national security legislation framework.

The Government is continuing to invest in the vital work of national security agencies including:

- more than $37 million to support the operations of the Australian Federal Police, the Australian Criminal Intelligence Commission and the Australian Security Intelligence Organisation;

- $130 million to upgrade the capacity and performance of the Department of Home Affairs' ICT infrastructure, enhance its analytics and threat management capabilities and establish a platform for the enterprise identity management system;

- $68.6 million to establish the Australian Centre to Counter Child Exploitation, which will help disrupt, prevent and investigate child exploitation and abuse; and

- $59.1 million to create the National Criminal Intelligence System, which will provide law enforcement and intelligence agencies with a national repository of criminal intelligence and information.

Securing justice for MH17

The Government is delivering on its commitment to secure justice for the Australian victims on board Malaysian Airlines Flight MH17 on 17 July 2014. It has allocated $50.3 million for Australia's participation in the Dutch National Prosecution to prosecute those responsible for this crime, as well as ensuring the victims' families can participate fully in the process, including being provided with sufficient support from our Embassies in The Hague and Kyiv.

STATEMENT 2: ECONOMIC OUTLOOK

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

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STATEMENT 2: ECONOMIC OUTLOOK

OVERVIEW

Momentum in the Australian economy strengthened in the second half of 2017, with solid contributions from household consumption and non-mining business investment. The transition towards more broad-based sources of growth is occurring as expected, with the economy forecast to grow by a solid 2¾ per cent in 2017-18. Growth is then forecast to pick up to 3 per cent in 2018-19 and 2019-20 — a pace sufficient to lower the unemployment rate over the next few years.

The Australian economy is being supported by a positive global outlook. Conditions in the global economy also strengthened in 2017, surpassing expectations. Global growth has risen to its fastest pace in six years, with widespread strength across both advanced and emerging economies. This is expected to continue in 2018. Overall, the global cycle is better synchronised than it has been for some time. Unemployment rates have fallen in most major advanced economies and these economies may push up against capacity constraints over the next few years.

Domestically, the Australian economy has entered its 27th consecutive year of growth. It has performed remarkably well in adjusting from the investment phase of the mining boom towards broader-based sources of growth. This transition is expected to be completed by the end of the forecast period. Momentum in consumption and non-mining business investment is expected to underpin a pick-up in growth, as the drag from the unwinding of the mining investment boom recedes. Mining exports are also forecast to continue to grow solidly.

While the unwinding of the mining investment boom in recent years has had a large direct effect on growth, it has also resulted in negative spillovers in the broader economy. It has especially weighed on non-mining business investment in Queensland and Western Australia but this effect is diminishing. The Australian economy is also benefiting from population growth, technological developments, positive business conditions and recent gains in national income following renewed strength in the terms of trade.

Accommodative monetary policy settings remain and are continuing to support key areas of the economy. The official cash rate remains at a historic low and has now been stable for the longest period in Australia's history. This will continue to support both the household and business sectors. The Australian dollar also remains around 30 per cent lower than its 2011 peak against the US dollar.

Recent strength in household consumption has been supported by robust momentum in Australia's labour market, following the largest increase in employment in 2017 ever recorded over the course of a calendar year, with three-quarters of these jobs full-time positions. In aggregate, almost one million jobs have been added to the economy since September 2013. Employment growth has been broadly based across regions and industries and a recent lift in the participation rate is consistent with increased confidence about employment prospects. Strong participation is expected to continue and the unemployment rate is forecast to decline over the next few years.

Dwelling investment is expected to remain at elevated levels over the forecast period, despite some softening in recent quarters. Activity will be supported by high levels of work in the pipeline as well as recent strength in new approvals. At a regional level, the diminishing drag from the unwinding of the mining investment boom is also playing out across the housing market, as the contraction in dwelling construction appears to be easing in the mining states.

Non-mining business investment is now forecast to rise faster than expected in the *2017-18 Mid-Year Economic and Fiscal Outlook* (MYEFO) and should outweigh the remaining decline in mining investment. Ongoing improvements in business conditions and capital expenditure intentions have seen an upgrade to the outlook for investment in the non-mining sector, with activity set to expand at a solid pace across the forecast horizon.

While mining investment is forecast to continue to fall over the next couple of years, the unwinding of the mining investment boom and its associated drag on economic growth is expected to dissipate, working its way out of Australia's economic landscape by the end of the forecast horizon. In 2019-20 mining investment is expected to grow for the first time in around seven years.

Capital expenditure in the private sector is also benefiting from a strong pipeline of work in the public sector. A robust outlook for public final demand reflects the transition to full scheme for the National Disability Insurance Scheme and strong infrastructure investment by both the States and Territories and the Commonwealth, including significant investment in transport projects.

Exports should continue to grow steadily over the forecast period, as mining capacity continues to expand and services exports continue to benefit through strong demand from key Asian markets. These rises should more than offset moderating rural exports following record levels of production in 2016-17. Growth in mining exports will return to more average rates as the transition into the full production phase of the mining boom is completed. By the end of the forecast period, Australia's resource export capacity should have roughly doubled since the start of the mining investment boom.

While wage growth remains subdued, it is expected to strengthen as growth in the economy picks up to an above-potential pace and spare capacity in the labour market is absorbed. Higher wages and inflation will contribute to a rise in the level of nominal

GDP over coming years. Nominal GDP also continues to be influenced by the terms of trade, which have been supported recently by higher commodity prices. From 2018-19, the terms of trade are forecast to fall as prices of some key commodities are assumed to decline to more sustainable levels. Adoption of this prudent judgment has been supported by comprehensive market and industry consultation. Nominal GDP is forecast to grow by 4¼ per cent in 2017-18, 3¾ per cent in 2018-19 and 4¾ per cent in 2019-20.

With the economic outlook strengthening both globally and domestically, risks appear more balanced in the short term. To the upside, there is the possibility of growth exceeding forecasts in some key economies, including in the United States as fiscal settings become more supportive. Meanwhile, a potentially faster-than-expected tightening of monetary policy, geopolitical uncertainty and recent moves towards trade protectionism present downside risks to the global economic backdrop. Heightened strategic risks are also likely to continue to affect financial and commodity markets. More broadly, a very sharp adjustment in financial markets would pose a risk to both global and domestic activity.

In the longer term, the global economy faces further challenges. In the United States, while the reduction of the corporate tax rate will provide a structural boost to its competitiveness, the expiration of some of the temporary components of the recent package — including the personal tax cuts and depreciation allowance — may shift the balance between fiscal stimulus and less accommodative monetary policy, heightening downside risks there. High levels of debt and potential financial imbalances continue to pose risks to China's economy and a number of economies elsewhere. All that said, these risks are very hard to quantify and the world economy has shown remarkable resilience in recent years.

Closer to home, risks remain around future household consumption and saving behaviour but this has been the case for several years and the household sector has shown resilience over this time. A change in households' attitudes towards saving, combined with subdued income growth, may result in slower consumption growth than forecast. There is also a risk that household spending may be affected by any unanticipated tightening in financial conditions, possibly as a consequence of the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*, although it is too early to assess how likely that is to occur. Meanwhile, stronger-than-forecast employment growth could provide an upside risk to consumption growth. Recent increases in the participation rate have elevated the uncertainty around assessments of the degree of spare capacity in the labour market.

The risks around non-mining business investment are more balanced than they have been for some time. A more significant pick-up in non-mining business investment, particularly in the outer years of the forecast horizon, provides upside risk to the forecasts. That said, business investment fell in some industries in 2016-17 and questions will remain about the sustainability of the pick-up until growth in non-mining business investment broadens further across industries.

The outlook for commodity prices is also a significant uncertainty for nominal GDP but the assumptions for these prices remain prudent. Further details on the effect of commodity price movements on nominal GDP and revenue forecasts are discussed in *Budget Statement 8: Forecasting Performance and Scenario Analysis.*

Table 1: Domestic economy forecasts(a)

	Outcomes(b)	Forecasts		
	2016-17	2017-18	2018-19	2019-20
Real gross domestic product	**2.1**	**2 3/4**	**3**	**3**
Household consumption	**2.6**	2 3/4	2 3/4	3
Dwelling investment	**2.8**	-3	1 1/2	0
Total business investment(c)	**-4.0**	4 1/2	3	4 1/2
By industry				
Mining investment	**-24.2**	-11	-7	3 1/2
Non-mining investment	**6.1**	10 1/2	5 1/2	5
Private final demand(c)	**1.4**	2 1/2	2 1/2	3
Public final demand(c)	**5.1**	4 3/4	3	2 3/4
Change in inventories(d)	**0.1**	- 1/4	0	0
Gross national expenditure	**2.4**	3	2 3/4	3
Exports of goods and services	**5.5**	2 1/2	4	2 1/2
Imports of goods and services	**4.9**	5	2	2 1/2
Net exports(d)	**0.0**	- 1/2	1/4	0
Nominal gross domestic product	**5.9**	4 1/4	3 3/4	4 3/4
Prices and wages				
Consumer price index(e)	**1.9**	2	2 1/4	2 1/2
Wage price index(f)	**1.9**	2 1/4	2 3/4	3 1/4
GDP deflator	**3.8**	1 3/4	3/4	1 1/2
Labour market				
Participation rate (per cent)(g)	**65.0**	65 1/2	65 1/2	65 1/2
Employment(f)	**1.9**	2 3/4	1 1/2	1 1/2
Unemployment rate (per cent)(g)	**5.6**	5 1/2	5 1/4	5 1/4
Balance of payments				
Terms of trade(h)	**14.4**	1 1/2	-5 1/4	-2 1/4
Current account balance (per cent of GDP)	**-2.1**	-2 1/4	-2 3/4	-3 1/4

(a) Percentage change on preceding year unless otherwise indicated.
(b) Calculated using original data unless otherwise indicated.
(c) Excluding second-hand asset sales from the public sector to the private sector.
(d) Percentage point contribution to growth in GDP.
(e) Through-the-year growth rate to the June quarter.
(f) Seasonally adjusted, through-the-year growth rate to the June quarter.
(g) Seasonally adjusted rate for the June quarter.
(h) The forecasts are underpinned by price assumptions for key commodities: Iron ore spot price remaining at US$55/tonne free-on-board (FOB); metallurgical coal spot price falling over the June and September quarters of 2018 to reach US$120/tonne FOB by the December 2018 quarter; and the thermal coal spot price remaining at US$93/tonne FOB.

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 63 and a US$ exchange rate of around 77 US cents. Interest rates are assumed to move broadly in line with market expectations. World oil prices (Malaysian Tapis) are assumed to remain around US$71 per barrel.
Source: ABS cat. no. 5206.0, 5302.0, 6202.0, 6345.0, 6401.0, unpublished ABS data and Treasury.

OUTLOOK FOR THE INTERNATIONAL ECONOMY

Global growth exceeded expectations in 2017, picking up to its fastest pace since 2011. Strong economic momentum has been seen across most advanced and emerging economies, indicating that the global cycle is better synchronised than it has been for some time. This momentum is expected to carry into the near term, before slowing in some regions as major advanced economies start to push up against capacity constraints.

Recent robust global outcomes have been buoyed by a broad range of factors. The business investment cycle looks to have turned with increased business investment and industrial production in a range of countries, following several years of weak growth. Alongside these positive developments there has also been an upswing in global trade volumes, especially in the Asian region.

These favourable conditions have led to several major advanced economies running down spare capacity. Labour market conditions are tightening, especially in Japan, Germany and the United States — unemployment rates are at multi-decade lows.

Despite stronger labour markets and a pick-up in overall economic performance, wage growth and inflation have remained largely subdued. There have been some tentative signs that wage growth has begun to pick up in the United States after a prolonged period of employment growth but a sustained increase will be needed to support the return of core inflation towards medium-term targets. Some central banks — most importantly the United States Federal Reserve — have begun to withdraw the supportive monetary policy settings that have been in place since the global financial crisis. There has also been some tightening in US dollar short-term money markets that has flowed through to the equivalent Australian markets.

Favourable global conditions are expected to continue in the near term. In the United States, fiscal stimulus from the recent tax reform package and increased expenditure are expected to add to growth. Beyond 2018, growth in the major advanced economies may slow as excess capacity is exhausted. This may be accompanied by increasing inflationary pressure, although the timing of this is uncertain.

Risks to the global economic backdrop appear more balanced in the short term. To the upside, there is the possibility of growth exceeding forecasts in some key economies, including in the United States as fiscal settings become more supportive.

Financial risks may weigh on the global outlook. Accommodative financial conditions since the global financial crisis have accompanied a build-up in debt, particularly in China but also in a number of major advanced economies, notably Europe and Japan. In this context, a faster-than-expected tightening of global monetary policy settings may increase financial instability and spill over to the broader economy, especially in emerging markets. In the United States, the balance between fiscal stimulus and less accommodative monetary policy may shift in the longer term as some of the temporary components of the recent tax package expire, heightening downside risks there.

Policy uncertainty — especially in relation to trade — remains a key risk to the economic outlook. The trade environment is rapidly evolving and recent moves towards a more protectionist trade environment may have detrimental effects on the global economy (Box 1). Trade protectionism reduces global economic activity. Even the prospect of increased protectionism might increase uncertainty around investment globally. Geopolitical tensions could also increase uncertainty and spill over into economic activity. Additionally, risks remain around fragilities in the European banking sector and around negotiations concerning the United Kingdom's exit from the European Union. These risks could be amplified by sharp adjustments in financial markets.

Over the longer term, broad structural challenges including demographic change and slower productivity growth may continue to weigh on the global growth outlook. All that said, labour shortages have often been the impetus for increased investment in labour-saving technology.

Box 1: The importance of trade to the global economy

Over recent decades, the interconnectedness of the global economy has increased. This has occurred through increasing financial interlinkages and growth in goods and services trade. Globally, trade as a share of GDP grew steadily between the early 1990s and the global financial crisis (Chart A).

This growth in trade reflected a number of factors, including reductions in barriers to trade as well as the emergence of global supply chains as trade costs have fallen. These supply chains have been particularly prominent in South East Asia, having been initiated by Japanese companies in the 1980s in response to falling competitiveness.

Supply chains have gradually expanded throughout the region, with production successively shifting to lower-cost locations. Indeed, the Asian region now accounts for just over one-third of world imports of intermediate goods. The fact that many goods are produced in a range of countries is reflected in declines in the domestic value added share of gross exports in most countries where these data are available (Chart B).

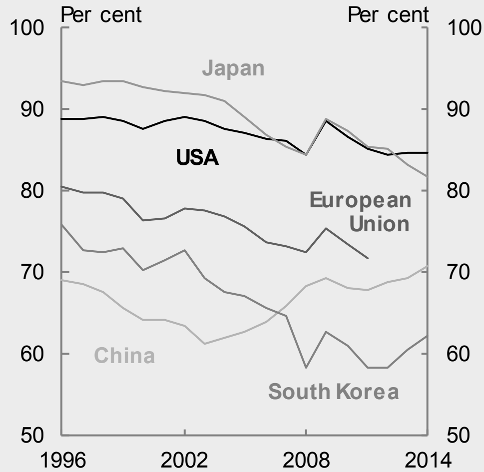
Box 1: The importance of trade to the global economy (continued)

China is an exception. The domestic value added share of exports from China has generally been increasing since 2003, which is likely to partly reflect the fact that China remains relatively competitive, despite increasing pressure on unit labour costs. Indeed, as China's domestic intermediate production sector matures, it is possible that supply chains in Asia will continue to be concentrated in China.

Chart A: Global trade intensity (trade as a share of world GDP)

Note: Trade in values and is the average of exports and imports for each relevant measure. All series measured in current US dollars.
Source: World Bank World Development Indicators, April 2018 and Treasury.

Chart B: Share of domestic value-added in gross exports



Note: European Union is the 28-member country block and data does not exist from 2012 onwards.
Source: OECD-WTO Trade in Value Added, April 2018.

Prior to a recent upswing over 2017, trade in goods had been falling as a share of GDP for a number of years, in part reflecting weakness in global investment in the aftermath of the global financial crisis. By contrast, services trade has grown more quickly, partly reflecting technological progress. The growth in services trade in recent years has largely reflected flows from advanced economies, notably from the United States and Europe. This has been partly driven by trade in financial, technical and professional services, and is symptomatic of increasing financial interlinkages. A number of countries in Asia have also seen increases in their services exports.

The increasing integration between countries means that significant changes to trade policies in one country, especially a large and globally integrated country, are likely to affect many other economies around the world. This increases the uncertainty around the effects of any rise in trade protectionism.

The Government is committed to free trade, demonstrated by the signing of the Comprehensive and Progressive Agreement for Trans Pacific Partnership (TPP-11). This and other free trade agreements, including with China, South Korea, Japan, Singapore and Peru, will support exports going forward.

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

	Actuals	Forecasts		
	2017	2018	2019	2020
China	6.9	6 1/2	6 1/4	6
India	6.4	7 1/2	7 3/4	7 3/4
Japan	1.7	1 1/4	1	3/4
United States	2.3	2 3/4	2 1/2	2
Euro area	2.4	2	1 3/4	1 1/2
Other East Asia (b)	4.5	4 1/4	4 1/4	4 1/4
Major trading partners	4.6	4 1/4	4 1/4	4 1/4
World	3.8	3 3/4	3 3/4	3 3/4

(a) World 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 goods export trade weights.
(b) Other East Asia comprises the Association of Southeast Asian Nations group of five (ASEAN-5), comprising Indonesia, Malaysia, the Philippines, Thailand and Vietnam, along with Hong Kong, South Korea, Singapore and Taiwan.
Source: National statistical agencies, IMF World Economic Outlook April 2018, Thomson Reuters and Treasury.

Strong growth in the **United States** over the past year has absorbed much of the economy's remaining spare capacity. As well as continuing strength in household consumption growth, a lift in business investment and exports has resulted in increasingly broad-based GDP growth. The unemployment rate has stabilised in recent months at around 4 per cent, around multi-decade lows, while there have been signs that wage growth and core inflation have lifted in recent months. Acknowledging the positive outlook for activity and labour markets, the Federal Reserve has been gradually tightening monetary policy.

The passage of the recent US tax reform package — which included cuts to personal and corporate taxes — and an increase in government expenditure are expected to provide further support to consumption and investment growth in the near term. Consequently, forecasts for growth have been raised in 2018 and 2019. The increase in demand from the tax cuts and expenditure packages raises the risk that capacity constraints may be reached more quickly, possibly leading to higher imports and inflationary pressures. In the longer term, while the reduction of the corporate tax rate will provide a structural boost to its competitiveness, the expiration of some of the temporary components of the recent package — including the personal tax cuts and depreciation allowance — may shift the balance between fiscal stimulus and less accommodative monetary policy, heightening the downside risks. Recent tariff announcements by the US Administration, and fears that they may escalate, present uncertainties for both the US and global outlook.

China experienced stronger-than-expected growth in 2017, driven by robust final consumption and a pick-up in net exports on the back of supportive external conditions. Continued momentum in China in early 2018 and a positive global economic outlook have been reflected in forecast upgrades for 2018 and 2019. Despite the stronger near-term outlook, growth in China is expected to moderate over time. Authorities continue to introduce tighter regulation of the financial system and to address industrial overcapacity and environmental priorities. The expectation of a gradual moderation in growth is consistent with Chinese authorities' 2018 growth target of 'around 6.5 per cent', announced at the National People's Congress in March 2018. Chinese authorities have emphasised a shift of focus towards achieving quality growth, including reining in financial risks, but they face policy challenges in managing the risks of the transition amid sustained high levels of debt, structural shifts and geopolitical tensions.

India's economy is forecast to rebound after a disrupted 2017. The effects of currency exchange, the implementation of the GST and other structural reforms caused India's economic growth to slow in 2017. India is forecast to reclaim its title as the 'world's fastest growing major economy' in 2018. A range of indicators continue to suggest strong growth in the near term. Government action to support the country's banking sector may renew confidence in lending and support private investment, although this may take some time. External factors such as higher oil prices and rising protectionism present risks to India's economic growth.

Japan's economy continues to expand, having recently recorded the eighth consecutive increase in quarterly GDP, the longest run of growth in almost 30 years. The unemployment rate is close to its lowest since the 1990s and the participation rate has been rising as more women enter the labour force. Wage growth — particularly for part-time workers — has picked up. Notwithstanding a possible soft patch at the start of 2018, solid economic growth is likely to continue into the forecast period so long as the global economic environment remains favourable. In the longer term, Japan's demographic challenges remain substantial.

Following a prolonged period of subdued growth, the **euro area** experienced a broad-based expansion in 2017. This growth represented the strongest expansion in a decade. While the German and French economies continue to perform well, positive growth developments have also been seen in smaller European economies, including those hardest hit during the sovereign debt crisis. While stronger growth has served to strengthen banks' balance sheets and is expected to continue over 2018 and 2019, fragilities in the banking sector remain a key risk, alongside the continuing uncertainty as to negotiations over the United Kingdom's exit from the European Union.

Growth within the **ASEAN-5** economies is forecast to remain broad-based over the forecast period. More trade-exposed economies (particularly Vietnam, Malaysia and Thailand) have benefited from the pick-up in global trade, given their significance in global supply chains. The Philippines is also showing signs of solid growth. Export growth will likely moderate this year from the strong growth in 2017, but private consumption, infrastructure spending and foreign direct investment are expected to continue to support growth. As globally integrated economies with large trade exposures, these economies are particularly susceptible to the risk of rising protectionism as well as moderating growth in the Chinese economy and the pace of monetary policy normalisation in the United States.

OUTLOOK FOR THE DOMESTIC ECONOMY

Outlook for real GDP growth

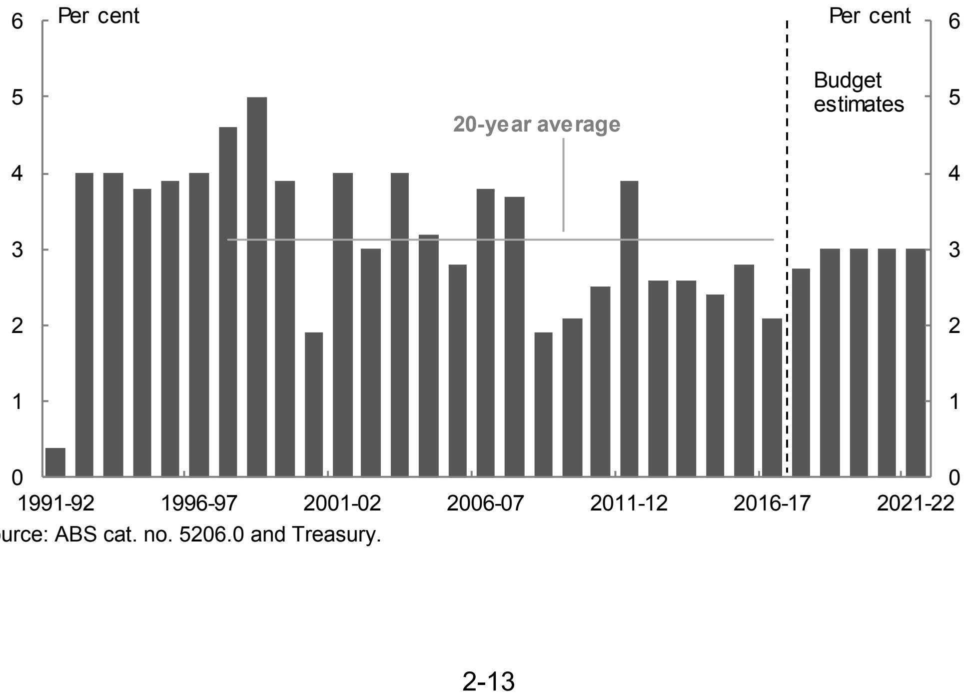
The Australian economy has entered its 27th consecutive year of economic growth and has performed remarkably well in adjusting from the investment phase of the mining boom towards broader-based sources of growth.

Momentum in the Australian economy strengthened in the second half of 2017, with solid contributions from household consumption and non-mining business investment. This momentum is forecast to continue as the drag from the end of the mining investment boom dissipates and mining exports ramp-up with full production. Real GDP is forecast to grow by a solid 2¾ per cent in 2017-18 and to accelerate further to 3 per cent growth in 2018-19 and 2019-20 (Chart 1). This would see the economy growing above potential in the last two years of the forecast horizon.

Economic momentum continues to be supported by favourable fundamentals. The Reserve Bank of Australia's official cash rate remains at a historic low and has now been stable for the longest period in Australia's history. The Australian dollar also remains around 30 per cent lower than its 2011 peak against the US dollar.

While the unwinding of the mining investment boom in recent years has had a direct effect on growth, it has also resulted in negative spillovers in the broader economy. It has particularly weighed on non-mining business investment in Queensland and Western Australia but this effect is diminishing. The Australian economy is also benefiting from population growth, technological developments, positive business conditions and recent gains in national income following renewed strength in the terms of trade.

Chart 1: Real GDP growth



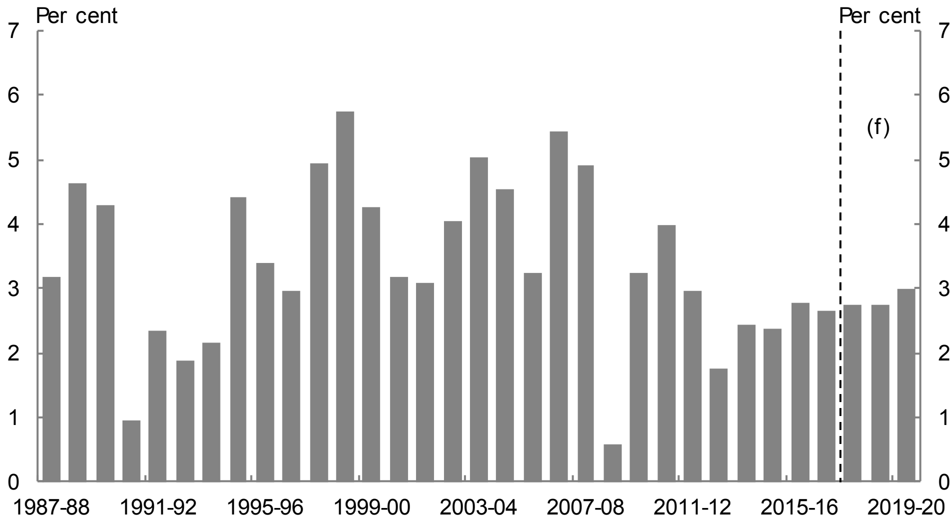
Source: ABS cat. no. 5206.0 and Treasury.

Households

Household consumption strengthened towards the end of 2017. This is consistent with improvements in household income that have been supported by the recent strength in employment growth. Recent consumption outcomes, including revisions, were much stronger than had been expected in the MYEFO, and have resulted in an upgrade to the forecast for consumption growth in 2017-18.

Household consumption is forecast to grow by 2¾ per cent in 2017-18 and 2018-19 and by 3 per cent in 2019-20 (Chart 2). It is expected to be supported by income growth from solid employment outcomes and strengthening wage growth, as well as increases in disposable income from the personal income tax measures. As has occurred over the past few years, consumption is estimated to grow faster than household income over the forecast period, resulting in a further decline in the household saving rate in 2018-19 before stabilising in 2019-20.

Chart 2: Steady growth in consumption is expected to continue in coming years



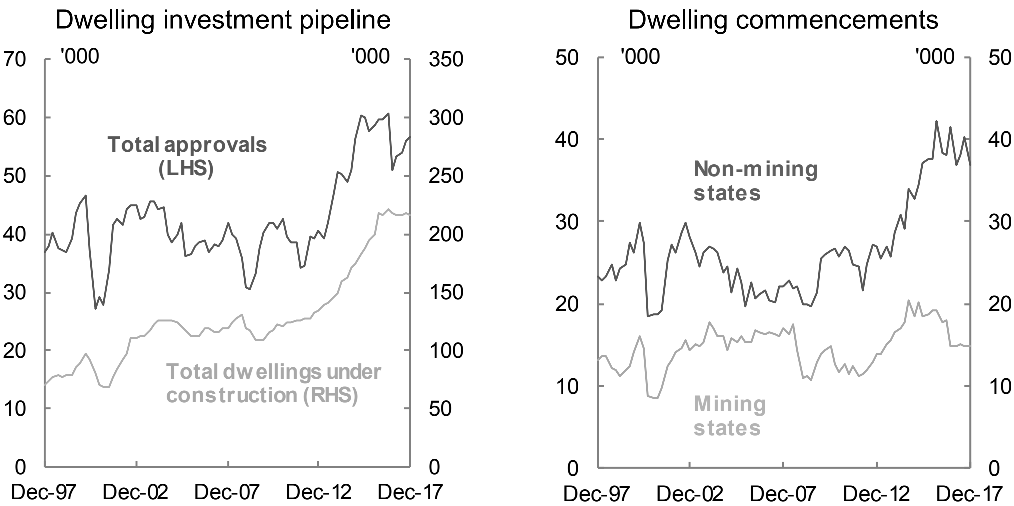
Note: (f) are forecasts.
Source: ABS cat. no. 5206.0 and Treasury.

The extent to which the household saving rate declines is a source of uncertainty for the outlook. A change in households' attitudes towards saving or debt could lead to household consumption being weaker or stronger than forecast. A more subdued outlook for household income, or changes in wealth from movements in asset prices, could also constrain consumption spending in the context of elevated levels of household debt. There is also a risk that household spending may be affected by any unanticipated tightening in financial conditions, possibly as a consequence of the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*, although it is too early to assess how likely that is to occur. While many of these risks have been present for some time now, strength in recent data has been encouraging. Meanwhile, stronger-than-forecast employment growth could provide an upside risk to consumption growth. The sensitivity of the forecasts to changes in the outlook for household saving and consumption is discussed in Budget Statement 8.

The pace of **dwelling investment** has softened in recent quarters following solid growth over the past few years, with dwelling investment reaching a peak of just under 6 per cent of GDP in 2016-17. It is expected to moderate from this peak in 2017-18, falling by 3 per cent following some softness in approvals in late 2016. Still, the pipeline of work to be done and strength in approvals since mid-2017 are likely to keep dwelling investment elevated by historical standards over the remainder of the forecast period (Chart 3). Dwelling investment is forecast to rise slightly by 1½ per cent in 2018-19 before remaining largely flat in 2019-20.

Strength in the pipeline of work to be done on dwellings continues to be driven by an elevated level of activity in New South Wales and a continued flow of approvals in Victoria. Housing prices have been falling in Sydney since mid-2017 while their growth has moderated in Melbourne in recent months, following strong growth in both capitals over recent years. There is a risk that weaker-than-expected housing price growth might curb investment intentions more than anticipated. Elsewhere, the rate of decline in dwelling investment in the mining states has slowed and there are tentative signs of a pick-up, especially in Western Australia (Chart 3).

Chart 3: Indicators of dwelling investment



Source: ABS cat. no. 8731.0, 8752.0 and Treasury.

Note: Data include the Northern Territory and the Australian Capital Territory.
Source: ABS cat. no. 8752.0 and Treasury.

Business investment

After four consecutive annual declines, there are now signs that a recovery in **total business investment** is underway, with a lift in momentum in non-mining business investment and a diminishing drag on growth from the fall in mining investment, including from spillovers.

Mining investment is expected to continue to fall over the next couple of years, but the unwinding of the mining investment boom and its associated drag on economic growth has almost worked its way out of Australia's economic landscape. Since its peak of around 9 per cent of GDP in the December quarter 2012, mining investment has fallen by over 65 per cent and is set to fall by 11 per cent in 2017-18 — less than half the rate of decline experienced the year before — and by 7 per cent in 2018-19. By the end of the forecast period, a return to expansionary activity in the sector is expected, as firms invest to maintain the capital stock they built up during the mining investment boom. In 2019-20 a rise of 3½ per cent is forecast, which would represent the industry's first year of capital expenditure growth in around seven years.

Non-mining business investment growth has recently been stronger than expected and has more than offset a slightly stronger pace of decline in mining investment (Box 2). This recent strength has occurred alongside continued improvements in business conditions and capital expenditure intentions. There is also evidence to suggest that increasing infrastructure investment in the public sector is having positive spillovers to investment in the private sector. Non-mining business investment is forecast to grow by 10½ per cent in 2017-18. Growth is then expected to moderate to a still solid pace of 5½ per cent in 2018-19 and 5 per cent in 2019-20.

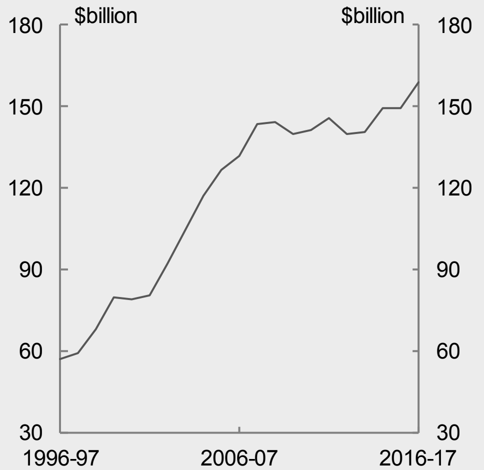
The risks around non-mining business investment are more balanced than they have been for some time. A more significant pick-up in non-mining business investment as firms become more certain about the outlook, particularly in the outer years of the forecast horizon, provides upside risk to the forecasts. That said, business investment fell in some industries in 2016-17 and questions will remain about the sustainability of the pick-up until growth in non-mining business investment broadens further across industries.

Box 2: The recovery in non-mining business investment

Non-mining business investment experienced a period of weak growth after the global financial crisis and during the latter part of the mining investment boom, but signs of a pick-up have started to materialise (Chart A).

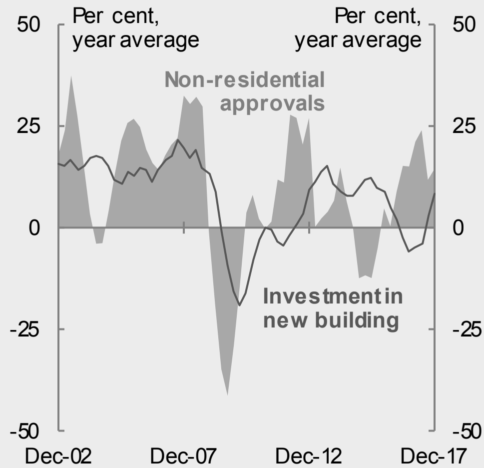
This pick-up largely reflects an upturn in non-dwelling construction, as well as investment in machinery and equipment and intellectual property products. The improvement in non-dwelling construction has been supported by strength in non-residential building approvals, which has generated a solid pipeline of work yet to be done and an uptick in activity associated with the construction of new buildings (Chart B).

Chart A: Real non-mining business investment



Note: Data represent new non-mining business investment and assume all asset transfers occur in the non-mining sector. Data are in 2015-16 dollars.
Source: ABS cat. no. 5204.0 and Treasury.

Chart B: Non-residential building approvals and investment



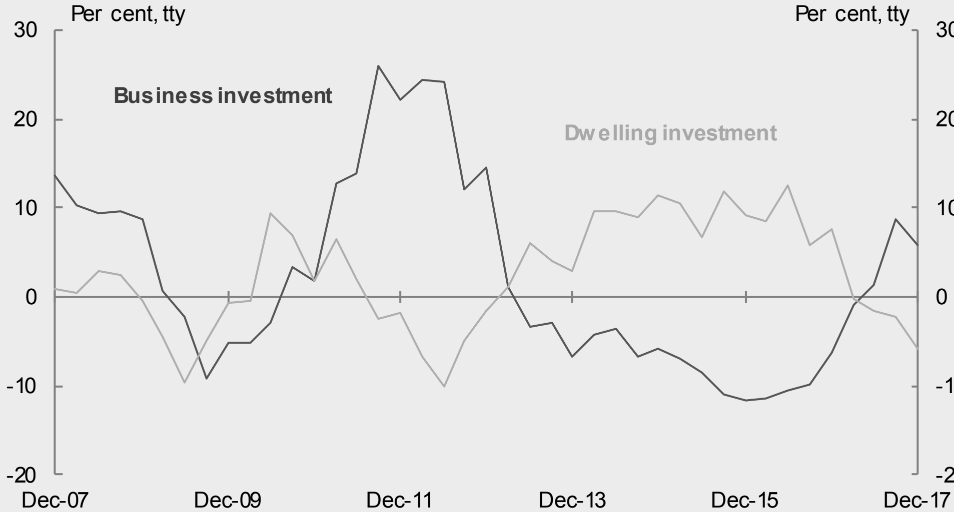
Note: Growth is calculated using rolling 12-month average levels. Data are nominal.
Source: ABS cat. no. 5206.0 and 8731.0.

Particular strength has been evident in recent years in hotels and aged care facilities, consistent with strong demand for tourism services, particularly from Asia, and an ageing demographic that has seen a pick-up in the demand for health services. Approvals data also indicate a reasonable pipeline of work on commercial buildings — especially offices in Victoria and New South Wales — that will support activity in this market.

Box 2: The recovery in non-mining business investment (continued)

The renewed momentum in non-mining business investment comes alongside the unwinding of peak housing construction activity in recent years. In the aftermath of the global financial crisis, growth cycles in business investment have run counter to those in dwelling investment (Chart C).

Chart C: Alternating cycles in business and housing investment



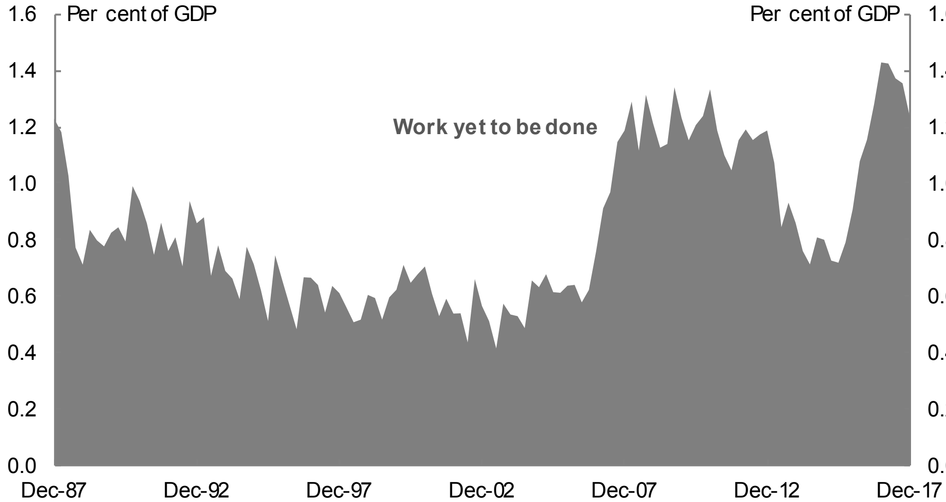
Source: ABS cat. no. 5206.0.

This has provided an interchanging foundation of support to the economy over the past seven years. Going forward, however, the pick-up in non-mining business investment over the next few years is set to occur alongside elevated levels of dwelling investment.

Public final demand

Public final demand is expected to grow strongly in the near term, reflecting the transition to full scheme for the National Disability Insurance Scheme and strong infrastructure investment by both the States and Territories and the Commonwealth, including significant investment in transport projects and the continued roll out of the National Broadband Network (Chart 4). Public final demand is forecast to grow by 4¾ per cent in 2017-18, 3 per cent in 2018-19 and 2¾ per cent in 2019-20.

Chart 4: Pipeline of public infrastructure



Note: Work yet to be done is expressed as a share of annualised quarterly GDP.
Source: ABS cat. no. 5206.0, 8762.0 and Treasury.

Net exports

Exports continue to be supported by the expansion of Australia's mining capacity, as the final transition into the production phase of the mining boom is completed by the end of the forecast period. Services exports are also expected to continue to contribute to growth as Australia continues to harness the opportunities from key economies in the Asian region. These main growth areas should provide support against moderating rural exports in the near term, as seasonal conditions and output return to average after a recent period of favourable weather conditions and record output. Total exports are forecast to grow by 2½ per cent in 2017-18, 4 per cent in 2018-19 and 2½ per cent in 2019-20.

Mining exports are forecast to grow by 4 per cent in 2017-18 and 6½ per cent in 2018-19 — above the average rates seen in the decade prior to the mining boom — as the last of Australia's liquefied natural gas (LNG) projects under construction come online. This will be further supported in the near term by the remaining ramp-up in iron ore production. By the end of the forecast period, growth is expected to moderate to 2½ per cent in 2019-20, as the transition into the production phase of the mining boom is completed. By this time, mining exports should have roughly doubled since the start of the mining investment boom.

Continued demand from Asia for Australia's tourism and education services is expected to continue to support **services exports**, with sustained growth in short-term visitor arrivals and international student enrolments. China has recently overtaken New Zealand as the biggest source of short-term overseas visitors to Australia. Although economic growth in China is forecast to moderate in coming years, sustained demand for Australian services looks set to continue. Services exports are forecast to grow by 4½ per cent in 2017-18, 4 per cent in 2018-19 and 4 per cent in 2019-20.

Rural exports remain elevated after favourable weather conditions generated record agricultural production across many parts of Australia in 2016-17. This strength is expected to be followed by a fall in the near term, largely as seasonal conditions for the winter crop return to their historical average. While rural exports are forecast to fall by 5 per cent in 2017-18, they are then expected to grow by 1 per cent in 2018-19 and 1½ per cent in 2019-20, with increases anticipated across a number of agricultural products.

Imports are expected to reflect the broader conditions in the economy. Consumption imports are expected to grow solidly over the forecast period as strong labour market conditions support household consumption. Following strength in 2016-17, capital imports are forecast to rise moderately in 2017-18 and fall in 2018-19 as investment in Australia's large-scale mining projects — which have relied heavily on imported capital — winds down. Total imports are forecast to grow by 5 per cent in 2017-18, 2 per cent in 2018-19 and 2½ per cent in 2019-20.

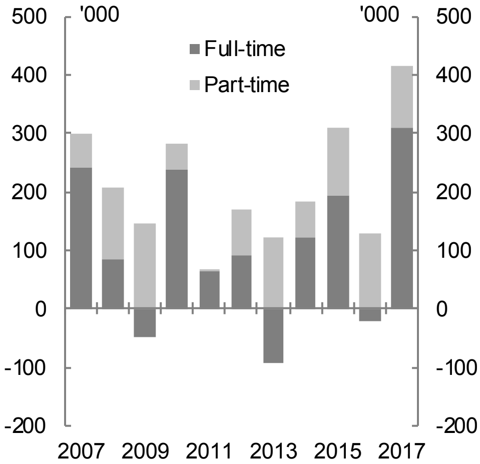
The labour market

The **labour market** strengthened substantially in 2017, with the creation of around 415,000 new jobs, representing the largest increase in employment ever recorded over the course of a calendar year (Chart 5). Full-time jobs accounted for around three-quarters of this growth, with broad-based employment growth across the States and Territories. Through the year to February 2018, employment expanded in 14 out of 19 industries, with the majority of jobs created in health care and social assistance, construction and retail trade (Box 3).

Leading indicators such as job advertisements and business survey measures of hiring intentions are consistent with continued jobs growth. This favourable outlook for employment growth is also supported by industry liaison, with reports of some labour market tightness in industries such as construction and information technology. The near-term employment growth forecast has been upgraded to 2¾ per cent through the year to the June quarter 2018, and is forecast to be 1½ per cent through the year to the June quarter 2019 and 1½ per cent through the year to the June quarter 2020.

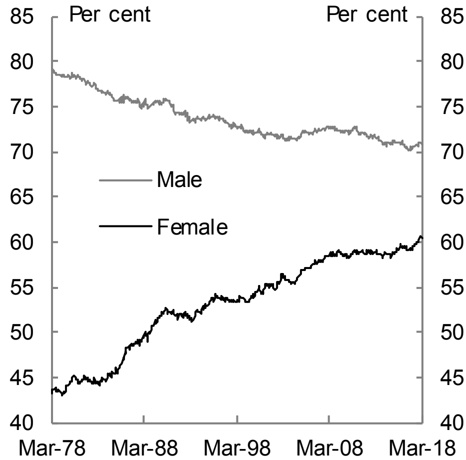
Strong employment outcomes have been accompanied by a marked rise in the **participation rate** to 65.5 per cent. Higher participation is consistent with a strong labour market as job seekers are encouraged into the labour force by improved employment prospects. Meanwhile, a notable rise in female participation has also seen a narrowing in the gap between male and female participation, bringing the gap to a record low in March 2018 (Chart 6). The participation rate is expected to remain around its currently elevated level over the forecast horizon.

Chart 5: Employment growth



Note: Through-the-year growth to December.
Source: ABS cat. no. 6202.0.

Chart 6: Participation rate by gender



Source: ABS cat. no. 6202.0.

The recent increase in the participation rate adds uncertainty around assessments of the degree of spare capacity in the labour market and hence wage pressures. The underemployment rate remains elevated at 8.4 per cent. Nevertheless, the **unemployment rate** has declined over the past year and is expected to fall further over the forecast period. The unemployment rate is forecast to be 5½ per cent in the June quarter 2018 before declining to 5¼ per cent by the June quarter of 2019.

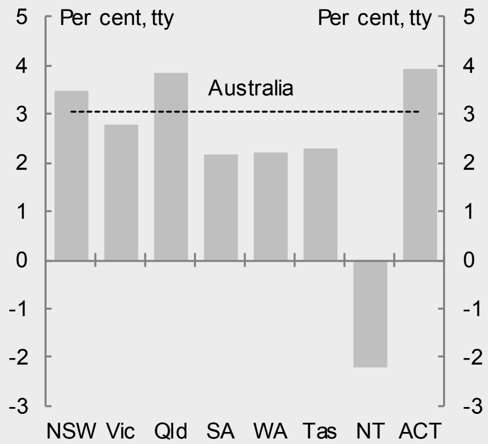
Box 3: Broad-based improvements in Australia's labour market

Since the start of the mining investment boom, regional disparities in economic performance have been mirrored by differences in labour market performance across the country. Over the past year, employment growth has been broad-based across most States and Territories, particularly in New South Wales, Queensland and Victoria (Chart A). The participation rate has also risen across most States and Territories, consistent with increased confidence about employment prospects.

On an industry basis, employment expanded in 14 out of 19 industries, with almost 80 per cent of jobs growth occurring in the health care and social assistance, construction and retail trade industries (Chart B).

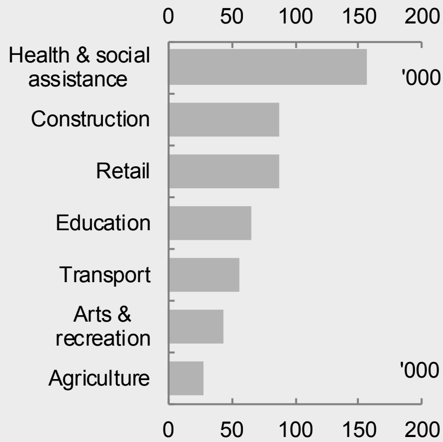
Box 3: Broad-based improvements in Australia's labour market (continued)

Chart A: Employment growth by state and territory



Note: Through-the-year growth to March 2018. Data are seasonally adjusted with the exception of data for the Northern Territory and the Australian Capital Territory which are trend estimates.
Source: ABS cat. no. 6202.0.

Chart B: Employment growth in selected industries



Note: Through-the-year growth to February 2018.
Source: ABS cat. no. 6291.0.55.003.

The health care and social assistance industry employs more people than any other industry and saw the creation of more than 150,000 jobs over the past year. Construction employment increased by around 88,000 persons, supported by activity in commercial building, infrastructure and housing construction. And while competitive challenges in the retail sector remain, the retail industry also added almost 88,000 jobs over the past year, with employment rising by around 7 per cent — the strongest growth in more than 12 years.

While the labour market has experienced broad-based improvements, **wage growth** remains subdued. Wages, as measured by the Wage Price Index, rose by 2.1 per cent through the year to the December quarter 2017, marking slightly stronger growth than in previous quarters. Industry liaison points to emerging pockets of skill shortages, most notably for specialist construction skills. Wage growth is forecast to pick up to 2¼ per cent through the year to the June quarter 2018, 2¾ per cent through the year to the June quarter 2019 and 3¼ per cent through the year to the June quarter 2020, as economic growth strengthens to be above its potential rate and excess capacity in the labour market is absorbed.

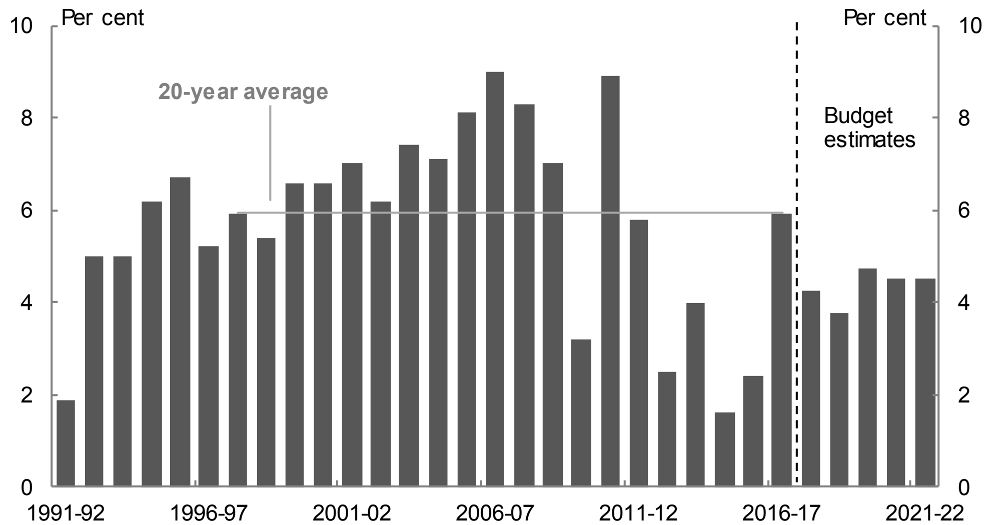
Consumer price inflation also remains subdued, with the Consumer Price Index increasing by 1.9 per cent through the year to the March quarter 2018. Several factors have weighed on recent consumer price inflation outcomes including subdued wage growth, ongoing competition among retailers, subdued rental price growth and price falls for telecommunications equipment and services. Tradable prices fell by 0.5 per cent through the year to the March quarter 2018 and continue to weigh on CPI growth. By contrast, non-traded CPI inflation was 3.1 per cent, supported by higher electricity prices and new dwelling construction costs. Inflation is expected to rise gradually over the forecast horizon as economic growth accelerates and wage growth picks up. Through-the-year growth in consumer prices is forecast to be 2 per cent in the June quarter 2018, 2¼ per cent in the June quarter 2019 and 2½ per cent in the June quarter 2020.

Outlook for nominal GDP growth

Nominal GDP is forecast to grow by 4¼ per cent in 2017-18, before moderating to 3¾ per cent growth in 2018-19 and then rising to 4¾ per cent growth in 2019-20 (Chart 7). The moderation in nominal GDP growth in 2018-19 reflects a more pronounced decline in the terms of trade.

The level of nominal GDP is expected to be around $70 billion higher over the five years to 2021-22 than in the MYEFO, with upgrades to the outlook for compensation of employees and mining profits.

Chart 7: Nominal GDP growth

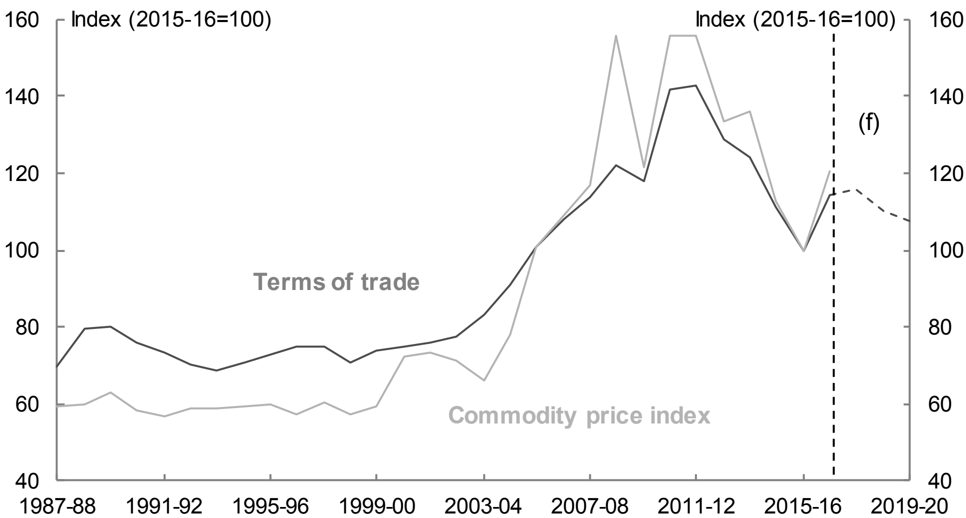


Source: ABS cat. no. 5206.0 and Treasury.

It is expected that wage and price growth will pick up over the forecast horizon, supporting growth in the nominal economy. By contrast, weak wage and price growth has constrained nominal GDP growth over recent years. If inflation and wage growth outcomes are lower than forecast, slower nominal GDP growth would constrain taxation receipts, though this will be partially offset by a fall in payments. For example, if inflation outcomes were ½ a percentage point lower in each of 2018-19 and 2019-20, the direct impact on the level of nominal GDP could result in it being around 0.8 per cent lower than forecast by 2019-20, resulting in a deterioration in the underlying cash balance of around $4 billion by 2019-20.

Movements in Australia's **terms of trade** significantly affect national income. The terms of trade are expected to be higher in 2017-18 compared with the MYEFO, largely reflecting recent strength in commodity prices (Chart 8; Box 4). The terms of trade are then expected to fall over the remainder of the forecast period, broadly in line with the view that prices of some key commodities will not be maintained at recently elevated levels. This judgment and consequent assumptions are supported by comprehensive market and industry consultation and have been in place since the 2016-17 MYEFO.

Chart 8: Commodity prices and the terms of trade



Note: (f) are forecasts.
Source: ABS cat. no. 5206.0, Reserve Bank of Australia and Treasury.

Following renewed bouts of strength over 2017 and early 2018 iron ore prices averaged US$67 per tonne free-on-board (FOB) in the March quarter 2018. Consistent with more recent declines, the **iron ore** spot price is assumed to be flat at US$55 per tonne FOB over the forecast horizon. This is consistent with the MYEFO assumption. Meanwhile, after significant volatility over the past two years, strength in **metallurgical coal** prices has persisted and prices are now assumed to fall a little later than in the MYEFO. The spot price of metallurgical coal is assumed to fall over the June and September quarters of 2018 to reach US$120 per tonne FOB in the December quarter 2018, the same price level as MYEFO. **Thermal coal** spot prices have also persisted at elevated levels and are now assumed to remain higher, at US$93 per tonne FOB over the forecast period, consistent with a recent average and the expected Japanese Fiscal Year contract price.

As ever, commodity prices are volatile and the outlook for commodity prices remains a key uncertainty in the outlook for nominal GDP. As detailed in Table 3, if metallurgical coal prices were to fall immediately to US$120 per tonne FOB, almost two quarters earlier than assumed, nominal GDP could be around $0.6 billion lower than forecast in 2017-18 and $2.8 billion lower in 2018-19. This would result in a decrease in tax receipts of around $0.5 billion in 2018-19 and $0.3 billion in 2019-20.

By contrast, if metallurgical coal prices were to remain elevated for almost two quarters longer than currently assumed, before falling immediately to US$120 per tonne FOB, nominal GDP could be around $0.2 billion higher than forecast in 2017-18 and $3.1 billion higher in 2018-19. This would result in an increase in tax receipts of around $0.6 billion in 2018-19 and $0.2 billion in 2019-20.

Further details on how movements in commodity prices can affect the Australian economy are detailed in Budget Statement 8.

Table 3: 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$120/tonne FOB		
	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20
Nominal GDP ($billion)	0.2	3.1	-	-0.6	-2.8	-
Tax receipts ($billion)	0.0	0.6	0.2	-0.0	-0.5	-0.3

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

Box 4: A resurgence in key commodity prices

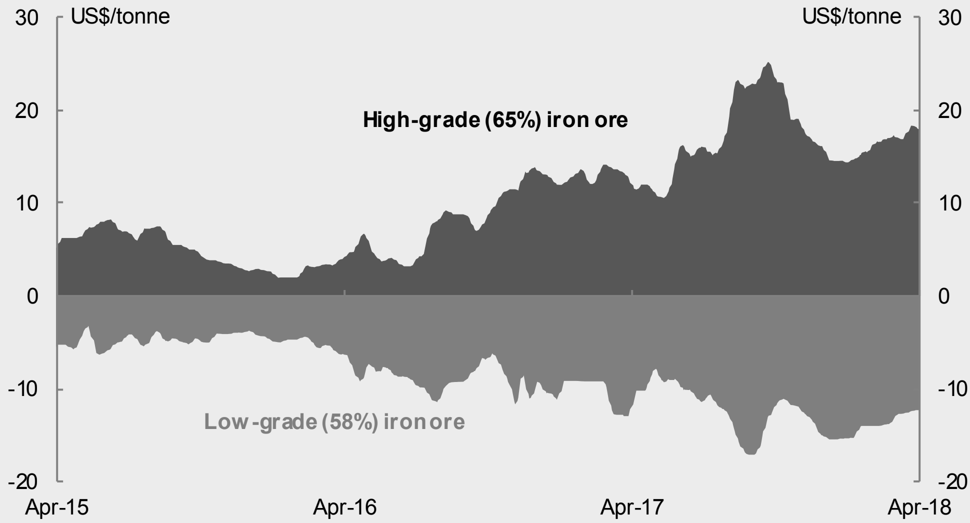
Developments in global industrial production over the past decade, particularly in China, have had a strong influence on commodity markets. After falling steadily from the peak of the terms of trade boom in 2011-12, commodity prices have shown renewed strength and volatility in the past couple of years. Developments in commodity markets continue to contribute to uncertainty in the outlook.

Changes in the iron ore industry

Australia remains the world's largest exporter of iron ore and produces some of the lowest-impurity and most consistent high-grade exports worldwide. High-grade iron ore drives key efficiencies in steel production, with less energy required to extract higher volumes of iron and lower emissions generated from production. These attributes have become desirable in China's steel industry, as record high margins have encouraged mills to acquire more expensive, high-grade iron ore inputs; and government-mandated measures to combat pollution have incentivised energy conservation. While high steel margins are likely to be cyclical, increased emphasis on environmental considerations might represent a more structural change to the procurement behaviour for iron ore products.

China accounts for more than 80 per cent of Australia's iron ore exports and changes in Chinese steel-mill procurement are affecting iron ore price differentials. Demand for high-grade supply has driven an increase in the premium paid for this iron ore, while lower grade iron ore is attracting larger discounts (Chart A). As a result, producers of high-grade iron ore are benefiting from an increase in both demand and prices for their high-grade reserves, while producers of low-grade reserves are experiencing significant price discounts.

Chart A: Price spreads for high and low-grade iron ore



Note: Spot price data reflect seven-day moving averages and represent the difference from 62% grade iron ore.
Source: S&P Global Platts and Treasury.

Box 4: A resurgence in key commodity prices (continued)

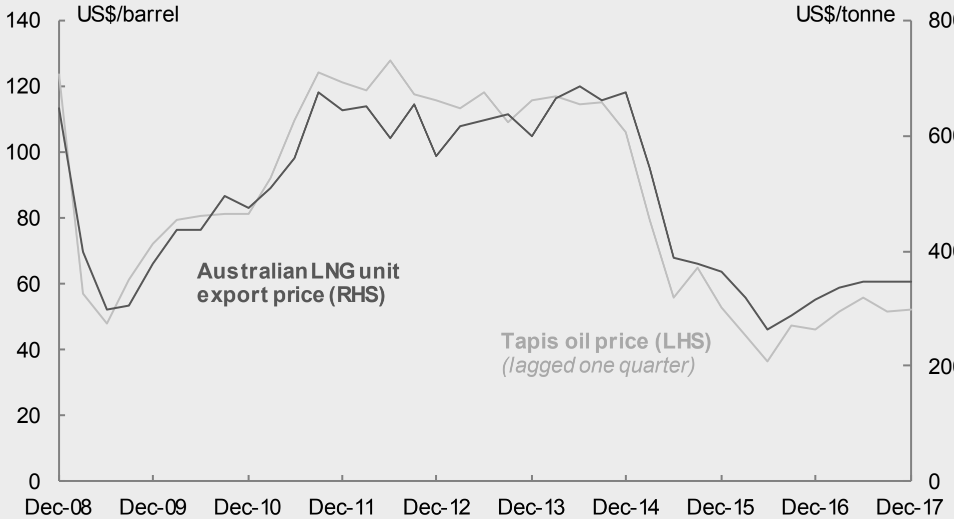
Australia's exposure to low-grade production is being buffered by its higher quality output. Lower impurities in much of Australia's iron ore reserves are providing a comparative advantage over other key global iron ore producers. The greater demand for high-grade iron ore has also been a key driver of renewed price increases over the past year.

Oil providing upside support to the price outlook

Australia recently became a net exporter of oil and gas driven by the vast expansion in its LNG sector. Australia remains on track to become the world's largest exporter of LNG over the next few years and much of this will be sold under long-term contracts which are linked to the price of oil (Chart B). As a result, movements in global oil prices will have a larger effect on Australia's export prices than in the past.

Remarkable developments in oil markets over the earlier part of the decade saw a sustained period where oil prices stabilised in excess of US$100 per barrel. But this retracted rapidly in late 2014, when prices roughly halved over a six-month period, before reaching a low of US$28 per barrel by early 2016. This came at a time when Australia's significant investment in LNG capacity was beginning to come online, and weighed heavily on the outlook for the oil and gas sector.

Chart B: Oil prices continue to influence Australian LNG pricing



Note: Tapis prices reflect quarterly averages of daily data. While prices reached a low of US$28 per barrel in January 2016, the average price realised over the March 2016 quarter was US$36 per barrel.
Source: ABS cat. no. 5203.0 and 5368.0, Bloomberg and Treasury.

More recently, however, there has been a renewed rally in oil prices to some of the highest levels seen in over three years. Going forward, oil prices are expected to continue to be heavily influenced by supply responses from the US shale oil industry and the *Organization of the Petroleum Exporting Countries*. That said, any further rise in oil prices should provide an upside risk to the outlook for nominal GDP.

Medium-term projections

The fiscal aggregates in this year's Budget are underpinned by economic forecasts for the current financial year, 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 medium-term projection methodology, as outlined in the 2014-15 Budget, assumes that spare capacity in the economy is absorbed over five years following the forecast period. This is a well-established approach but it is not without drawbacks. The sensitivity of the projections to different adjustment periods is presented in Budget Statement 8.

As spare capacity is absorbed, productivity and labour market variables — including employment and the participation rate — are assumed to converge to their long-run levels. To absorb the spare capacity in the economy, real GDP from 2020-21 is then projected to grow faster than potential at 3 per cent. By the end of 2024-25 spare capacity is absorbed and real GDP is projected to grow at its potential rate thereafter.

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 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 mid-point of the RBA's medium-term target band. The terms of trade are projected to remain flat at around their 2005 level from 2021-22.

STATEMENT 3: FISCAL STRATEGY AND OUTLOOK

The 2018-19 Budget shows a further improvement in the fiscal position across the forward estimates and the medium term. The expected underlying cash balances for 2017-18 and 2018-19 are the strongest since the Global Financial Crisis (GFC).

The Government's prudent fiscal management is helping to return the budget to balance in 2019-20 and deliver sustainable surpluses from 2020-21, as previously projected, while also providing tax relief. Whilst larger surpluses could be achieved by not constraining tax revenue, the Government has formalised its tax-to-GDP cap of 23.9 per cent as part of its fiscal strategy to support stronger economic growth.

In addition, the budget balance is expected to move into structural surplus predominantly as a result of reductions in structural payments.

The underlying cash balance is expected to improve from a deficit of $14.5 billion (0.8 per cent of GDP) in 2018-19, returning to a budget balance of $2.2 billion (0.1 per cent of GDP) in 2019-20. Sustainable surpluses are projected from 2020-21, reaching $16.6 billion (0.8 per cent of GDP) in 2021-22. The underlying cash balance is projected to remain in surplus over the medium term, reaching a projected surplus exceeding 1 per cent of GDP by 2026-27.

The payments-to-GDP ratio is expected to fall from 25.4 per cent in 2018-19 to 24.7 per cent in 2021-22, bringing it below the 30 year historical average of 24.8 per cent.

Net debt is expected to peak at 18.6 per cent of GDP in 2017-18, before turning the corner and declining in each year of the forward estimates and the medium term, falling to 3.8 per cent of GDP by 2028-29.

The Government remains committed to its medium-term fiscal and budget repair strategies. This Budget maintains fiscal discipline, delivers sustainable surpluses, strengthens the Government's balance sheet, lowers the tax burden and continues to redirect government spending to quality investment to strengthen the economy.

CONTENTS

STATEMENT 3: FISCAL STRATEGY AND OUTLOOK

OVERVIEW

The 2018-19 Budget is the sixth successive economic and fiscal update where the underlying cash balance is projected to reach a surplus in 2020-21 and be sustained over the following decade. This Budget brings a further improvement in the fiscal position across the forward estimates and beyond, reflecting stronger economic growth and continued fiscal discipline.

The expected 2018-19 underlying cash deficit (at 0.8 per cent of GDP) — and the 2017-18 forecast budget outcome — are the smallest since the GFC and further improvements are expected across each year of the forward estimates. The underlying cash balance is forecast to return to balance in 2019-20, before increasing to a projected surplus of $11.0 billion (0.5 per cent of GDP) in 2020-21, $16.6 billion (0.8 per cent of GDP) in 2021-22 and remain in surplus over the medium term, reaching a projected surplus over 1 per cent of GDP by 2026-27.

The net operating balance, which focuses on recurrent expenses and revenue, is presented alongside the underlying cash balance to emphasise the sustainability of the Government's operating activities, such as ongoing health, social services and education programs. The net operating balance also includes depreciation of existing assets and grant payments to State and Territory governments for capital investment, however it does not include net new capital investment which is included in the underlying cash balance.

The net operating balance is expected to improve from a deficit of $2.4 billion (0.1 per cent of GDP) in 2018-19, returning to a surplus of $8.6 billion (0.4 per cent of GDP) in 2019-20 and increasing to a projected surplus of $27.4 billion (1.3 per cent of GDP) in 2021-22, as shown in Table 1.

Table 1: Budget aggregates

	Actual	Estimates			Projections		
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	Total(a)
Underlying cash balance ($b)(b)	**-33.2**	**-18.2**	**-14.5**	**2.2**	**11.0**	**16.6**	**15.3**
Per cent of GDP	-1.9	-1.0	-0.8	0.1	0.5	0.8	
Net operating balance ($b)	**-32.1**	**-12.6**	**-2.4**	**8.6**	**19.6**	**27.4**	**53.2**
Per cent of GDP	-1.8	-0.7	-0.1	0.4	0.9	1.3	

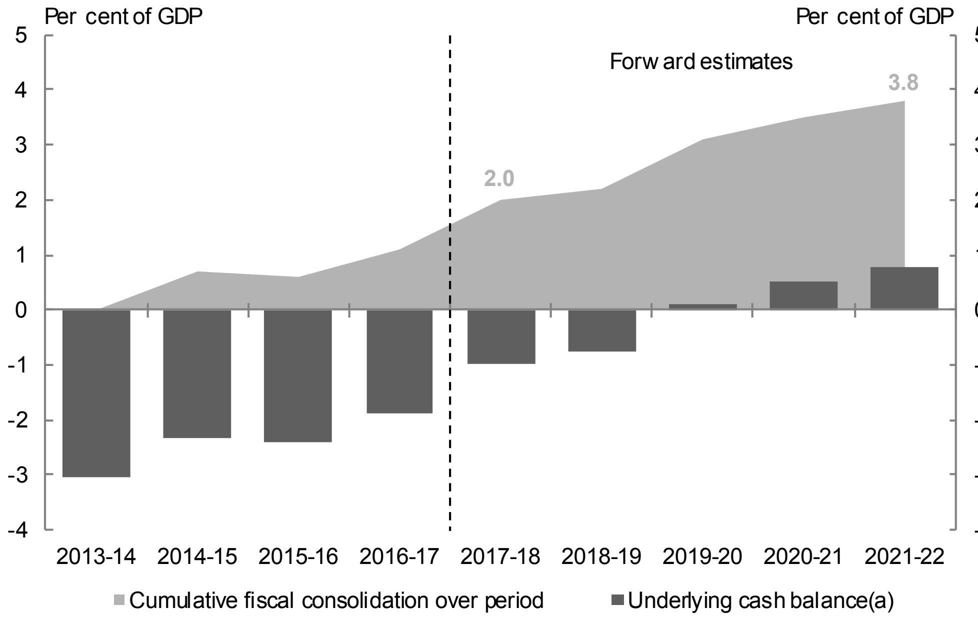
(a) Total is equal to the sum of amounts from 2018-19 to 2021-22.
(b) Excludes expected net Future Fund earnings before 2020-21.

Taking into account spending on grants to State and Territory governments for capital investment, on a cash basis the Government in 2017-18 is no longer borrowing to meet recurrent spending — the first time in a decade. This helps create room for investing in productivity-enhancing infrastructure. See *Statement 4: Public Investment and Productivity* for detailed information on the Government's recurrent and capital investment spending.

As a result of the improved budget outcome in 2017-18, net debt is now expected to peak at 18.6 per cent of GDP in 2017-18, one year earlier than expected at the 2017-18 MYEFO. Net debt is then expected to turn the corner and decline in each year of the forward estimates and the medium term, falling to 3.8 per cent of GDP by 2028-29.

The Government is delivering on its commitment to return the budget to balance in a responsible way. Since 2013-14 the Government's fiscal and economic management has led to a 2.0 percentage point improvement in the underlying cash balance-to-GDP ratio. From 2018-19 an additional 1.8 percentage points of fiscal consolidation is expected across the forward estimates, as shown in Chart 1.

Chart 1: Underlying cash balance to GDP – pace of fiscal consolidation



(a) The underlying cash balance includes expected net Future Fund earnings from 2020-21.

The underlying cash balance surplus is projected to peak at 1.2 per cent of GDP over the medium term.

FISCAL STRATEGY

The Government's fiscal strategy sets out a number of guiding principles for repairing the budget and maintaining fiscal sustainability over the medium term. The Government has placed constraints on both expenditure and taxation to repair the budget responsibly and support a stronger economy. This includes capping taxes at 23.9 per cent of GDP. The Government's fiscal strategy is consistent with the requirements of the *Charter of Budget Honesty Act 1998* and is set out 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, while:
  - maintaining a sustainable tax burden consistent with the economic growth objective, including through maintaining the tax-to-GDP ratio at or below 23.9 per cent of GDP; 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 for a stronger economy

The Government is implementing its plan to build a stronger economy by providing tax relief to encourage and reward working Australians, backing businesses to invest and create more jobs, guaranteeing the essential services on which Australians rely, keeping Australians safe and ensuring that the Government lives within its means.

The Government is providing **tax relief to encourage and reward working Australians.** The Government's Personal Income Tax Plan lowers taxes, including through targeted tax cuts to low and middle income earners, helping to protect what Australians earn from the impact of bracket creep and making personal taxes simpler and fairer. Under the Government's Personal Income Tax Plan, 94 per cent of all taxpayers are projected to pay no more than 32.5 cents in the dollar in 2024-25.

The Personal Income Tax Plan complements the Government's Enterprise Tax Plan, which reduces the tax burden on investment and keeps Australia competitive, with the benefits of the changes flowing through to productivity and then to workers in the form of higher wages. Together these reforms make the tax system more internationally competitive, reward effort and support investment, jobs and economic growth.

In this Budget, the Government has formalised its 23.9 per cent tax-to-GDP cap within its fiscal strategy. Whilst the tax system exists to fund the essential services that Australians expect and are entitled to receive, the cap ensures the Government lives within its means by not imposing an increasing tax burden on Australians over time, which would adversely affect growth, costing jobs and investment.

The Budget continues to **back businesses to invest and create more jobs** by investing in infrastructure and maintaining the international competitiveness of Australian industry to deliver a stronger and smarter economy.

The Government is investing in priority national infrastructure and supporting the international competitiveness of Australian industry. The Government is funding $24.5 billion in new major projects and initiatives that will benefit every State and Territory. These form part of the Government's $75 billion investment in transport infrastructure over the next decade.

The Government is also continuing to invest in science, medical research and technology to maximise the benefits of the smart economy. This includes a $1.3 billion National Health and Medical Industry Growth Plan designed to generate economic returns and accelerate Australia's competitive advantage as a global health industry leader in the medical technology, biotechnology and pharmaceuticals sectors. The Government is also promoting Australia's international competitiveness by recognising the importance of more open trade, improving access to markets and supporting Australia's agricultural and defence industry exports.

The Budget also focuses on **guaranteeing the essential services on which Australians rely.** The Government is continuing to guarantee Medicare and is providing significant new funding for hospitals. The Government is making sure that record levels of funding committed in the 2017-18 Budget deliver better educational outcomes for every student. The Government is fully funding its share of the National Disability Insurance Scheme. The More Choices for a Longer Life Package includes measures which support Australians to be prepared to live a healthy, independent, connected and safe life. Further, reforms to the superannuation regulatory framework will protect Australians' retirement savings from being eroded by excessive fees and inappropriate insurance arrangements and small, inactive superannuation accounts will be automatically reunited with people's active accounts.

The Government has increased funding to **keep Australians safe**. The Budget includes additional funding for enhancing aviation security, managing biosecurity risks, protecting Australia's borders and investing in national security agencies in response to the increasingly complex and challenging security environment. The Government has maintained funding for Operation Sovereign Borders to support operation of the Australian Border Force Cutter Ocean Shield at surge capacity and the integrity of the border arrangements to combat the continuing threat of people smugglers.

The Government is living within its means by not burdening future generations with debt to fund recurrent spending. The Budget includes a range of measures to safeguard the integrity of the tax system, including in response to the Black Economy Taskforce Final Report and the 2016 review of the Research and Development Tax Incentive. The Government is also introducing measures, building on previous reforms, to ensure multinationals and foreign investors are paying their fair share of Australian tax. Measures include limiting access to tax concessions for foreign investors and reforming the taxation of stapled structures, which is estimated to provide a gain to revenue of $400.0 million over the forward estimates period.

Further details on the Government's plan to build a stronger economy can be found in *Statement 1: Budget Overview.*

Returning the budget to balance

The expected 2018-19 underlying cash deficit of $14.5 billion (0.8 per cent of GDP) — and the 2017-18 forecast budget deficit — are the smallest since the GFC. The underlying cash balance is forecast to return to balance in 2019-20, before increasing to a projected surplus of $11.0 billion (0.5 per cent of GDP) in 2020-21 and $16.6 billion (0.8 per cent of GDP) in 2021-22, as shown in Table 2.

Table 2: Australian Government general government sector budget aggregates

	Actual	Estimates			Projections		
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	Total(a)
	$b	$b	$b	$b	$b	$b	$b
Receipts	**409.9**	**445.1**	**473.7**	**503.7**	**525.5**	**554.0**	**2,056.8**
Per cent of GDP	23.3	24.3	24.9	25.3	25.2	25.5	
Payments(b)	**439.4**	**459.9**	**484.6**	**497.5**	**514.5**	**537.3**	**2,034.0**
Per cent of GDP	25.0	25.1	25.4	25.0	24.7	24.7	
Net Future Fund earnings(c)	3.6	3.5	3.6	3.9	na	na	7.5
Underlying cash balance(d)	**-33.2**	**-18.2**	**-14.5**	**2.2**	**11.0**	**16.6**	**15.3**
Per cent of GDP	-1.9	-1.0	-0.8	0.1	0.5	0.8	
Revenue	**415.7**	**456.2**	**486.1**	**512.8**	**537.9**	**568.2**	**2,105.0**
Per cent of GDP	23.6	24.9	25.5	25.7	25.8	26.1	
Expenses	**447.8**	**468.8**	**488.6**	**504.2**	**518.2**	**540.8**	**2,051.8**
Per cent of GDP	25.5	25.5	25.7	25.3	24.9	24.9	
Net operating balance	**-32.1**	**-12.6**	**-2.4**	**8.6**	**19.6**	**27.4**	**53.2**
Per cent of GDP	-1.8	-0.7	-0.1	0.4	0.9	1.3	
Net capital investment	2.9	0.7	5.0	4.9	6.7	8.0	24.6
Fiscal balance	**-35.0**	**-13.4**	**-7.4**	**3.7**	**12.9**	**19.4**	**28.6**
Per cent of GDP	-2.0	-0.7	-0.4	0.2	0.6	0.9	
Memorandum items:							
Net Future Fund earnings(c)	3.6	3.5	3.6	3.9	4.2	4.5	16.1
Headline cash balance	-43.0	-37.1	-27.6	-8.1	21.0	7.8	-6.9

(a) Total is equal to the sum of amounts from 2018-19 to 2021-22.
(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 spending restraint will be necessary to maintain the current trajectory of surpluses beyond 2020-21. Consistent with the fiscal strategy, the Government will continue to offset new spending decisions with savings and keep taxes under control, while strengthening the economy to provide scope for further tax relief.

Compared with the 2017-18 MYEFO, the 2018-19 Budget forecasts for tax receipts have been revised up by $12 billion over the four years to 2021-22, driven by upward revisions of $25.9 billion due to parameter and other variations.

Forecast tax receipts have been revised up with the strengthening Australian economy creating conditions for an improved labour market outlook. The largest contribution to the upward revision owing to parameter and other variations is from gross income tax withholding, with stronger forecasts for employment since the 2017-18 MYEFO contributing to higher forecasts for gross income tax withholding of $13 billion over the four years to 2021-22, excluding new policy.

This is partly offset by policy decisions to lower the tax burden on Australians, including the Government's Personal Income Tax Plan and retaining the Medicare levy rate at 2 per cent. Policy decisions are expected to decrease tax receipts by $13.9 billion over the four years to 2021-22.

The Government's commitment to expenditure restraint aims to ensure that its share of the economy continues to return to historical levels over the forward estimates period. The payments-to-GDP ratio in 2018-19 is 25.4 per cent, falling to 24.7 per cent in 2021-22, bringing it below the 30 year average of 24.8 per cent.

Consistent with the fiscal strategy the Government has offset all new spending decisions with saves elsewhere in the Budget. The net impact of payment decisions in the 2018-19 Budget is a reduction in payments of $404 million over the four years from 2018-19.

Real payments growth over the forward estimates from 2018-19 is expected to be 1.6 per cent each year on average.

The underlying cash balance is projected to record modest surpluses at the end of the forward estimates and build steadily to exceed 1 per cent of GDP by the end of the medium term. Without policy decisions to lower the tax burden, these projections would have seen the tax-to-GDP cap of 23.9 per cent being exceeded in 2021-22. See Box 2: *The Personal Income Tax Plan and the medium term*.

Box 2: The Personal Income Tax Plan and the medium term

The Government will provide tax relief to encourage and reward working Australians as part of its seven-year Personal Income Tax Plan.

The Personal Income Tax Plan is fully funded in the forward estimates and medium-term fiscal projections, with the underlying cash balance returning to balance in 2019-20 and sustained surpluses thereafter over the medium term.

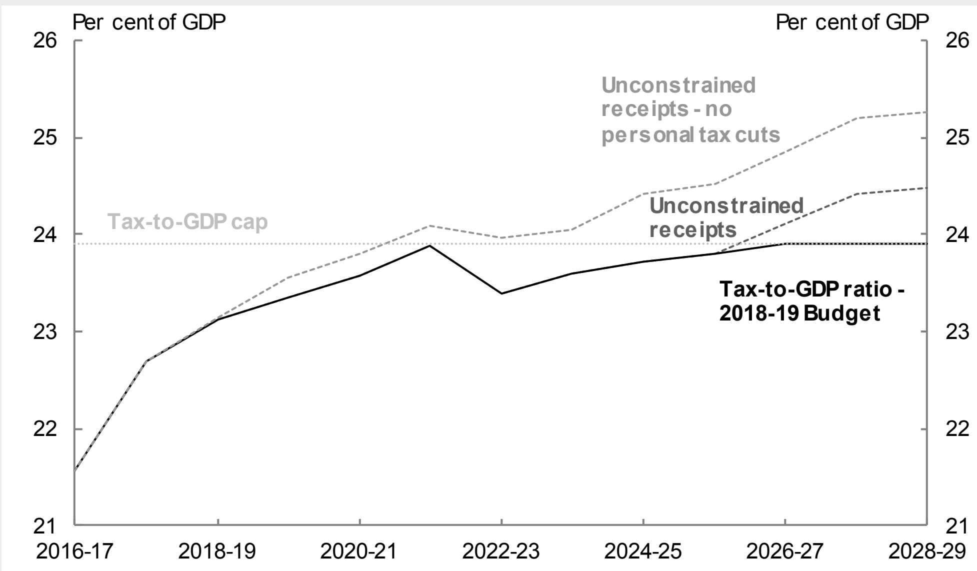
The projections for the medium-term tax receipts take into account all Government policy, including the Personal Income Tax Plan. From 2026-27 when tax receipts after accounting for policy are projected to exceed 23.9 per cent of GDP, the Government's commitment to not allow tax receipts to exceed this share of GDP is also applied.

The Personal Income Tax Plan is expected to reduce tax receipts by $13.4 billion over the forward estimates.

Projections of the receipts impact over the medium term are subject to higher levels of uncertainty and are sensitive to changes in economic conditions, underlying assumptions and forecasts.

As shown in Chart 2, under the Personal Income Tax Plan tax receipts will now be below 23.9 per cent of GDP until 2026-27, while without the Personal Income Tax Plan receipts would exceed 23.9 per cent of GDP from 2021-22.

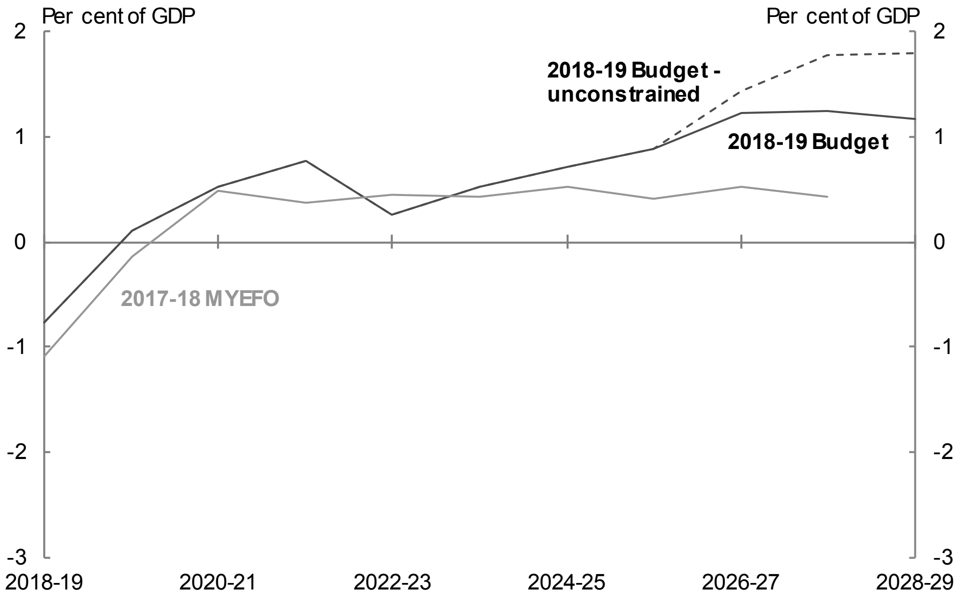
Chart 2: Tax-to-GDP ratio showing the impact of the Personal Income Tax Plan



Source: Treasury projections.

Chart 3 shows the projection of the underlying cash balance to 2028-29 reaching a surplus of more than 1 per cent of GDP from 2026-27, an improvement on the 2017-18 MYEFO projection. The chart also illustrates the underlying cash balance projected to 2028-29 without the tax-to-GDP cap constraint adopted by the Government's fiscal strategy. This would be unrealistic, as unconstrained revenue projections imply constantly increasing average tax rates on personal income. In the absence of this policy, the underlying cash balance is projected to reach a surplus of 1.8 per cent of GDP in 2028-29.

Chart 3: Underlying cash balance projected to 2028-29



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2026-27. Net Future Fund earnings are included in projections of the underlying cash balance from 2020-21.
Source: Treasury projections.

Compared with the 2017-18 MYEFO, projections of the underlying cash balance over the medium term have improved, driven mainly by lower projected payments. The fall in the underlying cash surplus in 2022-23 reflects the impact of the Government's Personal Income Tax Plan.

The lower payment projections have been driven by lower than expected recipient numbers for Government payments to individuals over the forward estimates, which have flowed through to the medium term. Compared with the 2017-18 MYEFO projections, there is a reduction in the projected growth of Age Pension expenditure over the medium term. This is, in part, a reflection of increased labour force participation rates in older age cohorts, leading to higher wealth for those reaching Age Pension age.

Refinements to the long-run yield assumption have also contributed to the stronger medium-term fiscal outlook. Over the medium term, yields are now assumed to converge to a long-run yield curve based on a ten-year yield of 5 per cent (down from 6 per cent), consistent with the Long-Term Cost Report. See *Box 6: Impact of alternative yield assumptions* in Statement 3 of the 2017-18 Budget. The long-run yield assumption reflects the view that there has been a structural fall in long-term borrowing costs.

The medium-term projections reflect the assumption that current policy settings do not change over the medium term. The Government will remain focused on ongoing expenditure restraint in order to deliver on the medium-term fiscal and budget repair strategies.

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

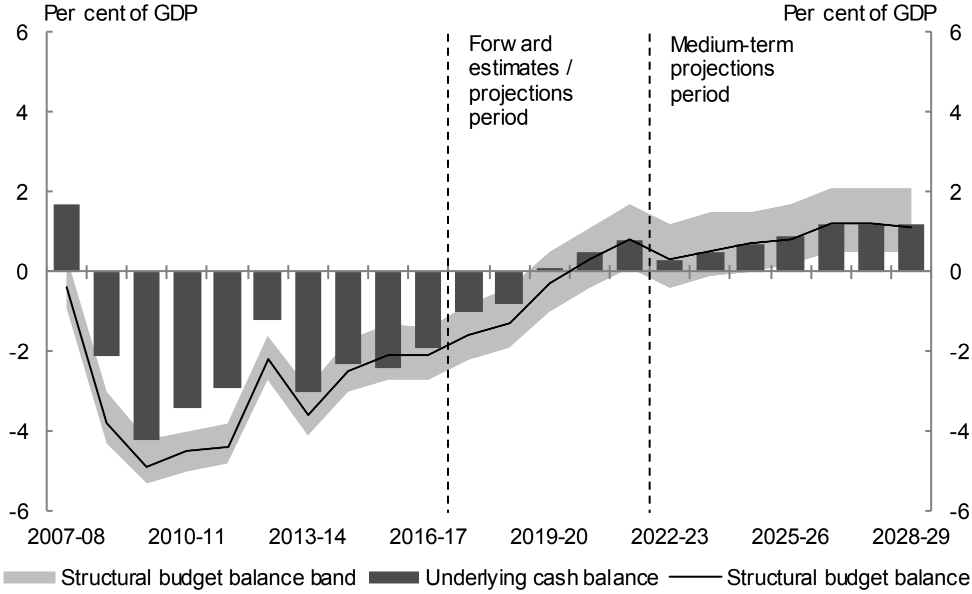
The structural budget balance improves from a deficit of around 1.25 per cent of GDP in 2018-19 to a series of surpluses from 2020-21 onwards before converging with the underlying cash balance at the end of the medium term (Chart 4).

Restoring the structural integrity of the budget is crucial for achieving surpluses on average over the economic cycle and tackling 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.

Compared with the 2017-18 MYEFO, revisions to cyclical factors overall have had a negligible impact on the structural budget balance over the forward estimates and medium term. Therefore, improvements in the structural budget balance over this period are largely due to projected reductions in structural payments.

Chart 4: 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.

Strengthening the Government's balance sheet over time

A strong balance sheet provides the Government with flexibility to respond to unanticipated events during times of financial crises or economic shocks. Key aggregates of fiscal sustainability are set out in Table 3.

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 peak at 18.6 per cent of GDP in 2017-18, which is one year earlier and below the peak (at 19.2 per cent of GDP) expected at the 2017-18 MYEFO. This is due to a range of factors, including the improvement in the underlying cash balance and a fall in the market value of Commonwealth Government Securities (CGS) due to higher average yields. After turning the corner in 2017-18, net debt is then projected to decline as a share of GDP to 14.7 per cent by 2021-22. Refer to *Statement 7: Debt Statement, Assets and Liabilities* for further information.

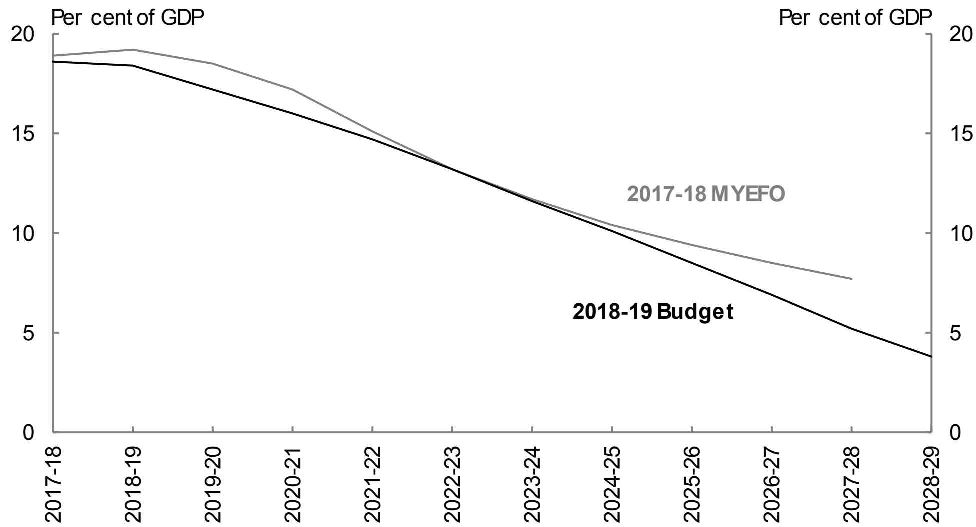
Net debt is projected to continue to improve over the medium term, falling to about 5.2 per cent of GDP by 2027-28 (Chart 5). This is 2.5 per cent of GDP lower than projected at the 2017-18 MYEFO. Net debt is then projected to fall to 3.8 per cent of GDP by 2028-29.

Table 3: Net worth, net financial worth, net debt and net interest payments

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$b	$b	$b	$b	$b
Financial assets	406.2	422.6	450.5	450.6	485.1
Non-financial assets	141.1	145.3	150.5	156.6	163.9
Total assets	**547.3**	**568.0**	**601.1**	**607.2**	**649.0**
Total liabilities	**872.5**	**905.6**	**932.6**	**921.9**	**939.0**
Net worth	**-325.2**	**-337.6**	**-331.6**	**-314.7**	**-290.0**
Net financial worth(a)	**-466.3**	**-482.9**	**-482.1**	**-471.3**	**-453.9**
Per cent of GDP	-25.4	-25.4	-24.2	-22.6	-20.9
Net debt(b)	**341.0**	**349.9**	**344.0**	**334.3**	**319.3**
Per cent of GDP	18.6	18.4	17.3	16.1	14.7
Net interest payments	**13.1**	**14.5**	**12.2**	**12.4**	**12.2**
Per cent of GDP	0.7	0.8	0.6	0.6	0.6

(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 5: Net debt projected to 2028-29



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2026-27.
Source: Treasury projections.

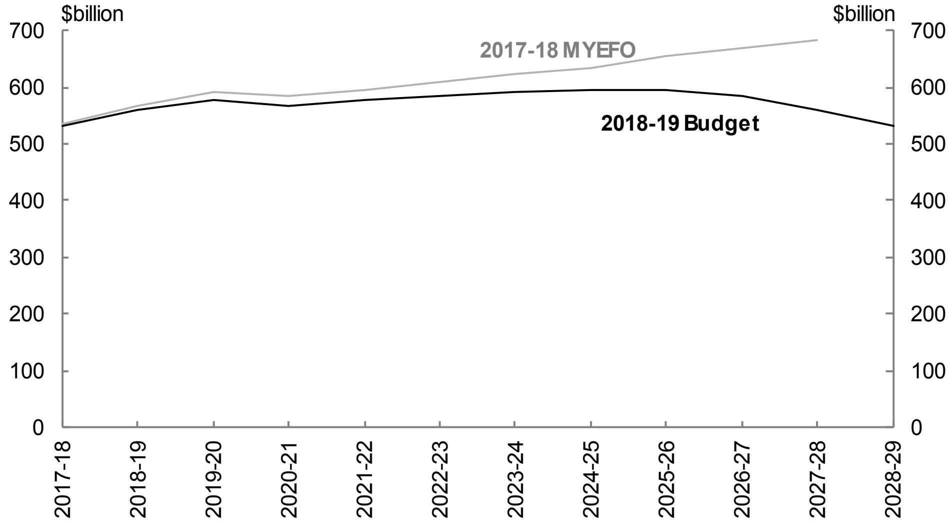
The face value of CGS on issue (gross debt) is projected to rise from $561 billion in 2018-19 to $578 billion by the end of the forward estimates, reflecting the Government's infrastructure spending. Gross debt is projected to fall to around $532 billion by 2028-29. At the 2017-18 MYEFO, gross debt was projected to be $684 billion in 2027-28.

The projected fall in the level of gross debt is largely driven by the improvement in the underlying cash balance over the medium term.

Gross debt levels over the medium term also reflect the Government's decision not to draw down on the Future Fund's earnings to meet unfunded superannuation liabilities.

The projected face value of CGS on issue is shown in Chart 6.

Chart 6: Face value of CGS on issue projected to 2028-29



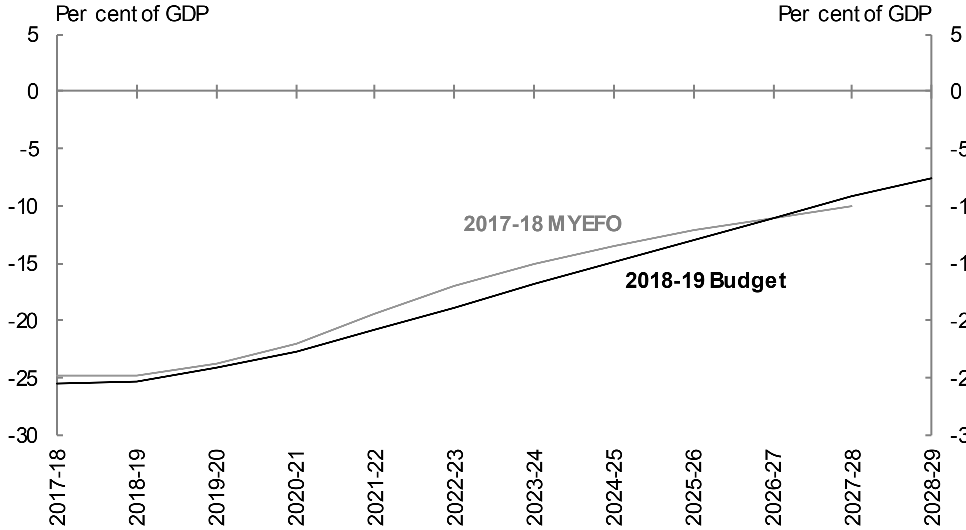
Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2026-27.
Source: Australian Office of Financial Management and Treasury projections.

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 sector superannuation liability that the Future Fund seeks to finance.

Net financial worth is estimated to be -$482.9 billion (-25.4 per cent of GDP) in 2018-19, $14.9 billion lower than estimated at the 2017-18 MYEFO. Compared with the 2017-18 MYEFO, net financial worth has deteriorated over the forward estimates to 2020-21. Net financial worth estimates are sensitive to assumptions about yields. The estimated fall primarily reflects an increase in the unfunded public sector superannuation liability due to a change in the long-run yield assumption from 6 per cent to 5 per cent.

Consistent with the Government's fiscal strategy, net financial worth improves as a share of GDP over the medium term, reaching -7.5 per cent of GDP by 2028-29 (Chart 7).

Chart 7: Net financial worth projected to 2028-29



Source: Treasury projections.

Net worth is expected to be -$337.6 billion in 2018-19, $14.3 billion worse than estimated at the 2017-18 MYEFO. Net worth is expected to be -$290.0 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 $14.5 billion (0.8 per cent of GDP) is expected in 2018-19, returning to balance in 2019-20 and improving to a projected surplus of $16.6 billion (0.8 per cent of GDP) in 2021-22.

In accrual terms, a **net operating deficit** of $2.4 billion (0.1 per cent of GDP) is expected for 2018-19, improving to a forecast surplus of $8.6 billion (0.4 per cent of GDP) in 2019-20 and a larger projected surplus of $27.4 billion (1.3 per cent of GDP) in 2021-22.

A **headline cash deficit** of $27.6 billion is expected in 2018-19, improving to a projected surplus of $7.8 billion in 2021-22.

Table 4 provides a summary of the cash flows of the Australian Government general government sector.

Table 4: Summary of Australian Government general government sector cash flows

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$b	$b	$b	$b	$b
Cash receipts					
Operating cash receipts	443.8	473.0	502.0	525.2	553.8
Capital cash receipts(a)	1.3	0.7	1.6	0.2	0.2
Total cash receipts	445.1	473.7	503.7	525.5	554.0
Cash payments					
Operating cash payments	445.8	470.7	483.0	498.6	520.1
Capital cash payments(b)	14.1	14.0	14.5	15.9	17.2
Total cash payments	459.9	484.6	497.5	514.5	537.3
GFS cash surplus(+)/deficit(-)	**-14.7**	**-10.9**	**6.2**	**11.0**	**16.6**
Per cent of GDP	-0.8	-0.6	0.3	0.5	0.8
less Finance leases and similar arrangements(c)	0.0	0.0	0.0	0.0	0.0
less Net Future Fund earnings(d)	3.5	3.6	3.9	na	na
Underlying cash balance(e)	**-18.2**	**-14.5**	**2.2**	**11.0**	**16.6**
Per cent of GDP	-1.0	-0.8	0.1	0.5	0.8
Memorandum:					
Net cash flows from investments in financial assets for policy purposes	-22.4	-16.7	-14.2	10.0	-8.8
plus Net Future Fund earnings(d)	3.5	3.6	3.9	na	na
Headline cash balance	**-37.1**	**-27.6**	**-8.1**	**21.0**	**7.8**
Net Future Fund earnings(d)	3.5	3.6	3.9	4.2	4.5

(a) Equivalent to cash receipts from the sale of non-financial assets in the cash flow statement.
(b) Equivalent to cash payments for purchases of non-financial assets in the cash flow statement.
(c) 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.
(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.
(e) Excludes expected net Future Fund earnings before 2020-21.

Progress on budget repair measures

Since the 2016 Pre-election Economic and Fiscal Outlook (PEFO), the Government has made significant progress in implementing 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 $41 billion.

The Government is committed to continuing to work with the Parliament to secure the successful passage of remaining unlegislated measures that contribute to the task of budget repair. The estimated impact over the forward estimates of remaining budget repair measures, announced prior to the 2018-19 Budget, and after taking account of parameter changes, is $6.7 billion. This comprises around $0.4 billion of receipt increases and around $6.3 billion of payments saves. The net impact of budget repair measures announced prior to the 2017-18 Budget that remain unlegislated is now less than $2.2 billion.

Underlying cash balance estimates

The estimated underlying cash deficit in 2018-19 has improved by $6.0 billion compared with the 2017-18 MYEFO. Table 5 provides a reconciliation of the variations in the underlying cash balance since the 2017-18 Budget.

Since the 2017-18 MYEFO, policy decisions have reduced the underlying cash balance by $14.9 billion in the four years from 2018-19 to 2021-22. This is largely as a result of the impact of the seven-year Personal Income Tax Plan and reversing the decision to increase the Medicare Levy. During the same period, spending decisions have had a net positive impact of $404 million.

Since the 2017-18 MYEFO, the effect of parameter and other variations has resulted in a $35.1 billion improvement in the underlying cash balance in the four years from 2018-19 to 2021-22.

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 5: Reconciliation of underlying cash balance estimates

	Estimates			Projections		
	2017-18	2018-19	2019-20	2020-21	2021-22	Total(a)
	$m	$m	$m	$m	$m	$m
2017-18 Budget underlying cash balance(b)(c)	**-29,396**	**-21,422**	**-2,470**	**7,417**	**7,659**	**-8,815**
Per cent of GDP	-1.6	-1.1	-0.1	0.4	0.4	
Changes from 2017-18 Budget to 2017-18 MYEFO						
Effect of policy decisions(d)	-1,071	-531	-264	-79	*	*
Effect of parameter and other variations	6,859	1,460	96	2,825	*	*
Total variations(e)	**5,788**	**929**	**-168**	**2,746**	**458**	**3,965**
2017-18 MYEFO underlying cash balance(b)(f)	**-23,608**	**-20,493**	**-2,638**	**10,163**	**8,117**	**-4,850**
Per cent of GDP	-1.3	-1.1	-0.1	0.5	0.4	
Changes from 2017-18 MYEFO to 2018-19 Budget						
Effect of policy decisions(d)(g)(i)						
Receipts	*29*	*674*	*-950*	*-6,967*	*-8,015*	*-15,257*
Payments	*1,620*	*1,318*	*599*	*-24*	*-2,297*	*-404*
Total policy decisions impact on underlying cash balance	-1,591	-643	-1,549	-6,943	-5,718	-14,853
Effect of parameter and other variations(g)						
Receipts	*8,042*	*9,757*	*7,995*	*6,357*	*7,410*	*31,519*
Payments	*655*	*3,027*	*1,517*	*-1,380*	*-6,810*	*-3,646*
less Net Future Fund earnings(h)	*427*	*55*	*57*	*na*	*na*	*113*
Total parameter and other variations impact on underlying cash balance	6,960	6,674	6,421	7,737	14,220	35,052
2018-19 Budget underlying cash balance(b)	**-18,238**	**-14,462**	**2,234**	**10,957**	**16,619**	**15,348**
Per cent of GDP	-1.0	-0.8	0.1	0.5	0.8	
Memorandum:						
Net Future Fund earnings(h)	*3,503*	*3,559*	*3,918*	*4,182*	*4,467*	*16,126*
Effect of policy decisions on GST						
Receipts	*0*	*224*	*375*	*459*	*503*	*1,561*
Payments	*0*	*224*	*375*	*459*	*503*	*1,561*

*Data is not available.

(a) Total is equal to the sum of amounts from 2018-19.

(b) Excludes expected net Future Fund earnings before 2020-21.

(c) 2021-22 underlying cash balance as published in the medium-term projections, page 3-17 of Budget Paper No. 1, *Budget Strategy and Outlook 2017-18*.

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

(e) 2021-22 shows the total variation between medium term projections of the underlying cash balance published in the 2017-18 Budget and 2017-18 MYEFO, excluding the variation in net Future Fund earnings.

(f) 2021-22 underlying cash balance as published in the medium term projections, page 27 of the 2017-18 MYEFO.

(g) A positive number for receipts improves the underlying cash balance, while a positive number for payments worsens the underlying cash balance.

(h) 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.

(i) Excludes the impact of policy decisions on GST.

Receipts estimates

Total receipts are expected to be $10.7 billion higher in 2018-19 than estimated at the 2017-18 MYEFO, with tax receipts $8.2 billion higher and non-taxation receipts $2.5 billion higher.

Policy decisions

Policy decisions since the 2017-18 MYEFO are expected to increase receipts by $0.7 billion in 2018-19 and decrease receipts by $15.3 billion over the four years to 2021-22. Significant measures include:

- The first step of the Government's seven-year Personal Income Tax Plan, which will deliver targeted tax cuts to low and middle income earners. This is estimated to reduce tax receipts by $13.4 billion over the forward estimates period.

- Better targeting the Research and Development (R&D) Tax Incentive in response to the findings of the 2016 Review of the R&D Tax Incentive. The changes will apply from 1 July 2018. This measure is estimated to have a gain to the budget of $2.0 billion over the forward estimates period.

- Combating Illicit Tobacco — a package to target the three main sources of illicit tobacco — smuggling, warehouse leakage and domestic production. The package will protect the integrity of the tobacco duty regime. This is estimated to have a gain to the budget of $3.6 billion over the forward estimates period.

Further details of Government policy decisions are provided in Budget Paper No. 2, *Budget Measures 2018-19*.

Parameter and other variations

Parameter and other variations are expected to increase forecast tax receipts by $7.0 billion in 2017-18, $8.0 billion in 2018-19 and $25.9 billion over the four years to 2021-22.

The strengthening Australian economy has created conditions for an improved labour market outlook, and mining profitability has improved on the back of higher commodity prices in 2017-18. Gross income tax withholding has been revised up by $13 billion over the four years, consistent with stronger employment growth in the near term. Improved mining profitability, as a result of higher commodity prices since the 2017-18 MYEFO, has contributed to higher forecasts for company taxes — particularly in 2018-19—of $3.7 billion over the four years. Additionally, stronger household consumption forecasts, supported by the stronger labour market outlook and the Government's personal income tax policies, have seen upward revisions to GST of $4.5 billion and excise and customs duty of $2.8 billion over four years.

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 2017-18 MYEFO, total cash payments have increased by $4.6 billion in 2018-19 and decreased by $2.5 billion over the four years to 2021-22.

Policy decisions

The overall net impact of payment related decisions has decreased total cash payments by $404 million over the four years to 2021-22.

Major decreases in payments as a result of policy decisions since the 2017-18 MYEFO include:

- improving the targeting of visas for general practitioners to areas of doctor shortages, which is expected to decrease payments by $442 million over the four years to 2021-22;
- implementing measures to increase the use of generic and biosimilar medicines, which is expected to decrease payments by $317 million over the four years to 2021-22;
- achieving efficiencies through the creation of the Home Affairs portfolio, by reducing areas of duplication and achieving economies of scale through coordinated procurement and service delivery functions, which is expected to decrease payments by $256 million over the four years to 2021-22; and
- streamlining employment servicing arrangements for newly arrived refugees, which is expected to decrease payments by $68 million over the four years to 2021-22.

Major increases in payments as a result of policy decisions since the 2017-18 MYEFO include:

- new and amended listings on the Pharmaceutical Benefits Scheme and the Repatriation Pharmaceutical Benefits Scheme, which is expected to increase payments by $172 million in 2018-19 ($748 million over the four years to 2021-22);
- funding for a new bilateral agreement with the Northern Territory Government on Remote Indigenous Housing, to support property and tenancy management and address overcrowding in remote communities, which is expected to increase payments by $110 million in 2018-19 ($440 million over the four years to 2021-22);

- enhancing security arrangements at regional, domestic and international airports, including improvements to the screening capability for in-bound air cargo and international mail, which is expected to increase payments by $63 million in 2018-19 ($293 million over the four years to 2021-22); and
- renewing and continuing the National School Chaplaincy Programme to support students and school communities through pastoral care and other support services, which is expected to increase payments by $62 million in 2018-19 ($247 million over the four years to 2021-22).

Parameter and other variations

Parameter and other variations since the 2017-18 MYEFO have increased cash payments by $3 billion in 2018-19 and decreased total cash payments by $3.6 billion over the four years to 2021-22.

Major decreases in cash payments as a result of parameter and other variations since the 2017-18 MYEFO include:

- payments related to the Income Support for People with Disability program, which are expected to decrease by $428 million in 2018-19 ($4.5 billion over the four years to 2021-22), largely reflecting continued reductions in recipient numbers as a result of Government policies aimed at targeting eligibility and supporting individuals from welfare to work;
- payments related to the Income Support for Seniors program, which are expected to decrease by $634 million in 2018-19 ($2.3 billion over the four years to 2021-22), largely reflecting the previously implemented measure to increase the pension qualifying age;
- payments related to the R&D Tax Incentive program, which are expected to decrease by $237 million in 2018-19 ($1.4 billion over the four years to 2021-22), largely reflecting lower than forecast claims;
- payments related to the Job Seeker Income Support program, which are expected to decrease by $241 million in 2018-19 ($721 million over the four years to 2021-22), largely reflecting a decrease in estimated unemployment benefit recipients, resulting from Government policies aimed at ensuring fewer Australians move onto welfare and more move from welfare to work; and
- payments related to the Student Payments program, which are expected to decrease by $112 million in 2018-19 ($481 million over the four years to 2021-22), largely reflecting lower than expected recipient numbers and higher recipient earnings reducing average payment rates, resulting from more students moving into work.

Major increases in cash payments as a result of parameter and other variations since the 2017-18 MYEFO include:

- payments relating to provision of GST to the States and Territories, which are expected to increase by $1.3 billion in 2018-19 ($3.5 billion over the three years to 2020-21), consistent with an increase in GST receipts;
- payments to the States and Territories for public hospitals, which are expected to increase by $550 million in 2018-19 ($2.1 billion over the four years to 2021-22), largely reflecting revised activity estimates from the States and Territories;
- payments relating to the Infrastructure Investment Programme, which are expected to decrease by $371 million in 2018-19 (and increase by $1.2 billion over the four years to 2021-22), largely reflecting a re-profile of program funding to align with the delivery of project milestones;
- payments relating to Defence operations, which are expected to increase by $667 million in 2018-19 ($787 million over the four years to 2021-22), reflecting continued funding for Australia's military contribution overseas and the protection of Australia's borders and offshore maritime interests; and
- payments related to the Military Rehabilitation Compensation Acts – Income Support and Compensation program, which are expected to increase by $111 million in 2018-19 ($443 million over the four years to 2021-22), largely reflecting an increase in the number of permanent impairment claims and higher growth in the average payment amount.

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 the 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 $2.4 billion (0.1 per cent of GDP) in 2018-19, which reflects an improvement of $7.5 billion compared with the 2017-18 MYEFO. Table 6 provides a reconciliation of the variations in the net operating balance since the 2017-18 Budget.

Table 6: Reconciliation of net operating balance estimates

	Estimates			Projections		
	2017-18	2018-19	2019-20	2020-21	2021-22	Total(a)
	$m	$m	$m	$m	$m	$m
2017-18 Budget net operating balance	**-19,848**	**-10,765**	**7,622**	**17,471**	*	*
Per cent of GDP	-1.1	-0.6	0.4	0.8		
Changes from 2017-18 Budget to 2017-18 MYEFO						
Effect of policy decisions(b)	-1,073	-406	-515	-505	*	*
Effect of parameter and other variations	2,686	1,247	-322	3,937	*	*
Total variations	**1,613**	**841**	**-837**	**3,431**	*	*
2017-18 MYEFO net operating balance	**-18,235**	**-9,924**	**6,785**	**20,902**	*	*
Per cent of GDP	-1.0	-0.5	0.3	1.0		
Changes from 2017-18 MYEFO to 2018-19 Budget						
Effect of policy decisions(b)(c)						
Revenue	*30*	*857*	*-2,497*	*-6,725*	*-7,726*	*-16,091*
Expenses	*1,530*	*1064*	*735*	*254*	*-2,161*	*-109*
Total policy decisions impact on net operating balance	-1,500	-207	-3,232	-6,979	-5,565	-15,982
Effect of parameter and other variations(c)						
Revenue	*7,444*	*9,696*	*7,481*	*6,385*	*	*
Expenses	*321*	*2,009*	*2,411*	*675*	*	*
Total parameter and other variations impact on net operating balance	7,123	7,688	5,070	5,710	*	*
2018-19 Budget net operating balance	**-12,612**	**-2,443**	**8,623**	**19,633**	**27,383**	**53,196**
Per cent of GDP	-0.7	-0.1	0.4	0.9	1.3	
Net capital investment						
Effect of net capital investment(d)	748	4,989	4,923	6,720	8,000	24,632
2018-19 Budget fiscal balance	**-13,360**	**-7,431**	**3,700**	**12,913**	**19,383**	**28,564**
Per cent of GDP	-0.7	-0.4	0.2	0.6	0.9	

*Data is not available.

(a) Total is equal to the sum of amounts from 2018-19.

(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; 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 the Australian Rail Track Corporation) and net Future Fund earnings. Table 7 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 2018-19 is estimated to be a deficit of $27.6 billion, compared with a deficit of $36.2 billion at the 2017-18 MYEFO. The improvement in the headline cash balance since the 2017-18 MYEFO is primarily driven by the improvement in the underlying cash balance.

Table 7: Reconciliation of general government underlying and headline cash balance estimates

	Estimates			Projections		
	2017-18	2018-19	2019-20	2020-21	2021-22	Total(a)
	$m	$m	$m	$m	$m	$m
2018-19 Budget underlying cash balance(b)	**-18,238**	**-14,462**	**2,234**	**10,957**	**16,619**	**15,348**
plus **Net cash flows from investments in financial assets for policy purposes**						
Student loans	-5,020	-4,538	-4,470	-4,346	-4,186	-17,540
NBN investment	-2,035	0	0	0	0	0
NBN loan	-6,682	-8,005	-4,663	19,350	0	6,682
Snowy Hydro Limited acquisition(c)	-6,114	99	0	0	0	99
Residential mortgage backed securities	1,929	0	0	0	0	0
WestConnex	-722	-576	-85	0	0	-661
Trade support loans	-172	-167	-173	-162	-138	-640
CEFC loans and investments	-2,271	-639	-688	-596	-246	-2,169
Northern Australia Infrastructure Facility	-72	-741	-1,274	-1,373	-648	-4,036
Drought and rural assistance loans	-102	-90	-90	-218	-250	-648
Water infrastructure and regional development loans	-130	-270	-521	-500	-200	-1,491
Net other(d)	-982	-1,731	-2,262	-2,148	-3,180	-9,321
Total net cash flows from investments in financial assets for policy purposes	**-22,373**	**-16,659**	**-14,226**	**10,006**	**-8,849**	**-29,727**
plus Net Future Fund earnings(e)	3,503	3,559	3,918	na	na	7,477
2018-19 Budget headline cash balance	**-37,108**	**-27,562**	**-8,074**	**20,964**	**7,770**	**-6,902**
Memorandum:						
Net Future Fund earnings(e)	3,503	*3,559*	*3,918*	*4,182*	*4,467*	*16,126*

(a) Total is equal to the sum of amounts from 2018-19 to 2021-22.
(b) Excludes expected net Future Fund earnings before 2020-21.
(c) Australian government payments in 2017-18 to NSW and Victoria for their shareholdings in Snowy Hydro Limited. This represents $6,015 million in equity and $99 million for the right to the States' final dividend, which is to be received in 2018-19.
(d) Net other includes proposed equity payments for infrastructure projects. The amounts have not been itemised for commercial-in-confidence reasons.
(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.

STATEMENT 4: PUBLIC INVESTMENT AND PRODUCTIVITY

A key element of the Government's fiscal strategy is investing in quality infrastructure to boost growth and productivity. Accordingly, the Government seeks to prioritise investment in capital projects that support productivity through improving access to markets, reducing congestion and improving safety, making it easier for businesses to prosper.

Improvements in the fiscal position mean that, from 2017–18, the Commonwealth will no longer need to borrow for recurrent spending. This is the first time this has happened since the Global Financial Crisis (GFC) and is one year earlier than expected in the 2017–18 Budget.

Domestic and international studies show clear benefits to the broader economy from public investment in infrastructure.

From 2017–18, Commonwealth borrowing is funding investments that add to the productive capacity of the economy. These investments include direct investment in physical and financial assets, as well as grants for the States and Territories to invest in capital assets.

Contents

STATEMENT 4: PUBLIC INVESTMENT AND PRODUCTIVITY

INTRODUCTION

In the 2017–18 Budget, this Statement looked through an accounting lens to provide an analytical approach of how the Government funds its recurrent and capital spending.

In this Budget, this Statement focuses on the contribution of public investment to growth and productivity.

The Australian economy has entered its 27th consecutive year of growth and has largely completed the adjustment away from the investment phase of the mining boom towards broader-based sources of growth. A stronger economy, together with prudent fiscal management, is improving the budget. Over the longer term, economic growth is driven by improvements in productivity.

A key element of the Government's fiscal strategy is investing in quality infrastructure to boost growth and productivity. But the ability to invest in infrastructure, in the same way as recurrent government spending, is constrained by the Government's fiscal strategy, which requires strong fiscal discipline and stabilising and then reducing net debt over time.

One of the levers used to achieve this fiscal discipline is the Government's commitment to maintain a cap on the ratio of tax receipts to GDP. This tax 'speed limit' also supports long-run growth because an ever-increasing share of tax-to-GDP risks making the economy weaker by dragging on demand, reducing the incentives of firms to invest and reducing the benefits of effort for workers. The Personal Income Tax Plan and the Ten Year Enterprise Tax Plan both contribute to limiting the tax burden on the economy.

Accordingly, the Commonwealth seeks to prioritise resources towards investing in capital projects that support productivity through improving access to markets, reducing congestion, improving safety, making it easier for businesses to prosper and supporting communities to achieve growth and productivity benefits.

Improvements in the fiscal position mean that from this year, 2017–18, the Commonwealth will no longer need to borrow for recurrent spending. This is the first time this has happened since the Global Financial Crisis (GFC) and is one year earlier than expected in the 2017–18 Budget.

The remainder of this statement is set out in three sections. The first section provides estimates of the size of the Commonwealth's capital and recurrent spending and the extent to which different types of spending are financed by taking on government debt. The second section discusses the benefits of public investment and the third discusses the types of capital spending the Commonwealth uses to support quality infrastructure.

RECURRENT SPENDING AND CAPITAL INVESTMENT

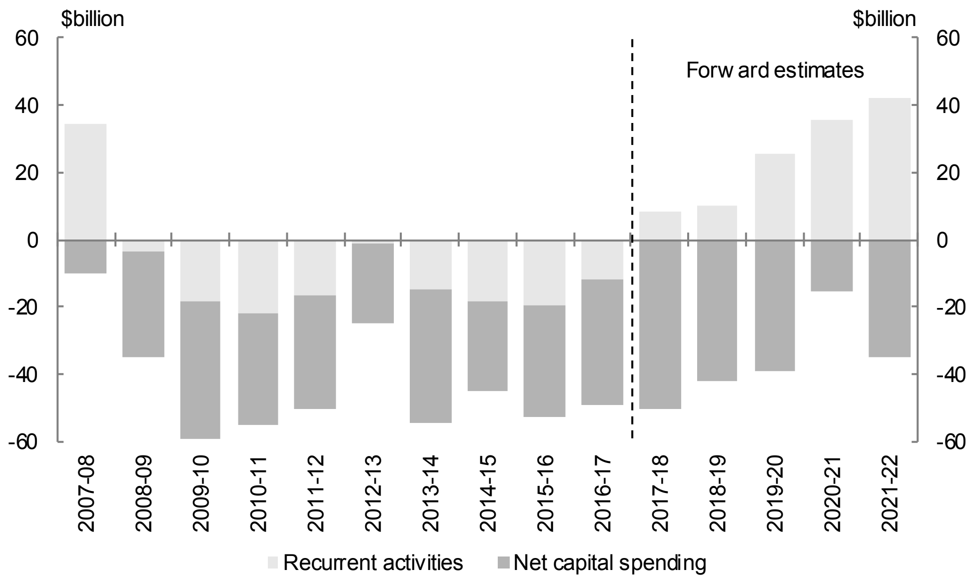
A distinction can be made between spending that is recurrent, or every day, in nature and capital spending (see Box 1). Recurrent spending which is not funded from current revenue is effectively funded by taking on more public debt — that is ultimately funded by higher taxes or lower spending in the future.

For the first time since the GFC, the Commonwealth is no longer borrowing to fund recurrent spending. At the time of last year's Budget, it was expected that new borrowing for recurrent spending would not be required from 2018–19.

As outlined in Chart 1, net cash flows from recurrent activities are expected to be $8.5 billion in 2017-18, an $11.4 billion improvement on the 2017-18 Budget. This outcome reflects ongoing spending restraint, as well as a stronger economy, which in turn has supported higher revenues.

While the net operating balance in 2017-18 is a deficit of $12.6 billion, this is an accrual measure that includes depreciation of existing assets as well as grants to State and Territory governments for capital investment. After taking these factors into account, on a cash basis recurrent spending is more than fully funded by receipts in 2017-18 and over the forward estimates.

Chart 1: Contributions of recurrent and capital spending to the Government's borrowing requirement



Note: Net capital spending includes spending to acquire physical assets, spending to acquire financial assets and capital grants to the States and Territories and other entities.

The lower level of net capital spending expected in 2020-21 reflects the scheduled repayment of the loan to NBN Co Limited of up to $19.5 billion (provided in the 2016-17 MYEFO). Gross capital spending in 2020-21 is broadly consistent with 2021-22.

Box 1: Dividing government spending into recurrent and capital components

Allocating the Government's spending into 'recurrent', or day-to-day spending, and 'capital' investments illustrates the Government's role in providing and supporting infrastructure which benefits productivity and economic growth.

Some important qualifications on this division should be noted.

First, spending (whether capital or recurrent) can be of high or low quality. All spending should be assessed for its quality. This requires a commitment to rigorous project assessment and program evaluation to determine which spending generates the strongest public benefits.

Second, while much of recurrent spending predominantly delivers benefits that are enjoyed immediately, some recurrent spending can generate longer-term economic benefits. For example, improving people's skills and health can mean they are able to participate more fully in the labour market. Such benefits, however, are often harder to measure. The measure of capital spending in this statement is a conservative measure, only capturing the investments which relate to financial and non-financial assets.

Third, not all capital spending can or should be funded through government debt. As the Government's fiscal strategy requires, the overall level of government debt needs to be sustainable. The Government's balance sheet does not have infinite capacity.

Finally, when thinking about whether recurrent spending is fully funded by revenue collections, it should be remembered that money is generally fungible. Except in limited circumstances, government revenue is not tied to specific recurrent or capital expenditure. All of the money flowing to the Commonwealth — from taxes or borrowing — funds the full suite of spending, including both capital and recurrent. In addition, some Commonwealth borrowing is for other purposes including liquidity and refinancing. Nonetheless, the analysis in this Statement proceeds on the basis that, where recurrent spending is fully covered by revenue collections, then the Commonwealth will be borrowing for the purpose of funding capital investment.

THE BENEFITS OF PUBLIC INVESTMENT IN INFRASTRUCTURE

The Government has a role to provide infrastructure where it leads to net benefits for businesses and communities and where there are barriers that prevent individuals or businesses from investing themselves. Public investment, well targeted and efficiently delivered, supports productivity.

Empirical analysis suggests that, on average, public investment spending, including infrastructure spending, has delivered economic benefits over time. Box 2 outlines the results from several empirical exercises exploring the productivity benefit from public investment in Australia and elsewhere. These historical studies find that increases in public investment raised the level of private sector productivity.

Box 2: Estimating the productivity gains from public investment in Australia

The impact of public investment[1] in infrastructure on an economy's private output[2] is estimated by a public investment multiplier.

Estimates of the multiplier vary widely across numerous studies, in part reflecting measurement issues. Due to data constraints, few studies have limited their scope to infrastructure. Most studies use a broad definition of public capital that includes not only infrastructure, but investment such as defence and intellectual property. Multiplier estimates also differ from the estimates that cost–benefit analysis would generate for individual projects.

In the economic literature, estimates of the multiplier vary from around 1.5 to about 4. The lower estimates[3] are typically generated in studies that use public investment data and focus on short- to medium-run effects.

The higher estimates are generated in studies that use data on the level of public sector capital to estimate the long-run elasticity of private output to public capital. For example, Bom and Ligthart[4] reviewed this academic literature to find an average cross-country elasticity of 0.12 per cent. Two studies which have used Australian data have reached consistent findings. Using data on government capital stocks from 1960 to 2001, the IMF[5] estimated an elasticity of 0.12 per cent. A Treasury update of a previous study by Otto and Voss[6] estimated an elasticity of 0.14 per cent[7].

These elasticity estimates suggest an average multiplier[8] of about 4 — meaning a $1 investment generates GDP increases that, over the 25-year life of the asset, add up to $4.

These are economy-wide results that include historical averages of depreciation, the cost of financing and the role of government provision.

Of course, in addition, public capital provides benefits beyond what is captured in GDP. Examples include courthouses and jails, which support the rule of law, or parks and social infrastructure, which improve community welfare and social cohesion.

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1 In Australian studies, the public sector is limited to general government, meaning it does not include public trading enterprises.

2 Private output is measured as the private component of gross domestic product (GDP). This is calculated by subtracting the public components (public compensation of employees and public gross operating surplus) from total GDP.

3 Ramey, VA 2016, 'Macroeconomic Shocks and Their Propagation', in JB Taylor & M Woodford (eds), *Handbook of Macroeconomics*, Elsevier.

4 Bom, P & Ligthart, J 2014, 'What have we learned from three decades of research on the productivity of public capital?', *Journal of Economic Surveys*, vol. 28, no. 5, pp. 889–916.

5 Kamps, C 2006, 'New estimates of government net capital stocks for 22 OECD countries, 1960-2001', *IMF Staff Papers*, vol. 53, no.1, pp. 120–150.

6 Otto, G & Voss, G 1996, 'Public capital and private production in Australia', *Southern Economic Journal*, vol. 62, no. 3, pp. 723–738.

7 Treasury's elasticity estimate, which uses data from 1959 to 2017, is smaller than Otto and Voss's estimate of 0.17.

8 To convert an elasticity measure into a multiplier measure, the elasticity of private output to public capital is divided by the ratio of public investment to private output (3 per cent).

Well-functioning markets incentivise private agents to invest in the efficient provision of infrastructure services which reflect consumer preferences.

In some markets, however, there can be a less than optimal level of private investment. For example, projects with net positive social benefits may not be commercially viable for private firms because revenue streams do not match total benefits, or do not exist at all. Governments may be in a better position to realise the full value of a project from a whole-of-economy perspective that maximises net social benefits. In addition, private investment may not support the broader role of government in ensuring all Australians are able to access essential services.

Infrastructure projects can take many years to generate positive benefits and as such often do not generate the cash flows needed in the short term to exceed hurdle rates of return required for commercial viability. Private investors may also be unable to effectively mitigate project risks, especially for greenfield investments, including construction, financing and regulatory risks. Governments have a longer investment horizon and a broader suite of risk management tools that can suit long-lived complex infrastructure projects.

Any public infrastructure investment, like other government spending, needs to be well targeted. This can be difficult in some markets where there is an absence of direct price signals to guide investment decisions. For example, when considering where to build a road, the absence of direct payment by road users can deter private sector investment. However, governments may have access to a broader range of information to inform their decisions.

Governments have various methods of ensuring infrastructure is provided, other than directly building the infrastructure themselves. They can provide the funding for private construction, operation and maintenance. In addition, governments can use regulation to create more effective markets or to ensure benefits are shared across the community.

The removal of competition barriers and other structural reforms to markets — such as in banking, transport, water, energy and telecommunications — have, over time, strengthened the incentives for private sector investments in Australia. In the case of non-urban water, tradable property rights have been created which have incentivised private investment in water infrastructure. This additional water infrastructure has subsequently supported improvements in the use of water and the expansion of higher value-added and more efficient agricultural production. This is an example of where regulation has supported an improvement in productivity through capital deepening and improved innovation.

In energy, the proposed National Energy Guarantee will provide a policy framework which incentivises private investment to deliver reliable, affordable and sustainable electricity generation.

The Government is creating a Consumer Data Right that ensures consumers have the ability to direct that their data be shared with trusted service providers of their choice. The creation of this right, along with appropriate consumer protections and a regulatory framework, will support business investment. It will also enable the better use of existing infrastructure through the better collection and use of data.

As technology shifts the demand and supply of goods and services in the economy, the way infrastructure is built and operated will also change. Governments will need to be responsive to these shifts, as will the private sector. For example, technology may shift the focus of attention away from building new infrastructure to more effectively using existing infrastructure. Supply and demand changes in global supply chains can also affect the location of infrastructure along the supply chain.

When the public sector invests, infrastructure spending should be focused on improving productivity. Infrastructure can help businesses change the way they combine inputs and open up new markets. For example, transport infrastructure that reduces the travel time between the harvest and markets can open up new export opportunities, such as seafood exports. This could lead to other new types of products for our international markets.

Infrastructure can also improve productivity through agglomeration and network benefits. For instance, effective transportation networks bring multiple workers and businesses into more frequent contact, providing more job opportunities and more sharing of ideas. Greater connections can promote competition and greater specialisation by both firms and workers, supporting innovation and a more dynamic economy.

The existence of network externalities can give rise to a need for coordination, which in some cases may be a function best supported by governments. The Government's focus on city deals, which align the planning, investment and governance of all levels of government, is an example of where coordination is useful.

Infrastructure should predominantly be focused on improving the supply side of the economy, rather than on influencing demand. There are risks if infrastructure spending is not well timed and targeted or is pursued when the economy is closer to full employment. These risks include public infrastructure either crowding out private sector activity or escalating project costs. Such risks suggest that it is better for infrastructure to be delivered against a longer-term plan than being assessed against shorter-term considerations.

While there is evidence to support governments having a role to provide infrastructure where it leads to net benefits for the whole community, the ability for any government to fund investment in infrastructure is not unlimited. The next section explores the different approaches governments can use to support infrastructure, and the Commonwealth Government's recent efforts to broaden the range of approaches to financing infrastructure.

THE COMMONWEALTH'S CAPITAL SPENDING

Table 1 provides a breakdown of recurrent and capital spending over the forward estimates. The Commonwealth's capital spending will total around $46.2 billion (around 10.5 per cent of total spending) in 2018–19, slightly higher than the Commonwealth's average capital spend over the past 10 years (9.9 per cent of total spending). This is roughly consistent with the 2017–18 Budget which predicted Commonwealth capital spending of around 10.4 per cent of GDP.

The higher level of net capital spending in 2017–18 (around 13.1 per cent of total spending) reflects the Commonwealth's purchase of the full equity value of Snowy Hydro from NSW and Victoria. An important consideration in finalising the deal with NSW and Victoria was that the proceeds received by those states would be recycled into productive infrastructure. Both states agreed to this.

Table 1: Recurrent and capital spending as a proportion of total spending[c]

	Recurrent spending ($b)			Capital spending ($b)					Per cent of total spending	
	Operating payments	Recurrent grants	Total	Direct capital investment (a)	Capital grants	Financial asset investment (b)	Total	Total ($b)	Recurrent	Capital
2007-08	164.6	50.0	214.6	7.3	7.6	-5.1	9.9	224.4	95.6	4.4
2008-09	195.8	55.1	250.9	9.7	13.9	7.9	31.6	282.5	88.8	11.2
2009-10	195.2	60.4	255.6	11.2	25.5	4.3	41.0	296.6	86.2	13.8
2010-11	210.6	64.4	275.1	10.0	16.1	7.0	33.0	308.1	89.3	10.7
2011-12	224.8	72.2	297.0	10.5	17.5	5.9	33.9	330.9	89.8	10.2
2012-13	231.5	68.4	299.9	8.0	11.2	4.8	24.0	323.9	92.6	7.4
2013-14	247.8	73.3	321.1	9.6	24.6	9.4	43.7	364.8	88.0	12.0
2014-15	256.2	79.5	335.7	11.4	10.6	12.6	34.6	370.3	90.7	9.3
2015-16	267.0	78.0	345.0	10.5	10.1	17.0	37.5	382.5	90.2	9.8
2016-17	272.3	83.5	355.8	11.1	12.6	17.1	40.8	396.6	89.7	10.3
2017-18(e)	281.3	86.5	367.7	14.1	14.0	27.5	55.6	423.4	86.9	13.1
2018-19(e)	**300.8**	**91.1**	**391.8**	**14.0**	**11.5**	**20.7**	**46.2**	**438.0**	**89.5**	**10.5**
2019-20(e)	311.4	91.6	403.0	14.5	10.2	18.4	43.1	446.1	90.3	9.7
2020-21(p)	322.4	93.5	415.9	15.9	9.2	14.5	39.6	455.5	91.3	8.7
2021-22(p)	337.0	97.2	434.2	17.2	8.6	14.4	40.3	474.5	91.5	8.5

(a) Non-financial asset purchases and net acquisition of assets under finance leases.
(b) Investments in financial assets for policy purposes. This data is shown on a gross basis where available after 2012-13. Prior to 2012-13 data is only available on net basis.
(c) General Revenue Assistance is excluded from this analysis.
(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.

Direct investment in non-financial assets

The most direct form of investment by the Commonwealth is its own spending to acquire physical assets which are owned by the Commonwealth and are recorded on the Commonwealth's balance sheet. This spending is recorded in the cash flow statement as 'investments in non-financial assets'. Spending in this category will be around $14.0 billion (or around 3.2 per cent of total government spending) in 2018–19.

This is broadly consistent with the $13.8 billion (3.2 per cent of total spending) estimate for this spending at the 2017–18 Budget. A large proportion of the Commonwealth's direct investment in non-financial assets relates to military equipment, but also includes direct spending by the Commonwealth on acquiring infrastructure, buildings, equipment and software.

Grants for capital purposes

Focusing only on the Commonwealth's direct capital spending understates its overall contribution to capital spending. The Commonwealth also makes grants to other parties specifically for investment in capital projects. These are largely grants to State and Territory governments, mostly for road and rail projects, but also to local governments. The assets are recorded on State and Territory (and local government) balance sheets and the grants appear as current expenses in the Commonwealth's cash flow and operating statements, even though they are earmarked for capital spending. This is because State and Territory and local governments have full ownership of most of the assets, despite the Commonwealth providing grant funding to build them.

Grant spending for capital purposes will be around $11.5 billion (or around 2.6 per cent of total government spending) in 2018–19. This is broadly consistent with the $11.5 billion (2.6 per cent of total spending) estimate for this spending at the 2017-18 Budget. A large component represents tied funding which goes to the States and Territories for capital purposes (such as projects through the National Partnership Agreement on Land Transport Infrastructure Projects). In 2018–19, this represented around 76 per cent of total grants for capital purposes.

Investments in financial assets for policy purposes

The Commonwealth also supports capital investment through spending to directly acquire financial assets. Investments can take the form of a loan or equity contribution to a third party, which creates a financial asset on the Commonwealth's balance sheet. Concessional loans to students, trade support loans and drought and rural assistance loans also form part of this category.

Spending in this category will be around $20.7 billion (or around 4.7 per cent of total spending) in 2018–19. This is broadly consistent with the $19.8 billion (4.6 per cent of total spending) estimate for this spending at the 2017–18 Budget. Investments in financial assets will represent nearly half of the Commonwealth's total capital spending in 2018–19. The level of spending in 2018–19 will decrease compared to the level in 2017–18 which has been inflated by the purchase of Snowy Hydro occurring in this year.

Increasingly, the Commonwealth is using more innovative methods, including debt, equity and other partnerships, to deliver infrastructure services. Box 3 provides more information on new approaches to the Commonwealth's support for infrastructure.

Box 3: Methods of supporting productive infrastructure

Traditionally, the Commonwealth has supported new infrastructure indirectly by providing grants to the States and Territories, which have then built, or contracted the private sector to build the infrastructure. Such grants can be simple to administer, transparent and manage project risks for the Commonwealth.

More recently, the Commonwealth has started to use a wider range of methods to support infrastructure, seeking to take a more active role in managing its significant investments in infrastructure and partnering with State and Territory governments and the private sector to deliver infrastructure. Different support mechanisms provide different degrees of flexibility and exposure to financial and non-financial risks.

- **Equity** investments provide the Commonwealth with direct control over a project, as well as greater project and financing risk. Equity is most appropriate when there are policy reasons for having more control, there is sufficient return and the government is better placed to manage the project risks. Equity investments also have the benefit of providing a direct financial return for the taxpayer.
- **Concessional loans** can be provided at reduced interest rates, longer tenors and/or other terms that are more favourable than those found commercially, reducing the cost of relying on private sector financing and improving the viability of a project. Concessional loans may be useful for projects with high construction risks and a need for long-term patient funding, such as greenfield infrastructure developments. Loans in combination with private sector management can create additional commercial discipline.
- **Guarantees** can be provided to insure private project proponents or financiers against specific risks such as default on debts or patronage levels. These guarantees can reduce uncertainty for private sector investors, encouraging them to support the project and leverage their expertise. However, guarantees are difficult to accurately price and, if called, can have a material negative fiscal impact on the Budget.

To assist the Commonwealth in considering an even wider range of methods to support infrastructure, the Infrastructure and Project Financing Agency has been established. It provides specialised advice to identify, develop and assess funding and innovative financing options for investment in major infrastructure projects. Some examples of newer funding options are value capture and public–private partnerships.

The Government will use equity and debt financing for a number of major infrastructure projects, including a combination of equity and a commercial loan to complete the rollout of the National Broadband Network; an equity investment to deliver Western Sydney Airport; and both an equity investment and grant funding to

Australian Rail Track Corporation (ARTC) to deliver the Melbourne to Brisbane Inland Rail project.

Recent examples of other innovative support for infrastructure include the Asset Recycling Initiative (which commenced in May 2014 and concludes on 30 June 2019), taking direct ownership (for example, Snowy Hydro) and providing concessional loans (for example, WestConnex).

Box 4 provides further information on the Government's investments in infrastructure.

Box 4: The Government's investment in transport infrastructure

The Government is investing $75 billion from 2018–19 to 2027-28 in transport infrastructure across Australia, using a combination of grant funding and financing, such as equity and debt financing.

The Budget includes $24.5 billion in spending on new major projects and initiatives that will benefit every State and Territory.

The Government is providing $3.5 billion to establish the Roads of Strategic Importance initiative to support the upgrade of key regional road corridors in Australia. The Government is establishing a $1 billion Urban Congestion Fund to address urban congestion in major urban areas and a $250 million Major Project Business Case Fund to contribute to the development of business cases for future high priority land transport infrastructure investments.

The Government is providing an additional $3.3 billion for continuing upgrades of the Bruce Highway in Queensland, an additional $1.4 billion for North–South Corridor projects in South Australia, a further $1.1 billion towards METRONET in Western Australia, $461 million towards the Bridgewater Bridge replacement in Tasmania, $280 million for upgrades of the Central Arnhem Road and the Buntine Highway in the Northern Territory and $100 million towards Monaro Highway upgrades in the Australian Capital Territory. The Government is also committing up to $5 billion for Melbourne Airport Rail Link and the Australian and New South Wales Governments will be equal partners in funding the first stage of the North South Rail Link in Western Sydney.

The Government is also utilising other financial options to deliver infrastructure — such as equity and debt financing. This approach is enabling more projects to get built and delivered.

Box 4: The Government's investment in transport infrastructure (continued)

The Government is delivering the Melbourne to Brisbane Inland Rail project by providing $9.3 billion in equity and grant funding to the Australian Rail Track Corporation (ARTC). The ARTC will also enter into a public-private partnership for the most complex sections of Inland Rail. Preparatory work on Inland Rail is underway and construction is due to start this year.

To deliver Western Sydney Airport the Government has established a new Commonwealth-owned company, WSA Co. The Government is making an equity investment of up to $5.3 billion in WSA Co. Western Sydney Airport construction is due to commence this year. Operations are expected to commence by 2026.

Not all projects are conducive to debt or equity financing. For example, for some social infrastructure, governments do not directly charge for infrastructure services and therefore the Government will continue to provide direct funding support.

Regardless of which government support mechanisms are used, it is important that investments are prioritised and selected based on policy objectives, such as their capacity to enhance productivity, unlock economic growth potential or provide broader community benefits. No financing arrangement will compensate for poorly selected or planned investments. The actual risks associated with specific transactions will depend on their individual characteristics, and full risk assessments should be undertaken on a proposal-by-proposal basis.

Infrastructure Australia plays a key role in identifying national priorities for infrastructure. It is an independent government agency that provides advice to all levels of government on infrastructure issues, including assessing cost–benefit analysis on major proposals and publishing its views on priority projects.

CONCLUSION

For the first time since the Global Financial Crisis, the Commonwealth is funding its ongoing recurrent spending through recurrent revenue rather than through additional borrowing. Commonwealth borrowing is funding investments that add to the productive capacity of the economy. These investments include direct investment in physical and financial assets, as well as grants for the States and Territories to invest in capital assets.

This Budget provides $24.5 billion funding for new major transport projects and initiatives that will benefit every State and Territory. These new major projects add to the more than 500 major projects the Government has funded across Australia since 2013.

Consistent with the fiscal strategy's commitment to budget discipline, the financial capacity of the Commonwealth to fund infrastructure is not unlimited. In addition, if a well-functioning market sector is to operate across the economy, it is important to ensure that private sector infrastructure provision is not crowded out.

Where the Commonwealth is involved, it will work in consultation with State and Territories and local governments on the development of projects, including having Infrastructure Australia assess business cases for nationally significant infrastructure. The Government will also continue to explore the design of funding and financing options with advice from the Infrastructure and Project Financing Agency.

The Government will continue to invest in quality national projects that boost productivity through improving access to international markets, reducing congestion, improving safety and making it easier for businesses to prosper.

STATEMENT 5: REVENUE

Compared with the 2017-18 MYEFO, the 2018-19 Budget forecasts for tax receipts have been revised up by $12.0 billion over the four years from 2018-19 to 2021-22, mainly reflecting an improved labour market outlook. Parameter and other variations are expected to increase forecast tax receipts by $25.9 billion over the four years, partly offset by policy decisions. Excluding GST, forecast tax receipts, including new policy, have been revised up by $5.8 billion over the four years to 2021-22.

The strengthening Australian economy has provided for an improved labour market outlook, and mining profitability has improved on the back of higher commodity prices in 2017-18. Stronger forecasts for employment since the 2017-18 MYEFO have contributed to higher forecasts for total individuals and other withholding taxes of $13.3 billion over the four years to 2021-22, excluding new policy. Improved mining profitability is expected to increase forecasts for company taxes by $3.7 billion over the four years, excluding new policy, with particular strength in 2018-19. In addition to stronger-than-expected tax collections in the current year, higher forecasts for household consumption provide support for the upward revisions to GST of $4.5 billion and excise and customs duty of $2.8 billion over the four years, excluding new policy.

Policy decisions are expected to decrease forecast tax receipts by $13.9 billion over the four years to 2021-22. This largely reflects the Government's Personal Income Tax Plan and the policy of retaining the Medicare levy rate at 2 per cent, partly offset by the measure *Combatting Illicit Tobacco*.

In 2018-19, tax receipts as a share of GDP are expected to be 23.1 per cent, higher than the 2017-18 MYEFO estimate. Tax receipts as a share of GDP are expected to reach levels just shy of the 23.9 per cent cap by 2021-22, the last year of the forward estimates. Tax receipts as a share of GDP then remain below 23.9 per cent in the medium term until 2026-27.

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STATEMENT 5: REVENUE

OVERVIEW

Since the 2017-18 MYEFO, expected tax receipts, including new policy, have been revised up by $8.2 billion in 2018-19 and $12.0 billion over the four years to 2021-22. Excluding GST, tax receipts have been revised up by $6.6 billion in 2018-19 and $5.8 billion over the four years to 2021-22, 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 9.8 per cent in 2017-18 and 5.8 per cent in 2018-19 (Table 1). Tax receipts are expected to grow in line with a strengthening Australian economy and higher aggregate wages and inflation over the forward estimates. Total tax receipts as a share of GDP are expected to increase from 23.1 per cent in 2018-19 to just shy of 23.9 per cent by 2021-22, an increase of 0.8 percentage points. Compared with the 2017-18 MYEFO, the tax-to-GDP ratio is forecast to be higher in 2017-18 and 2018-19 and lower in 2019-20 and 2020-21.

Table 1: Australian Government general government receipts

	Actual	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Total taxation receipts ($b)	**379.3**	**416.4**	**440.5**	**465.5**	**491.0**	**519.6**
Growth on previous year (%)	4.7	9.8	5.8	5.7	5.5	5.8
Per cent of GDP	21.6	22.7	23.1	23.3	23.6	23.9
Tax receipts excluding GST ($b)	**319.4**	**352.9**	**373.2**	**395.7**	**417.5**	**442.3**
Growth on previous year (%)	4.7	10.5	5.7	6.0	5.5	5.9
Per cent of GDP	18.2	19.2	19.6	19.8	20.0	20.3
Non-taxation receipts ($b)	**30.6**	**28.8**	**33.3**	**38.2**	**34.4**	**34.4**
Growth on previous year (%)	24.7	-5.9	15.5	14.7	-9.8	-0.2
Per cent of GDP	1.7	1.6	1.7	1.9	1.7	1.6
Total receipts ($b)	**409.9**	**445.1**	**473.7**	**503.7**	**525.5**	**554.0**
Growth on previous year (%)	5.9	8.6	6.4	6.3	4.3	5.4
Per cent of GDP	23.3	24.3	24.9	25.3	25.2	25.5

TAX OUTLOOK

Table 2 reconciles the 2018-19 Budget estimates of tax receipts with the 2017-18 Budget and the 2017-18 MYEFO estimates. Since the 2017-18 MYEFO, tax receipts, including new policy, have been revised up by $8.2 billion in 2018-19 and $12.0 billion over the four years to 2021-22. Excluding new policy, tax receipts have been revised up by $8.0 billion in 2018-19 and $25.9 billion over the four years to 2021-22.

Table 2: Reconciliation of Australian Government general government taxation receipts estimates from the 2017-18 Budget

	Estimates			Projections		
	2017-18	2018-19	2019-20	2020-21	2021-22	Total(a)
	$m	$m	$m	$m	$m	$m
Tax receipts at 2017-18 Budget	**404,302**	**430,747**	**463,195**	**492,488**	*	*
Changes from 2017-18 Budget to 2017-18 MYEFO						
Effect of policy decisions	-46	-248	232	139	*	*
Effect of parameter and other variations	5,094	1,825	-759	-1,122	*	*
Total variations	**5,048**	**1,577**	**-526**	**-983**	*	*
Tax receipts at 2017-18 MYEFO	**409,350**	**432,324**	**462,669**	**491,505**	*	*
Changes from 2017-18 MYEFO to 2018-19 Budget						
Effect of policy decisions	0	128	-3,041	-5,375	-5,657	-13,945
Effect of parameter and other variations	7,004	8,028	5,876	4,895	7,118	25,918
Total variations	**7,004**	**8,156**	**2,835**	**-479**	**1,461**	**11,973**
Tax receipts at 2018-19 Budget	**416,354**	**440,480**	**465,504**	**491,025**	**519,595**	**1,916,605**

* Data is not available.
(a) Total is equal to the sum of amounts from 2018-19 to 2021-22.

The upward revisions to forecast total tax receipts are driven by parameter and other variations, with the strengthening Australian economy creating the conditions for an improved labour market outlook. The largest contribution is from gross income tax withholding, consistent with stronger employment growth in the near term. Improved mining profitability, as a result of higher commodity prices since the 2017-18 MYEFO, has also contributed positively to the upward revision to company tax forecasts, particularly in 2017-18 and 2018-19. Additionally, stronger household consumption forecasts, supported by the stronger labour market outlook and the Government's personal income tax policies, have driven the upward revisions to GST and excise and customs duty. For more details on the economic outlook, see Budget Statement 2.

Policy decisions are expected to decrease forecast tax receipts by $13.9 billion over the four years to 2021-22. This largely reflects the impact of the Government's Personal Income Tax Plan as well as the policy of retaining the Medicare levy rate at 2 per cent. The reduced tax receipts are partly offset by the measure *Combatting Illicit Tobacco*. For more details on policy decisions, see Budget Statement 1 and Budget Paper No. 2.

Including new policy, total individuals taxes have been revised down by $9.4 billion over the four years to 2021-22. Company taxes have been revised up by $5.2 billion over the four years. GST has been revised up by $6.1 billion over the four years.

The 2018-19 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;
- India FTA — Comprehensive Economic Cooperation Agreement;
- Regional Comprehensive Economic Partnership;
- Australia's accession to the World Trade Organisation Government Procurement Agreement;
- Indonesia-Australia Comprehensive Economic Partnership Agreement;
- Australia-Hong Kong Free Trade Agreement;
- Pacific Alliance Free Trade Agreement; and
- Australia-European Union Free Trade Agreement.

VARIATIONS IN RECEIPTS ESTIMATES

Table 3 reconciles the 2018-19 Budget estimates of total receipts, which include non-tax receipts, with the 2017-18 Budget and the 2017-18 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 2017-18 Budget[(a)]

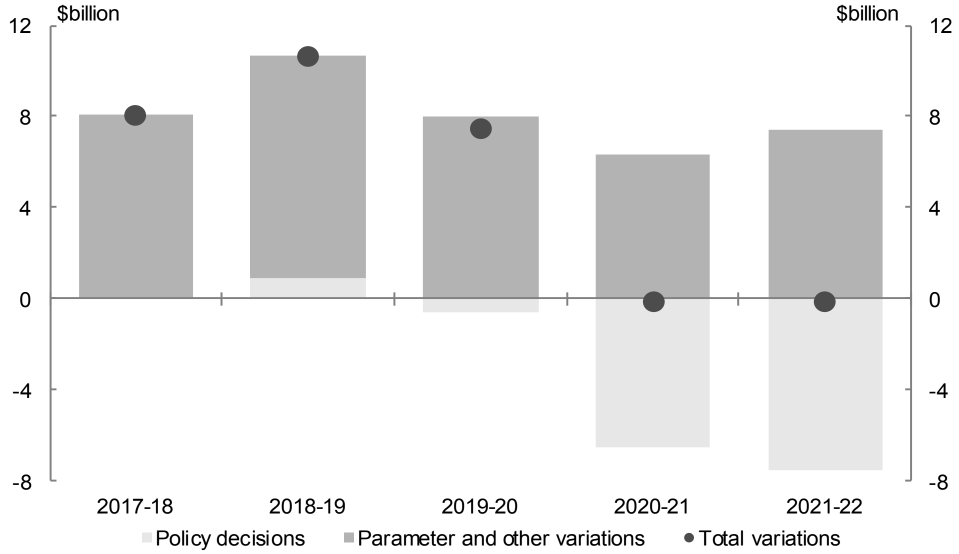
	Estimates			Projections		
	2017-18	2018-19	2019-20	2020-21	2021-22	Total(b)
	$m	$m	$m	$m	$m	$m
Receipts at 2017-18 Budget	**433,494**	**462,500**	**496,908**	**526,322**	*	*
Changes from 2017-18 Budget to 2017-18 MYEFO						
Effect of policy decisions	280	-258	271	72	*	*
Effect of parameter and other variations	3,301	849	-932	-784	*	*
Total variations	**3,581**	**591**	**-661**	**-713**	*	*
Receipts at 2017-18 MYEFO	**437,075**	**463,091**	**496,246**	**525,609**	*	*
Changes from 2017-18 MYEFO to 2018-19 Budget						
Effect of policy decisions	29	898	-575	-6,508	-7,512	-13,697
Effect of parameter and other variations	8,042	9,757	7,995	6,357	7,410	31,519
Total variations	**8,071**	**10,655**	**7,420**	**-151**	**-102**	**17,822**
Receipts at 2018-19 Budget	**445,146**	**473,745**	**503,666**	**525,458**	**553,966**	**2,056,836**

* Data is not available.
(a) Includes expected Future Fund earnings.
(b) Total is equal to the sum of amounts from 2018-19 to 2021-22.

Since the 2017-18 MYEFO, total receipts have been revised up by $17.8 billion over the four years to 2021-22, reflecting an upward revision of $31.5 billion from parameter and other variations and a downward revision of $13.7 billion from policy decisions. Excluding GST, total receipts have been revised up by $9.1 billion in 2018-19 and $11.6 billion over the four years to 2021-22.

Chart 1 shows the contributions to revisions from policy decisions and from parameter and other variations to estimates for total receipts since the 2017-18 MYEFO.

Chart 1: Revisions to total receipts estimates since the 2017-18 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.

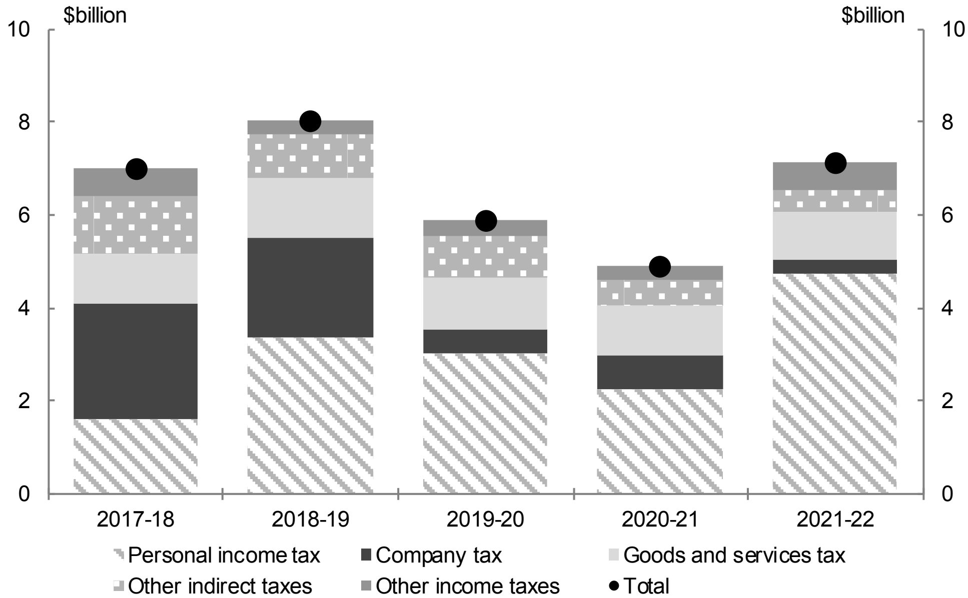
Table 4: Key economic parameters[(a)]

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
Revenue parameters at 2018-19 Budget					
Nominal gross domestic product	4 1/4	3 3/4	4 3/4	4 1/2	4 1/2
Change since 2017-18 MYEFO	*3/4*	*- 1/4*	*1/4*	*- 1/4*	*na*
Compensation of employees(b)	4 1/2	4 1/2	4 1/2	4 3/4	5
Change since 2017-18 MYEFO	*1/2*	*1/2*	*0*	*- 1/4*	*na*
Corporate gross operating surplus(c)	7	3 1/4	4 1/2	3	3 1/4
Change since 2017-18 MYEFO	*1 1/2*	*- 1/4*	*1*	*- 1/4*	*na*
Non-farm gross mixed income	4	3	7 1/4	5 1/2	4 1/4
Change since 2017-18 MYEFO	*1*	*-2 1/4*	*2 1/4*	*1/4*	*na*
Property income(d)	4	7 1/4	7 1/2	4 3/4	4 3/4
Change since 2017-18 MYEFO	*0*	*1 1/4*	*2 3/4*	*- 1/4*	*na*
Consumption subject to GST	4	4 3/4	5 1/2	5 1/4	5 1/4
Change since 2017-18 MYEFO	*3/4*	*0*	*0*	*1/4*	*na*

(a) Current prices, per cent change on previous year. Changes since the 2017-18 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 2017-18 MYEFO, parameter and other variations have increased forecast tax receipts by $7.0 billion in 2017-18, $8.0 billion in 2018-19 and $25.9 billion over the four years to 2021-22 (Chart 2). Excluding GST, parameter and other variations have increased forecast tax receipts by $6.0 billion in 2017-18, $6.7 billion in 2018-19 and $21.3 billion over the four years to 2021-22.

Chart 2: Parameter and other variations to tax receipts since the 2017-18 MYEFO



Source: Treasury.

In aggregate, tax receipts are expected to grow by 9.8 per cent in 2017-18 and 5.8 per cent in 2018-19. The contributors to growth are income taxes and indirect taxes, reflecting growth in wages, profits and consumption.

Individuals and other withholding taxation receipts

Excluding new policy, gross income tax withholding (ITW) receipts are expected to grow by 6.6 per cent per annum on average over the four years, consistent with an improved labour market outlook. Compared with the 2017-18 MYEFO, ITW receipts, excluding new policy, are expected to be $2.4 billion higher in 2017-18, $3.4 billion higher in 2018-19 and $13.0 billion higher over the four years to 2021-22. The upward revisions are primarily due to stronger-than-expected collections in 2017-18, and higher forecasts for employment growth in the near term providing support to flow through the higher receipts to future years.

Including new policy, ITW receipts are forecast to grow by 6.3 per cent in 2017-18 and 5.9 per cent in 2018-19. Compared with the 2017-18 MYEFO, ITW receipts are expected to be $2.4 billion higher in 2017-18, $2.9 billion higher in 2018-19 and $1.4 billion higher over the four years to 2021-22. These upward revisions are driven by parameter and other variations, partly offset by the impact of the Government's Personal Income Tax Plan and the policy of retaining the Medicare levy rate at 2 per cent, which together reduce total individuals taxes, including ITW, other individuals and refunds by $25.9 billion over the four years.

Gross other individuals taxes refer 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 3.1 per cent in 2017-18 and 5.7 per cent in 2018-19. Compared with the 2017-18 MYEFO, receipts are expected to be around $900 million lower in 2017-18, $200 million lower in 2018-19 and $5.1 billion lower over the four years to 2021-22. The downward revisions reflect lower-than-expected collections in 2017-18 and the impact of policy decisions to reduce individuals' taxes.

Income tax refunds for individuals, which have a negative effect on receipts, are expected to grow by 2.6 per cent in 2017-18 and 4.8 per cent in 2018-19. Relative to the 2017-18 MYEFO, forecast refunds are $100 million lower (an increase in overall tax receipts) in 2017-18, $400 million lower in 2018-19 and $5.7 billion higher over the four years to 2021-22. The higher refunds from 2019-20 onwards reflect the policy decisions to reduce individuals' taxes.

Fringe benefits tax

Receipts from fringe benefits tax (FBT) are forecast to grow by 0.1 per cent in 2017-18 and 4.2 per cent in 2018-19. Relative to the 2017-18 MYEFO, receipts are expected to be $50 million higher in 2017-18, $10 million higher in 2018-19 and $350 million lower over the four years to 2021-22.

Company tax

Company tax receipts are forecast to grow by 22.1 per cent in 2017-18 and 6.7 per cent in 2018-19. The strong growth in 2017-18 is driven by increasing profits in the mining sector owing to higher commodity prices over 2017-18. There is also a contribution from other sectors, which is consistent with the economy's continued transition to broader-based sources of growth.

Compared with the 2017-18 MYEFO, receipts are expected to be $2.5 billion higher in 2017-18, $2.1 billion higher in 2018-19 and $5.2 billion higher over the four years to 2021-22. The upward revision in 2017-18 reflects stronger-than-expected collections, consistent with higher commodity prices. These higher commodity prices have increased mining profitability in 2017-18, which is also expected to contribute to higher company tax receipts in 2018-19, reflecting delays between when profit is accrued and when company tax is paid.

Higher mining profitability over the forward estimates is not expected to fully flow through to company tax receipts, as some mining companies (particularly LNG companies) have accumulated a large stock of losses from previous investments, which can be used to reduce tax payable in the coming years (see Box 2, *Budget Statement 5,* Budget Paper No. 1 of the 2017-18 Budget for a discussion of losses and company tax timing).

Superannuation fund taxes

Tax receipts from superannuation funds are expected to grow by 34.1 per cent in 2017-18 and fall by 6.4 per cent in 2018-19. The strong growth in 2017-18 is driven by capital gains tax and on-assessment receipts in 2017-18. These on-assessment receipts partly reflect one-off increases due to strong net foreign exchange gains in the 2016-17 income year. The forecast fall in 2018-19 reflects that these one-off factors are not expected to be repeated.

Relative to the 2017-18 MYEFO, receipts are expected to be around $500 million higher in 2017-18, $100 million higher in 2018-19 and $2.1 billion higher over the four years to 2021-22. Higher receipts reflect lower on-assessment refunds to APRA funds in 2017-18, upward revisions to aggregate wages and positive contributions from policy changes, including the Protecting Your Super Package, partly offset by lower forecast capital gains tax.

Petroleum resource rent tax

Petroleum resource rent tax (PRRT) receipts are forecast to grow by 18.5 per cent in 2017-18 and 22.7 per cent in 2018-19. Since the 2017-18 MYEFO, receipts are expected to be $50 million higher in 2017-18, $250 million higher in 2018-19 and $1.0 billion higher over the four years to 2021-22. The revision to PRRT is consistent with higher Australian dollar oil prices.

Goods and services tax

Receipts from GST are forecast to grow by 6.1 per cent in 2017-18 and 6.1 per cent in 2018-19. Compared with the 2017-18 MYEFO, receipts are expected to be around $1.1 billion higher in 2017-18, $1.5 billion higher in 2018-19 and $6.1 billion higher over the four years to 2021-22. Excluding new policy, receipts are expected to be around $1.1 billion higher in 2017-18, $1.3 billion higher in 2018-19 and $4.5 billion higher over the four years to 2021-22. Higher receipts reflect stronger-than-expected collections, consistent with upward revisions to consumption which are supported by an improved labour market outlook and the Government's personal income tax policies. Policy decisions to tackle the black economy and strengthen tax compliance also contribute to higher receipts.

Excise and customs duty

Excise and customs duty receipts are forecast to grow by 5.1 per cent in 2017-18 and 4.6 per cent in 2018-19.

Since the 2017-18 MYEFO, receipts are $710 million higher in 2017-18, $850 million higher in 2018-19 and $7.1 billion higher over the four years to 2021-22, reflecting stronger collections for alcohol and tobacco and their flow-on impacts to the future years, as well as policy changes to tobacco. The higher tobacco receipts in 2019-20 onwards are mainly due to the policy decision to target illicit tobacco by collecting tobacco duties and taxes at the border upon importation, which is a change from the current system, where tobacco can be imported and stored in licensed warehouses before tax is paid.

Other sales taxes

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

WET receipts are forecast to grow by 8.1 per cent in 2017-18 and 8.8 per cent in 2018-19. Since the 2017-18 MYEFO, forecast WET receipts have been revised down by $300 million over the four years to 2021-22.

LCT receipts are forecast to grow by 7.0 per cent in 2017-18, consistent with strong growth in prices of vehicles subject to LCT. Since the 2017-18 MYEFO, forecast LCT receipts are $50 million higher over the four years to 2021-22.

Other taxes

Other taxes, which include agricultural levies, are forecast to grow by 7.7 per cent in 2017-18 and 5.1 per cent in 2018-19. Since the 2017-18 MYEFO, other taxes are around $550 million higher in 2017-18, $200 million higher in 2018-19 and $550 million higher over the four years to 2021-22.

Compared with the 2017-18 MYEFO, major bank levy receipts are expected to be $50 million lower in 2017-18 due to slightly weaker-than-expected collections in the first two quarters of the levy. Growth in receipts remains consistent with 2017-18 MYEFO estimates, meaning that estimates for 2018-19 to 2021-22 are unchanged.

Another component of other taxes is the *Skilling Australians Fund* levy. Since the 2017-18 MYEFO, *Skilling Australians Fund* levy receipts are forecast to be $465 million lower over the four years to 2021-22. This reflects the measure to expand the Levy refund and exemption provisions, delays in the passage of enabling legislation, as well as decreased demand for temporary work visas.

Non-taxation receipts

Since the 2017-18 MYEFO, non-taxation receipts have been revised up by $1.1 billion in 2017-18, largely reflecting an upward revision in Pharmaceutical Benefit Scheme (PBS) receipts for Hepatitis C medicines and investment earnings for the Future Fund. Non-taxation receipts have been revised up by $2.5 billion in 2018-19, largely reflecting an upward revision to projected receipts from the PBS, additional royalties from natural resources and an upward revision to projected dividends receipts from the Reserve Bank of Australia.

Non-taxation receipts (including Future Fund earnings) are expected to fall by 5.9 per cent in 2017-18, largely reflecting lower receipts due to the timing of spectrum licence sales. Non-taxation receipts are expected to grow by 15.5 per cent in 2018-19, primarily due to growth in State and Territory contributions to the National Disability Insurance Scheme.

The changes in the individual heads of revenue relative to the 2017-18 MYEFO are shown in Table 5 and Table 6, for 2017-18 and 2018-19 respectively.

Table 7 shows the Australian Government general government cash receipts from 2016-17 to 2021-22 by head of revenue.

Table 5: 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	188,200	190,600	2,400	1.3
Gross other individuals	45,100	44,200	-900	-2.0
less: Refunds	29,200	29,100	-100	-0.3
Total individuals and other withholding tax	204,100	205,700	1,600	0.8
Fringe benefits tax	4,000	4,050	50	1.3
Company tax	81,000	83,500	2,500	3.1
Superannuation fund taxes	10,520	11,020	500	4.8
Petroleum resource rent tax	1,050	1,100	50	4.8
Income taxation receipts	**300,670**	**305,370**	**4,700**	**1.6**
Goods and services tax	62,602	63,661	1,059	1.7
Wine equalisation tax	900	910	10	1.1
Luxury car tax	680	710	30	4.4
Excise and customs duty				
Petrol	6,200	6,100	-100	-1.6
Diesel	10,870	10,970	100	0.9
Other fuel products	1,920	2,000	80	4.2
Tobacco	11,360	11,500	140	1.2
Beer	2,360	2,410	50	2.1
Spirits	2,070	2,220	150	7.2
Other alcoholic beverages(a)	950	970	20	2.1
Other customs duty				
Textiles, clothing and footwear	180	190	10	5.6
Passenger motor vehicles	480	510	30	6.3
Other imports	970	1,200	230	23.7
less : Refunds and drawbacks	420	420	0	0.0
Total excise and customs duty	36,940	37,650	710	1.9
Major bank levy	1,200	1,150	-50	-4.2
Agricultural levies	533	570	37	6.9
Other taxes(b)	5,825	6,334	509	8.7
Indirect taxation receipts	**108,680**	**110,984**	**2,304**	**2.1**
Taxation receipts	**409,350**	**416,354**	**7,004**	**1.7**
Sales of goods and services(b)	10,609	10,283	-326	-3.1
Interest received	3,249	3,458	210	6.4
Dividends	4,174	4,565	391	9.4
Other non-taxation receipts	9,694	10,486	792	8.2
Non-taxation receipts	**27,725**	**28,791**	**1,066**	**3.8**
Total receipts	**437,075**	**445,146**	**8,071**	**1.8**
Memorandum:				
Total excise	*22,340*	*22,500*	*160*	*0.7*
Total customs duty	*14,600*	*15,150*	*550*	*3.8*
Capital gains tax(c)	*16,100*	*16,000*	*-100*	*-0.6*

(a) 'Other alcoholic beverages' are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(b) In the 2016-17 FBO, the majority of corporations law fees were reclassified from non-taxation receipts to taxation receipts and financial institutions supervisory levies were reclassified from taxation receipts to non-taxation receipts.
(c) 'Capital gains tax' is part of gross other individuals, company tax and superannuation fund taxes.

Table 6: Reconciliation of 2018-19 general government (cash) receipts

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	198,900	201,800	2,900	1.5
Gross other individuals	46,900	46,700	-200	-0.4
less: Refunds	30,900	30,500	-400	-1.3
Total individuals and other withholding tax	214,900	218,000	3,100	1.4
Fringe benefits tax	4,210	4,220	10	0.2
Company tax	87,000	89,100	2,100	2.4
Superannuation fund taxes	10,210	10,310	100	1.0
Petroleum resource rent tax	1,100	1,350	250	22.7
Income taxation receipts	**317,420**	**322,980**	**5,560**	**1.8**
Goods and services tax	66,039	67,527	1,488	2.3
Wine equalisation tax	980	990	10	1.0
Luxury car tax	700	740	40	5.7
Excise and customs duty				
Petrol	6,250	6,200	-50	-0.8
Diesel	11,230	11,330	100	0.9
Other fuel products	1,930	2,040	110	5.7
Tobacco	12,380	12,530	150	1.2
Beer	2,410	2,440	30	1.2
Spirits	2,150	2,290	140	6.5
Other alcoholic beverages(a)	980	1,000	20	2.0
Other customs duty				
Textiles, clothing and footwear	180	190	10	5.6
Passenger motor vehicles	480	530	50	10.4
Other imports	970	1,260	290	29.9
less: Refunds and drawbacks	420	420	0	0.0
Total excise and customs duty	38,540	39,390	850	2.2
Major bank levy	1,600	1,600	0	0.0
Agricultural levies	536	576	40	7.5
Other taxes(b)	6,509	6,677	167	2.6
Indirect taxation receipts	**114,904**	**117,500**	**2,596**	**2.3**
Taxation receipts	**432,324**	**440,480**	**8,156**	**1.9**
Sales of goods and services(b)	14,091	14,551	460	3.3
Interest received	4,051	4,257	206	5.1
Dividends	3,407	3,970	563	16.5
Other non-taxation receipts	9,217	10,487	1,270	13.8
Non-taxation receipts	**30,766**	**33,265**	**2,499**	**8.1**
Total receipts	**463,091**	**473,745**	**10,655**	**2.3**
Memorandum:				
Total excise	*22,870*	*23,090*	*220*	*1.0*
Total customs duty	*15,670*	*16,300*	*630*	*4.0*
Capital gains tax(c)	*17,500*	*16,700*	*-800*	*-4.6*

(a) 'Other alcoholic beverages' are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(b) In the 2016-17 FBO, the majority of corporations law fees were reclassified from non-taxation receipts to taxation receipts and financial institutions supervisory levies were reclassified from taxation receipts to non-taxation receipts.
(c) 'Capital gains tax' is part of gross other individuals, company tax and superannuation fund taxes.

Table 7: Australian Government general government (cash) receipts

	Actual	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m	$m
Individuals and other withholding taxes						
Gross income tax withholding	179,355	190,600	201,800	214,500	227,100	242,200
Gross other individuals	42,871	44,200	46,700	49,000	53,400	57,400
less: Refunds	28,364	29,100	30,500	34,900	35,400	37,100
Total individuals and other withholding tax	193,863	205,700	218,000	228,600	245,100	262,500
Fringe benefits tax	4,046	4,050	4,220	4,400	4,630	4,850
Company tax	68,390	83,500	89,100	93,000	97,400	100,700
Superannuation fund taxes	8,218	11,020	10,310	11,710	12,810	14,410
Petroleum resource rent tax(a)	981	1,100	1,350	1,350	1,350	1,350
Income taxation receipts	**275,498**	**305,370**	**322,980**	**339,060**	**361,290**	**383,810**
Goods and services tax	60,023	63,661	67,527	69,995	73,725	77,490
Wine equalisation tax	842	910	990	950	1,000	1,020
Luxury car tax	664	710	740	760	800	830
Excise and customs duty						
Petrol	6,174	6,100	6,200	6,500	6,700	7,050
Diesel	10,341	10,970	11,330	12,130	12,580	13,280
Other fuel products	1,948	2,000	2,040	2,130	2,160	2,240
Tobacco	10,453	11,500	12,530	17,000	15,510	16,100
Beer	2,375	2,410	2,440	2,530	2,600	2,660
Spirits	2,057	2,220	2,290	2,370	2,470	2,560
Other alcoholic beverages(b)	919	970	1,000	1,250	1,270	1,310
Other customs duty						
Textiles, clothing and footwear	279	190	190	190	190	200
Passenger motor vehicles	540	510	530	540	510	400
Other imports	1,148	1,200	1,260	1,240	1,070	1,010
less: Refunds and drawbacks	397	420	420	420	420	420
Total excise and customs duty	35,837	37,650	39,390	45,460	44,640	46,390
Major bank levy	-	1,150	1,600	1,700	1,800	1,900
Agricultural levies	547	570	576	619	629	635
Other taxes(c)	5,860	6,334	6,677	6,960	7,142	7,520
Indirect taxation receipts	**103,773**	**110,984**	**117,500**	**126,444**	**129,735**	**135,785**
Taxation receipts	**379,271**	**416,354**	**440,480**	**465,504**	**491,025**	**519,595**

(a) This item includes a small amount of MRRT receipts in 2016-17 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) In the 2016-17 FBO, the majority of corporations law fees were reclassified from non-taxation receipts to taxation receipts and financial institutions supervisory levies were reclassified from taxation receipts to non-taxation receipts.

Table 7: Australian Government general government (cash) receipts (continued)

	Actual	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m	$m
Sales of goods and services(c)	8,050	10,283	14,551	15,914	15,993	16,541
Interest received	2,925	3,458	4,257	5,290	5,750	5,283
Dividends	6,874	4,565	3,970	4,284	4,896	5,412
Other non-taxation receipts	12,748	10,486	10,487	12,674	7,794	7,135
Non-taxation receipts	**30,597**	**28,791**	**33,265**	**38,162**	**34,433**	**34,371**
Total receipts	**409,868**	**445,146**	**473,745**	**503,666**	**525,458**	**553,966**
Memorandum:						
Total excise	*21,800*	*22,500*	*23,090*	*24,610*	*25,380*	*26,620*
Total customs duty	*14,037*	*15,150*	*16,300*	*20,850*	*19,260*	*19,770*
Capital gains tax(d)	*13,400*	*16,000*	*16,700*	*18,000*	*19,800*	*21,200*
Medicare levy(e)	*15,550*	*16,300*	*17,030*	*18,020*	*18,950*	*20,080*

(c) In the 2016-17 FBO, the majority of corporations law fees were reclassified from non-taxation receipts to taxation receipts and financial institutions supervisory levies were reclassified from taxation receipts to non-taxation receipts.
(d) 'Capital gains tax' is part of gross other individuals, company tax and superannuation fund taxes. The 2016-17 reported figure is an estimate.
(e) Income year basis. Includes a component of taxes linked to the top marginal rate. The 2016-17 reported figure is an estimate.

VARIATIONS IN REVENUE ESTIMATES

The revenue estimates are the accrual accounting equivalent of the cash-based receipts estimates. Changes in revenue are generally driven by the same factors 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 8 provides a reconciliation of the 2018-19 Budget's revenue estimates with those at the 2017-18 MYEFO.

Table 8: Reconciliation of Australian Government general government revenue estimates from the 2017-18 MYEFO

	Estimates			Projections		
	2017-18	2018-19	2019-20	2020-21	2021-22	Total(b)
	$m	$m	$m	$m	$m	$m
Revenue at 2017-18 MYEFO	**448,702**	**475,588**	**507,811**	**538,220**	*	*
Changes from 2017-18 MYEFO to 2018-19 Budget						
Effect of policy decisions(a)	30	857	-2,497	-6,725	-7,726	-16,091
Effect of parameter and other variations	7,444	9,696	7,481	6,385	*	*
Total variations	**7,474**	**10,553**	**4,984**	**-340**	*	*
Revenue at 2018-19 Budget	**456,176**	**486,141**	**512,795**	**537,880**	**568,213**	**2,105,029**

* Data is not available.

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

(b) Total is equal to the sum of amounts from 2018-19 to 2021-22.

Since the 2017-18 MYEFO, total revenue has been revised up by around $7.5 billion in 2017-18 and $10.6 billion in 2018-19. The factors affecting revisions to tax receipts are also at play with regard to revenue.

The changes to individual heads of revenue accrual estimates since the 2017-18 MYEFO are shown in Tables 9 and 10. For the five year accrual table, the accrual equivalent of Table 7, 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 9: 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	190,600	192,800	2,200	1.2
Gross other individuals	47,800	46,800	-1,000	-2.1
less: Refunds	29,200	29,100	-100	-0.3
Total individuals and other withholding tax	209,200	210,500	1,300	0.6
Fringe benefits tax	4,080	4,140	60	1.5
Company tax	83,800	86,700	2,900	3.5
Superannuation fund taxes	10,570	11,060	490	4.6
Petroleum resource rent tax	1,030	1,170	140	13.6
Income taxation revenue	**308,680**	**313,570**	**4,890**	**1.6**
Goods and services tax	65,560	66,700	1,140	1.7
Wine equalisation tax	920	930	10	1.1
Luxury car tax	680	730	50	7.4
Excise and customs duty				
Petrol	6,200	6,100	-100	-1.6
Diesel	10,880	10,980	100	0.9
Other fuel products	1,920	2,000	80	4.2
Tobacco	11,530	11,670	140	1.2
Beer	2,360	2,410	50	2.1
Spirits	2,070	2,220	150	7.2
Other alcoholic beverages(a)	950	970	20	2.1
Other customs duty				
Textiles, clothing and footwear	180	190	10	5.6
Passenger motor vehicles	500	510	10	2.0
Other imports	980	1,210	230	23.5
less: Refunds and drawbacks	420	420	0	0.0
Total excise and customs duty	37,150	37,840	690	1.9
Major bank levy	1,600	1,550	-50	-3.1
Agricultural levies	533	571	38	7.2
Other taxes(b)	6,385	6,578	193	3.0
Indirect taxation revenue	**112,828**	**114,899**	**2,071**	**1.8**
Taxation revenue	**421,508**	**428,469**	**6,962**	**1.7**
Sales of goods and services(b)	10,491	10,095	-395	-3.8
Interest	3,580	3,663	83	2.3
Dividends	3,112	3,797	685	22.0
Other non-taxation revenue	10,012	10,152	140	1.4
Non-taxation revenue	**27,194**	**27,706**	**512**	**1.9**
Total revenue	**448,702**	**456,176**	**7,474**	**1.7**
Memorandum:				
Total excise	*22,350*	*22,510*	*160*	*0.7*
Total customs duty	*14,800*	*15,330*	*530*	*3.6*
Capital gains tax(c)	*16,100*	*16,000*	*-100*	*-0.6*

(a) 'Other alcoholic beverages' are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(b) In the 2016-17 FBO, the majority of corporations law fees were reclassified from non-taxation revenue to taxation revenue and financial institutions supervisory levies were reclassified from taxation revenue to non-taxation revenue.
(c) 'Capital gains tax' is part of gross other individuals, company tax and superannuation fund taxes.

Table 10: Reconciliation of 2018-19 general government (accrual) revenue

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	200,900	203,800	2,900	1.4
Gross other individuals	49,700	49,600	-100	-0.2
less: Refunds	30,900	30,500	-400	-1.3
Total individuals and other withholding tax	219,700	222,900	3,200	1.5
Fringe benefits tax	4,290	4,310	20	0.5
Company tax	88,800	91,200	2,400	2.7
Superannuation fund taxes	10,260	10,360	100	1.0
Petroleum resource rent tax	1,110	1,420	310	27.9
Income taxation revenue	**324,160**	**330,190**	**6,030**	**1.9**
Goods and services tax	68,550	70,310	1,760	2.6
Wine equalisation tax	1,000	1,010	10	1.0
Luxury car tax	700	740	40	5.7
Excise and customs duty				
Petrol	6,260	6,210	-50	-0.8
Diesel	11,240	11,350	110	1.0
Other fuel products	1,930	2,040	110	5.7
Tobacco	12,570	12,720	150	1.2
Beer	2,410	2,440	30	1.2
Spirits	2,150	2,290	140	6.5
Other alcoholic beverages(a)	980	1,000	20	2.0
Other customs duty				
Textiles, clothing and footwear	180	190	10	5.6
Passenger motor vehicles	500	530	30	6.0
Other imports	980	1,270	290	29.6
less: Refunds and drawbacks	420	420	0	0.0
Total excise and customs duty	38,780	39,620	840	2.2
Major bank levy	1,700	1,700	0	0.0
Agricultural levies	536	575	39	7.3
Other taxes (b)	7,711	7,856	145	1.9
Indirect taxation revenue	**118,977**	**121,811**	**2,834**	**2.4**
Taxation revenue	**443,137**	**452,001**	**8,864**	**2.0**
Sales of goods and services (b)	13,980	14,490	510	3.6
Interest	4,463	4,442	-20	-0.5
Dividends	3,935	4,126	191	4.9
Other non-taxation revenue	10,073	11,082	1,009	10.0
Non-taxation revenue	**32,451**	**34,140**	**1,689**	**5.2**
Total revenue	**475,588**	**486,141**	**10,553**	**2.2**
Memorandum:				
Total excise	*22,890*	*23,120*	*230*	*1.0*
Total customs duty	*15,890*	*16,500*	*610*	*3.8*
Capital gains tax(c)	*17,500*	*16,700*	*-800*	*-4.6*

(a) ‘Other alcoholic beverages’ are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(b) In the 2016-17 FBO, the majority of corporations law fees were reclassified from non-taxation revenue to taxation revenue and financial institutions supervisory levies were reclassified from taxation revenue to non-taxation revenue.
(c) ‘Capital gains tax’ is part of gross other individuals, company tax and superannuation fund taxes.

APPENDIX A: TAX BENCHMARKS AND VARIATIONS STATEMENT

This appendix contains an overview of Australian Government tax benchmarks and variations, as required by Section 12 of the *Charter of Budget Honesty Act 1998* (CBHA).

Tax benchmarks represent a standard taxation treatment that applies to similar taxpayers or types of activities. Policy approaches can apply a taxation treatment different from a standard approach and the resulting variations can give rise to positive or negative variations.

The choice of benchmark unavoidably involves judgment and may therefore be contentious in some cases.

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

Consistent with most OECD countries, estimates of a benchmark variation reflect the extent to which a variation is utilised, similar to Budget estimates of outlays on demand-driven expenditure programs.

This is known as the 'revenue forgone' approach which, in practice, involves estimating the difference in revenue between the actual 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 benchmark variations were abolished through policy change, as there may be significant changes in taxpayer behaviour were the variations removed.

Care needs to be taken when comparing benchmark variations with direct expenditures as they may measure different things. In addition, estimates from different editions of previously released Tax Expenditures Statements (TES) are generally not comparable, because of changes or modifications to — for example — benchmarks, individual benchmark variations, data used or modelling methodology.

The CBHA also requires the publication of an annual report. The 2017 TES was published in January 2018 and provides a detailed description of Australian Government benchmarks and benchmark variations and, where possible, the estimated value, or order of magnitude, of each benchmark variation.

The information in Table A1 is derived from the 2017 TES and does not include the impact of decisions in this Budget on benchmark variations. Further information on benchmarks and variations from them will be available in future Tax Benchmark and Variations reports.

Table A1: Estimates of large measured benchmark variations

Benchmark variations		Estimate $m			
		2018-19	2019-20	2020-21	2021-22
Large positive benchmark variations					
E6	Main residence exemption - discount component	42,500	46,000	50,000	53,500
E5	Main residence exemption	35,500	38,500	41,000	44,000
C4	Concessional taxation of superannuation entity earnings	23,250	26,050	28,950	31,900
C2	Concessional taxation of employer superannuation contributions	17,750	19,400	20,900	22,950
E13	Discount for individuals and trusts	10,520	11,010	11,840	12,480
H27	Food	7,300	7,600	7,900	8,200
H15	Education	4,900	5,250	5,650	6,100
H18	Health - medical and health services	4,350	4,650	4,950	5,300
H2	Financial supplies - input taxed treatment	3,600	3,800	4,050	4,300
B2	Local government bodies income tax exemption	2,580	3,020	3,530	4,120
C6	Deductibility of life and total permanent disability insurance premiums provided inside of superannuation	2,540	2,730	2,950	3,210
A24	Concessional taxation of non-superannuation termination benefits	2,300	2,200	2,100	2,000
A41	Exemption of Family Tax Benefit payments	2,020	2,070	2,060	2,050
B12	Exemption from interest withholding tax on certain securities	2,010	2,010	2,010	2,010
A19	Medicare levy exemption for residents with taxable income below the low-income thresholds	2,000	2,460	2,630	2,710
A27	Exemption of Child Care Assistance payments	1,965	1,985	2,100	2,210
D10	Exemption for public and not-for-profit hospitals and public ambulance services	1,750	1,850	1,950	2,050
D14	Exemption for public benevolent institutions (excluding hospitals)	1,750	1,900	2,000	2,100
C1	Concessional taxation of capital gains for superannuation funds	1,700	2,050	2,350	2,550
B49	Lower company tax rate	1,600	1,800	2,200	2,500
H5	Child care services	1,600	1,750	1,910	2,090
C3	Concessional taxation of personal superannuation contributions	1,550	1,500	1,800	1,900
A26	Exemption for National Disability Insurance Scheme amounts	1,520	2,750	3,380	4,090
A17	Exemption of the Private Health Insurance Rebate	1,420	1,470	1,550	1,600
A57	Philanthropy - deduction for gifts to deductible gift recipients	1,390	1,500	1,640	1,760
F6	Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	1,330	1,390	1,450	1,480
H19	Health - residential care, community care and other care services	1,210	1,290	1,380	1,470
B71	Capital works expenditure deduction	1,125	1,225	1,340	1,455
H6	Water, sewerage and drainage	1,010	1,060	1,120	1,190
A33	Seniors and pensioners tax offset	1,000	1,000	1,000	1,000
Large negative benchmark variations					
F21	Customs duty	-1,260	-1,290	-1,410	-1,200
F10	Higher rate of excise levied on cigarettes not exceeding 0.8 grams of tobacco	-2,555	-2,800	-3,055	-3,220

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 2018-19 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 2018-19 largely reflects continued investment in defence capital projects.

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STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

OVERVIEW

Australian Government general government sector (GGS) accrual expenses are expected to increase by 1.9 per cent in real terms in 2018-19, with the growth rate decreasing to 0.7 per cent in 2019-2020. This reflects slower growth across a range of Government programs, partially offset by growth in health, education and social security and welfare programs. Reflecting the Government's continued focus on fiscal restraint, total expenses are expected to decline as a percentage of GDP from 25.7 per cent in 2018-19 to 24.9 per cent in 2021-22. The decline in total expense over the forward estimates compares with significant growth in total expenses during the period 2007-08 to 2013-14 when expenses rose from 23.7 per cent of GDP in 2007-08 to 26.1 per cent of GDP in 2013-14.

Table 1.1: Estimates of general government sector expenses

	MYEFO	Revised	Estimate		Projections	
	2017-18	2017-18	2018-19	2019-20	2020-21	2021-22
Total expenses ($b)	**466.9**	**468.8**	**488.6**	**504.2**	**518.2**	**540.8**
Real growth on previous year (%)(a)	2.4	2.7	1.9	0.7	0.5	1.8
Per cent of GDP	25.7	25.5	25.7	25.3	24.9	24.9

(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 1.6 per cent per annum in real terms over the four years to 2021-22 and total payments are expected to decline as a percentage of GDP from 25.4 per cent in 2018-19 to 24.7 per cent in 2021-22.

Table 1.2: Estimates of general government sector payments

	MYEFO	Revised	Estimate		Projections	
	2017-18	2017-18	2018-19	2019-20	2020-21	2021-22
Total payments ($b)	**457.6**	**459.9**	**484.6**	**497.5**	**514.5**	**537.3**
Real growth on previous year (%)(a)	2.3	2.7	3.1	0.2	1.1	1.9
Per cent of GDP	25.2	25.1	25.4	25.0	24.7	24.7

(a) Real growth is calculated using the Consumer Price Index.

Table 2 provides a reconciliation of expense estimates between the 2017-18 Budget, the 2017-18 *Mid-Year Economic and Fiscal Outlook* (MYEFO) and the 2018-19 Budget showing the effect of policy decisions, and economic parameter and other variations.

Table 2: Reconciliation of expense estimates

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	Total
	$m	$m	$m	$m	$m
2017-18 Budget expenses	**464,262**	**486,863**	**503,198**	**522,907**	**1,977,230**
Changes from 2017-18 Budget to 2017-18 MYEFO					
Effect of policy decisions(a)	877	40	384	98	1,398
Effect of parameter and other variations	1,798	-1,392	-2,556	-5,687	-7,837
Total variations	**2,675**	**-1,351**	**-2,172**	**-5,589**	**-6,437**
2017-18 MYEFO expenses	**466,937**	**485,512**	**501,026**	**517,318**	**1,970,792**
Changes from 2017-18 MYEFO to 2018-19 Budget					
Effect of policy decisions(a)	1,530	1,064	735	254	3,582
Effect of economic parameter variations					
Total economic parameter variations	1,105	1,777	1,932	2,126	6,940
Unemployment benefits	*-152*	*-190*	*-157*	*-126*	*-626*
Prices and wages	*180*	*584*	*949*	*1,110*	*2,823*
Interest and exchange rates	*37*	*87*	*5*	*31*	*160*
GST payments to the States	*1,040*	*1,296*	*1,135*	*1,111*	*4,583*
Public debt interest	88	10	83	-124	58
Program specific parameter variations	2,637	-2,045	-1,832	-2,530	-3,770
Other variations	-3,509	2,266	2,228	1,203	2,187
Total variations	**1,851**	**3,072**	**3,145**	**929**	**8,998**
2018-19 Budget expenses	**468,788**	**488,584**	**504,171**	**518,247**	**1,979,791**

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

The combined impact of policy decisions and variations to program estimates has increased expenses by $9.0 billion over the four years from 2017-18 to 2020-21 compared to the 2017-18 MYEFO. In the same period, the Government has made policy decisions that include increased GST expenditure provided to the states, increasing expenses by $3.6 billion. Over the four years from 2017-18 to 2020-21, program specific parameter variations, public debt interest and other variations have decreased expenses by $1.5 billion, and economic parameter variations have increased expenses by $6.9 billion compared to the 2017-18 MYEFO.

Estimated expenses by function

Table 3 sets out the estimates of Australian Government general government sector expenses by function for the period 2017-18 to 2021-22.

Table 3: Estimates of expenses by function

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
General public services	24,975	23,065	23,621	22,253	22,923
Defence	30,982	31,215	30,866	33,061	35,164
Public order and safety	5,251	5,324	5,263	4,851	4,829
Education	33,746	34,736	36,185	37,730	39,336
Health	77,603	78,825	80,416	82,049	85,041
Social security and welfare	162,621	175,971	182,568	187,535	194,335
Housing and community amenities	5,435	5,382	5,119	4,454	4,225
Recreation and culture	3,793	3,638	3,517	3,470	3,539
Fuel and energy	7,515	7,541	7,814	8,138	8,492
Agriculture, forestry and fishing	3,019	3,070	2,628	2,549	2,678
Mining, manufacturing and construction	2,979	3,260	3,552	3,681	3,484
Transport and communication	9,252	9,062	8,187	7,523	6,976
Other economic affairs	10,212	9,471	8,640	8,400	8,347
Other purposes	91,407	98,023	105,797	112,552	121,460
Total expenses	**468,788**	**488,584**	**504,171**	**518,247**	**540,830**

Major expense trends between 2017-18 and 2018-19, and from 2018-19 over the forward years include movements in the following functions:

- **general public services** — the decrease in expenses between 2017-18 and 2018-19 largely reflects the use of different discount rates applied to superannuation expenses. The increase in expenses from 2018-19 to 2019-20 as well as the decrease 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 2018-19 to 2021-22 reflects the funding required to deliver the plans set out in the *2016 Defence White Paper*;

- **education** — the increase in expenses from 2018-19 to 2021-22 largely reflects policy changes announced in the 2017-18 Budget and 2017-18 MYEFO measures *Quality Schools – true needs-based funding for Australia's Schools* and an increase in school student enrolments;

- **health** — the increase in expenses from 2018-19 to 2021-22 is largely driven by growth in the **medical services and benefits** and **assistance to the States for public hospitals** sub-functions. This growth is partially offset by a reduction in Pharmaceutical Benefit Scheme (PBS) expenses under the **pharmaceutical benefits and services** sub-function, due largely to the impact of the Government's decision to improve the payment administration for high-cost medicines to address medicine access and pharmacy cash flow issues raised during the Independent Review of Pharmacy Remuneration and Regulation. This will see a reduction in revenue rebates for high-cost medicines with special pricing arrangements, which reduces PBS revenues and expenses by a corresponding amount. There will be no reduction in the Government's overall investment in the PBS as a result of these changes.

- **social security and welfare** — the increase in expenses from 2018-19 to 2021-22 largely reflects the impact of an ageing population accessing the Aged Pension and residential and home care, the transition to the full National Disability Insurance Scheme to support people with a significant and permanent disability, and growth in the support and usage of child care by families;

- **housing and community amenities** — the decrease in expenses from 2017-18 to 2018-19 largely reflects the scheduled completion of payments to the States and Territories under National Partnership Agreements while the decrease from 2018-19 to 2021-22 mainly reflects completion of urban and regional development projects;

- **transport and communication** — the declining profile of expenses from 2017-18 to 2021-22 largely reflects the expected completion of existing 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 2021-22 largely reflects growing general revenue assistance payments (largely GST) to be made to the States and Territories 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 Box 1). Together, these functions account for 59.2 per cent of all government expenses in 2018-19. Further details of spending trends against all functions, including movements in expenses from 2017-18 to 2018-19, are set out under individual function headings.

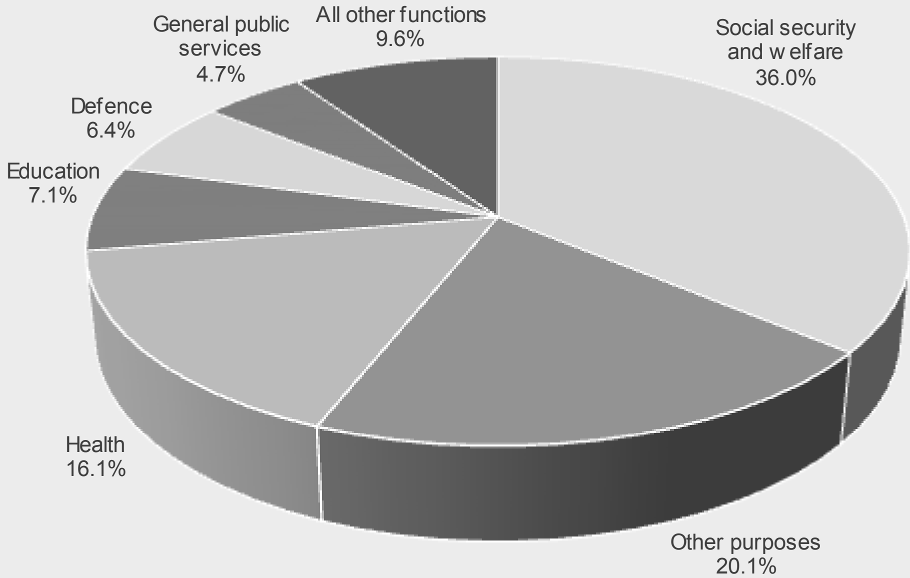
Box 1: Where does government spending go in 2018-19?

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 2018-19



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

Program expenses

Table 3.1 reports the top 20 expense programs in the 2018-19 financial year. These programs represent more than two thirds of total expenses in that year. A significant proportion 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 2018-19

			Estimates		Projections	
		2017-18	2018-19	2019-20	2020-21	2021-22
Program(a)	**Function**	$m	$m	$m	$m	$m
Revenue assistance to the States and Territories	Other purposes	64,492	68,196	70,537	74,187	77,895
Income Support for Seniors	SSW	45,095	46,838	49,120	51,560	53,797
Medical benefits	Health	23,284	24,074	25,464	26,778	28,184
Assistance to the States for public hospitals	Health	20,690	21,189	22,301	23,468	24,692
Family tax benefit	SSW	18,472	18,348	18,269	17,978	17,885
Aged care services	SSW	16,584	18,006	19,474	20,589	22,080
National Disability Insurance Scheme	SSW	7,816	16,695	20,734	22,355	23,647
Income Support for People with Disability	SSW	16,578	16,564	17,058	17,222	17,728
Pharmaceutical benefits, services and supply(b)	Health	12,455	12,088	11,760	9,864	9,787
Non-government schools national support	Education	11,181	11,781	12,405	13,098	13,773
Job seeker income support	SSW	11,143	10,165	11,035	11,391	11,915
Public sector superannuation(c)	Other purposes; General public services	9,195	8,886	8,958	9,137	9,275
Income support for carers	SSW	8,494	8,689	9,137	9,453	9,938
Child Care Fee Assistance	SSW	7,182	0	0	0	0
Child Care Subsidy(d)		0	8,000	8,679	9,025	9,534
Government schools national support	Education	7,118	7,687	8,343	9,036	9,729
Air Force capabilities	Defence	7,003	7,628	7,657	7,935	8,561
Army Capabilities	Defence	7,382	7,494	7,618	8,147	8,701
Commonwealth Grants Scheme	Education	6,993	7,062	7,171	7,290	7,407
Fuel Tax Credits Scheme	Fuel and energy	6,913	6,922	7,241	7,654	8,114
Defence Force superannuation(c)	Other purposes; General public services	6,854	6,665	6,780	6,950	7,122
Sub-total		**314,924**	**332,978**	**349,740**	**363,116**	**379,764**
Other programs		153,864	155,606	154,432	155,130	161,066
Total expenses		**468,788**	**488,584**	**504,171**	**518,247**	**540,830**

(a) The entry for each program includes eliminations for inter-agency transactions within that program.
(b) Estimates and projections reflect the expected impact of new payment arrangements for the Pharmaceutical Benefits Scheme (PBS). Refer to Box 2 Pharmaceutical Benefits Scheme for further information.
(c) This program is a combination of superannuation nominal interest and accrual expenses.
(d) 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.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Legislative and executive affairs	1,212	1,484	1,142	1,166	1,492
Financial and fiscal affairs	7,352	7,101	7,203	6,860	7,197
Foreign affairs and economic aid	5,582	5,798	6,747	5,664	5,601
General research	3,221	2,995	3,057	3,143	3,207
General services	692	681	684	621	642
Government superannuation benefits	6,917	5,007	4,787	4,800	4,783
Total general public services	**24,975**	**23,065**	**23,621**	**22,253**	**22,923**

Total general public services expenses are estimated to decrease by 9.7 per cent in real terms from 2017-18 to 2018-19 and decrease by 7.5 per cent in real terms over the period 2018-19 to 2021-22.

Expenses under the **legislative and executive affairs** sub-function partly reflect costs incurred by the Australian Electoral Commission to support federal elections in 2018-19 and 2021-22.

Expenses in the **financial and fiscal affairs** sub-function are expected to decrease in real terms from 2017-18 to 2021-22. The decrease is partially offset by further enhancements in compliance activities undertaken by 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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Foreign aid(b)	3,340	3,566	4,625	3,516	3,484
Diplomacy(c)	1,024	1,049	931	926	899
Payments to international organisations	466	445	468	493	505
Passport services	239	252	258	261	264
International police assistance	202	170	152	153	135
International agriculture research and development	125	129	129	133	133
Consular services	96	100	98	98	98
Finance and insurance services for Australian exporters and investors	8	5	3	2	0
Other	82	82	82	82	83
Total	**5,582**	**5,798**	**6,747**	**5,664**	**5,601**

(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 increase by 1.6 per cent in real terms from 2017-18 to 2018-19, and are forecast to decrease by 10.1 per cent in real terms from 2018-19 to 2021-22.

The increase in expenses in 2018-19 and 2019-20 reflects the payment of Australia's contributions under the multi-year funding cycles for multilateral funds such as the Asian Development Fund and the World Bank's International Development Association. The decrease over the period 2018-19 to 2021-22 reflects the Government's decision to maintain official development assistance at $4.0 billion across the forward estimates period. The Government continues to invest in significant initiatives including assistance to Papua New Guinea in hosting APEC 2018 and in Foreign Policy White Paper initiatives.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Research - science services and innovation fund	1,067	1,123	1,134	1,149	1,160
Discovery - research and research training	494	495	509	517	529
Science and technology solutions	371	365	356	368	374
Linkage - cross sector research partnerships	267	274	285	293	298
Supporting science and commercialisation	278	256	278	284	286
Research capacity	427	168	191	245	260
Other	317	314	302	286	300
Total	**3,221**	**2,995**	**3,057**	**3,143**	**3,207**

(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 decrease by 9.1 per cent in real terms from 2017-18 to 2018-19 and remain unchanged from 2018-19 to 2021-22. The decrease from 2017-18 to 2018-19 is due to bringing forward funding into 2017-18 for upgrades to national research infrastructure facilities, as part of the expanded National Collaborative Research Infrastructure Strategy.

The fall in expenses from 2017-18 to 2018-19 in the **government superannuation benefits** sub-function reflects the use of different discount rates. In accordance with accounting standards, the superannuation expenses for 2017-18 were calculated using the long-term government bond rate as at 1 July 2017 that best matched each individual scheme's liability duration. These rates were broadly between 3.0 and 3.5 per cent per annum. Forward years are estimated based on the discount rate recommended by the superannuation scheme actuaries in preparing the latest Long Term Cost Reports (5 per cent). This is lower than the rate of 6 per cent applied in previous Budgets and reflects the actuary's view that long-term borrowing costs have decreased.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Defence	30,982	31,215	30,866	33,061	35,164
Total defence	**30,982**	**31,215**	**30,866**	**33,061**	**35,164**

Total expenses for the **defence** sub-function are estimated to decrease by 1.5 per cent in real terms from 2017-18 to 2018-19 due to additional funding provided to Defence in 2017-18 for the purpose of better aligning existing Defence funding with capability project requirements. The decrease in real terms of 3.5 per cent between 2018-19 and 2019-20 is the result of Defence Operations being funded on a year-to-year basis, where Defence Operations expenses other than those relating to remediation are not included beyond 2018-19. Total expenses are estimated to increase by 4.9 per cent in real terms over the period 2018-19 to 2021-22, reflecting funding to deliver the *2016 Defence White Paper*.

$787 million will be provided in the 2018-19 Budget to support major Australian Defence Force (ADF) operations in the Middle East and the protection of Australia's borders and offshore maritime interests, and Australia's regional counter-terrorism assistance.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Courts and legal services	1,267	1,224	1,200	920	916
Other public order and safety	3,983	4,100	4,063	3,931	3,914
Total public order and safety	**5,251**	**5,324**	**5,263**	**4,851**	**4,829**

Total expenses for the public order and safety function are estimated to decrease by 0.9 per cent in real terms from 2017-18 to 2018-19, and decrease by 15.6 per cent in real terms over the period 2018-19 to 2021-22.

Expenses within the **courts and legal services** sub-function are estimated to decrease by 5.6 per cent in real terms from 2017-18 to 2018-19 and decrease by 30.4 per cent in real terms from 2018-19 to 2021-22, mainly reflecting the end of the current National Partnership on Legal Assistance Services 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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Policing and law enforcement	2,684	2,789	2,742	2,666	2,662
Border protection	1,299	1,311	1,321	1,264	1,252
Total	**3,983**	**4,100**	**4,063**	**3,931**	**3,914**

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

Total expenses within the **other public order and safety** sub-function are expected to increase by 0.7 per cent in real terms from 2017-18 to 2018-19. There is an expected decrease of 11.2 per cent in real terms from 2018-19 to 2021-22, which mainly reflects the termination of a number of measures that are subject to future Government consideration. This is partially offset by significant funding increases for the Australian Federal Police for measures announced in the 2018-19 Budget including *Aviation, Air Cargo and International Mail Security Package* and *Australian Centre to Counter Child Exploitation – establishment.*

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Higher education	9,676	9,756	9,891	10,201	10,292
Vocational and other education	1,795	1,810	1,832	1,901	1,885
Schools	18,299	19,468	20,748	22,134	23,502
Non-government schools	*11,181*	*11,781*	*12,405*	*13,098*	*13,773*
Government schools	*7,118*	*7,687*	*8,343*	*9,036*	*9,729*
School education - specific funding	673	674	536	191	163
Student assistance	2,923	2,654	2,823	2,956	3,149
General administration	380	373	354	347	344
Total education	**33,746**	**34,736**	**36,185**	**37,730**	**39,336**

Total education expenses are expected to increase by 0.7 per cent in real terms between 2017-18 and 2018-19, and increase by 5.4 per cent in real terms from 2018-19 to 2021-22.

Expenses under the **higher education** sub-function are expected to decrease by 1.4 per cent in real terms from 2017-18 to 2018-19, and decrease by 1.8 per cent in real terms between 2018-19 and 2021-22. The forecast decline in expenses over the forward estimates relates to the Government's policy changes announced in the 2017-18 MYEFO measure *Higher Education Reforms – revised implementation.*

Expenses under the **vocational and other education** sub-function are expected to decrease by 1.4 per cent in real terms from 2017-18 to 2018-19, and decrease by 3.1 per cent in real terms from 2018-19 to 2021-22. The change in expenses over the forward estimates primarily reflects the revised profile of the National Agreement on Skills and Workforce Development and the Government's policy changes announced in the 2018-19 Budget measure *Managing the Skilling Australians Fund – revised implementation arrangements.*

Aggregate schools funding expenses are expected to increase by 4.0 per cent in real terms between 2017-18 to 2018-19, and by 12.4 per cent in real terms from 2018-19 to 2021-22. Expenses in the **schools – non-government schools** sub-function are expected to increase by 3.0 per cent in real terms between 2017-18 and 2018-19, and by 8.8 per cent in real terms from 2018-19 to 2021-22. Expenses under the **schools – government schools** sub-function are expected to increase by 5.6 per cent in real terms between 2017-18 and 2018-19, and by 17.8 per cent in real terms from 2018-19 to 2021-22. The increase in expenses over the forward years is primarily due to policy changes announced in the 2017-18 Budget and 2017-18 MYEFO measures *Quality Schools – true needs-based funding for Australia's schools* and an increase in student enrolments.

Expenses under the **school education — specific funding** sub-function are expected to decrease by 2.1 per cent in real terms between 2017-18 and 2018-19, and by 77.5 per cent in real terms from 2018-19 to 2021-22. The expected decrease in expenses primarily reflects the conclusion of the *National Partnership Agreement on Universal Access to Early Childhood Education* on 30 June 2020.

Expenses under the **student assistance** sub-function are expected to decrease by 11.2 per cent in real terms from 2017-18 to 2018-19, and increase by 10.5 per cent in real terms from 2018-19 to 2021-22. The decrease from 2017-18 to 2018-19 reflects the impact of compliance activities announced in previous economic updates.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Medical services and benefits	31,110	32,012	33,519	34,983	36,574
Pharmaceutical benefits and services	13,206	12,822	12,483	11,044	11,050
Assistance to the States for public hospitals	20,690	21,189	22,301	23,468	24,692
Hospital services(a)	1,658	1,458	1,393	1,339	1,330
Health services	6,885	7,081	6,637	7,096	7,204
General administration	3,172	3,350	3,131	3,127	3,168
Aboriginal and Torres Strait Islander health	882	914	952	992	1,024
Total health	**77,603**	**78,825**	**80,416**	**82,049**	**85,041**

(a) The hospital services sub-function predominantly reflects Commonwealth funding to the States and Territories for veterans' hospital services.

Expenses for the health function are estimated to increase by 0.4 per cent in real terms from 2018-19 to 2021-22. This is largely driven by growth in the **medical services and benefits** and **assistance to the States for public hospitals** sub-functions. This growth is partially offset by a reduction in Pharmaceutical Benefits Scheme (PBS) expenses under the **pharmaceutical benefits and services** sub-function, due largely to the impact of the Government's decision to improve the payment administration for high-cost medicines to address medicine access and pharmacy cash flow issues raised during the Independent Review of Pharmacy Remuneration and Regulation. This will see a reduction in revenue rebates for high-cost medicines with special pricing arrangements, which reduces PBS revenues and expenses by a corresponding amount. There will be no reduction in the Government's overall investment in the PBS as a result of these changes.

The reduction in PBS revenue rebates and corresponding reduction in expenses associated with improved payment administration amounts to $5.4 billion from 2018-19 to 2021-22. Removing the impact of this decision (which has no effect on the Government's overall investment in the PBS), expenses for the health function are estimated to increase by 2.4 per cent in real terms from 2018-19 to 2021-22.

The **medical services and benefits** sub-function, which primarily consists of Medicare and Private Health Insurance Rebate expenses, comprises 40.6 per cent of total estimated health expenses for 2018-19. Growth in Medicare expenses is the major driver of growth in this sub-function.

The major components of the medical services and benefits sub-function are set out in Table 8.1.

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

Component(a)	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Medical benefits	23,284	24,074	25,464	26,778	28,184
Private health insurance	6,248	6,395	6,538	6,701	6,870
General medical consultations and services	790	763	739	719	715
Dental services(b)	326	321	316	311	321
Other	462	459	463	474	485
Total	**31,110**	**32,012**	**33,519**	**34,983**	**36,574**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) Payments under the dental National Partnership Agreement from 2017-18 are provided for under the health services sub-function in Table 8

Expenses for medical benefits are expected to increase by 1.1 per cent in real terms between 2017-18 and 2018-19, and increase by 9.0 per cent in real terms over the period 2018-19 to 2021-22, as a result of ongoing growth in the use of medical services and the use of high value items on the Medicare Benefits Schedule.

Expenses for private health insurance are expected to increase by 0.1 per cent in real terms between 2017-18 and 2018-19, and remain relatively unchanged in real terms over the period 2018-19 to 2021-22. The proportion of Australians with private health insurance is around 54.6 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 decrease by 3.7 per cent in real terms between 2017-18 and 2018-19 and decrease by 7.0 per cent in real terms over the period 2018-19 to 2021-22, reflecting lower growth in utilisation of the Child Dental Benefits Schedule (CDBS).

Expenses for the **pharmaceutical benefits and services** sub-function (but not the Government's overall investment in **pharmaceutical benefits and services** sub-function) is expected to decrease by 19.8 per cent in real terms over the period 2018-19 to 2021-22. This is due largely to the impact of the Government's decision to improve the payment administration for high-cost medicines to address medicine access and pharmacy cash flow issues raised during the Independent Review of Pharmacy Remuneration and Regulation. This will see a reduction in revenue rebates for high-cost medicines with special pricing arrangements, which reduces PBS revenues and expenses by a corresponding amount. There will be no reduction in the Government's overall investment in the PBS as a result of these changes.

The reduction in PBS revenue rebates and corresponding reduction in expenses associated with improved payment administration amounts to $5.4 billion from 2018-19 to 2021-22. Removing the impact of this decision (which has no effect on the Government's overall investment in the PBS), expenses for the **pharmaceutical benefits and services** sub-function are estimated to decrease by 7.3 per cent in real terms over the period 2018-19 to 2021-22.

The **pharmaceutical benefits and services** sub-function also includes an increase of $1.0 billion reflecting the Government's decision to provision this amount for new medicine listings.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Pharmaceutical benefits, services and supply	12,459	12,088	11,760	10,338	10,344
Immunisation	411	411	411	403	404
Veterans' pharmaceutical benefits	336	323	312	303	303
Total	**13,206**	**12,822**	**12,483**	**11,044**	**11,050**

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

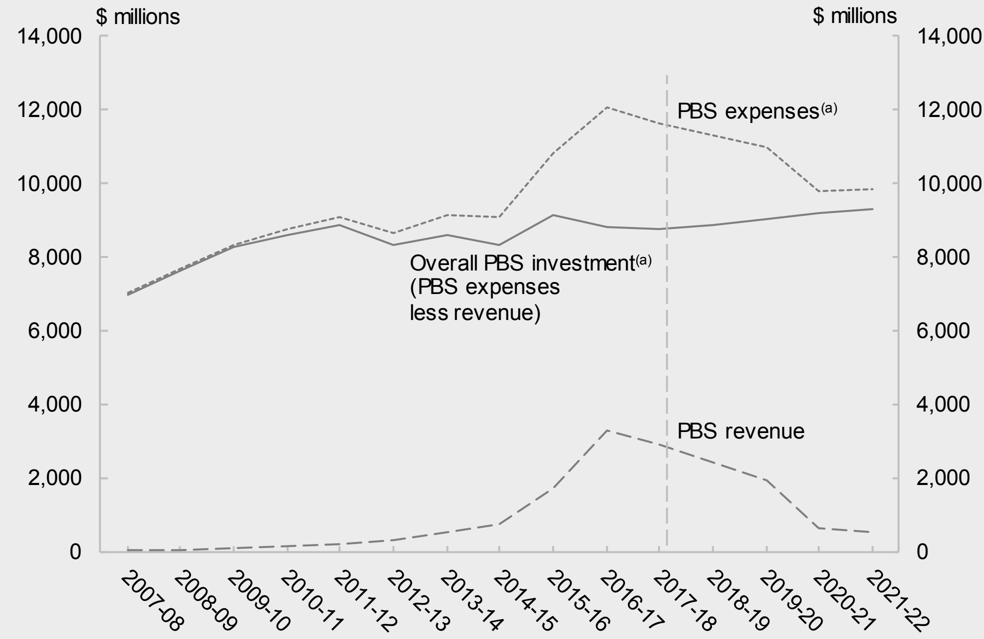
Box 2: Pharmaceutical Benefits Scheme

Chart 2 shows the positive impact that improved Pharmaceutical Benefits Scheme (PBS) payment administration is expected to have on the Government's overall investment in the PBS, including the Government's decision to provision $1.0 billion for new medicine listings.

Under the improved administration arrangements, the Government will continue to pay the existing negotiated price for medicines. However, rather than paying higher prices for medicines with special pricing arrangements and receiving discounts negotiated with manufacturers as revenue rebates, the Government will instead pay the negotiated price. This will reduce the PBS revenue received by the Government, with a corresponding reduction in PBS expenses, and no change to the Government's overall investment in the PBS.

All other aspects of the PBS, including existing co-payment rates, safety nets and indexation arrangements, will remain unchanged. The cost to patients of medicines listed on the PBS will not change as a result of improved payment administration for high-cost medicines, which addresses medicine access and pharmacy cash flow issues raised during the Independent Review of Pharmacy Remuneration and Regulation.

Chart 2: Impact of new payment arrangements on medicines spending



(a) Expenses include $1.0 billion that the Government has provisioned for new medicine listings.

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 0.1 per cent in real terms from 2017-18 to 2018-19, largely reflecting growth in the volume of services and changes in the efficient price of those services. Expenditure is expected to increase by 8.5 per cent in real terms over the period 2018-19 to 2021-22, following the Government's agreement with States and Territories for the Commonwealth to fund 45.0 per cent of the efficient growth in activity based services for public hospitals from 2017-18 to 2019-20, with growth in total Commonwealth funding capped at 6.5 per cent a year. New funding arrangements for public hospitals using the same parameters from 2020-21 are currently under negotiation and are expected to be finalised during 2018.

The **hospital services** sub-function consists mainly of payments to the States and Territories to deliver veterans' hospital services. Expenditure for this sub-function is expected to decrease by 14.0 per cent in real terms between 2017-18 and 2018-19, and by 15.1 per cent in real terms over the period 2018-19 to 2021-22. The decrease in expenses reflects an expected reduction in the number of beneficiaries and efficiencies achieved in the pricing arrangements.

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).

Health services expenditure is expected to increase by 0.6 per cent in real terms between 2017-18 and 2018-19, and decrease by 5.3 per cent in real terms between 2018-19 and 2021-22, largely reflecting the completion of National Partnership payments and digital health program support.

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 increase by 3.3 per cent in real terms between 2017-18 and 2018-19 largely as a result of new measures in the 2018-19 Budget for health workforce, and decrease by 12 per cent over the period 2018-19 to 2021-22 as a result of funding reverting to longer term trends for departmental funding.

Expenses in the **Aboriginal and Torres Strait Islander health** sub-function are expected to increase by 1.3 per cent in real terms from 2017-18 to 2018-19, and by 4.2 per cent in real terms over the period 2018-19 to 2021-22 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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Assistance to the aged	63,865	66,771	70,385	73,837	77,422
Assistance to veterans and dependants	6,504	6,213	6,011	5,914	5,857
Assistance to people with disabilities	36,958	47,966	49,667	51,110	53,389
Assistance to families with children	36,119	36,845	38,007	38,183	38,845
Assistance to the unemployed and the sick	11,143	10,165	11,035	11,391	11,915
Other welfare programs	1,838	1,741	1,656	1,639	1,406
Assistance for Indigenous Australians nec	2,184	2,130	2,153	2,186	2,196
General administration	4,010	4,141	3,654	3,276	3,304
Total social security and welfare	**162,621**	**175,971**	**182,568**	**187,535**	**194,335**

Expenses in the social security and welfare function are estimated to increase by 5.8 per cent in real terms from 2017-18 to 2018-19, and by 2.8 per cent in real terms from 2018-19 to 2021-22.

The most significant drivers of this growth are the **assistance to people with disabilities** and **assistance to the aged** sub-functions. The **assistance to people with disabilities** sub-function is expected to grow by 26.9 per cent in real terms from 2017-18 to 2018-19, and by 3.6 per cent in real terms from 2018-19 to 2021-22 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. The **assistance to the aged** sub-function is expected to grow by 2.2 per cent in real terms between 2017-18 and 2018-19, and by 7.9 per cent in real terms between 2018-19 and 2021-22.

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 1.6 per cent in real terms from 2017-18 to 2018-19, and by 6.9 per cent in real terms from 2018-19 to 2021-22. This reflects demographic changes and the impact of the 2018-19 Budget measure *More Choices for a Longer Life – finances for a longer life* that commences from 1 July 2019. Growth in these years is moderated by a reduction in expenses associated with incremental increases in the Age Pension qualifying age, as well as the increase in the Pension Assets Test taper rate from 1 January 2017.

Also contributing to growth from 2018-19 to 2021-22 is an increase in expenses associated with the aged care services program, largely reflecting demographic factors.

The estimated decrease of 17.5 per cent in real terms from 2018-19 to 2021-22 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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Income Support for Seniors	45,095	46,838	49,120	51,560	53,797
Aged Care Services	16,584	18,006	19,474	20,589	22,080
Veterans' Community Care and Support	1,267	1,188	1,140	1,130	1,053
Access and information	208	273	240	221	224
Mature Age Income Support	252	180	140	76	14
Aged Care Quality	121	160	153	138	138
Allowances, concessions and services for seniors	93	81	68	61	55
National Partnership Payments - Assistance to the Aged	203	0	10	10	11
Other	41	43	38	51	51
Total	**63,865**	**66,771**	**70,385**	**73,837**	**77,422**

(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 6.6 per cent in real terms from 2017-18 to 2018-19, and by 12.3 per cent in real terms from 2018-19 to 2021-22, predominantly reflecting an expected reduction in the number of beneficiaries. The Government will continue to transform and improve veterans' services, including $111.9 million provided in the 2018-19 Budget measure *Delivering Australia's Digital Future — Veteran Centric Reform — continuation*.

Expenses for the **assistance to people with disabilities** sub-function are expected to increase by 26.9 per cent in real terms from 2017-18 to 2018-19, and by 3.6 per cent in real terms from 2018-19 to 2021-22, 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. Growth in NDIS expenses will stabilise in the latter part of the forward estimates, with the NDIS scheduled to achieve national coverage from 2019-20. Of the total $83.4 billion in NDIS expenses from 2018-19 to 2021-22, the Commonwealth is contributing funding of $43.2 billion, with the States and Territories contributing the remaining funding. Following the agreement with Western Australia in December 2017 for that State to join a nationally delivered NDIS, the State and Territory expenses reflect contributions by all jurisdictions.

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 $3.4 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 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.

Expenses for the Income Support for People with Disability program, which primarily consists of Disability Support Pension (DSP) are estimated to decrease by 2.3 per cent in real terms from 2017-18 to 2018-19. The reduction in the Income Support for People with Disability program is underpinned by the ongoing impact of a range of measures, which have better targeted DSP eligibility and assessment processes.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Income Support for People with Disability	16,578	16,564	17,058	17,222	17,728
National Disability Insurance Scheme(b)	7,816	16,695	20,734	22,355	23,647
Income Support for Carers	8,494	8,689	9,137	9,453	9,938
Assistance to the States for Disability Services	1,522	954	173	0	0
Disability and Carers	1,064	1,076	1,061	1,031	1,016
National Disability Insurance Scheme Transition Programme	519	435	97	46	16
National Partnership Payments - Assistance to People with Disabilities	965	3,553	1,407	1,003	1,044
Total	**36,958**	**47,966**	**49,667**	**51,110**	**53,389**

(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 0.2 per cent in real terms from 2017-18 to 2018-19, and decrease by 1.9 per cent in real terms from 2018-19 to 2021-22, with the decrease driven primarily by reduced expenditure on the Family Tax Benefit (FTB). FTB expenses are expected to decrease by 2.9 per cent in real terms from 2017-18 to 2018-19, and decrease by 9.3 per cent in real terms from 2018-19 to 2021-22. The decrease in expenses to 2021-22 is driven by the cumulative impact of policy amendments to target payment eligibility, (including the 2017-18 MYEFO measures *Encouraging Self-Sufficiency for Newly Arrived Migrants* and *Family Tax Benefit and Paid Parental Leave — maintaining income thresholds*).

The **assistance to families with children** sub-function profile includes an increase in Child Care Fee Assistance expenses of 8.9 per cent in real terms from 2017-18 to 2018-19, and by 10.9 per cent in real terms from 2018-19 to 2021-22. The increase 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) Act 2017.*

Parents Income Support expenses are expected to decrease by 7.5 per cent in real terms from 2017-18 to 2018-19, and increase by 3.5 per cent from 2018-19 to 2021-22. These changes reflect compliance activities, including the 2018-19 Budget measure *Social Welfare Debt Recovery.*

Expenses for Paid Parental Leave (PPL) are estimated to increase by 0.8 per cent in real terms from 2017-18 to 2018-19, and decrease by 2.5 per cent in real terms from 2018-19 to 2021-22. The decrease from 2018-19 to 2021-22 is largely due to the 2017-18 MYEFO measure *Encouraging Self-Sufficiency for Newly Arrived Migrants*.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Family tax benefit	18,472	18,348	18,269	17,978	17,885
Child Care Fee Assistance(b)	7,182	8,000	8,679	9,025	9,534
Child Care Benefit	*3,418*	*0*	*0*	*0*	*0*
Child Care Rebate	*3,764*	*0*	*0*	*0*	*0*
Child Care Subsidy	*0*	*8,000*	*8,679*	*9,025*	*9,534*
Parents income support	5,450	5,153	5,299	5,409	5,729
Paid Parental Leave	2,185	2,252	2,288	2,327	2,360
Child support	1,902	1,915	1,948	1,985	2,027
Support for the child care system	354	340	342	341	348
Families and Children	266	556	904	841	685
Family relationship services	166	167	167	169	171
Child Payments	107	100	96	92	92
National Partnership Payments - Child Care	22	0	0	0	0
Other	13	15	15	15	16
Total	**36,119**	**36,845**	**38,007**	**38,183**	**38,845**

(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 10.8 per cent in real terms from 2017-18 to 2018-19 and to increase by 9.1 per cent in real terms from 2018-19 to 2021-22. These changes reflect compliance activities, including the 2018-19 Budget measure *Social Welfare Debt Recovery*.

Expenses for the **assistance for Indigenous Australians (nec)** sub-function are estimated to decrease by 4.6 per cent in real terms from 2017-18 to 2018-19 and decrease by 4.0 per cent in real terms from 2018-19 to 2021-22. This decrease largely reflects the conclusion of a number of Indigenous measures.

Expenses for the **general administration** sub-function are estimated to decrease by 25.7 per cent in real terms from 2018-19 to 2021-22. This is mainly attributable to 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 Housing and Homelessness Agreement, 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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Housing	3,340	3,124	3,208	3,161	3,097
Urban and regional development	845	1,315	992	444	254
Environment protection	1,250	944	919	849	875
Total housing and community amenities	**5,435**	**5,382**	**5,119**	**4,454**	**4,225**

Total expenses under the housing and community amenities function are estimated to decrease by 3.2 per cent in real terms from 2017-18 to 2018-19 and decrease by 26.9 per cent in real terms from 2018-19 to 2021-22. The decrease is primarily driven by reduced expenses for the **urban and regional development** sub-function reflecting completion of projects under key programs, and reduced expenses for the **housing** sub-function related to the scheduled completion of National Partnership payments.

The **housing** sub-function includes the Australian Government's contribution to the National Housing and Homelessness Agreement, 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 decrease by 8.5 per cent in real terms from 2017-18 to 2018-19 due to the scheduled completion of National Partnership payments. The expenses for this sub-function are expected to decrease by 7.7 per cent in real terms from 2018-19 to 2021-22, largely reflecting a forecast reduction in the construction and acquisition of DHA properties in 2020-21. The decrease is partially offset by the ongoing 2017-18 Budget measure *Reducing Pressure on Housing Affordability – a new National Housing and Homelessness Agreement* and the 2018-19 Budget measure *Remote Indigenous Housing in the Northern Territory*.

The **urban and regional development** sub-function comprises services to territories and regional development programs, including Community Development Grants and the Building Better Regions Fund. Expenses are estimated to increase by 52.1 per cent in real terms from 2017-18 to 2018-19 reflecting a number of 2018-19 Budget measures including *Building Better Regions Fund – round three*, *Stronger Communities Programme – round four*, *Indian Ocean Territories – essential infrastructure and air services*, and *Norfolk Island – additional funding*. Expenses are expected to reduce by 82.0 per cent in real terms from 2018-19 to 2021-22, largely reflecting the completion of projects under key programs, such as Community Development Grants, the National Stronger 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 26.2 per cent in real terms from 2017-18 to 2018-19 and decrease by 13.7 per cent from 2018-19 to 2021-22. The decrease from 2017-18 to 2018-19 reflects the substantial funding being provided in 2017-18 ($443.8 million) for the Government's commitment to the Great Barrier Reef, as described in the 2018-19 Budget measure *Great Barrier Reef 2050 Partnership Program.* Decreases from 2018-19 to 2021-22 are primarily due to funding from the Natural Heritage Trust being redirected to the Red Imported Fire Ant Eradication program, Indigenous Partnerships Australia program and World Heritage Properties program. Reductions are partly offset by increased expenses relating to the Emissions Reduction Fund.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Broadcasting	1,426	1,411	1,407	1,404	1,419
Arts and cultural heritage	1,501	1,339	1,323	1,283	1,310
Sport and recreation	438	465	370	331	332
National estate and parks	427	422	418	452	478
Total recreation and culture	**3,793**	**3,638**	**3,517**	**3,470**	**3,539**

Total expenses under the recreation and culture function are estimated to decrease by 6.2 per cent in real terms from 2017-18 to 2018-19, and by 9.4 per cent in real terms over the period 2018-19 to 2021-22.

Expenses under the **broadcasting** sub-function are expected to decrease by 3.2 per cent in real terms from 2017-18 to 2018-19, and by 6.4 per cent in real terms from 2018-19 to 2021-22. This reflects the Government's decision to maintain the Australian Broadcasting Corporation's (ABC) operational funding at 2018-19 levels from 2019-20 to 2021-22, which has no impact on funding for transmission and distribution, and the impact of previous efficiency measures applied to the ABC and the Special Broadcasting Corporation (SBS). This indexation pause is partially offset by additional funding for the SBS announced in the 2017-18 Budget and the 2018-19 Budget, and by 2016-17 Budget measures which provided additional operational funding for the ABC and 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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
ABC general operational activities	856	850	851	849	855
SBS general operational activities	318	307	299	294	298
ABC transmission and distribution services	178	181	184	187	190
SBS transmission and distribution services	74	73	73	75	76
Total	**1,426**	**1,411**	**1,407**	**1,404**	**1,419**

(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 12.8 per cent in real terms from 2017-18 to 2018-19, and by 8.9 per cent in real terms over the period 2018-19 to 2021-22. This sub-function includes funding for the arts and cultural institutions. The estimated decreases reflect fewer productions applying for and receiving taxation rebates through the Australian Screen Production Incentive and the effect of implementation of efficiencies in previous economic updates. These decreases are partially offset by the 2018-19 Budget measure *Location Incentive Funding Program* which provides funding to encourage large-budget international productions to film in Australia, 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 3.9 per cent in real terms from 2017-18 to 2018-19, and decrease by 33.5 per cent in real terms over the period 2018-19 to 2021-22. The increase in 2018-19 primarily reflects the 2018-19 Budget measure *Sport — building a more active Australia* to provide additional funding for a range of sport initiatives, with the majority of the Government's investment occurring in 2018-19 and 2019-20. The reduction in expenditure over the forward estimates results primarily from a reduction in infrastructure expenditure including the completion of the North Queensland Stadium.

Expenses under the **national estate and parks** sub-function are estimated to decrease by 3.3 per cent in real terms from 2017-18 to 2018-19, and increase by 5.3 per cent in real terms over the period 2018-19 to 2021-22. The decrease from 2017-18 to 2018-19 largely reflects a reduction in short-term expenses for the Australian Antarctic Program. The increase from 2018-19 to 2021-22 reflects 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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Fuel and energy	7,515	7,541	7,814	8,138	8,492
Total fuel and energy	**7,515**	**7,541**	**7,814**	**8,138**	**8,492**

Fuel and energy expenses are estimated to decrease by 1.9 per cent in real terms from 2017-18 to 2018-19 and increase by 4.8 per cent in real terms over the period 2018-19 to 2021-22.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Fuel Tax Credits Scheme	6,913	6,922	7,241	7,654	8,114
Resources and Energy	156	122	88	69	64
Renewable Energy	298	342	320	260	172
Other	148	156	165	154	143
Total	**7,515**	**7,541**	**7,814**	**8,138**	**8,492**

(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 2.1 per cent in real terms from 2017-18 to 2018-19 and increase by 9.1 per cent in real terms from 2018-19 to 2021-22.

Expenses under the Resources and Energy component are estimated to decrease by 23.8 per cent in real terms from 2017-18 to 2018-19 and decrease by 51.2 per cent in real terms from 2018-19 to 2021-22. This reflects a number of terminating measures, including 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, and the cessation of the Coal Mining Abatement Technology Support Package in 2019-20. The decrease in expenses is partly offset by the Government's decision to fund emerging energy priorities as part of the 2018-19 Budget measure *Powering Forward – delivering more affordable, reliable and sustainable energy*.

The overall decrease in expenses under the renewable energy component from 2018-19 to 2021-22 reflects the decrease in grants expenses for the Australian Renewable Energy Agency, which is partly offset by an increase in expenses 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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Wool industry	89	89	89	89	89
Grains industry	171	177	179	178	179
Dairy industry	54	52	51	52	52
Cattle, sheep and pig industry	238	241	245	250	253
Fishing, horticulture and other agriculture	432	436	424	411	414
General assistance not allocated to specific industries	36	50	32	25	25
Rural assistance	136	173	160	160	164
Natural resources development	1,098	1,081	706	645	754
General administration	766	772	741	740	746
Total agriculture, forestry and fishing	**3,019**	**3,070**	**2,628**	**2,549**	**2,678**

Total expenses under this function are estimated to decrease by 0.5 per cent in real terms from 2017-18 to 2018-19, and decrease by 18.8 per cent in real terms over the period 2018-19 to 2021-22. While expenses under this function are estimated to decrease over the forward estimates, the decrease is partially offset by significant new commitments in the 2018-19 Budget in biosecurity and export services through the *Australian Agriculture and Export Growth Plan*.

The **rural assistance** sub-function is expected to increase by 24.6 per cent in real terms from 2017-18 to 2018-19, and decrease by 11.7 per cent in real terms over the period 2018-19 to 2021-22. The increase in expenses is related to the Regional Investment Corporation which, from 1 July 2018, 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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Water reform(b)	839	824	475	445	544
Sustainable management - natural resources	21	8	4	0	0
Other	237	248	227	201	211
Total	**1,098**	**1,081**	**706**	**645**	**754**

(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 decrease by 3.7 per cent in real terms from 2017-18 to 2018-19 and decrease by 35.0 per cent in real terms from 2018-19 to 2021-22. The decrease 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, including the Australian Technology and Science Growth Plan which supports the Government's commitment to science and innovation as key drivers of business growth, economic prosperity and job opportunities.

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

Sub-function	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Mining, manufacturing and construction	2,979	3,260	3,552	3,681	3,484
Total mining, manufacturing and construction	**2,979**	**3,260**	**3,552**	**3,681**	**3,484**

Total expenses under the mining, manufacturing and construction function are expected to increase by 7.0 per cent in real terms from 2017-18 to 2018-19, and decrease by 0.6 per cent in real terms from 2018-19 to 2021-22.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Research and Development Tax Incentive	2,377	2,373	2,466	2,566	2,689
Growing Business Investment	344	314	251	208	190
Northern Australia Infrastructure Facility	41	318	561	641	378
Other	218	255	274	267	226
Total	**2,979**	**3,260**	**3,552**	**3,681**	**3,484**

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

Expenses for the Research and Development Tax Incentive, administered by the Australian Taxation Office, are expected to decrease by 2.4 per cent in real terms from 2017-18 to 2018-19, reflecting the *Better targeting the Research and Development Tax Incentive* measure announced in the 2018-19 Budget, which comes into effect on 1 July 2018. Expenses are expected to increase by 5.5 per cent from 2018-19 to 2021-22, reflecting 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 and a combination of terminating measures from 2018-19 to 2020-21.

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 increase by 14.5 per cent in real terms from 2017-18 to 2018-19, reflecting the implementation of new Government initiatives in delivering better Global Positioning System services to support Australian businesses and regional Australians, and the Government's investment of $497.9 million over five years from 2017-18 for the Australian Technology and Science Growth Plan. The decrease by 17.4 per cent in real terms from 2018-19 to 2021-22 is partially driven by the completion of the Junior Minerals Exploration Incentive 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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Communication	911	1,450	1,471	1,450	1,442
Rail transport	1,547	1,198	1,137	997	647
Air transport	245	426	328	293	282
Road transport	5,895	5,324	4,588	4,133	3,947
Sea transport	413	434	439	444	462
Other transport and communication	241	230	222	207	197
Total transport and communication	**9,252**	**9,062**	**8,187**	**7,523**	**6,976**

Total expenses under this function are estimated to decrease by 4.2 per cent in real terms between 2017-18 and 2018-19, and by 28.4 per cent in real terms from 2018-19 to 2021-22.

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 this sub-function are estimated to increase by 55.6 per cent in real terms between 2017-18 and 2018-19, and decrease by 7.4 per cent in real terms from 2018-19 to 2021-22. The increase primarily reflects commencement in 2018-19 of the Regional Broadband Scheme, which provides funding for regional fixed wireless and satellite connections through the National Broadband Network. The expected decrease in expenses from 2020-21 to 2021-22 reflects the anticipated completion of projects, phased funding for the Digital Transformation Agency and the conclusion of the Regional and Small Publishers Innovation Fund in 2020-21.

The expenses under the **rail transport** sub-function primarily consist of grants provided under the Infrastructure Investment Programme. Expenses are estimated to decrease by 24.3 per cent in real terms between 2017-18 to 2018-19, and decrease by 49.8 per cent in real terms from 2018-19 to 2021-22. The decrease in expenditure largely reflects the expected completion of projects including the Ballarat Rail Line Upgrade and the Goodwood and Torrens junction in South Australia. In addition to expenditure on rail transport, the Government is providing an equity investment of $9.0 billion for the delivery of Inland Rail. In the 2018-19 Budget the Government has made substantial new commitments to major rail projects over the next 10 years, including a commitment of up to $5.0 billion to the Melbourne Airport Rail Link, $475.0 million for a rail connection to the Monash employment centre in Melbourne's south-east and $390.0 million for the Beerburrum to Nambour Rail Upgrade.

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 increase by 70.0 per cent in real terms between 2017-18 and 2018-19, primarily due to expenditure for Western Sydney Airport preparatory works and the 2018-19 Budget measure *Aviation, Air Cargo and International Mail Security Package*. Total expenses under the sub-function are expected to decrease by 38.5 per cent in real terms from 2018-19 to 2021-22 as the Western Sydney Airport preparatory works are completed. In addition, however, the Government is providing an equity investment of up to $5.3 billion in WSA Co to complete the construction of the airport. Total expenses under the **sea transport** sub-function are estimated to increase by 2.7 per cent in real terms between 2017-18 and 2018-19, reflecting implementation of the National System for Domestic Commercial Vessel Safety, but decrease by 1.0 per cent in real terms from 2018-19 to 2021-22 due to slower growth in the forecast demand for the Tasmanian Freight Equalisation Scheme.

The expenses under the **road transport** sub-function primarily consist of grants provided under the Infrastructure Investment Programme. Expenses are estimated to decrease by 11.7 per cent in real terms between 2017-18 and 2018-19, and decrease by 31.0 per cent in real terms from 2018-19 to 2021-22. The decrease in expenses reflects the expected completion of projects including the Woolgoolga to Ballina section of the Pacific Highway and the Northern Connector and other current North-South corridor projects in Adelaide. This decrease is partially offset by existing funding for the Bruce Highway. In the 2018-19 Budget the Government has made substantial new commitments to major road initiatives over the next 10 years, including $3.5 billion for the Roads of Strategic Importance, $1.8 billion for the North-East Link in Victoria, an additional $1.4 billion for the Adelaide North-South Corridor, $581 million for the Tonkin Highway and $560 million for the Bunbury Outer Ring Road in Western Australia.

Total expenses under the **other transport and communication** sub-function are estimated to decrease by 6.5 per cent in real terms between 2017-18 and 2018-19 and decrease by 20.5 per cent in real terms from 2018-19 to 2021-22. This primarily reflects a decrease in departmental funding for the Infrastructure, Regional Development and Cities portfolio associated with the expected completion of the Government's preparatory works for the Western Sydney Airport.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Tourism and area promotion	182	164	162	173	177
Total labour and employment affairs	3,832	3,782	3,647	3,608	3,637
Vocational and industry training	*1,201*	*1,214*	*1,163*	*1,152*	*1,158*
Labour market assistance to job seekers and industry	*1,948*	*1,899*	*1,788*	*1,755*	*1,764*
Industrial relations	*683*	*669*	*696*	*700*	*715*
Immigration	3,960	3,048	2,504	2,393	2,378
Other economic affairs nec	2,238	2,476	2,327	2,225	2,154
Total other economic affairs	**10,212**	**9,471**	**8,640**	**8,400**	**8,347**

Total expenses under the other economic affairs function are expected to decrease by 9.3 per cent in real terms from 2017-18 to 2018-19, and decrease by 18.0 per cent in real terms from 2018-19 to 2021-22.

Expenses under the **vocational and industry training** sub-function are expected to decrease by 1.1 per cent in real terms from 2017-18 to 2018-19, and decrease by 11.2 per cent in real terms between 2018-19 and 2021-22. The decline in expenses primarily reflects policy changes announced in the 2018-19 Budget measures *Industry Workforce Training Program – efficiencies* and *National Training System – Commonwealth Own Purpose Expenses Program – efficiencies*.

Expenses under the **labour market assistance to job seekers and industry** sub-function are expected to decrease by 4.7 per cent in real terms from 2017-18 to 2018-19. Expenses between 2018-19 and 2021-22 are expected to decrease by 13.5 per cent in real terms mainly as a result of the reduction in the number of unemployment benefit recipients.

Expenses under the **industrial relations** sub-function are expected to decrease by 4.2 per cent in real terms from 2017-18 to 2018-19, reflecting a forecast reduction in long service leave payments to employees in the coal mining industry under the *Coal Mining Industry (Long Service Leave) Administration Act 1992*.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Management of unlawful non-citizens	2,690	1,873	1,439	1,379	1,376
Citizenship, visas and migration	807	744	687	640	625
Regional co-operation and refugee and humanitarian assistance	462	432	378	375	378
Total other economic affairs	**3,960**	**3,048**	**2,504**	**2,393**	**2,378**

(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 24.7 per cent in real terms between 2017-18 and 2018-19, and by 27.4 per cent in real terms from 2018-19 to 2021-22. 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 8.2 per cent in real terms from 2017-18 to 2018-19, and decrease by 19.0 per cent in real terms from 2018-19 to 2021-22.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Promotion of Australia's export and other international economic interests(b)	344	358	350	349	348
Operating costs for:					
Department of Industry, Innovation and Science	516	498	481	469	440
Australian Securities and Investments Commission	442	438	455	440	418
Bureau of Meteorology	352	357	359	359	338
IP Australia	190	191	215	217	222
Australian Competition and Consumer Commission	147	150	142	135	136
Australian Prudential Regulation Authority	142	145	144	142	142
National Partnership Payments - Competition and Productivity Enhancing Reform	0	225	70	5	0
Other	104	113	112	110	111
Total	**2,238**	**2,476**	**2,327**	**2,225**	**2,154**

(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 Department of Industry, Innovation and Science are expected to decrease by 5.6 per cent in real terms from 2017-18 to 2018-19 and decrease by 17.9 per cent in real terms from 2018-19 to 2021-22. The decrease in expenses reflect efficiencies associated with implementing Whole-of-Government initiatives such as the Shared Services Program and the Business Grants Hub, and a number of terminating measures over the 2017-18 to 2020-21 period.

Expenses for the Bureau of Meteorology (the Bureau) are projected to decrease by 11.9 per cent in real terms from 2018-19 to 2021-22. The decrease in expenses largely reflects the expected completion of information and communications technology (ICT) projects, including the first tranche of investment to strengthen the Bureau's ICT security and resilience announced in the 2017-18 Budget. The Government is making a further significant capital investment (tranche two) to further improve the Bureau's ICT systems and observations network infrastructure in the 2018-19 Budget measure *Bureau of Meteorology — improved security and resilience for ICT systems — tranche two*.

Expenses for National Partnership Payments – Competition and Productivity Enhancing Reform are expected to increase from 2017-18 to 2018-19 reflecting payments to the States for the Small Business Regulatory Reform Agenda, which provides $300 million to reduce the regulatory burden on small businesses.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Public debt interest	17,047	17,811	18,355	18,047	17,806
Interest on Commonwealth Government's behalf	*17,047*	*17,811*	*18,355*	*18,047*	*17,806*
Nominal superannuation interest	9,241	10,648	11,049	11,387	11,715
General purpose inter-government transactions	66,925	69,446	73,096	76,847	80,665
General revenue assistance - States and Territories	*64,492*	*68,196*	*70,537*	*74,187*	*77,895*
Local government assistance	*2,433*	*1,249*	*2,560*	*2,660*	*2,770*
Natural disaster relief(a)	109	17	10	0	0
Contingency reserve	-1,916	101	3,287	6,271	11,274
Total other purposes	**91,407**	**98,023**	**105,797**	**112,552**	**121,460**

(a) Amounts for the Natural Disaster Relief and Recovery Arrangements (NDRRA) reflect expenses being recorded in the year in which the disaster occurs rather than when payments are made to State or Territory governments in relation to Australian Government financial obligations under the NDRRA.

Total expenses under the other purposes function are estimated to increase by 4.9 per cent in real terms from 2017-18 to 2018-19, and by 15.3 per cent over the period 2018-19 to 2021-22.

Expenses under the **public debt interest** sub-function are expected to increase by 2.2 per cent in real terms from 2017-18 to 2018-19 and decrease by 7.0 per cent from 2018-19 to 2021-22. The increase in expenses reflects expected issuance of Australian Government Securities. The decrease in expenses reflects a drop in expected 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 2.4 per cent from 2018-19 to 2021-22, reflecting the growth in the Australian Government's superannuation 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 8.1 per cent from 2018-19 to 2021-22. Nearly all of the expenses under this sub-function relate 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 2018-19.*

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 49.8 per cent in real terms from 2017-18 to 2018-19, reflecting the bringing forward of the first two instalments of the 2018-19 Financial Assistance Grants program for payment in 2017-18. 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. 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. The Contingency Reserve also makes provision for future increases in new medicine listings. However, in this budget statement, those expenses are allocated to the pharmaceutical benefits and services sub-function (see page 6-19 for further information).

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 2018-19 Budget increases expenses by $101 million in 2018-19, and increases expenses by $3.3 billion in 2019-20, $6.3 billion in 2020-21 and $11.3 billion in 2021-22. 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 2018-19 Budget includes a provision of:

- zero in the Budget year 2018-19;
- ½ of a percentage point of total general government sector expenses (excluding GST payments to the States) in the first forward year 2019-20 ($2.2 billion);
- 1 per cent of expenses in the second forward year 2020-21 ($4.4 billion); and
- 2 per cent provision of expenses in the third forward year 2021-22 ($9.2 billion).

The drawdown of the CBA reduced expenses by $1.1 billion in 2018-19; $1.1 billion in 2019-20 and $2.2 billion in 2020-21. 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: Public Investment and Productivity* 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 $4.9 billion in 2018-19, $4.8 billion higher than the net capital investment in 2017-18. This change is largely due to funding associated with the implementation of the *2016 Defence White Paper*.

Details of movements are further explained in the following section.

Table 18: Estimates of total net capital investment

	MYEFO	Revised	Estimates		Projections	
	2017-18	2017-18	2018-19	2019-20	2020-21	2021-22
Total net capital investment ($m)	**193**	**748**	**4,989**	**4,923**	**6,720**	**8,000**
Per cent of GDP	0.0	0.0	0.3	0.2	0.3	0.4

Reconciliation of net capital investment since the 2017-18 Budget

A reconciliation of the net capital investment estimates, showing the effect of policy decisions and parameter and other variations since the 2017-18 Budget, is provided in Table 19.

Table 19: Reconciliation of net capital investment estimates

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	Total
	$m	$m	$m	$m	$m
2017-18 Budget net capital investment	**484**	**4,770**	**4,892**	**6,037**	**16,183**
Changes from 2017-18 Budget to 2017-18 MYEFO					
Effect of policy decisions(a)	70	72	-29	13	126
Effect of parameter and other variations	-361	-19	398	44	63
Total variations	**-290**	**53**	**369**	**57**	**189**
2017-18 MYEFO net capital investment	**193**	**4,823**	**5,261**	**6,094**	**16,371**
Changes from 2017-18 MYEFO to 2018-19 Budget					
Effect of policy decisions(a)	91	279	243	135	748
Effect of parameter and other variations	464	-113	-581	491	260
Total variations	**554**	**165**	**-338**	**626**	**1,008**
2018-19 Budget net capital investment	**748**	**4,989**	**4,923**	**6,720**	**17,379**

(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 2018-19 has increased by $165 million since the 2017-18 MYEFO. This increase is driven by the effect of new policy decisions of $279 million, partially offset by a decrease of $113 million resulting from parameter and other variations.

Further information on the capital measures since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2018-19*.

Net capital investment estimates by function

Estimates for Australian Government general government sector net capital investment by function for the period 2017-18 to 2021-22 are provided in Table 20.

Table 20: Estimates of net capital investment by function

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
General public services	-222	-165	-63	-118	-248
Defence	2,693	3,876	5,788	7,023	8,609
Public order and safety	179	135	-29	-125	-195
Education	-2	17	3	-3	-3
Health	94	48	3	-32	-31
Social security and welfare	285	49	-60	-154	-172
Housing and community amenities	-10	-18	-27	-38	36
Recreation and culture	115	178	66	-100	-117
Fuel and energy	3	1	-1	-1	-1
Agriculture, forestry and fishing	459	741	235	220	124
Mining, manufacturing and construction	11	10	15	12	-1
Transport and communication	-3,104	32	-19	-38	-18
Other economic affairs	235	40	4	-55	-110
Other purposes	12	45	-992	129	129
Total net capital investment	**748**	**4,989**	**4,923**	**6,720**	**8,000**

A significant component of the Government's net capital investment occurs in the defence function, and relates to 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** — reflects the divestment of the Commonwealth Science and Industrial Research Organisation (CSIRO)'s property portfolio, whereby the funding received will be used for capital upgrades on a number of CSIRO's research facilities. The decreasing trend also reflects the Australian Taxation Office shifting to ICT fee for service arrangements;

- **defence** — funding associated with the implementation of the *2016 Defence White Paper* to build the future Defence Force and capability over 10 years from 2016. These investments are guided through the Defence Integrated Investment Program. Major investments include military equipment such as ships, aircraft and armoured vehicles, ICT capabilities and infrastructure;

- **public order and safety** — reflects the completion of investment in national security capabilities from previous Budgets for law enforcement agencies, and funding from 2018-19 for the Australian Criminal Intelligence Commission to enhance its technological capability to detect and disrupt serious and organised crime and terrorist threats;

- **social security and welfare** — continues to reflect the Commonwealth's investment in ICT capabilities and infrastructure for the Department of Human Services, including for the 2018-19 Budget measure *Delivering Australia's Digital Future – Welfare Payment Infrastructure Transformation – Tranche Three*, and for the National Disability Insurance Agency for the ongoing rollout of the National Disability Insurance Scheme;

- **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 2019-20 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 and water infrastructure investment under the Sustainable Rural Water Use and Infrastructure Program in 2017–18 and 2018–19; and

- **transport and communication** — reflects the reissue and auction by the Australian Communications and Media Authority of spectrum licences in the 700 MHz and 2.1 GHz bands, and multiband residual lots.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
General public services	1,034	803	826	750	677
Defence	8,863	10,184	12,142	14,009	16,148
Public order and safety	636	601	457	359	308
Education	24	45	30	27	26
Health	156	115	64	56	58
Social security and welfare	632	432	319	225	222
Housing and community amenities	68	70	95	100	46
Recreation and culture	469	516	408	275	275
Fuel and energy	6	6	4	3	4
Agriculture, forestry and fishing	503	785	279	264	167
Mining, manufacturing and construction	17	19	24	22	9
Transport and communication	96	96	49	30	44
Other economic affairs	684	506	435	365	306
Other purposes	12	45	63	129	129
General government purchases of non-financial assets	**13,199**	**14,222**	**15,197**	**16,613**	**18,419**

Appendix A: Expense by Function and Sub-Function

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

	Actuals	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m	$m
General public services						
Legislative and executive affairs	1,251	1,212	1,484	1,142	1,166	1,492
Financial and fiscal affairs	6,515	7,352	7,101	7,203	6,860	7,197
Foreign affairs and economic aid	6,383	5,582	5,798	6,747	5,664	5,601
General research	2,695	3,221	2,995	3,057	3,143	3,207
General services	625	692	681	684	621	642
Government superannuation benefits	8,811	6,917	5,007	4,787	4,800	4,783
Total general public services	**26,280**	**24,975**	**23,065**	**23,621**	**22,253**	**22,923**
Defence	**28,051**	**30,982**	**31,215**	**30,866**	**33,061**	**35,164**
Public order and safety						
Courts and legal services	1,188	1,267	1,224	1,200	920	916
Other public order and safety	4,001	3,983	4,100	4,063	3,931	3,914
Total public order and safety	**5,189**	**5,251**	**5,324**	**5,263**	**4,851**	**4,829**
Education						
Higher education	9,390	9,676	9,756	9,891	10,201	10,292
Vocational and other education	2,003	1,795	1,810	1,832	1,901	1,885
Schools	17,081	18,299	19,468	20,748	22,134	23,502
Non-government schools	*10,586*	*11,181*	*11,781*	*12,405*	*13,098*	*13,773*
Government schools	*6,495*	*7,118*	*7,687*	*8,343*	*9,036*	*9,729*
School education - specific funding	647	673	674	536	191	163
Student assistance	3,104	2,923	2,654	2,823	2,956	3,149
General administration	369	380	373	354	347	344
Total education	**32,594**	**33,746**	**34,736**	**36,185**	**37,730**	**39,336**
Health						
Medical services and benefits	30,016	31,110	32,012	33,519	34,983	36,574
Pharmaceutical benefits and services	13,379	13,206	12,822	12,483	11,044	11,050
Assistance to the States for public hospitals	18,638	20,690	21,189	22,301	23,468	24,692
Hospital services(a)	2,343	1,658	1,458	1,393	1,339	1,330
Health services	6,198	6,885	7,081	6,637	7,096	7,204
General administration	3,063	3,172	3,350	3,131	3,127	3,168
Aboriginal and Torres Strait Islander health	807	882	914	952	992	1,024
Total health	**74,445**	**77,603**	**78,825**	**80,416**	**82,049**	**85,041**

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

	Actuals	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m	$m
Social security and welfare						
Assistance to the aged	61,754	63,865	66,771	70,385	73,837	77,422
Assistance to veterans and dependants	6,580	6,504	6,213	6,011	5,914	5,857
Assistance to people with disabilities	30,555	36,958	47,966	49,667	51,110	53,389
Assistance to families with children	36,001	36,119	36,845	38,007	38,183	38,845
Assistance to the unemployed and the sick	11,046	11,143	10,165	11,035	11,391	11,915
Other welfare programmes	1,343	1,838	1,741	1,656	1,639	1,406
Assistance for Indigenous Australians nec	2,167	2,184	2,130	2,153	2,186	2,196
General administration	3,748	4,010	4,141	3,654	3,276	3,304
Total social security and welfare	**153,192**	**162,621**	**175,971**	**182,568**	**187,535**	**194,335**
Housing and community amenities						
Housing	3,094	3,340	3,124	3,208	3,161	3,097
Urban and regional development	533	845	1,315	992	444	254
Environment protection	998	1,250	944	919	849	875
Total housing and community amenities	**4,625**	**5,435**	**5,382**	**5,119**	**4,454**	**4,225**
Recreation and culture						
Broadcasting	1,484	1,426	1,411	1,407	1,404	1,419
Arts and cultural heritage	1,348	1,501	1,339	1,323	1,283	1,310
Sport and recreation	382	438	465	370	331	332
National estate and parks	409	427	422	418	452	478
Total recreation and culture	**3,623**	**3,793**	**3,638**	**3,517**	**3,470**	**3,539**
Fuel and energy	**6,726**	**7,515**	**7,541**	**7,814**	**8,138**	**8,492**
Agriculture, forestry and fishing						
Wool industry	75	89	89	89	89	89
Grains industry	201	171	177	179	178	179
Dairy industry	54	54	52	51	52	52
Cattle, sheep and pig industry	200	238	241	245	250	253
Fishing, horticulture and other agriculture	315	432	436	424	411	414
General assistance not allocated to specific industries	34	36	50	32	25	25
Rural assistance	136	136	173	160	160	164
Natural resources development	867	1,098	1,081	706	645	754
General administration	745	766	772	741	740	746
Total agriculture, forestry and fishing	**2,626**	**3,019**	**3,070**	**2,628**	**2,549**	**2,678**

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

	Actuals	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m	$m
Mining, manufacturing and construction	**3,253**	**2,979**	**3,260**	**3,552**	**3,681**	**3,484**
Transport and communication						
Communication	663	911	1,450	1,471	1,450	1,442
Rail transport	1,383	1,547	1,198	1,137	997	647
Air transport	216	245	426	328	293	282
Road transport	6,256	5,895	5,324	4,588	4,133	3,947
Sea transport	369	413	434	439	444	462
Other transport and communication	252	241	230	222	207	197
Total transport and communication	**9,139**	**9,252**	**9,062**	**8,187**	**7,523**	**6,976**
Other economic affairs						
Tourism and area promotion	189	182	164	162	173	177
Total labour and employment affairs	3,444	3,832	3,782	3,647	3,608	3,637
Vocational and industry training	*1,074*	*1,201*	*1,214*	*1,163*	*1,152*	*1,158*
Labour market assistance to job seekers and industry	*1,667*	*1,948*	*1,899*	*1,788*	*1,755*	*1,764*
Industrial relations	*703*	*683*	*669*	*696*	*700*	*715*
Immigration	3,594	3,960	3,048	2,504	2,393	2,378
Other economic affairs nec	2,126	2,238	2,476	2,327	2,225	2,154
Total other economic affairs	**9,354**	**10,212**	**9,471**	**8,640**	**8,400**	**8,347**
Other purposes						
Public debt interest	16,076	17,047	17,811	18,355	18,047	17,806
Interest on Commonwealth Government's behalf	*16,076*	*17,047*	*17,811*	*18,355*	*18,047*	*17,806*
Nominal superannuation interest	8,445	9,241	10,648	11,049	11,387	11,715
General purpose inter-government transactions	64,027	66,925	69,446	73,096	76,847	80,665
General revenue assistance - States and Territories	*60,554*	*64,492*	*68,196*	*70,537*	*74,187*	*77,895*
Local government assistance	*3,473*	*2,433*	*1,249*	*2,560*	*2,660*	*2,770*
Natural disaster relief(b)	162	109	17	10	0	0
Contingency reserve	0	-1,916	101	3,287	6,271	11,274
Total other purposes	**88,710**	**91,407**	**98,023**	**105,797**	**112,552**	**121,460**
Total expenses	**447,807**	**468,788**	**488,584**	**504,171**	**518,247**	**540,830**

(a) The hospital services sub-function predominantly reflects Commonwealth funding to the States and Territories for veterans' hospital services.

(b) Amounts for the Natural Disaster Relief and Recovery Arrangements (NDRRA) reflect expenses being recorded in the year in which the disaster occurs rather than when payments are made to State or Territory governments in relation to Australian Government financial obligations under the NDRRA.

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 debt and the major assets and liabilities on the Government balance sheet.

Net debt as a share of GDP will peak at 18.6 per cent of GDP ($341 billion) in 2017-18, a year earlier than expected at the 2017-18 Mid-Year Economic and Fiscal Outlook (MYEFO), before declining to 18.4 per cent of GDP ($349.9 billion) in 2018-19 and further over the medium term to a projected 3.8 per cent of GDP ($118 billion) in 2028-29.

The end-of-year face value of Commonwealth Government Securities (CGS) on issue subject to the Treasurer's Direction is expected to be around $561 billion in 2018-19, increasing to $578 billion in 2021-22. In the medium term, the total face value of CGS on issue is projected to peak at $596 billion in 2025-26. By the end of the medium term (2028-29), the total face value of CGS on issue is projected to fall to $532 billion.

The Government's total stock of assets is estimated to be around $568 billion in 2018-19 and increase to $649 billion by the end of the forward estimates. Total liabilities are estimated to be around $905.6 billion in 2018-19 and increase to $939 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-term to long-term securities with a fixed annual rate of interest payable every six months;
- **Treasury Indexed Bonds (TIBs):** medium-term to long-term securities for which the capital value of the security is adjusted for movements in the consumer price index (CPI). Interest on TIBs is paid quarterly, at a fixed rate, on the adjusted capital value; and

- **Treasury Notes:** short-term securities generally maturing within six months of issuance. The volume of Treasury Notes on issue will vary over the course of the year, depending on the size and profile of the within-year funding flows.

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.

All outstanding CGS are denominated in Australian dollars and all new CGS issuance is also undertaken in Australian dollars.

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 through the issuance of 30-year bonds. 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 to support the Treasury Bond futures market.

A well-functioning and liquid CGS market also supports the development of a corporate bond market by providing a risk-free benchmark.

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 2018-19, net debt is expected to be $349.9 billion. Net debt is projected to peak at 18.6 per cent of GDP in 2017-18, a year earlier than expected at the 2017-18 MYEFO, and then fall over the forward estimates. Over the medium term, net debt is projected to decline to 3.8 per cent of GDP ($118 billion) in 2028-29.

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 2017-18 to 2021-22

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Liabilities included in net debt					
Deposits held	218	218	218	218	218
Government securities	568,924	594,437	610,885	593,896	604,177
Loans	16,095	16,090	16,002	16,120	16,283
Other borrowing	1,588	1,534	1,482	1,427	1,365
Total liabilities included in net debt	**586,825**	**612,280**	**628,588**	**611,661**	**622,043**
Assets included in net debt					
Cash and deposits	5,363	5,875	4,969	5,848	5,285
Advances paid	60,228	73,041	82,682	68,053	72,063
Investments, loans and placements	180,232	183,513	196,902	203,506	225,424
Total assets included in net debt	**245,822**	**262,429**	**284,552**	**277,407**	**302,772**
Net debt	**341,003**	**349,851**	**344,036**	**334,254**	**319,270**

Changes in net debt since the 2017-18 MYEFO

Table 2 shows the drivers of the change in net debt between the 2017-18 MYEFO and the 2018-19 Budget.

Net debt is estimated to decrease across the forward estimates compared with the 2017–18 MYEFO. This improvement is driven by lower levels of CGS on issue due to changes in the financing requirement reflecting improvements in the underlying and headline cash balances, and a fall in the market value of CGS due to higher average yields.

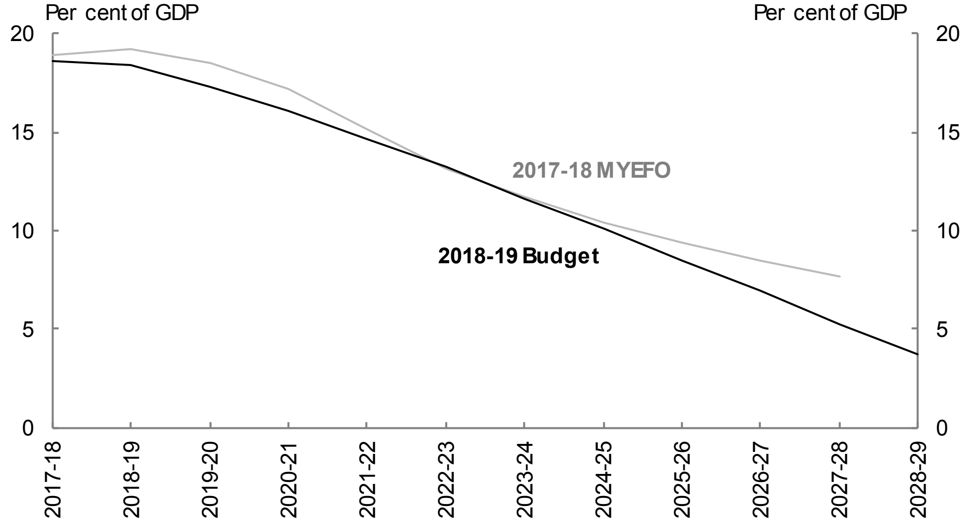
Table 2: Net debt — reconciliation from the 2017-18 MYEFO to the 2018-19 Budget

	2017-18	2018-19	2019-20	2020-21
	$b	$b	$b	$b
Net debt as at 2017-18 MYEFO	**343.8**	**363.2**	**365.2**	**355.3**
Changes in financing requirement	-1.3	-7.6	-13.4	-17.1
Impact of yields on CGS	-10.1	-10.3	-10.1	-9.5
Asset and other liability movements	8.6	4.6	2.4	5.6
Cash and deposits	*-1.0*	*-1.5*	*0.2*	*-0.7*
Advances paid(a)	*2.8*	*4.4*	*3.9*	*5.3*
Investments, loans and placements	*6.2*	*1.0*	*-2.2*	*0.5*
Other movements	*0.6*	*0.7*	*0.5*	*0.5*
Total movements in net debt from 2017-18 MYEFO to 2018-19 Budget	**-2.8**	**-13.3**	**-21.1**	**-21.0**
Net debt as at 2018-19 Budget	**341.0**	**349.9**	**344.0**	**334.3**

(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 3.8 per cent of GDP ($118 billion) in 2028-29 (Chart 1). Net debt is projected to be 5.2 per cent of GDP ($156 billion) in 2027-28, lower than projected net debt of 7.7 per cent of GDP in 2027-28 at the 2017-18 MYEFO. The improvement in net debt since the 2017-18 MYEFO is primarily due to a decline in CGS on issue owing to an increase in the underlying cash balance across the medium term.

Chart 1: Net debt projected to 2028-29



Note: A tax to GDP cap of 23.9 per cent is applied to these projections from 2026-27.
Source: Treasury projections.

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 program for the budget year only. Debt and interest 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.

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.

Table 3: Estimates and projections of Commonwealth Government Securities on issue subject to the Treasurer's Direction[(a)]

	2018-19	2019-20	2020-21	2021-22
	$b	$b	$b	$b
Face value - end of year	561	578	566	578
Per cent of GDP	29.4	29.0	27.2	26.6
Face value - within-year peak(b)	565	595	603	585
Per cent of GDP(b)	29.6	29.8	28.9	26.9
Month of peak(b)	*Mar-19*	*Apr-20*	*Nov-20*	*Dec-21*
Market value - end of year(c)	594	610	594	604
Per cent of GDP	31.2	30.6	28.5	27.8

(a) The same stock and securities that were 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 10: Australian Government Budget Financial Statements*, 'Table 2: Australian Government general government sector balance sheet' that refer to total CGS on issue.
Source: Australian Office of Financial Management.

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

In 2018-19, the end-of-year face value of CGS on issue subject to the Treasurer's Direction is expected to be around $561 billion, compared with $565 billion at the 2017-18 MYEFO. The end-of-year face value of CGS on issue subject to the Treasurer's Direction is expected to reach around $578 billion in 2021-22.

In 2018-19, the face value of CGS on issue is expected to reach a within-year peak of around $565 billion. The face value of CGS on issue is projected to rise to a within-year peak of around $603 billion in 2020-21, although it declines from that by the end of the forward estimates.

Changes in CGS on issue since the 2017-18 MYEFO

Table 4 shows the change in the projected end-of-year face value of CGS on issue between the 2017-18 MYEFO and the 2018-19 Budget.

Table 4: Projected CGS on issue subject to the Treasurer's Direction — reconciliation from the 2017-18 MYEFO to the 2018-19 Budget

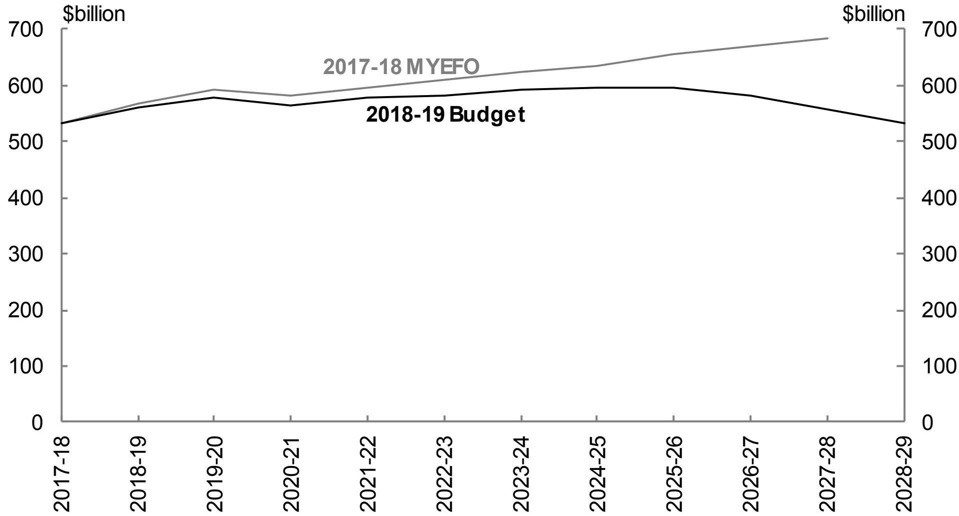
	2017-18	2018-19	2019-20	2020-21
	$b	$b	$b	$b
Total face value of CGS on issue subject to the Treasurer's Direction as at 2017-18 MYEFO	**531**	**565**	**588**	**583**
Factors affecting the change in face value of CGS on issue from 2017-18 MYEFO to 2018-19 Budget(a)				
Cumulative receipts decisions	0.0	-0.9	-0.4	6.2
Cumulative receipts variations	-8.0	-17.8	-25.8	-32.2
Cumulative payment decisions	1.6	3.2	4.1	4.6
Cumulative payment variations	0.7	3.7	5.2	3.8
Cumulative change in net investments in financial assets(b)	2.9	2.3	1.8	-3.9
Other contributors	1.9	5.7	5.0	4.1
Total face value of CGS on issue subject to the Treasurer's Direction as at 2018-19 Budget	**530**	**561**	**578**	**566**

(a) Cumulative impact of decisions and variations from 2017-18 to 2020-21. 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.

Over the medium term, the total face value of CGS on issue is projected to peak at $596 billion in 2025-26 and then fall to $532 billion by 2028-29. The face value of CGS on issue is projected to reach $558 billion by 2027-28, around $126 billion less than the $684 billion projected at the 2017-18 MYEFO (Chart 2). The reduction in the total face value of CGS across the medium term is largely driven by an improvement in the underlying cash balance, and its associated interest expense accumulating over the medium term.

Further details on the changes to the underlying cash balance since the 2017-18 MYEFO can be found in *Statement 3: Fiscal Strategy and Outlook*.

Chart 2: Face value of CGS on issue projected to 2028-29



Note: A tax to GDP cap of 23.9 per cent is applied to these projections from 2026-27.
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 1 May 2018.

Table 5: Breakdown of current Commonwealth Government Securities on issue

	On issue as at 1 May 2018	
	Face value	Market value
	$m	$m
Treasury Bonds(a)	485,284	513,020
Treasury Indexed Bonds(a)	33,184	42,667
Treasury Notes(a)	3,000	2,991
Total CGS subject to Treasurer's Direction(a)(b)	521,467	558,679
Other stock and securities	2,469	4,549
Total CGS on issue	**523,937**	**563,228**

(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 (coupon) and the timing of coupon payments. As at 1 May 2018, there were 24 Treasury Bond lines on issue, with a weighted average term to maturity of around 7.4 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 demand for sovereign bonds have resulted in the costs of borrowing being significantly lower than historical experience, notwithstanding the yield curve lengthening and associated issuance bias.

Table 6: Treasury Bonds on issue

Coupon Per cent	Maturity	On issue as at 1 May 2018 $m	Timing of interest payments(a)		
3.25	21-Oct-18	12,975	Twice yearly	21 Oct	21 Apr
5.25	15-Mar-19	16,399	Twice yearly	15 Mar	15 Sep
2.75	21-Oct-19	19,988	Twice yearly	21 Oct	21 Apr
4.50	15-Apr-20	27,174	Twice yearly	15 Apr	15 Oct
1.75	21-Nov-20	26,800	Twice yearly	21 Nov	21 May
5.75	15-May-21	30,199	Twice yearly	15 May	15 Nov
2.00	21-Dec-21	17,800	Twice yearly	21 Dec	21 Jun
5.75	15-Jul-22	25,000	Twice yearly	15 Jul	15 Jan
2.25	21-Nov-22	10,500	Twice yearly	21 Nov	21 May
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	29,700	Twice yearly	21 Apr	21 Oct
2.75	21-Nov-27	28,000	Twice yearly	21 Nov	21 May
2.25	21-May-28	25,900	Twice yearly	21 May	21 Nov
2.75	21-Nov-28	23,500	Twice yearly	21 Nov	21 May
3.25	21-Apr-29	21,700	Twice yearly	21 Apr	21 Oct
2.75	21-Nov-29	9,600	Twice yearly	21 Nov	21 May
4.50	21-Apr-33	13,900	Twice yearly	21 Apr	21 Oct
2.75	21-Jun-35	6,950	Twice yearly	21 Jun	21 Dec
3.75	21-Apr-37	11,200	Twice yearly	21 Apr	21 Oct
3.25	21-Jun-39	6,300	Twice yearly	21 Jun	21 Dec
3.00	21-Mar-47	11,800	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 TIBs currently on issue, as well as the associated annual interest rate (coupon) and the timing of coupon payments. As at 1 May 2018, there were 8 TIB lines on issue, with a weighted average term to maturity of around 9.0 years and the longest maturity extending to August 2040.

Table 7: Treasury Indexed Bonds on issue

Coupon Per cent	Maturity	On issue as at 1 May 2018 $b	Timing of interest payments(a)				
1.00	21-Nov-18	2.36	Quarterly	21 Nov	21 Feb	21 May	21 Aug
4.00	20-Aug-20	5.11	Quarterly	20 Aug	20 Nov	20 Feb	20 May
1.25	21-Feb-22	5.84	Quarterly	21 Feb	21 May	21 Aug	21 Nov
3.00	20-Sep-25	7.19	Quarterly	20 Sep	20 Dec	20 Mar	20 Jun
0.75	21-Nov-27	3.60	Quarterly	21 Nov	21 Feb	21 May	21 Aug
2.50	20-Sep-30	4.34	Quarterly	20 Sep	20 Dec	20 Mar	20 Jun
2.00	21-Aug-35	3.80	Quarterly	21 Aug	21 Nov	21 Feb	21 May
1.25	21-Aug-40	3.40	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 1 May 2018 was $3 billion. Table 8 lists the Treasury Notes currently on issue. Treasury Notes do not pay a coupon, but they are issued at a discount to their face value.

Table 8: Treasury Notes on issue

Maturity	On issue as at 1 May 2018 $m	Timing of interest payment	
22-Jun-18	2,500	At maturity	22 Jun
24-Aug-18	500	At maturity	24 Aug

Source: Australian Office of Financial Management.

Non-resident holdings of CGS on issue

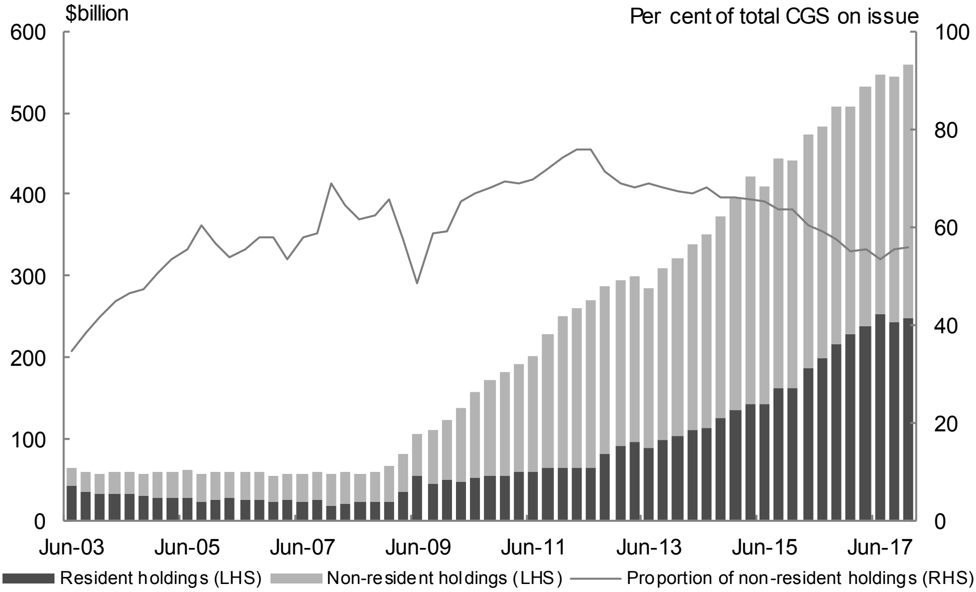
As at the December quarter 2017, non-residents of Australia held 56 per cent of total CGS on issue (Chart 3).

The proportion of CGS held by non-residents declined from a peak of around 76 per cent in 2012. Net buying of CGS by non-residents has continued to be positive, though it has not matched the rate of issuance. Domestic investors have absorbed the balance during the period.

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 remains a liquid currency on global markets is also a factor that has facilitated non-resident investment activity in the CGS market.

CGS yields remain relatively attractive compared with similarly rated sovereign bonds, particularly in Europe and Japan. This has contributed to emerging demand for longer-term CGS and, in turn, a decline in yields to historically low levels over recent years. To the extent that yields in alternative bond markets may rise relative to CGS yields, this could lead to changing patterns of CGS non-resident ownership with specific changes being difficult to predict.

Chart 3: Non-resident holdings of Commonwealth Government Securities



Note: Data refer to the market value of holdings.
Source: ABS cat. no. 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 it is actually paid.

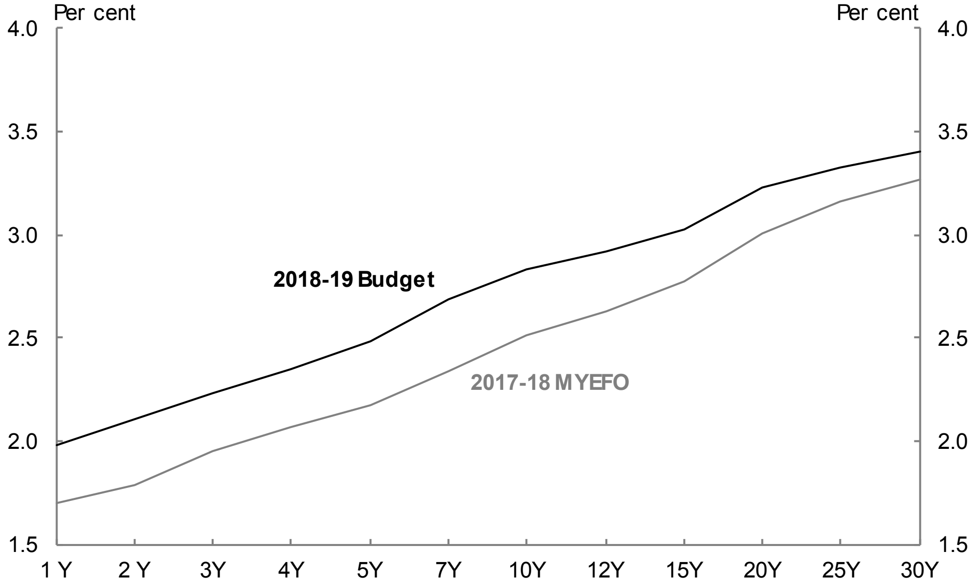
Estimates of the interest payments and expense of CGS on issue include the cost of CGS already on issue and future CGS issuance. The cost of:

- 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 2018-19 Budget result in a weighted average cost of borrowing of around 2.8 per cent for future issuance of Treasury Bonds in the forward estimates period, compared with around 2.5 per cent at the 2017-18 MYEFO. Chart 4 shows the yield curve assumptions underpinning the 2017-18 MYEFO and 2018-19 Budget.

Chart 4: Yield curve assumptions from 2017-18 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.

The Government's total interest payments in 2018-19 are estimated to be $18.7 billion, of which $18.5 billion relates to CGS on issue (Table 9).

Table 9: Interest payments, interest receipts and net interest payments[(a)]

	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Interest payments on CGS	16,334	18,471	17,244	17,877	17,189
Per cent of GDP	0.9	1.0	0.9	0.9	0.8
Interest payments	16,586	18,749	17,516	18,151	17,458
Per cent of GDP	0.9	1.0	0.9	0.9	0.8
Interest receipts	3,458	4,257	5,290	5,750	5,283
Per cent of GDP	0.2	0.2	0.3	0.3	0.2
Net interest payments(b)	13,128	14,492	12,226	12,401	12,175
Per cent of GDP	0.7	0.8	0.6	0.6	0.6

(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 2018-19 is estimated to be $19 billion, of which $17.8 billion relates to CGS on issue. In the 2017-18 MYEFO, interest expense in 2018-19 was estimated to be $19.3 billion, of which $17.8 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)]

	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Interest expense on CGS	17,017	17,781	18,325	18,023	17,782
Per cent of GDP	0.9	0.9	0.9	0.9	0.8
Interest expense	17,931	19,045	20,166	19,545	19,093
Per cent of GDP	1.0	1.0	1.0	0.9	0.9
Interest income	3,663	4,442	5,521	6,062	6,044
Per cent of GDP	0.2	0.2	0.3	0.3	0.3
Net interest expense(b)	14,268	14,603	14,645	13,483	13,049
Per cent of GDP	0.8	0.8	0.7	0.6	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.
(b) Net interest expense is equal to the difference between interest expenses and interest income.

Over the medium term, yields are assumed to converge to a long-run yield curve based on a ten-year yield of 5 per cent. This has been lowered from the previous assumption of 6 per cent. The change ensures consistency with the discount rate used for valuing the Government's superannuation liability (for further details see the *Liabilities* section). The long-run yield assumption reflects the view that there has been a structural fall in long-term borrowing costs, consistent with the Long Term Cost Report. The impact of this change has been to lower interest expenses, contributing to an improvement in the underlying cash balance.

Climate spending

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

Table 11: Climate spending from 2017-18 to 2021-22

	2017-18	2018-19	2019-20	2020-21	2021-22
	$b	$b	$b	$b	$b
Climate spending(a)	3.00	1.60	1.60	1.30	1.25

(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 provides 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 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 is financed through either receipts or debt. This Statement assumes that the proportion of climate spending being financed through new debt (as opposed to receipts) is equivalent to the proportion of total spending financed by debt. This is shown in Table 12.

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

	2017-18	2018-19	2019-20	2020-21	2021-22
Climate spending ($b)(a)	3.00	1.60	1.60	1.30	1.25
Total Spending ($b)(b)	482	501	512	504	546
Climate spending (per cent of total spending)	0.6	0.3	0.3	0.3	0.2
Change in face value of CGS from previous year ($b)(c)	31.6	28.6	17.7	-13.1	12.2
Contribution to change in face value of CGS from climate spending ($b)	0.20	0.09	0.06	na	0.03

(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 $547.3 billion at 30 June 2018, increasing to $568 billion in 2018-19 and $649 billion by the end of the forward estimates.

The Government's financial assets are estimated to be around $406.2 billion at 30 June 2018, increasing to $422.6 billion in 2018-19 and $485.1 billion by the end of the forward estimates.

The Government's non-financial assets are estimated to be around $141.1 billion at 30 June 2018, increasing to $145.3 billion in 2018-19 and $163.9 billion by the end of the forward estimates.

Future Fund

The Future Fund was established in 2006 to accumulate financial assets and invest them on behalf of the Australian Government to address the Government's unfunded superannuation liability.

The Investment Mandate for the Future Fund sets a benchmark rate of return of at least CPI plus 4.0 per cent to 5.0 per cent per annum over the long term. The Investment Mandate gives guidance to the Future Fund Board of Guardians (the Board) in relation to its investment strategy. The Board is independently responsible for the investment decisions of the 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.

Since the first contribution to the Future Fund on 5 May 2006, the average return has been 7.7 per cent per annum.

For the 12 month period ending 31 March 2018, the Future Fund's return was 8.6 per cent against the existing benchmark of 5.8 per cent. The Future Fund was valued at $140.8 billion at 31 March 2018.

The Board continues to maintain clear objectives and manage the portfolio in line with its mandate and strategy. Table 13 shows changes in the asset allocation of the Future Fund since 30 June 2017.

Table 13: Asset allocation of the Future Fund

Asset class	30 June 2017 $m	30 June 2017 % of Fund	31 March 2018 $m	31 March 2018 % of Fund
Australian equities	8,002	6.0	8,841	6.3
Global equities				
Developed markets	*19,864*	*14.9*	*27,444*	*19.5*
Emerging markets	*9,229*	*6.9*	*10,597*	*7.5*
Private equity	15,520	11.6	18,047	12.8
Property	8,239	6.2	8,235	5.8
Infrastructure and Timberland	10,714	8.0	10,912	7.8
Debt securities	14,123	10.6	14,039	10.0
Alternative assets	19,746	14.8	21,767	15.5
Cash	28,021	21.0	20,902	14.8

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
26 August 2016	Savings from the Health portfolio and residual balance of the HHF	1,277
3 July 2017	Savings from the Health portfolio	2,242
	Total	6,668

Note: Figures may not sum due to rounding.

To date, $6.7 billion has been credited to the MRFF. Remaining credits to the MRFF will consist of the estimated value of health 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 preserving 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 MRFF, 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 10-year term.

For the 12 month period ending 31 March 2018, the MRFF's return was 4.8 per cent against the benchmark of 3.0 per cent. The MRFF was valued at $7.1 billion at 31 March 2018.

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 2018 the DCAF has received credits totalling $10.1 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 DCAF. The DCAF Investment Mandate sets a benchmark return on the DCAF 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.

For the 12 month period ending 31 March 2018, the DCAF's return was 2.0 per cent against the benchmark of 2.0 per cent. The DCAF was valued at $10.4 billion at 31 March 2018.

As at 31 March 2018, payments totalling $130 million were made to reimburse those States and Territories that had signed the *National Partnership on DisabilityCare Australian Fund Payments: Initial Payment*. All State and Territory governments will be able to draw down from the DCAF when they meet key conditions, such as agreeing to fully roll out the NDIS and milestones relating to the participation in the scheme of people with significant and permanent disability. 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.

Aboriginal and Torres Strait Islander Land and Sea Future Fund

The Government will establish the Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILSFF) on 1 July 2018 to support payments to the Indigenous Land Corporation (ILC).

The ATSILSFF will be seeded with the capital of the Aboriginal and Torres Strait Islander Land Account (Land Account) — approximately $2.0 billion. The Land Account will be abolished on the establishment of the ATSILSFF.

The ATSILSFF will be managed by the Future Fund Board of Guardians (the Board). The Treasurer and the Minister for Finance, following consultation with the Minister for Indigenous Affairs and the Board, will set an Investment Mandate for the ATSILSFF. The Investment Mandate will provide strategic guidance to the Board on its expectations for the investment of the ATSILSFF, including the level of risk that the Government is prepared to accept in pursuit of target returns.

Residential mortgage backed securities

During the global financial crisis, the previous Government directed the 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.

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, auctions were suspended in November 2015.

Improvements in market conditions allowed the AOFM to restart RMBS auctions in November 2017. Four monthly auctions, totalling around $1.5 billion in amortised face value terms, were conducted between November 2017 and February 2018, resulting in the complete divestment of the Government's remaining RMBS investments.

National Broadband Network

The National Broadband Network (NBN) will deliver fast and 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 that the NBN is delivered as soon as possible and at least cost to taxpayers.

The Government provided the final $2.0 billion of its $29.5 billion equity contribution to nbn in 2017-18.

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 $6.7 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 $42.4 billion at 30 June 2018, which is $0.8 billion lower than projected in the 2017-18 MYEFO. The fair value of HELP is projected to grow to around $51.2 billion in 2020-21, which is $5.4 billion lower than estimated in the 2017-18 MYEFO, and to reach $54.2 billion by the end of the forward estimates.

The reduction to the fair value of HELP is largely a result of a reduction in expected student numbers accessing VET Student Loans and higher education courses and higher than expected loan repayments in 2017-18.

From 1 July 2018, repayment thresholds will be revised under the HELP, including a minimum threshold of $45,000 with a 1 per cent repayment rate and a maximum threshold of $131,989 with a 10 per cent repayment rate.

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).

Under the CEFC Act the CEFC has been provided $10 billion to invest in renewable energy, low emissions technology and energy efficiency projects.

The CEFC continues to invest funds and manage its investments. Investment decisions are made by an independent board consistent with the CEFC Act and the CEFC's investment mandate.

Liabilities

The Government's total liabilities are estimated to be around $872.5 billion at 30 June 2018, increasing to $905.6 billion in 2018-19 and $939 billion by the end of the forward estimates.

The Government's major liabilities are CGS on issue and public sector employee superannuation liabilities.

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 liabilities are estimated to be around $216 billion at 30 June 2018 and approximately $315 billion at 30 June 2050.

These liabilities represent the present value of future unfunded superannuation benefits and are based on an actuarially determined discount rate. The long-term nature of the unfunded superannuation liabilities requires the use of a discount rate that best matches the duration of the liabilities. 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. The value recorded on the balance sheet is highly sensitive to the discount rate used.

In preparing the latest Long Term Cost Reports for the civilian and military schemes, which will be released publicly, the scheme actuaries have determined that a discount rate of 5 per cent per annum should be applied. This is lower than the rate of 6 per cent applied in previous Budgets and reflects the actuaries' view that long-term borrowing costs have decreased.

The decrease in the discount rate is the primary cause of the $35 billion increase to the estimated unfunded superannuation liabilities at 30 June 2018 since MYEFO 2017-18. This change has no impact on the underlying entitlements of scheme members.

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 help finance the Government's unfunded superannuation liabilities.

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 have not been any new members to the public service and military defined benefit schemes since closure in 2005 and 2016 respectively, the value of the Government's unfunded superannuation liabilities is projected to continue growing (in nominal terms) into the immediate future — although it is projected to decrease as a proportion of GDP. It is forecast to reach $244 billion by the end of the forward estimates. The increase in the liabilities 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.

As the superannuation liabilities are included in the Government's net worth and net financial worth aggregates, revaluations of the liabilities 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 estimates presented in the 2018-19 Budget incorporate assumptions and judgments based on information available at the time of preparation. These estimates 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

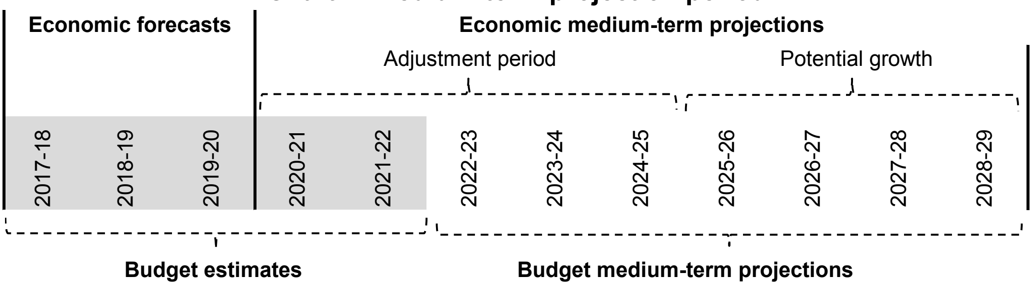
OVERVIEW

Macroeconomic and fiscal forecasts are very important for Government policy and decision making. The macroeconomic and fiscal forecasts in the Budget are based on information available at the time of preparation, which also informs assumptions and judgments. Better forecasting and a better understanding of the uncertainties around the forecasts contribute to better policy and decision making.

This Statement assesses 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.

The fiscal estimates presented in the Budget are underpinned by short-term economic forecasts for the current financial year, the budget year and the subsequent financial year, and economic projections for the following two years. These five years are followed by medium-term projections for a further seven years to provide an indication of the longer-term fiscal trajectory. The economic projections, which are generated by returning economic activity to its potential level over an adjustment period, underpin the medium-term fiscal projections (Chart 1).

Chart 1: Medium-term projection period



Source: Treasury.

This Statement presents an analysis of the sensitivity of 2018-19 Budget forward estimates to changes in key assumptions as required under the *Charter of Budget Honesty Act 1998*. It also provides sensitivity analysis of the medium-term projections.

FORECASTING PERFORMANCE

Macroeconomic forecasting performance

The Government's macroeconomic forecasts are prepared using a range of modelling techniques including macro-econometric models, spreadsheet analysis and accounting frameworks. These are augmented 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 differences between forecasts and outcomes) can arise for a range of reasons — for example, differences between the assumed path of key variables and outcomes, changes in the relationships between different parts of the economy and unexpected events.

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 can span a wide range of outcomes.

Real GDP forecasts

Real GDP forecasts in the Budget factor in 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 is influenced by 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.

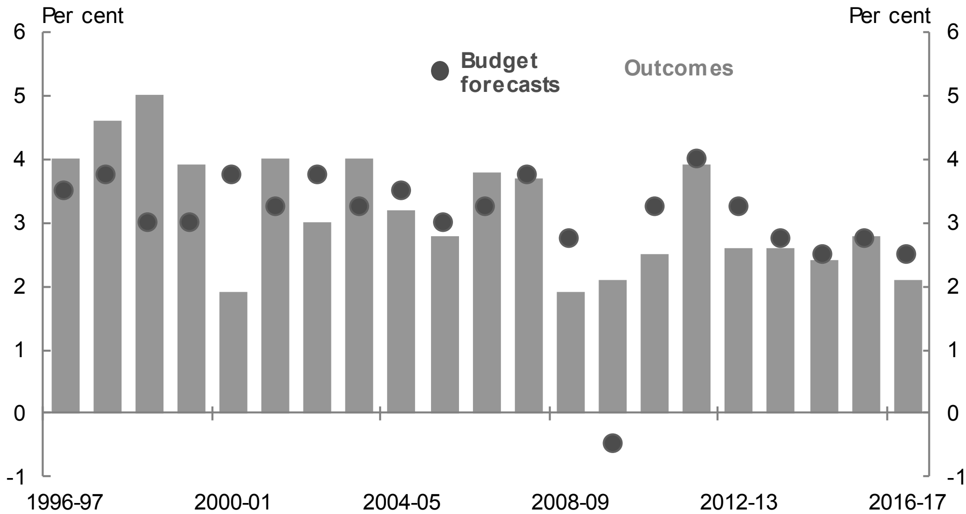
For example, a lower exchange rate than assumed would be expected to result in higher-than-forecast growth in Australia's export volumes, including in tourism, higher education and manufacturing. At the same time, import prices would be higher, resulting in lower growth in import volumes. Overall, this 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. For example, a faster-than-expected pick-up in Australia's economic growth in 2018-19 could be driven by stronger consumer spending, underpinned by faster-than-expected 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, the Budget forecasts of real GDP growth have exhibited little evidence of bias, with the mean absolute forecast error being insignificantly different from zero. While forecasts of real GDP growth were less accurate in the years during and immediately after the global financial crisis (GFC), forecast errors have been smaller in recent years (Chart 2).

National Accounts data are not yet available for the whole of 2017-18. Information to date suggests that real GDP growth will be consistent with last year's Budget forecast. Within those forecasts, however, there are changes to components of GDP. Stronger growth in non-mining investment and public final demand are expected to be offset by weaker-than-expected dwelling investment and a detraction from net exports. Consumption growth, by contrast, has so far evolved broadly as forecast in the 2017-18 Budget.

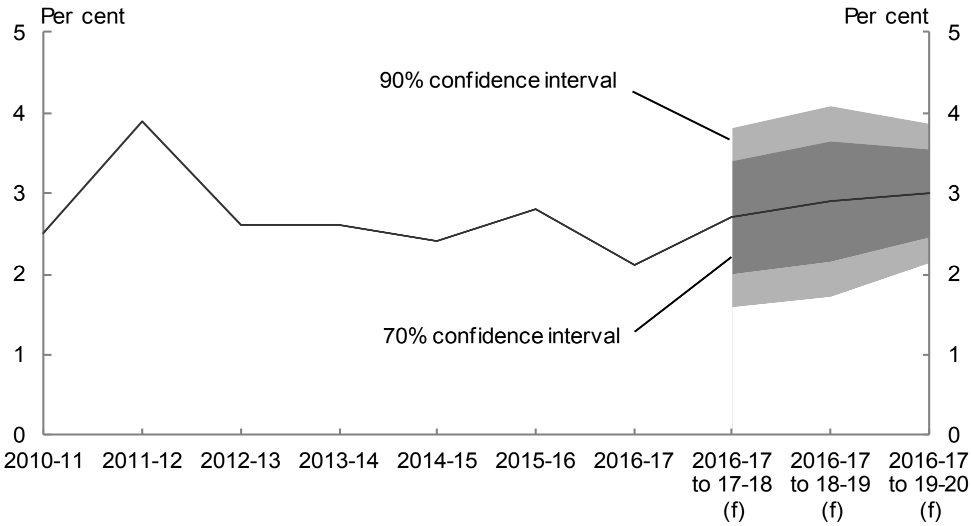
Chart 2: Budget forecasts of real GDP growth



Note: Outcome is as published in the December quarter 2017 National Accounts. Forecast is that published in the Budget for that year.
Source: ABS cat. no. 5206.0 and Budget papers.

Chart 3 shows that the average annualised growth rate of real GDP in the two years to 2018-19 is expected to be around 3 per cent, with the 70 per cent confidence interval ranging from 2¼ per cent to 3¾ 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 3: Confidence intervals around real GDP growth rate forecasts



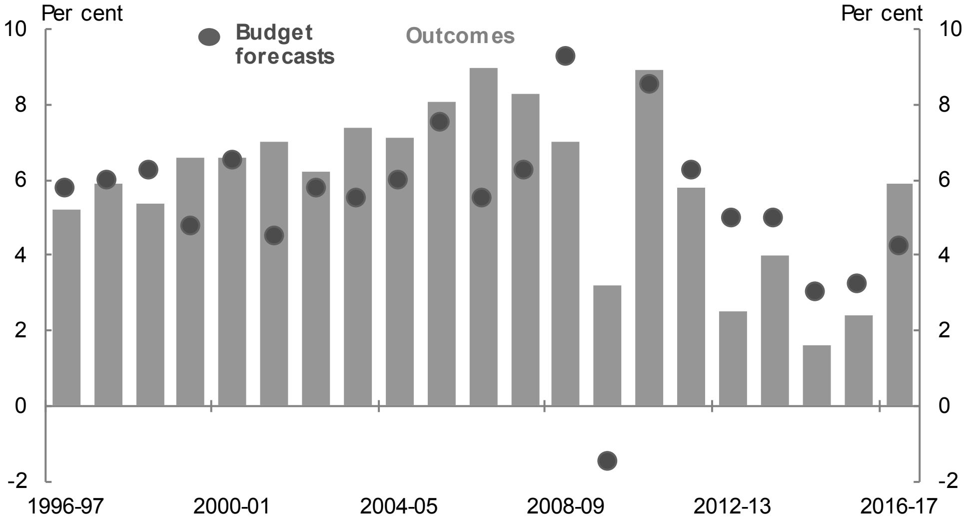
Note: The central line shows the outcomes and the 2018-19 Budget forecasts. Annual growth rates are reported for the outcomes. Average annualised growth rates from 2016-17 are reported for 2017-18 onwards. (f) are forecasts. Confidence intervals are based on the root mean squared errors (RMSEs) of Budget forecasts from 1998-99 onwards, with outcomes based on December quarter 2017 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 Australia's exports, including commodities.

Since the early 2000s, nominal GDP forecast errors have reflected the greater difficulties in predicting movements in global commodity prices (Chart 4). From 2011-12 to 2015-16, as key commodity prices were falling from their record highs, larger-than-expected falls in the terms of trade meant that nominal GDP was overestimated. However, the outcome for nominal GDP growth in 2016-17 was higher than forecast in that year's Budget, which is expected to be repeated in 2017-18. This primarily reflects stronger-than-expected commodity prices, which were at elevated levels for much of the past year.

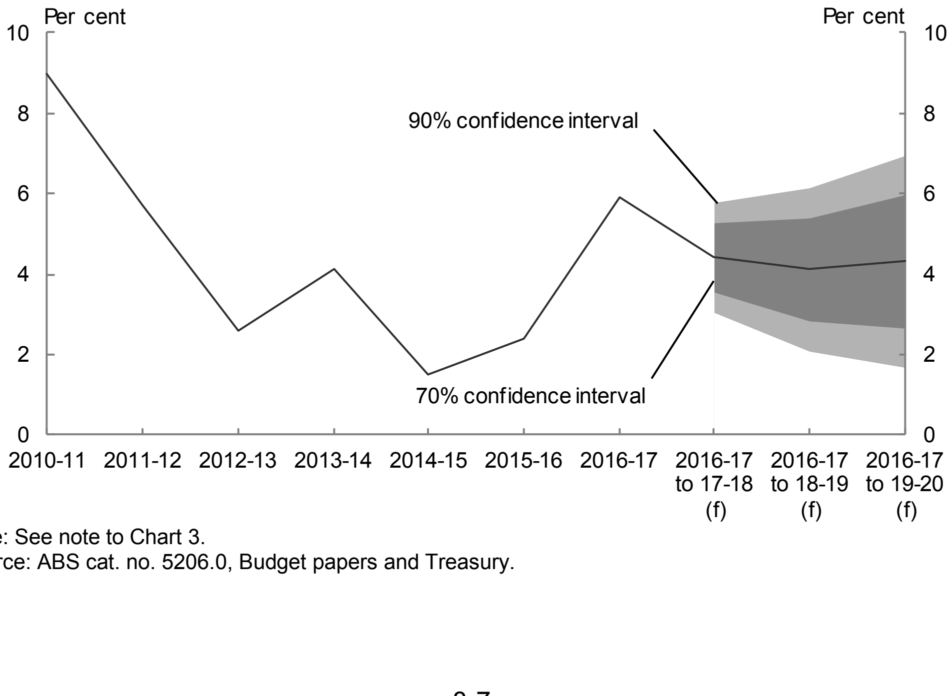
Chart 4: Budget forecasts of nominal GDP growth



Note: Outcome is as published in the December quarter 2017 National Accounts. Forecast is that published in the Budget for that year.
Source: ABS cat. no. 5206.0 and Budget papers.

The confidence intervals around the nominal GDP forecasts are wider than those around the real GDP forecasts, reflecting both the uncertainty around 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 2018-19 is expected to be around 4 per cent, with the 70 per cent confidence interval ranging from 2¾ per cent to 5½ per cent (Chart 5).

Chart 5: Confidence intervals around nominal GDP growth rate forecasts



Note: See note to Chart 3.
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.

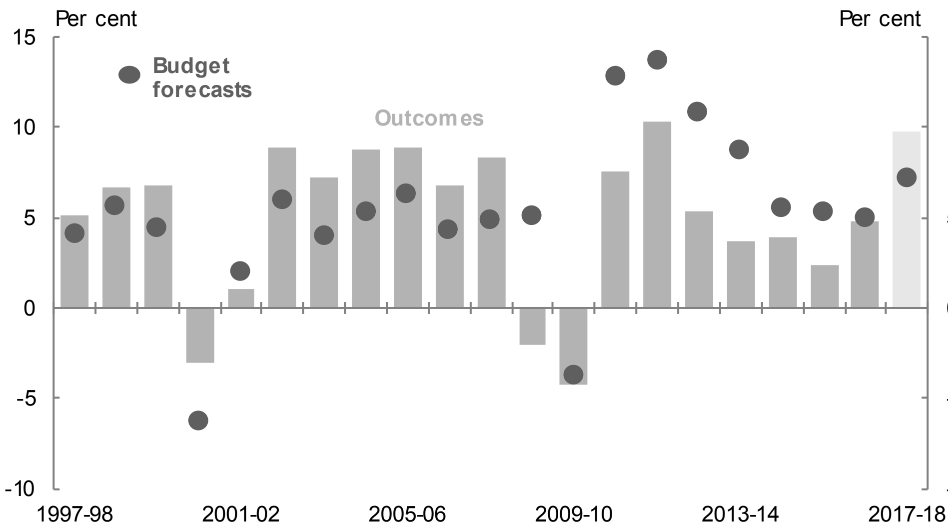
Receipts

Tax receipts estimates are generally prepared using a 'base plus growth' methodology. The last known outcome (2016-17 for the 2018-19 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-predicted and over-predicted outcomes (Chart 6).

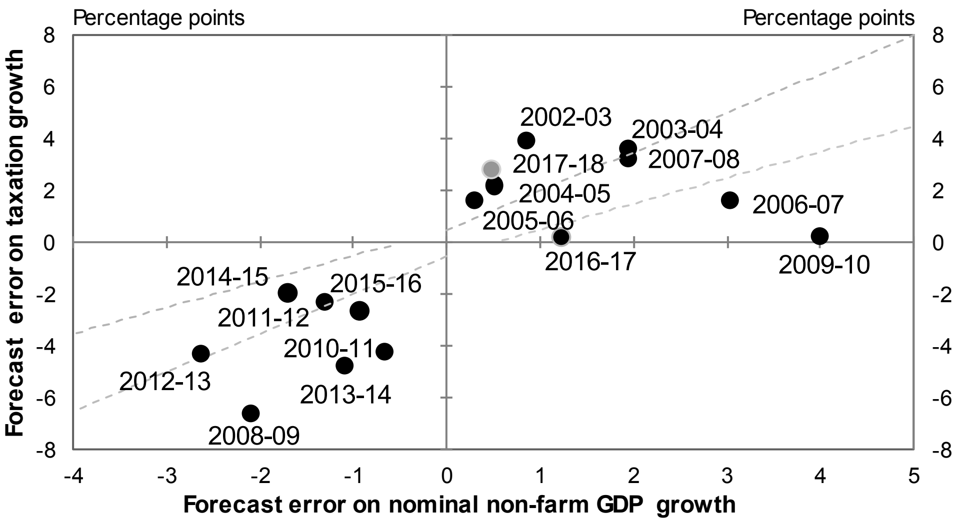
Chart 6: Budget forecasts of tax receipts growth



Note: Forecast error for 2017-18 is an estimate.
Source: ABS cat. no. 5206.0 and Budget papers.

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 7 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.

Chart 7: 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 2017-18 is an estimate.
Source: ABS cat. no. 5206.0, Budget papers and Treasury.

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 if consumption favours non-GST items.

Company tax may also come under pressure from international trends to reduce company tax rates, such as the recently enacted cut in the United States, 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: Revenue* in the 2017-18 Budget. 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 2017-18 tax receipts (excluding CGT) in the 2017-18 Budget is expected to be an under estimate of around 2.8 percentage points, compared with an under estimate of around 0.5 percentage points for nominal non-farm GDP growth.

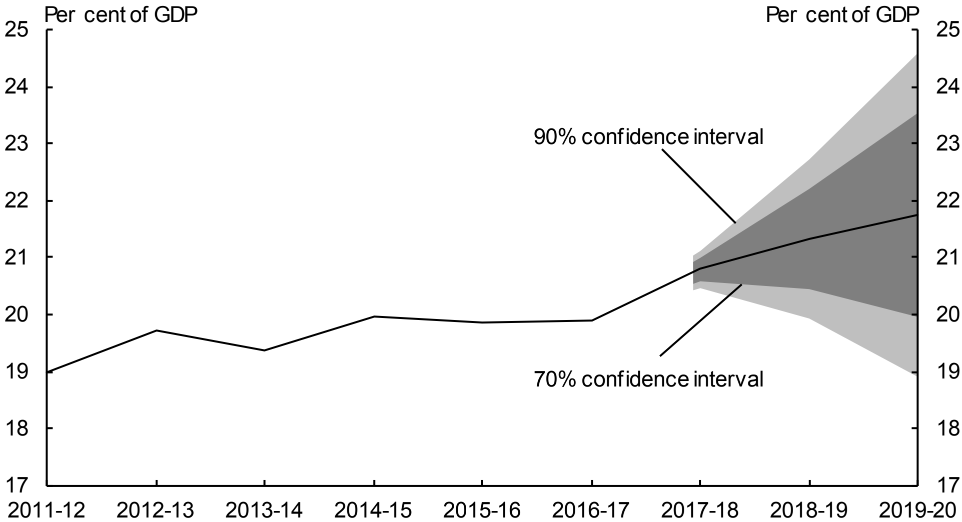
The largest contributor to the expected forecast error for 2017-18 is company tax, which is estimated to be $5.7 billion (7.3 per cent) higher than expected in the 2017-18 Budget. This is primarily driven by higher-than-expected company profits, including upward revisions to profits in 2016-17. Gross income tax withholding is estimated to be $3.7 billion (2.0 per cent) above the forecast of the 2017-18 Budget, consistent with strong labour market conditions. These boosts to revenue have been partly offset by gross other individuals tax, which is estimated to be $2.5 billion (5.4 per cent) below the forecast of the 2017-18 Budget. These and other variations are discussed further in *Budget Statement 5: Revenue*.

Discussions of earlier years' forecast performance can be found in previous budgets.

Chart 8 shows confidence intervals around the forecasts for receipts (excluding GST and including Future Fund earnings).[1] 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 2018-19 Budget point estimate forecasts. Confidence intervals use RMSEs for Budget forecasts from the 1998-99 Budget onwards.
Source: Budget papers and Treasury.

The chart shows that there is considerable uncertainty around receipts forecasts and that this uncertainty increases as the forecast horizon lengthens. It suggests that in 2018-19, the width of the 70 per cent confidence interval for the 2018-19 Budget receipts forecast is approximately 1.8 per cent of GDP ($35 billion) and the 90 per cent confidence interval is approximately 2.8 per cent of GDP ($55 billion).

Payments

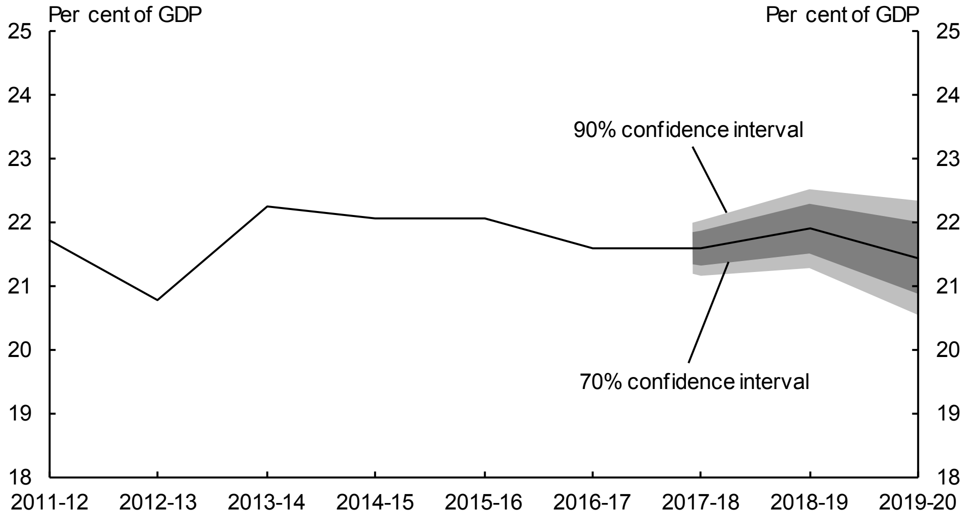
The Government's payments estimates are predominantly prepared by agencies that comprise the Australian Government general government sector. An assessment of payments forecasting performance is not included in this Statement. However, historical errors have been incorporated in estimated confidence intervals.

Chart 9 shows confidence intervals around payments forecasts (excluding GST). As with receipts estimates, historical policy decisions are excluded and future policy decisions are out of scope [2]. Payments estimates include the public debt interest impact of policy decisions and a provision for contingencies.[3]

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: Budget papers and Treasury.

The chart shows that there is moderate uncertainty around payments forecasts. In 2018-19, the width of the 70 per cent confidence interval for the 2018-19 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).

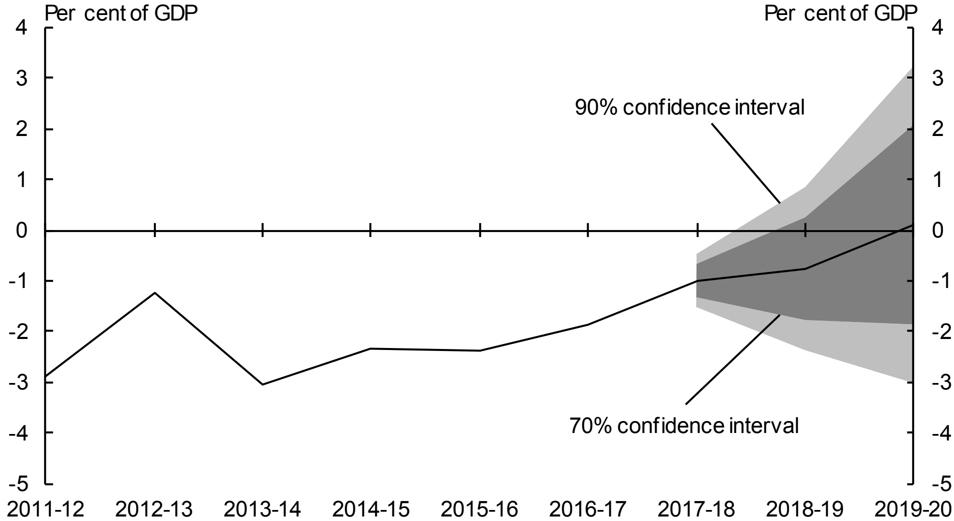
Payments outcomes can differ from forecasts for a number of reasons. Demand-driven programs, such as payments to individuals for social welfare, form the bulk of government expenditure. Forecasts of payments associated with a number of these government programs depend on forecasts of economic conditions. For example, higher than forecast unemployment levels will mean that expenditure for related social services payments, 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 2018-19, the width of the 70 per cent confidence interval for the 2018-19 Budget underlying cash balance forecast is approximately 2.0 per cent of GDP ($40 billion) and the 90 per cent confidence interval is approximately 3.2 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: Budget papers and 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. The analysis presented considers the impact of changes to the economic outlook over the forecast years to 2019-20 and the projections beyond that.

Scenarios 1 and 2 explore the sensitivity of fiscal aggregates to alternative paths for the terms of trade and non-mining business investment growth. Scenario 3 considers the consequences on the economic and fiscal parameters of slower or faster consumption growth resulting from a shift in household saving preferences.

Scenarios 4 to 8 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 three 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 to 2019-20.

For information on the sensitivity of the underlying cash balance to changes in inflation, please refer to *Statement 2: Economic Outlook.*

Scenario 1: Alternative paths 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 2018-19 relative to 2018-19 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 2019-20. 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 (2018-19) per cent	Impact after 2 years (2019-20) 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 2019-20, partly owing to lags in tax collections and a larger impact on company profits in the second year of the scenario. Higher company profits are assumed to flow through to higher Australian equity prices, therefore increasing capital gains tax collections 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.

4 These results represent a partial economic analysis only and do not attempt to capture all the economic feedback effects or policy responses resulting from 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 is partially offset by increased expenditure on pensions and allowances reflecting stronger growth in benefit payment rates, resulting from slightly higher inflation. At the same time other payments linked to inflation are also higher 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 $2.1 billion in 2018-19 and around $5.9 billion in 2019-20 (see Table 2). Broadly opposite impacts would be 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

	2018-19	2019-20
	$b	$b
Receipts		
Individuals and other withholding taxes	0.6	2.0
Superannuation fund taxes	0.1	0.2
Company tax	1.3	3.0
Goods and services tax	0.0	0.3
Excise and customs duty	0.0	0.2
Other taxes	0.1	0.2
Total receipts	**2.0**	**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**	**-0.1**
Public debt interest	0.0	0.1
Underlying cash balance impact(a)	**2.1**	**5.9**

(a) Estimated impacts fall within the 70 per cent confidence intervals for years 2018-19 and 2019-20, 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 specific impact of a US$10 per tonne free-on-board (FOB) higher or lower iron ore price is outlined 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 is set out in Table A. This is based on the sensitivity analysis presented in Scenario 1, and is calibrated to take into account the share of iron ore in the value of total exports, which can change over time. An increase of US$10 per tonne FOB in the iron ore price results in an increase in nominal GDP of around $5.5 billion in 2018-19 and just over $12 billion in 2019-20. Similarly, a decrease of US$10 per tonne FOB in the iron ore price results in a decrease in nominal GDP of an equivalent amount.

Table A: Sensitivity analysis of a US$10 per tonne movement in iron ore prices

	US$10/tonne FOB[(a)] fall		US$10/tonne FOB increase	
	2018-19	2019-20	2018-19	2019-20
Nominal GDP ($billion)	-5.5	-12.3	5.5	12.3
Tax receipts ($billion)	-1.2	-3.6	1.2	3.6

(a) Prices are presented in free-on-board (FOB) terms which exclude the cost of freight.
Source: Treasury.

Scenario 2: Alternative paths for non-mining business investment growth

This scenario considers the consequences of a stronger (weaker) outlook for business investment than forecast in the Budget. The scenario involves a 3 per cent and 6 per cent higher (lower) level of new business investment in 2018-19 and 2019-20 respectively, compared with Budget, as a result of an accelerated (delayed) recovery in non-mining business investment.

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 as a result of an accelerated recovery in non-mining business investment. The impacts on the economy of a delayed recovery in non-mining business investment of the same magnitude would be broadly symmetric.

Table 3: Illustrative impact of an accelerated recovery in non-mining business investment (per cent deviation from the Budget level)[5]

	Impact after 1 year (2018-19)	Impact after 2 years (2019-20)
	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

5 These results represent a partial economic analysis only and do not attempt to capture all the economic feedback effects or policy responses resulting from changed economic conditions, and assume no change in the exchange rate, interest rates or policy over the forecast period.

Assuming no change in exchange rates or interest rates, the accelerated recovery in non-mining business investment leads directly to higher real GDP compared with Budget levels and also higher imports. This rise in output increases employment and, in turn, wages. This results in higher levels of consumption. The rise in aggregate demand puts upward pressure on domestic prices.

On the receipts side, higher nominal GDP results in higher 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 increase in tax receipts from individuals and the GST.

On the payments side, overall estimated expenditure on income support payments is lower in both years due to a lower number of unemployment benefit recipients. The decrease in spending on unemployment benefits is partially offset by increased expenditure on pensions and allowances reflecting slightly higher inflation. In addition, other payments linked to inflation are also higher in line with the stronger growth in prices.

The overall impact of the accelerated recovery in non-mining business investment is an improvement in the underlying cash balance of around $1.5 billion in 2018-19 and around $4.6 billion in 2019-20 (see Table 4). Broadly opposite impacts would be expected for a delayed recovery in non-mining business investment of the same magnitude.

Table 4: Illustrative sensitivity of the budget balance to an accelerated recovery in non-mining business investment

	2018-19	2019-20
	$b	$b
Receipts		
Individuals and other withholding taxes	0.6	2.0
Superannuation fund taxes	0.1	0.1
Company tax	0.7	1.8
Goods and services tax	0.1	0.3
Excise and customs duty	0.1	0.2
Other taxes	0.0	0.0
Total receipts	**1.5**	**4.5**
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)	**1.5**	**4.6**

(a) Estimated impacts fall within the 70 per cent confidence intervals for years 2018-19 and 2019-20, as shown in Charts 8 to 10.

Scenario 3: Alternative paths for household consumption growth

This scenario considers the economic and fiscal impacts of a change in household consumption growth in 2018-19, consistent with a shift in household saving preferences. The scenario is a two-sided sensitivity analysis, where the low consumption growth analysis illustrates the consequences of households shifting their preferences towards a higher rate of saving than forecast in the Budget, while the high consumption growth analysis illustrates the consequences of households reducing their rate of saving by more than forecast in the Budget.

Household consumption growth has exceeded household income growth for several years, resulting in a decline in the household saving ratio from 7.8 per cent in the December quarter 2014 to 2.7 per cent in the December quarter 2017. The Budget forecasts assume that the household saving ratio will continue to decline to 2018-19 — albeit more slowly than in recent years — before stabilising in 2019-20.

For the scenario, household consumption growth in 2018-19 has been adjusted so that, by the end of 2018-19, the level of consumption is either 1 per cent lower or higher than the levels currently forecast in the Budget. The scenario then evaluates the flow-on effects to GDP, the labour market and prices. It assumes no changes to investment, the exchange rate, interest rates or the cost of capital. The impacts of a lower-than-anticipated pick-up in consumption are presented in Table 5. These are stylised results and refer to percentage deviations from the Budget forecast levels. A higher-than-anticipated pick-up in consumption would have broadly opposite effects on the economy over the scenario period.

Table 5: Illustrative impact of a lower-than-anticipated pick-up in household consumption (per cent deviation from the Budget level)[6]

	Impact after 1 year (2018-19) per cent	Impact after 2 years (2019-20) per cent
Real GDP	- 1/4	- 1/2
Nominal GDP	- 1/4	- 1/2
Employment	0	- 1/4
Company profits	- 1/2	- 1/2
Nominal household consumption	- 1/2	-1

The results of the analysis show that a lower-than-anticipated pick-up in consumption lowers real GDP compared with Budget levels. The fall in output is a little less than would be implied by the direct effect of the fall in consumption as imports also fall. As a result of the decline in output, employment falls and wage and price pressures are modestly lower.

6 These results represent a partial economic analysis only and do not attempt to capture all the economic feedback effects or policy responses resulting from changed economic conditions, and assume no change in the exchange rate, interest rates or policy over the forecast period.

On the receipts side, the reduction in consumption immediately affects indirect taxes, particularly goods and services tax. Business income falls but the impact on company tax receipts is mostly delayed to the second year. Lower employment and wages lead to lower tax receipts from individuals' salary and wage withholding taxes.

On the payments side, overall estimated expenditure on income support payments increases due to a higher number of unemployment benefit recipients. The increase in spending on unemployment benefits is partially offset by decreased expenditure on pensions and allowances reflecting slightly lower inflation. In addition, other payments linked to inflation are also lower in line with the weaker growth in prices.

The overall impact of the lower-than-anticipated pick-up in consumption is a deterioration in the underlying cash balance of around $0.7 billion in 2018-19 and around $2.5 billion in 2019-20 (see Table 6). A higher-than-anticipated pick-up in consumption would have a broadly opposite effect on the underlying cash balance over the scenario period.

Table 6: Illustrative sensitivity of the budget balance to a lower-than-anticipated pick-up in household consumption

	2018-19 $b	2019-20 $b
Receipts		
Individuals and other withholding taxes	-0.3	-1.2
Superannuation fund taxes	0.0	-0.1
Company tax	-0.2	-0.6
Goods and services tax	-0.3	-0.6
Excise and customs duty	-0.1	-0.3
Other taxes	0.0	0.0
Total receipts	**-1.0**	**-2.8**
Payments		
Income support	0.0	-0.3
Other payments	0.0	0.0
Goods and services tax	0.3	0.6
Total payments	**0.3**	**0.3**
Public debt interest	0.0	-0.1
Underlying cash balance impact(a)	**-0.7**	**-2.5**

(a) Estimated impacts fall within the 70 per cent confidence intervals for years 2018-19 and 2019-20, as shown in Charts 8 to 10.

Sensitivity analysis over the medium term

The medium-term fiscal projection period is the seven years after the Budget forward estimates. These fiscal projections are underpinned by economic projections of key economic variables.

A distinction is drawn between economic forecasts and economic projections. The forecasts are based on a range of short-run forecasting methodologies informed by professional opinion, information from business liaison and broader judgment. By contrast, the economic projections are based on a medium-term methodology which returns economic activity to its potential level over an adjustment period. An important assumption underpinning the economic projections is that specific Government policies do 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, productivity and labour force variables, including employment and the participation rate, are assumed to converge to their long-run levels as real GDP returns to its estimated potential level. This assumption is crucial to the methodology. Importantly, significant variation from the assumed five-year timeframe 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 the level of 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 2020-21). 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 policy. The projections assume current 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

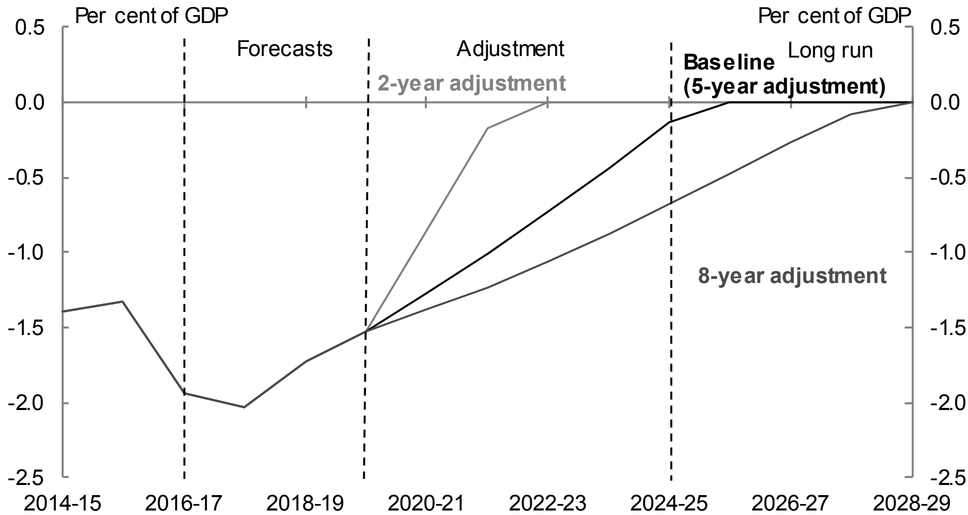
Scenarios 4 and 5: Alternative output gap adjustment period assumptions

As noted above, the assumption that the output gap adjustment takes five years is important and is subject to considerable conjecture as to whether it is appropriate. Scenarios 4 and 5 examine the consequences of shorter (two year) and longer (eight year) 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 4, a shorter adjustment period for the labour market variables and productivity requires faster real GDP growth to return the economy to its potential level over two years rather than five (Chart 11). In the two-year adjustment period, annual real GDP growth is 0.4 percentage points higher than in the baseline projections.

Chart 11: Output gap — Illustrative impact of closing the output gap over two or eight years



Source: Treasury.

Under this scenario productivity grows more quickly than in the Budget projections over the first two 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 2028-29 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 2028-29. Payments are projected to be lower overall driven by lower projected unemployment which reduces unemployment benefit recipient numbers.

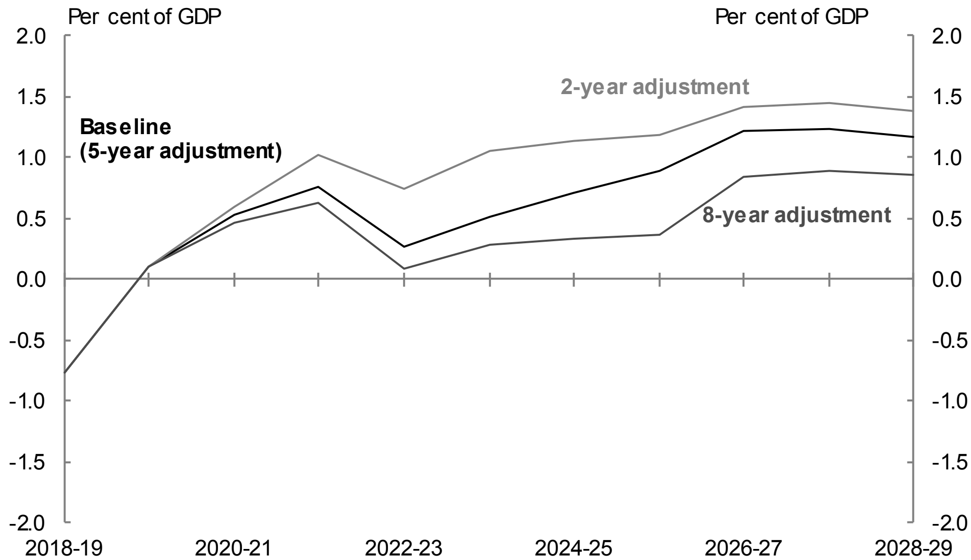
Overall, the faster adjustment in Scenario 4 has a positive impact on the underlying cash balance (Chart 12). In this scenario, the underlying cash balance peaks at 1.5 per cent of GDP in 2027-28. This is compared with the baseline projection, which peaks at 1.2 per cent of GDP in 2026-27.

The variation in the underlying cash balance would have implications for the level of government debt. Under Scenario 4, 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 5, longer adjustment periods for the labour market variables and productivity require slower real GDP growth to return the economy to its potential level over eight years rather than five (Chart 11). 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 5 has a negative impact on the underlying cash balance (Chart 12). Receipts are lower across the period and payments higher overall. In this scenario, the underlying cash balance peaks at 0.9 per cent of GDP in 2027-28. Gross debt and public debt interest payments would be higher than in the baseline scenario.

Chart 12: Underlying cash balance — Illustrative impact of closing the output gap over two or eight years



Source: Treasury projections.

Productivity scenarios

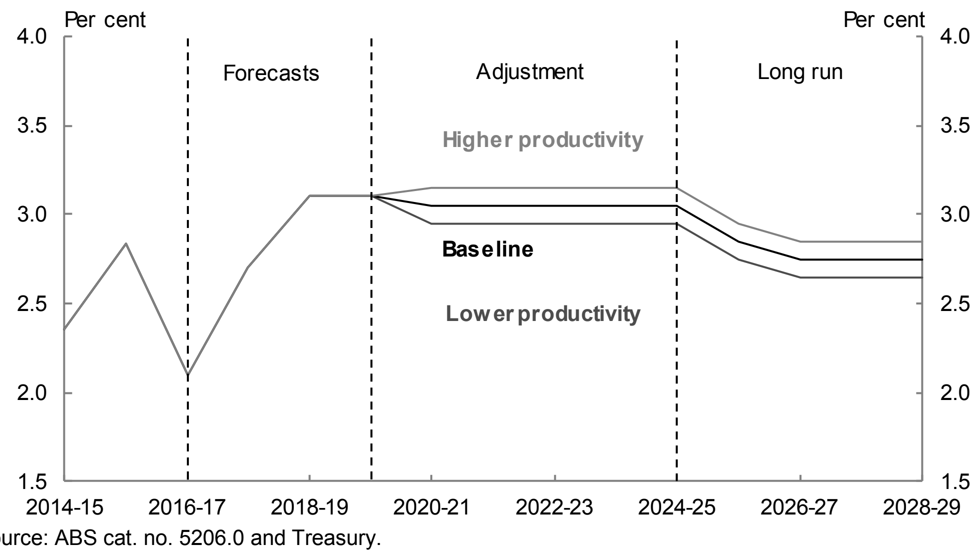
Scenarios 6 and 7: Alternative trend labour productivity growth assumptions

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 6 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 13). 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 2028-29, real GDP is around 1 per cent lower compared with the Budget projections. Lower labour productivity growth also flows through to lower wages. Nonetheless, 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 13: Real GDP growth rate — Illustrative impact of higher and lower trend productivity growth



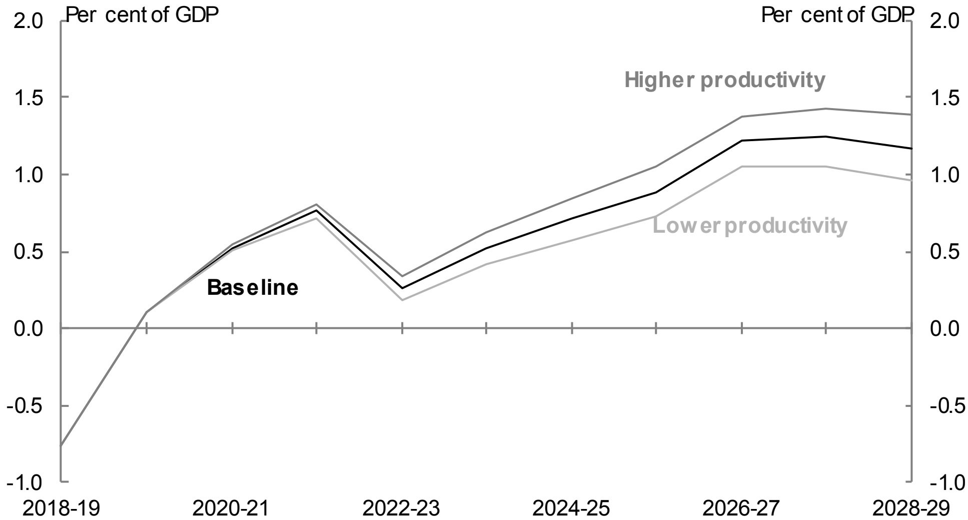
Source: ABS cat. no. 5206.0 and Treasury.

In Scenario 6, the underlying cash balance peaks at around 1.1 per cent of GDP in 2027-28 (Chart 14). The scenario is lower than the baseline 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 7 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 6, resulting in higher real GDP and higher wages.

In Scenario 7, the underlying cash balance peaks at 1.4 per cent of GDP in 2026-27 (Chart 14). Gross debt would be lower, reflecting lower Government borrowing. Public debt interest would also be lower.

Chart 14: Underlying cash balance — Illustrative impact of higher and lower trend productivity growth



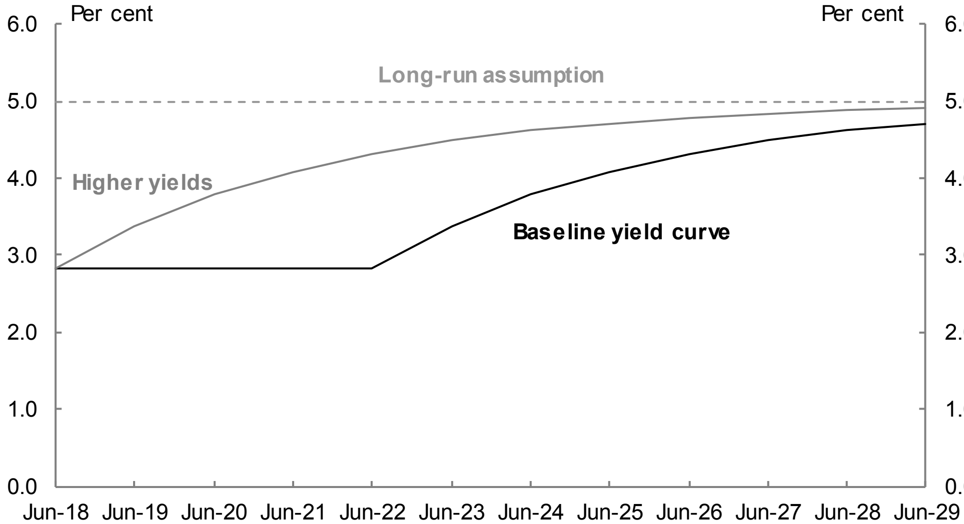
Source: Treasury projections.

Scenario 8: Alternative yield assumption

Over the forward estimates period, yields on Commonwealth Government Securities (CGS) are assumed to remain fixed at the levels observed immediately prior to the Budget update before converging to a long-run assumed yield curve over the medium term. The long-run curve is based on a 10-year CGS yield of 5 per cent. This is consistent with the Long-Term Cost Report as discussed in *Budget Statement 3: Fiscal Strategy and Outlook*. The gap between the observed yield curve and the long-run curve is closed by one-quarter each year over the medium term (Chart 15). This is a technical assumption intended for preparing medium-term fiscal projections only, and is not equivalent to a forecast.

Scenario 8 examines the consequences of the yield curve converging to the long-run curve from the start of the forward estimates rather than from the start of the medium term. The gap closes by one-quarter in each year consistent with the baseline assumption (Chart 15).

Chart 15: Convergence to the long-run curve

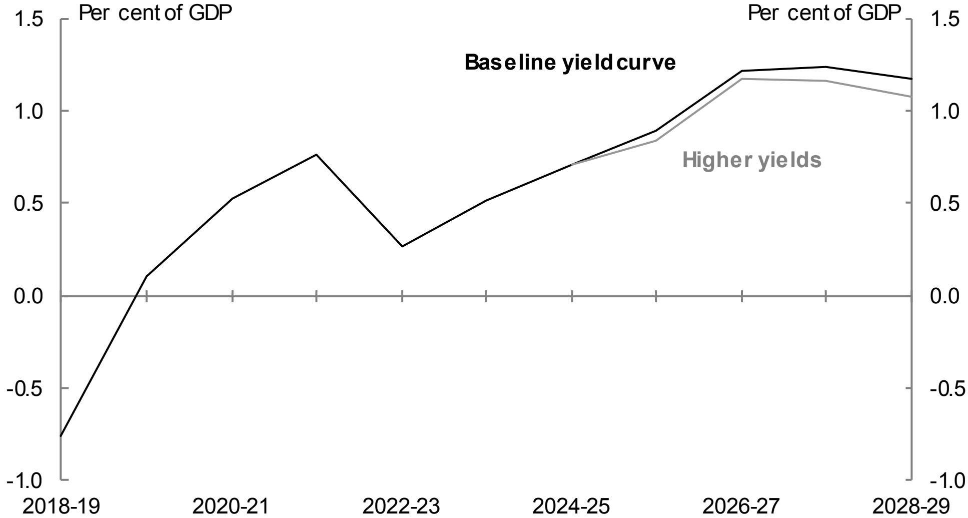


Source: Treasury.

Yields on CGS affect the amount of public debt interest (PDI) the Government has to pay on its borrowings. They can also have an impact on projections of the non-tax receipts the Government earns on its investments, as some government investment funds hold financial assets whose returns can be benchmarked against the yield curve for CGS.

In Scenario 8, yields are higher over the forward estimates and medium-term fiscal periods than in the Budget projections, resulting in higher PDI expense projections that are partially offset by higher non-tax receipts projections. Compared with the Budget projections, this would lead to a net deterioration in the projected underlying cash balance of around 0.1 per cent of GDP by 2028-29 (Chart 16).

Chart 16: Impact of alternative yield assumption on underlying cash balance projections



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 2018-19 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 2018-19 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 stronger than expected commodity prices have been reflected in stronger forecasts for company tax revenue.

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, private sector company losses, including those resulting from large-scale investments, 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 *2017-18 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 2017-18 Budget and the 2017-18 MYEFO[(a)]

Fiscal risks		Status
Agriculture and Water Resources		
Murray Darling Basin Plan		Unchanged
Defence		
Major operations of the Australian Defence Force in 2018-19		Unchanged
Education and Training		
Recovery of inappropriately claimed VET FEE-HELP funds from providers and interim tuition assurance arrangements for 2018		Unchanged
Environment and Energy		
Snowy Hydro Limited — Government shareholding		Removed
Snowy 2.0		New
Home Affairs		
Regional Processing Arrangements		Unchanged
Industry, Innovation and Science		
Risks to External Revenue		Unchanged
Infrastructure, Regional Development and Cities		
Inland Rail — Delivery		Unchanged
Significant but remote contingencies	**Category (b)(c)(d)**	**Status**
Communications and the Arts		
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
Litigation cases	Other	Modified
Remote contingencies	Other	Modified
Home Affairs		
Indemnities relating to the Air Security Officer program	Indemnity	Unchanged
Industry, Innovation and Science		
Liability for damages caused by space activities	Other	Unchanged
Infrastructure, Regional Development and Cities		
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	Unchanged
WSA Co Limited — Board Members' Indemnities	Indemnity	Unchanged
Inland Rail — Termination of the Equity Financing Agreement	Other	New
Tripartite deeds relating to the sale of federal leased airports	Other	Unchanged
WSA Co Limited — Termination of the Equity Subscription Agreement	Other	Unchanged
Treasury		
Asbestos Injuries Compensation Fund	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 2017-18 Budget and the 2017-18 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		
Native Title costs	Other	Unchanged
Communications and the Arts		
NBN Co Limited — Board Members' Insolvency Indemnity	Indemnity	Unchanged
Defence		
Cockatoo Island Dockyard	Indemnity	Unchanged
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	Modified
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	Unchanged
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	Unchanged
Australian Government domestic property	Other	Modified
Australian Government general insurance fund — Comcover	Other	Unchanged
Health		
Accommodation Payment Guarantee Scheme	Guarantee	Unchanged
Australian Medical Association — Private Mental Health Alliance	Indemnity	Removed
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
Home Affairs		
Garrison, welfare and health services at regional processing countries — liability limit	Indemnity	Modified
Immigration detention services by State and Territory governments — liability limit	Indemnity	Unchanged
Immigration detention services contract — liability limit	Indemnity	Unchanged
Australian Victims of Terrorism Overseas Payment	Other	Unchanged
Disaster Recovery	Other	Unchanged

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2017-18 Budget and the 2017-18 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, Regional Development and Cities		
Indemnity provided to the New South Wales Rural Fire Fighting Service in relation to the Jervis Bay Territory	Indemnity	Unchanged
Moorebank Intermodal Project — Georges River rail crossing	Indemnity	Unchanged
Service Delivery Arrangement Indemnities — External Territories	Indemnity	Unchanged
Australian Maritime Safety Authority incident costs	Other	Unchanged
Aviation rescue & firefighting potential per- and poly-fluoroalkyl substances contamination	Other	Unchanged
Jobs and Small Business		
jobactive – Employment Fund	Other	Unchanged
Treasury		
Terrorism insurance — commercial cover	Guarantee	Unchanged
Contingent assets — unquantifiable	**Category**	**Status**
Defence		
Non-remote contingent assets	Other	Unchanged
Health		
Legal action seeking compensation[(e)]	Other	Unchanged
Home Affairs		
Civil Penalty Proceedings in the Federal Court against the Commonwealth Bank of Australia	Other	Unchanged
Contingent liabilities — quantifiable	**Category**	**Status**
Defence		
Claims against the Department of Defence	Other	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, Regional Development and Cities		
Australian Government contribution to the East West Link project	Other	Unchanged
Australian Government contribution to the Perth Freight Link project	Other	Unchanged
Jobs and Small Business		
Indemnity provided to the Administrator and the Assistant Administrators of the Health Services Union	Indemnity	Unchanged

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2017-18 Budget and the 2017-18 MYEFO(a) (continued)

Contingent liabilities — quantifiable (continued)	Category	Status
Prime Minister and Cabinet		
Indigenous Land Corporation — Debt Guarantee	Guarantee	New
Leases for public housing in remote Northern Territory	Other	Unchanged
Treasury		
Australian Taxation Office — tax disputes	Other	Unchanged
International financial institutions — uncalled capital subscriptions	Other	Modified
International Monetary Fund	Other	Modified
Contingent assets — quantifiable	**Category**	**Status**
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.
(e) Risks related to legal actions seeking compensation from AstraZeneca, Sanofi and Wyeth are reported under this risk item.

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 Plan

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 may be required to meet SDLs. It will not be possible to identify whether this risk will be realised until the outcome of the SDL adjustment instrument, which is subject to disallowance in the Parliament, is known.

Defence

Major operations of the Australian Defence Force in 2018-19

The 2018-19 estimates for the Department of Defence include the cost of major operations of the Australian Defence Force in 2018-19 in Afghanistan, Iraq, Syria, and the broader Middle East region, as well as the protection of Australia's borders and offshore maritime interests and enhancing Australia's regional counter-terrorism assistance. Funding is considered and provisioned on a year-by-year basis and the forward estimates do not provide for extensions of currently approved operations beyond 2018-19. The Department of Defence will likely have additional funding requirements for major operations beyond 30 June 2019.

Education and Training

Recovery of inappropriately claimed VET FEE-HELP funds from providers and interim tuition assurance arrangements for 2018

The Government is undertaking compliance action, including court action, to recover VET FEE-HELP payments from VET providers where loans were inappropriately issued to students by providers. A number of VET FEE-HELP providers have entered administration or liquidation. 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.

There is also a financial risk to the Commonwealth that it will be unable to recover the cost of remitting student debts following provider closures, either while it administers interim tuition assurance arrangements during 2018, or from tuition assurance operators for provider closures which occurred prior to 1 January 2018.

Environment and Energy

Snowy 2.0

Subject to a Final Investment Decision by the Snowy Hydro Limited Board (expected in late 2018), the development of Snowy 2.0 and related infrastructure may have financial implications for the fiscal position, for example by increasing assets and liabilities on the Australian Government's balance sheet and, depending on the nature of the arrangement, through changed dividend distributions.

Home Affairs

Regional Processing Arrangements

The Australian Government funds services to individuals transferred to regional processing countries to support host governments' management, removal and resettlement of these people. Any significant changes in the number of transferees or refugees, the arrangements that underpin the provision of those services, or relevant litigation, may incur a cost or generate cost reductions which are unquantifiable at this time.

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, Regional Development and Cities

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 ARTC will deliver Inland Rail using up to a $9 billion equity investment from the Commonwealth. A Public Private Partnership will be established to design, build, finance and maintain the complex Toowoomba to Kagaru (Brisbane) section of the project, including major tunnelling works.

Project costs will not be finalised until reference design, planning, environmental approvals, and procurements are completed. Project risks include securing jurisdictional support, construction delays, cost pressures, and revenues realised. These pressures are being mitigated through close management of the delivery program and engagement with key stakeholders and jurisdictions.

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 2018. In some cases, other dates are used and those are noted in the relevant section.

SIGNIFICANT BUT REMOTE CONTINGENCIES

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). Although this agreement will end in 2019, the Commonwealth retains obligations to meet NBN Co's costs arising from a termination of the roll-out. As at 28 February 2018, NBN Co's termination liabilities were estimated at $17.0 billion.

Optus Financial Guarantee

The Australian Government has provided a guarantee in respect of the 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 Optus Agreement. As at 28 February 2018, NBN Co had generated liabilities covered by the Optus Agreement, which are estimated at an amount lower than $110.0 million. There is a low risk that a claim would be made under the Guarantee. The Guarantee will terminate in 2021.

Telstra Financial Guarantee

The Australian Government has provided to Telstra Corporation Limited (Telstra) a Guarantee in respect of NBN Co financial obligations 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 Definitive 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 2018, NBN Co had generated liabilities covered by the Guarantee estimated at $7.9 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.

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 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.

Remote contingencies

As at 31 March 2018, the Department of Defence carried 1,497 instances of quantifiable remote contingent liabilities valued at $5.4 billion and 27 instances of unquantifiable remote contingent liabilities.

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.

Home Affairs

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.

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. The Minister has the ability to waive the insurance/financial requirements in certain circumstances.

Infrastructure, Regional Development and Cities

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 MIC in the event that the Commonwealth terminates the Equity Funding Agreement between the Commonwealth and 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.

WSA Co Limited — Board Members' Indemnities

The Australian Government has provided an indemnity for each of the Directors of WSA Co Limited (WSA Co) to protect them against certain claims relating to their employment as Directors. Unless the indemnity agreements are varied or brought to an end, they cease to apply from the date the Commonwealth has fully satisfied its obligations to subscribe for equity in WSA Co pursuant to the WSA Co Equity Subscription Agreement.

Inland Rail — Termination of the Equity Financing Agreement

The Australian Government will provide sufficient funding to cover all costs and liabilities incurred by the Australian Rail Track Corporation (ARTC) for delivery of Inland Rail in the event that the Commonwealth terminates the Equity Financing Agreement between the Commonwealth and the ARTC.

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.

WSA Co Limited — Termination of the Equity Subscription Agreement

The Australian Government is required to cover all costs and liabilities that may be incurred by WSA Co in the event that the Commonwealth terminates the Equity Subscription Agreement between the Commonwealth and WSA Co.

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 2017, deposits eligible for coverage under the Financial Claims Scheme were estimated to be $890 billion, compared to an estimated $860 billion as at 30 June 2017, 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 administration of 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. New South Wales and Queensland were the only States who chose to participate in the Guarantee.

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 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 at a future date. The impact on the Government's budget would depend upon the extent of the default and the State's ability to meet the Government's claim.

As at 28 February 2018, the face value of State and Territory borrowings covered by the Guarantee was $3.7 billion, down from $3.8 billion at 30 September 2017.

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: $130.4 million is attributable to liabilities of the Commonwealth Bank of Australia, as at 31 March 2018; and $4.5 billion is attributable to liabilities of the Commonwealth Bank Officers' Superannuation Corporation, as at 31 March 2018.

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 $76.2 billion as at 21 March 2018, and the total Guarantee is $112.0 billion ($111.9 billion at the 2017-18 MYEFO).

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, which is paid to the relevant State or Territory government. This funding is unlikely to be sufficient to meet the costs of a large-scale pest or disease incursion or additional and multiple responses (noting there are currently 16 national cost-shared emergency responses and until 2026–27, half this funding is allocated to an eradication program for red imported fire ants in Queensland).

The Australian Government may provide financial assistance to an industry party by funding its share of an emergency response. These contributions are recovered from the industry over a period of up to 10 years, usually through an emergency response levy. The Australian Government may also 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

Native Title costs

The Australian Government will be liable for any compensation found to be payable under *Native Title Act 1993* (and potentially also the Constitution) in respect of compensable acts for which the Australian Government is responsible. The Australian Government's liability 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 Directors of NBN Co with an indemnity against liability should the Government fail 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 40 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, NSW 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 Snowy Water Licence and related regulatory arrangements agreed between the three governments, including the *Snowy Water Inquiry Outcomes Implementation Deed (SWIOID) 2002*, which gives effect to the corporatisation of the Snowy Scheme and water recovery targets. The indemnity applies to liabilities for which a claim is notified within 20 years from 28 June 2002.

From 1 July 2018, Snowy Hydro Limited will be a wholly owned Commonwealth company. On the transfer of NSW and Victorian shares to the Commonwealth, the Commonwealth will be liable for the indemnity. However, NSW must pay 100 per cent of the amount claimable where the liability is a result of the Snowy Water Licence being inconsistent with the SWIOID or with a direction from NSW that is inconsistent with principles for managing water releases from Jindabyne Dam, as agreed by the Australian, NSW and Victorian Governments.

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
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 90 properties. This number has reduced from approximately 100 reported at the 2017-18 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 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 operated from 1 January 2010 to 31 December 2017, and the National Fractionation Agreement for Australia with CSL Behring (Australia) Ltd, which has operated since 1 January 2018, both include 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. Indemnities have been provided to particular manufacturers of pandemic and pre pandemic influenza vaccines for the supply or future supply of influenza vaccines under certain conditions (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 contract-based cover since 1 January 2003.

New South Wales Health Administration Council — Indemnity

The New South Wales government is indemnified by the Commonwealth against liabilities or claims arising in relation to the operation of the National Health Funding Body (NHFB) in two respects:

(i) liabilities or claims arising from acts or omissions of NHFB staff as users of State Pool account information; and

(ii) liabilities or claims arising from unauthorised access to the banking services or system from NHFB premises.

Home Affairs

Garrison, welfare and health services at regional processing countries — liability limit

The Department of Home Affairs (Home Affairs) entered into a contract with Canstruct International Pty Ltd (Canstruct), which commenced on 1 November 2017, for the provision of garrison and welfare services on Nauru in relation to regional processing arrangements. The contract includes a provision that limits Canstruct's liability to the Department of Home Affairs to a maximum of $20 million for any single occurrence and $50 million in aggregate for the term of the contract (12 months). The limitation of liability does not apply to personal injury, breach of third-party IP rights, damage to third-party property or malicious acts or omissions attributable to Canstruct.

Immigration detention services by State and Territory governments — liability limit

Home Affairs 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

Home Affairs 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

Home Affairs 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 Home Affairs 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.

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, the Australian Government may approve payments to individuals under the *Social Security Act 1991*. These include the Disaster Recovery Payment and Disaster Recovery Allowance. As disasters and their impacts are unpredictable, the cost relating to these payments from future disasters is unquantifiable and therefore not included in the forward estimates.

The current forward estimates for the NDRRA include preliminary estimates for past events, 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. The total cost of relief and recovery from these past events may not be completely realised for some years.

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 and Cities

Indemnity provided to the New South Wales Rural Fire Fighting Service in relation to the Jervis Bay Territory

The Department of Infrastructure, Regional Development and Cities engages the New South Wales Rural Fire Service (NSW RFS) to provide fire management in the Jervis Bay Territory (JBT). To provide these services, 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 (Christmas Island and the Cocos (Keeling) Islands) by the Western Australian (WA) Government under Service Delivery Arrangements (SDAs) agreed with the Australian Government. There are 45 SDAs in place with WA Government agencies for 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 a Heads of Agreement. The Australian Government provides certain indemnities for the State of NSW and NSW authorities and officials in respect of the delivery of services to Norfolk Island.

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 and firefighting potential per- and poly-fluoroalkyl substances contamination

Airservices Australia (Airservices) has identified a number of sites in Australia that potentially have been contaminated with per- and poly-fluoroalkyl substances (PFAS) previously contained in firefighting foams. The firefighting foams containing PFAS were widely used internationally and were used on sites where aviation rescue and firefighting services were provided between approximately 1980 to 2010. The identified contaminants do not naturally break down in the environment. According to the Environmental Health Standing Committee (enHealth), a joint Commonwealth-state standing committee of the Australian Health Protection Principal Committee (AHPPC), which reports to the Australian Health Ministers Advisory Council (AHMAC), there is currently no consistent evidence that exposure to PFAS causes adverse human health effects. 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 there are potentially 19 of the 21 federally leased airports and other regional airports involved.

For federally leased airports, under the airport head leases, the Airport Lessee Companies are responsible for the environmental management of their airport sites. The airport leases contain an indemnity in favour of the Commonwealth specifically relating to damages, costs or injury arising out of any damage or injury to the environment on-airport, both before and after the grant time (with some exceptions applying to the latter). However, which entity is liable for costs/damages/injury arising from PFAS contamination on federally leased airports has not yet been tested or established.

Currently, there are two class actions against the Commonwealth before the Federal Court seeking damages over the use of historical PFAS-containing firefighting foam by the Department of Defence at Williamtown and Oakey. The outcomes of these class actions may have implications for the Department of Defence, the Department of Infrastructure, Regional Development and Cities; and Airservices.

Jobs and Small Business

jobactive – Employment Fund

The Department of Jobs and Small Business' forward estimates for jobactive includes anticipated expenditure for the Employment Fund. This flexible pool of funds is available to jobactive providers to assist job-seekers to find and keep a job. The amount credited to the Employment Fund is commensurate with each job seeker's level of disadvantage. Experience suggests that jobactive providers will not necessarily spend all the credits during the life of the jobactive contracts. The forward estimates do not include the value of residual credits.

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 eight instances of unquantifiable non-remote contingent assets.

Health

Legal action seeking compensation

The Department of Health is engaged in legal action against certain pharmaceutical companies to recover savings denied to the Commonwealth because interim injunctions granted to these companies in unsuccessful patent litigation delayed generic versions of drugs being listed on the Pharmaceutical Benefits Scheme and thereby delaying statutory and price disclosure related price reductions for these drugs.

Home Affairs

Civil penalty proceedings in the Federal Court against the Commonwealth Bank of Australia

On 3 August 2017, AUSTRAC initiated civil penalty proceedings in the Federal Court against the Commonwealth Bank of Australia (CBA) for serious and systemic non-compliance with the *Anti-Money Laundering and Counter Terrorism Financing Act 2006*. AUSTRAC's statement of claim has been made public by the Court. In March 2018, the Federal Court ordered mediation to occur by no later than 25 May 2018. The outcome of this matter is unknown, including the quantum of any penalty that may be imposed by the Court.

CONTINGENT LIABILITIES — QUANTIFIABLE

Defence

Claims against the Department of Defence

The Department of Defence (Defence) has 14 instances of non-remote, quantifiable contingent liabilities in respect of claims on Defence valued at $53.2 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.

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 $103.7 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 28 February 2018, the Government's total contingent liability was $3.1 billion. The $3.1 billion contingent liability comprises EFIC's liabilities to third parties ($2.4 billion) and EFIC's overseas investment insurance, contracts of insurance and guarantees ($0.7 billion). Of the total contingent liability, $2.6 billion relates to EFIC's Commercial Account and $0.5 billion relates to the National Interest Account.

Infrastructure, Regional Development and Cities

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 the Roe 8 and 9 extensions to complete the 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 by constructing the Roe 8 and 9 extensions and is therefore recording this commitment as a contingent liability in the Budget.

Jobs and Small Business

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.

Prime Minister and Cabinet

Indigenous Land Corporation — Debt Guarantee

The Indigenous Land Corporation provides a guarantee to a major bank that provides a $120 million revolving facility to Voyages Indigenous Tourism Australia Pty Ltd. As at 30 June 2018, the outstanding balance of the facility is $112.5 million.

Leases for public housing in remote Northern Territory

From 2008, the Commonwealth has entered into leases for public housing lots in 51 remote Northern Territory communities for a period of 40–99 years. Under these leases, the Commonwealth is expected to enter into subleases with a third-party housing provider to deliver property and tenancy management on its behalf, or to deliver these responsibilities itself. The Northern Territory Government currently has subleases for all communities where Commonwealth leases are in place. The Commonwealth will enter into a new five-year bilateral agreement with the Northern Territory Government where the Northern Territory Government will continue to provide property and tenancy management. Following the completion of this agreement, if no new subleases are entered into, the Commonwealth will become responsible for delivering landlord duties under the leases. Over the forward estimates period, Northern Territory Government subleases expire in 43 communities, which encompass 1,836 housing lots.

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 28 February 2018, for which a provision has not been made, is $5.3 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 29 March 2018).

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$382.1 million as at 29 March 2018).

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 29 March 2018).

The Australian Government has further held an uncalled capital subscription in the Multilateral Investment Guarantee Agency of US$26.5 million (estimated value A$34.5 million as at 29 March 2018).

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 29 March 2018).

None of these international financial institutions has ever drawn on Australia's uncalled capital subscriptions.

International Monetary Fund

Australia has made a line of credit available to the International Monetary Fund (IMF) under its New Arrangements to Borrow (NAB) since 1998. This is a contingent loan to help ensure that the IMF has the resources available to maintain stability 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$4.2 billion at 31 March 2018). On 4 November 2016, the IMF Executive Board agreed to renew the NAB for an additional five-year period to 16 November 2022.

In addition, Australia has made available a SDR4.61 billion (approximately A$8.8 billion at 31 March 2018) contingent bilateral loan to the IMF. This contingent loan is on terms consistent with separate bilateral loan and note purchase agreements between the IMF and other 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 Treasurer agreed to renew Australia's loan agreement with the IMF on 19 December 2016. The renewed agreement extends 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 11 instances of non-remote, quantifiable contingent assets in respect of claims by the Department valued at $23.2 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 2018.

Table 3: Summary of Australian Government loans exceeding $200 million

Entity	Loan amount[a] ($m)	Borrower	Interest rate	Term	Status[b]
Department of Education and Training					
Higher Education Loan Program	42,444	Eligible tertiary education students	Consumer Price Index (CPI)	8.9 years*	Unchanged
Department of Communications and the Arts					
NBN Co Loan	6,682	NBN Co Limited	3.96 per cent	30 June 2021	Unchanged
Clean Energy Finance Corporation					
Clean Energy Finance Corporation	2,410	Approved entities undertaking clean energy technology projects	4.6 per cent weighted average	5-15 years	Unchanged
Australian Office of Financial Management					
Commonwealth-State financing arrangements — Housing and Specific Purpose Capital	1,793	State and Northern Territory governments	3.63-6.0 per cent	Up to 30 June 2042	Unchanged
Department of Infrastructure, Regional Development and Cities					
WestConnex Stage 2 Concessional Loan	1,114	WCX M5 Finco Pty Ltd	3.4 per cent	November 2015 to July 2034	Unchanged
Concessional loan for asbestos removal in the ACT — Mr Fluffy loose fill asbestos remediation	936	Australian Capital Territory Government	Commonwealth Government 10-year bond rate	Up to 30 June 2024	Unchanged
Department of Agriculture and Water Resources					
Drought related and Farm Finance Concessional Loans – Agriculture	798	State Governments (that, through their delivery agencies, on-lend to eligible farm businesses)	Various	Various	Unchanged
Indigenous Business Australia					
Indigenous Home Ownership, Business Development and Assistance	799	Eligible Indigenous persons	4.0-5.75 per cent*	3.9-28.3 years*	Modified
Department of the Treasury					
International Monetary Fund New Arrangements to Borrow	433	International Monetary Fund	0.85 per cent	10 years	Modified
Department of Education and Training					
Trade Support Loans Program	417	Eligible Australian Apprentices	Consumer Price Index (CPI)	—[#]	Unchanged

Table 3: Summary of Australian Government loans exceeding $200 million (continued)

Entity	Loan amount[(a)] ($m)	Borrower	Interest rate	Term	Status [(b)]
Department of Social Services					
Student Financial Supplement Scheme	310	Eligible recipients of Youth Allowance (student), Austudy and ABSTUDY	Consumer Price Index (CPI)	Various	Unchanged
Indigenous Land Corporation					
Voyages Indigenous Tourism Australia Pty Ltd	308	Voyages Indigenous Tourism Australia Pty Ltd	90 Day bank bill swap reference rate + 5 per cent	9 years, 11 months	Unchanged
Department of Health					
Zero Real Interest Loans	278	Residential aged care providers	All Groups Consumer Price Index (CPI)	Up to 22 years	Unchanged
Export Finance and Insurance Corporation					
Papua New Guinea Liquefied Natural Gas	258	Entities associated with the Papua New Guinea Liquefied Natural Gas project	Commercial-In-Confidence	Until 2026	Unchanged

* Average.
\# To be determined after sufficient numbers of compulsory repayments commence.
^ Estimated.
(a) Loan amount is the estimated loan program amounts outstanding as at 30 June 2018 in $ million.
(b) Status of loan items are considered ‘unchanged’ unless there are modifications to respective interest rates and/or loan terms.

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 2018, the fair value of debt outstanding is estimated to be $42.4 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 2,659,057 HELP debtors as at 30 June 2017. 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 2017, the average time taken to repay HELP debts was 8.9 years.

HELP comprises a number of programs, including the VET Student Loans program, which replaced VET FEE-HELP from 1 January 2017.

NBN Co Loan

The Australian Government has provided a loan to NBN Co on commercial terms of up to $19.5 billion for the period from 1 July 2017 to 30 June 2021, with drawings available on a monthly basis. The loan has a fixed interest rate of 3.96 per cent, with interest calculated daily and payable monthly over the life of the facility. The full principal amount of the loan is to be repaid by NBN Co on 30 June 2021.

A Government loan on commercial terms represents the most cost-effective way to raise necessary debt and secure funding to complete the rollout of this important national infrastructure project. A government loan will assist in ensuring NBN Co can focus on the remaining rollout as it significantly scales up toward completion in 2020.

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).

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 energy efficiency assets. 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 4.6 per cent. Loans have various maturity dates, typically in the range of 5–15 years. As at 30 June 2018, loans contracted and outstanding are expected to total $2.4 billion.

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 2018, the estimated amortised value of the advances is $1.8 billion.

The Australian Office of Financial Management manages the receipt of interest and principal repayments from the State and Northern Territory Governments.

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 the King Georges Road Interchange Upgrade that is now complete and the New M5 that is currently under construction.

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 to 2023-24.

Drought related and farm finance concessional loans – Agriculture

As at 30 June 2018, the fair value of farm business, drought and dairy farm related loans is estimated to total $798.0 million. These include:

Drought Concessional Loans Scheme: This scheme provided 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 loans scheme available for two years 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 Farm Business 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.

As at 1 February 2018, the interest rate is 3.01 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 funded planting and restocking activities and associated expenses, when seasonal conditions allowed. 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. A dairy recovery concessional loan product remains available under the Farm Business Concessional Loans Scheme until 30 June 2018.

As at 1 February 2018, the interest rate is 2.69 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 three types of concessional loans — drought assistance, dairy recovery and business improvement. 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.

Business improvement concessional loans are available in Queensland, New South Wales, Victoria, South Australia, Tasmania and the Northern Territory. Loans are available for eligible Farm Household Allowance (FHA) recipients who are recovering from financial hardship and who have exhausted, or will exhaust, by 30 June 2018, their FHA 1,095-day income support entitlement. These loans are for debt restructuring only.

Dairy recovery concessional loans are available in New South Wales, Victoria, South Australia and Tasmania to eligible suppliers of Murray Goulburn, Fonterra and National Dairy Products. 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 2018, the interest rate is 3.09 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 2018, the interest rate is 3.51 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.

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 2018, the fair value of outstanding loans for Indigenous Home Ownership and Business Development and Assistance is estimated to total $798.8 million.

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 IMF Executive Board agreed to renew the NAB for an additional five-year period to 16 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$433 million as at 30 June 2018.

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 $20,420 to assist with the costs of living, learning and undertaking an apprenticeship, helping apprentices to focus on completing a trade qualification.

Eligible Australian Apprentices can access up to $8,168 in the first year, $6,126 in the second, $4,084 in the third and $2,042 in the fourth year of their apprenticeships. The lifetime limit of $20,420 was indexed on 1 July 2017 and will continue to be indexed annually on 1 July to maintain its real value.

As an incentive to finish their training, apprentices who successfully complete their apprenticeships are eligible for a 20 per cent discount on their loan. The loans become repayable at the same thresholds as the Higher Education Loan Program, which is $55,874 in 2017-18. This is a demand-driven program.

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. Debtors are required to start repaying their SFSS loan once they earn more than $55,874 for 2017-18. As at 30 June 2018, the fair value of loans outstanding is estimated to total $309.8 million.

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 2018, the outstanding loan is estimated to total $308 million, including $18.5 million in accrued interest less an expected scheduled net repayment in 2017-18 of $2 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 All Groups 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 2019, the total amount owing to the Commonwealth will be $278 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 2018, the fair value of the loan amount outstanding is estimated to total $258.1 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.

From the 2018-19 Budget, the Commonwealth's Loan Council Allocation is no longer reported. The Australian Loan Council unanimously agreed to remove the Australian, State and Territory governments' reporting requirements from the UPF and transfer the administration of the UPF to the Council on Federal Financial Relations.

CONTENTS

STATEMENT 10: AUSTRALIAN GOVERNMENT BUDGET FINANCIAL STATEMENTS

Table 1: Australian Government general government sector operating statement

		Estimates			Projections	
		2017-18	2018-19	2019-20	2020-21	2021-22
	Note	$m	$m	$m	$m	$m
Revenue						
Taxation revenue	3	428,469	452,001	476,641	501,705	531,303
Sales of goods and services	4	10,095	14,490	15,802	15,901	16,471
Interest income	5	3,663	4,442	5,521	6,062	6,044
Dividend income	5	3,797	4,126	4,604	5,185	5,710
Other	6	10,152	11,082	10,227	9,025	8,686
Total revenue		**456,176**	**486,141**	**512,795**	**537,880**	**568,213**
Expenses						
Gross operating expenses						
Wages and salaries(a)	7	20,019	20,411	20,653	20,836	21,367
Superannuation	7	7,825	6,022	5,981	5,983	6,019
Depreciation and amortisation	8	8,861	9,023	9,087	9,623	10,345
Supply of goods and services	9	104,027	119,633	123,814	127,284	132,786
Other operating expenses(a)	7	6,122	6,045	5,997	6,122	6,273
Total gross operating expenses		*146,854*	*161,134*	*165,532*	*169,848*	*176,789*
Superannuation interest expense	7	9,241	10,648	11,049	11,387	11,715
Interest expenses	10	17,931	19,045	20,166	19,545	19,093
Current transfers						
Current grants	11	141,923	149,042	152,251	157,078	163,896
Subsidy expenses		11,719	12,055	12,607	13,127	13,737
Personal benefits	12	128,525	126,429	133,450	139,091	147,970
Total current transfers		*282,167*	*287,525*	*298,308*	*309,296*	*325,602*
Capital transfers	11					
Mutually agreed write-downs		2,013	1,494	1,585	1,676	1,778
Other capital grants		10,581	8,738	7,532	6,494	5,853
Total capital transfers		*12,594*	*10,232*	*9,117*	*8,170*	*7,631*
Total expenses		**468,788**	**488,584**	**504,171**	**518,247**	**540,830**
Net operating balance		**-12,612**	**-2,443**	**8,623**	**19,633**	**27,383**
Other economic flows – included in operating result						
Net write-downs of assets (including bad and doubtful debts)		-8,907	-8,867	-8,596	-8,455	-8,602
Assets recognised for the first time		198	200	202	204	207
Actuarial revaluations		135	41	2	-2	-11
Net foreign exchange gains		-336	130	0	259	267
Net swap interest received		247	0	0	0	0
Market valuation of debt		8,137	1,315	840	575	186
Other gains/(losses)		9,756	3,633	5,169	4,938	5,625
Total other economic flows – included in operating result		**9,230**	**-3,547**	**-2,383**	**-2,480**	**-2,329**
Operating Result(b)		**-3,383**	**-5,990**	**6,241**	**17,153**	**25,054**

Table 1: Australian Government general government sector operating statement (continued)

		Estimates			Projections	
		2017-18	2018-19	2019-20	2020-21	2021-22
	Note	$m	$m	$m	$m	$m
Non-owner movements in equity						
Revaluation of equity investments		-2,043	-6,091	25	0	86
Actuarial revaluations		755	81	153	107	-39
Other economic revaluations		-302	-377	-384	-371	-371
Total other economic flows - included in equity		**-1,590**	**-6,387**	**-206**	**-263**	**-323**
Comprehensive result - Total change in net worth		**-4,973**	**-12,377**	**6,034**	**16,889**	**24,730**
Net operating balance		**-12,612**	**-2,443**	**8,623**	**19,633**	**27,383**
Net acquisition of non-financial assets						
Purchases of non-financial assets		13,199	14,222	15,197	16,613	18,419
less Sales of non-financial assets		3,658	287	1,199	235	171
less Depreciation		8,861	9,023	9,087	9,623	10,345
plus Change in inventories		65	75	15	-35	97
plus Other movements in non-financial assets		1	1	-2	0	0
Total net acquisition of non-financial assets		**748**	**4,989**	**4,923**	**6,720**	**8,000**
Fiscal balance (Net lending/borrowing)(c)		**-13,360**	**-7,431**	**3,700**	**12,913**	**19,383**

(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	
		2017-18	2018-19	2019-20	2020-21	2021-22
	Note	$m	$m	$m	$m	$m
Assets						
Financial assets						
Cash and deposits		5,363	5,875	4,969	5,848	5,285
Advances paid	13	60,228	73,041	82,682	68,053	72,063
Investments, loans and placements	14	180,232	183,513	196,902	203,506	225,424
Other receivables	13	52,870	55,983	58,445	59,967	62,242
Equity investments						
Investments in other public sector entities		56,636	51,976	54,154	56,348	59,493
Equity accounted investments		185	331	448	523	548
Investments - shares		50,713	51,928	52,933	56,363	60,068
Total financial assets		*406,226*	*422,648*	*450,532*	*450,608*	*485,123*
Non-financial assets	15					
Land		10,708	10,650	10,631	10,643	10,566
Buildings		26,091	26,622	27,402	28,656	30,405
Plant, equipment and infrastructure		75,460	78,346	82,780	87,753	93,549
Inventories		8,204	7,874	7,495	7,074	6,789
Intangibles		8,577	9,819	10,253	10,586	10,701
Investment properties		159	159	159	159	159
Biological assets		54	54	54	54	54
Heritage and cultural assets		11,669	11,636	11,604	11,568	11,550
Assets held for sale		86	85	85	85	84
Other non-financial assets		61	62	60	60	60
Total non-financial assets		*141,069*	*145,308*	*150,523*	*156,638*	*163,917*
Total assets		**547,295**	**567,956**	**601,055**	**607,247**	**649,040**
Liabilities						
Interest bearing liabilities						
Deposits held		218	218	218	218	218
Government securities		568,924	594,437	610,885	593,896	604,177
Loans	16	16,095	16,090	16,002	16,120	16,283
Other borrowing		1,588	1,534	1,482	1,427	1,365
Total interest bearing liabilities		*586,825*	*612,280*	*628,588*	*611,661*	*622,043*

Table 2: Australian Government general government sector balance sheet (continued)

		Estimates			Projections	
		2017-18	2018-19	2019-20	2020-21	2021-22
	Note	$m	$m	$m	$m	$m
Provisions and payables						
Superannuation liability	17	216,287	223,564	230,677	237,706	244,499
Other employee liabilities	17	18,533	18,902	19,355	19,770	20,220
Suppliers payables	18	8,138	8,203	8,231	8,261	8,210
Personal benefits payables	18	2,952	3,038	3,407	3,215	3,202
Subsidies payables	18	548	1,114	1,253	1,305	1,327
Grants payables	18	3,312	3,072	3,854	3,474	3,057
Other payables	18	2,279	2,236	2,232	2,232	2,231
Provisions	18	33,652	33,157	35,033	34,308	34,207
Total provisions and payables		*285,701*	*293,285*	*304,041*	*310,271*	*316,952*
Total liabilities		**872,527**	**905,565**	**932,629**	**921,932**	**938,995**
Net worth(a)		**-325,232**	**-337,609**	**-331,574**	**-314,685**	**-289,955**
Net financial worth(b)		*-466,301*	*-482,917*	*-482,097*	*-471,324*	*-453,871*
Net financial liabilities(c)		*522,937*	*534,893*	*536,251*	*527,672*	*513,364*
Net debt(d)		*341,003*	*349,851*	*344,036*	*334,254*	*319,270*

(a) Net worth is calculated as total assets minus total liabilities.
(b) Net financial worth equals total financial assets minus total liabilities.
(c) Net financial liabilities equals total liabilities less financial assets other than investments in other public sector entities.
(d) Net debt equals the sum of interest bearing liabilities (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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Cash receipts from operating activities					
Taxes received(b)	416,354	440,480	465,504	491,025	519,595
Receipts from sales of goods and services(b)	10,283	14,551	15,914	15,993	16,541
Interest receipts	3,458	4,257	5,290	5,750	5,283
Dividends and income tax equivalents	4,565	3,970	4,284	4,896	5,412
Other receipts	9,138	9,767	11,043	7,559	6,964
Total operating receipts	**443,798**	**473,026**	**502,035**	**525,223**	**553,795**
Cash payments for operating activities					
Payments for employees	-28,843	-29,718	-30,355	-31,071	-32,320
Payments for goods and services	-100,530	-117,209	-122,449	-126,100	-132,249
Grants and subsidies paid	-164,524	-169,900	-171,621	-176,240	-183,087
Interest paid	-16,586	-18,749	-17,516	-18,151	-17,458
Personal benefit payments	-129,461	-129,372	-135,469	-141,398	-149,252
Other payments	-5,840	-5,717	-5,638	-5,648	-5,766
Total operating payments	**-445,783**	**-470,664**	**-483,047**	**-498,607**	**-520,132**
Net cash flows from operating activities	**-1,985**	**2,362**	**18,988**	**26,617**	**33,663**
Cash flows from investments in non-financial assets					
Sales of non-financial assets	1,348	720	1,631	235	171
Purchases of non-financial assets	-14,098	-13,984	-14,467	-15,895	-17,215
Net cash flows from investments in non-financial assets	**-12,751**	**-13,265**	**-12,836**	**-15,660**	**-17,044**
Net cash flows from investments in financial assets for policy purposes	**-22,373**	**-16,659**	**-14,226**	**10,006**	**-8,849**
Net cash flows from investments in financial assets for liquidity purposes	**8,636**	**1,359**	**-8,430**	**-2,923**	**-17,871**
Cash receipts from financing activities					
Borrowing	95,284	107,852	101,067	77,853	77,662
Other financing	1,881	0	0	1	2
Total cash receipts from financing activities	**97,165**	**107,852**	**101,067**	**77,854**	**77,664**
Cash payments for financing activities					
Borrowing	-63,645	-78,494	-82,680	-91,980	-65,430
Other financing	-4,824	-2,643	-2,788	-3,036	-2,696
Total cash payments for financing activities	**-68,470**	**-81,138**	**-85,469**	**-95,015**	**-68,127**
Net cash flows from financing activities	**28,696**	**26,715**	**15,599**	**-17,161**	**9,538**
Net increase/(decrease) in cash held	**224**	**512**	**-906**	**880**	**-563**

Table 3: Australian Government general government sector cash flow statement[(a)] (continued)

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
GFS cash surplus(+)/deficit(-)(c)	**-14,735**	**-10,903**	**6,152**	**10,957**	**16,619**
less Finance leases and similar arrangements(d)	0	0	0	0	0
less Net Future Fund earnings(e)	3,503	3,559	3,918	na	na
Equals underlying cash balance(f)	**-18,238**	**-14,462**	**2,234**	**10,957**	**16,619**
plus Net cash flows from investments in financial assets for policy purposes	-22,373	-16,659	-14,226	10,006	-8,849
plus Net Future Fund earnings(e)	3,503	3,559	3,918	na	na
Equals headline cash balance	**-37,108**	**-27,562**	**-8,074**	**20,964**	**7,770**
Memorandum:					
Net Future Fund earnings(e)	3,503	3,559	3,918	4,182	4,467

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) In the 2016-17 FBO, the majority of corporations law fees were reclassified from non-taxation receipts to taxation receipts and financial institutions supervisory levies were reclassified from taxation receipts to non-taxation receipts.
(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	
	2017-18	2018-19
	$m	$m
Revenue		
Current grants and subsidies	144	60
Sales of goods and services	11,699	14,902
Interest income	47	24
Other	17	29
Total revenue	**11,908**	**15,016**
Expenses		
Gross operating expenses		
Wages and salaries(a)	4,429	4,426
Superannuation	387	408
Depreciation and amortisation	2,986	3,886
Supply of goods and services	7,662	10,000
Other operating expenses(a)	502	498
Total gross operating expenses	*15,965*	*19,219*
Interest expenses	702	1,178
Other property expenses	172	420
Current transfers		
Tax expenses	61	284
Total current transfers	*61*	*284*
Total expenses	**16,900**	**21,100**
Net operating balance	**-4,992**	**-6,085**
Other economic flows	**2,347**	**-164**
Comprehensive result - Total change in net worth excluding contribution from owners	**-2,645**	**-6,248**
Net acquisition of non-financial assets		
Purchases of non-financial assets	8,148	9,709
less Sales of non-financial assets	328	70
less Depreciation	2,986	3,886
plus Change in inventories	41	-1
plus Other movements in non-financial assets	97	214
Total net acquisition of non-financial assets	**4,971**	**5,966**
Fiscal balance (Net lending/borrowing)(b)	**-9,963**	**-12,050**

(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	
	2017-18	2018-19
	$m	$m
Assets		
Financial assets		
Cash and deposits	2,263	1,932
Investments, loans and placements	1,210	1,042
Other receivables	2,544	2,863
Equity investments	406	406
Total financial assets	*6,423*	*6,243*
Non-financial assets		
Land and other fixed assets	38,002	43,590
Other non-financial assets(a)	3,736	4,063
Total non-financial assets	*41,738*	*47,653*
Total assets	**48,161**	**53,896**
Liabilities		
Interest bearing liabilities		
Deposits held	4	4
Advances received	308	319
Loans	9,304	17,522
Other borrowing	7,017	8,275
Total interest bearing liabilities	*16,633*	*26,120*
Provisions and payables		
Superannuation liability	19	19
Other employee liabilities	1,912	1,842
Other payables	4,918	6,168
Other provisions(a)	715	622
Total provisions and payables	*7,563*	*8,650*
Total liabilities	**24,197**	**34,770**
Shares and other contributed capital	**23,965**	**19,126**
Net worth(b)(c)	**23,965**	**19,126**
Net financial worth(d)	*-17,774*	*-28,527*
Net debt(e)	*13,160*	*23,147*

(a) Excludes the impact of commercial taxation adjustments.
(b) Includes Snowy Hydro Limited (SHL) net assets. The SHL net assets are measured at cost consistent with SHL's financial statements.
(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 (deposits 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	
	2017-18	2018-19
	$m	$m
Cash receipts from operating activities		
Receipts from sales of goods and services	12,688	15,518
Grants and subsidies received	106	60
GST input credit receipts	984	873
Other receipts	28	34
Total operating receipts	**13,806**	**16,485**
Cash payments for operating activities		
Payments to employees(b)	-4,405	-4,391
Payment for goods and services	-8,335	-9,163
Interest paid	-647	-1,137
GST payments to taxation authority	-83	-310
Other payments(b)	-1,553	-1,522
Total operating payments	**-15,023**	**-16,522**
Net cash flows from operating activities	**-1,217**	**-37**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	328	70
Purchases of non-financial assets	-7,796	-8,865
Net cash flows from investments in non-financial assets	**-7,468**	**-8,795**
Net cash flows from investments in financial assets for policy purposes	**-4**	**-8**
Net cash flows from investments in financial assets for liquidity purposes	**37**	**3**
Net cash flows from financing activities		
Borrowing (net)	6,457	8,267
Other financing (net)	2,452	667
Distributions paid (net)	-179	-429
Net cash flows from financing activities	**8,731**	**8,505**
Net increase/(decrease) in cash held	**79**	**-331**
Cash at the beginning of the year	**2,184**	**2,263**
Cash at the end of the year	**2,263**	**1,932**
Net cash from operating activities and investments in non-financial assets	**-8,685**	**-8,832**
Distributions paid	-179	-429
GFS cash surplus(+)/deficit(-)	**-8,864**	**-9,261**

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) Other employee-related payments are reported under other payments consistent with the treatment in the general government sector.

Table 7: Australian Government total non-financial public sector operating statement

	Estimates	
	2017-18	2018-19
	$m	$m
Revenue		
Taxation revenue	428,417	451,162
Sales of goods and services	20,766	28,433
Interest income	3,625	4,054
Dividend income	3,625	3,804
Other	10,142	11,089
Total revenue	**466,574**	**498,543**
Expenses		
Gross operating expenses		
Wages and salaries(a)	24,447	24,837
Superannuation	8,197	6,415
Depreciation and amortisation	11,847	12,909
Supply of goods and services	110,655	128,668
Other operating expenses(a)	6,625	6,543
Total gross operating expenses	*161,770*	*179,372*
Superannuation interest expense	9,241	10,648
Interest expenses	18,548	19,811
Current transfers		
Current grants	141,923	149,042
Subsidy expenses	11,713	11,491
Personal benefits	128,525	126,429
Total current transfers	*282,161*	*286,961*
Capital transfers	12,458	10,180
Total expenses	**484,178**	**506,972**
Net operating balance	**-17,604**	**-8,429**
Other economic flows	**12,782**	**-3,922**
Comprehensive result - Total change in net worth	**-4,822**	**-12,352**
Net acquisition of non-financial assets		
Purchases of non-financial assets	21,347	23,930
less Sales of non-financial assets	3,986	357
less Depreciation	11,847	12,909
plus Change in inventories	106	74
plus Other movements in non-financial assets	98	215
Total net acquisition of non-financial assets	**5,719**	**10,954**
Fiscal balance (Net lending/borrowing)(b)	**-23,322**	**-19,383**

(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	
	2017-18	2018-19
	$m	$m
Assets		
Financial assets		
Cash and deposits	7,626	7,806
Advances paid	53,236	58,040
Investments, loans and placements	181,428	184,535
Other receivables	54,993	58,083
Equity investments	79,216	80,672
Total financial assets	*376,499*	*389,136*
Non-financial assets(a)		
Land and fixed assets	170,134	178,719
Other non-financial assets	17,345	18,912
Total non-financial assets	*187,479*	*197,631*
Total assets	**563,978**	**586,767**
Liabilities		
Interest bearing liabilities		
Deposits held	222	222
Advances received	0	0
Government securities	568,924	594,437
Loans	18,702	18,910
Other borrowing	8,605	9,809
Total interest bearing liabilities	*596,453*	*623,379*
Provisions and payables		
Superannuation liability	216,306	223,583
Other employee liabilities	20,445	20,744
Other payables	21,840	23,028
Other provisions	34,330	33,781
Total provisions and payables	*292,920*	*301,135*
Total liabilities	**889,373**	**924,514**
Net worth(b)	**-325,395**	**-337,747**
Net financial worth(c)	*-512,875*	*-535,378*
Net debt(d)	*354,163*	*372,997*

(a) The equity value of Snowy Hydro Limited is mainly reflected in non-financial assets.
(b) Under AASB 1049, net worth is calculated as total assets minus total liabilities. Under ABS GFS, net worth is calculated as total assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.
(c) Under AASB 1049, net financial worth equals total financial assets minus total liabilities. Under ABS GFS, net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.
(d) Net debt equals the sum of interest bearing liabilities (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	
	2017-18	2018-19
	$m	$m
Cash receipts from operating activities		
Taxes received	416,216	440,150
Receipts from sales of goods and services	20,829	28,015
Interest receipts	3,424	3,871
Dividends and income tax equivalents	4,392	3,648
Other receipts	9,214	9,653
Total operating receipts	**454,074**	**485,337**
Cash payments for operating activities		
Payments to employees	-33,248	-34,109
Payments for goods and services	-106,460	-124,135
Grants and subsidies paid	-164,381	-169,848
Interest paid	-17,149	-19,473
Personal benefit payments	-129,461	-129,372
Other payments	-6,681	-6,528
Total operating payments	**-457,379**	**-483,464**
Net cash flows from operating activities	**-3,304**	**1,874**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	1,676	790
Purchases of non-financial assets	-21,894	-22,849
Net cash flows from investments in non-financial assets	**-20,218**	**-22,059**
Net cash flows from investments in financial assets for policy purposes	**-12,729**	**-7,237**
Net cash flows from investments in financial assets for liquidity purposes	**8,673**	**1,362**
Net cash flows from financing activities		
Borrowing (net)	31,383	29,609
Other financing (net)	-3,502	-3,369
Net cash flows from financing activities	**27,881**	**26,241**
Net increase/(decrease) in cash held	**302**	**181**
Cash at the beginning of the year	**7,324**	**7,626**
Cash at the end of the year	**7,626**	**7,806**
Net cash from operating activities and investments in non-financial assets	**-23,523**	**-20,186**
Distributions paid	0	0
GFS cash surplus(+)/deficit(-)	**-23,523**	**-20,186**

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

Table 10: Australian Government public financial corporations sector operating statement

	Estimates	
	2017-18	2018-19
	$m	$m
Revenue		
Current grants and subsidies	144	113
Sales of goods and services	697	738
Interest income	2,069	2,312
Other	44	40
Total revenue	**2,954**	**3,202**
Expenses		
Gross operating expenses		
Wages and salaries(a)	164	166
Superannuation	62	32
Depreciation and amortisation	57	61
Supply of goods and services	474	529
Other operating expenses(a)	206	193
Total gross operating expenses	*963*	*981*
Interest expenses	1,248	1,338
Other property expenses	442	761
Current transfers		
Tax expenses	0	0
Total current transfers	*0*	*0*
Total expenses	**2,654**	**3,080**
Net operating balance	**301**	**122**
Other economic flows	**2,079**	**-28**
Comprehensive result - Total change in net worth excluding contribution from owners	**2,380**	**94**
Net acquisition of non-financial assets		
Purchases of non-financial assets	1	2
less Sales of non-financial assets	0	0
less Depreciation	57	61
plus Change in inventories	-19	0
plus Other movements in non-financial assets	0	0
Total net acquisition of non-financial assets	**-75**	**-60**
Fiscal balance (Net lending/borrowing)(b)	**375**	**182**

(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	
	2017-18	2018-19
	$m	$m
Assets		
Financial assets		
Cash and deposits	693	694
Investments, loans and placements	183,920	184,962
Other receivables	120	120
Equity investments	454	479
Total financial assets	*185,187*	*186,255*
Non-financial assets		
Land and other fixed assets	839	835
Other non-financial assets(b)	92	92
Total non-financial assets	*931*	*927*
Total assets	**186,118**	**187,182**
Liabilities		
Interest bearing liabilities		
Deposits held	149,227	149,227
Borrowing	9,178	9,375
Total interest bearing liabilities	*158,406*	*158,602*
Provisions and payables		
Superannuation liability	265	265
Other employee liabilities	1,495	1,495
Other payables	806	1,569
Other provisions(b)	0	0
Total provisions and payables	*2,567*	*3,330*
Total liabilities	**160,972**	**161,932**
Shares and other contributed capital	**25,146**	**25,250**
Net worth(c)	**25,146**	**25,250**
Net financial worth(d)	*24,215*	*24,323*
Net debt(e)	*-26,208*	*-27,054*

(a) Assumes no valuation or currency movement.
(b) Excludes the impact of commercial taxation adjustments.
(c) Under AASB 1049, net worth is calculated as total assets minus total liabilities. Under ABS GFS, net worth is calculated as total assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.
(d) Under AASB 1049, net financial worth equals total financial assets minus total liabilities. Under ABS GFS, net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.
(e) Net debt equals the sum of interest bearing liabilities (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	
	2017-18	2018-19
	$m	$m
Cash receipts from operating activities		
Receipts from sales of goods and services	721	750
Grants and subsidies received	144	113
GST input credit receipts	11	15
Interest receipts	2,054	2,311
Other receipts	96	45
Total operating receipts	**3,025**	**3,234**
Cash payments for operating activities		
Payments to employees(b)	-281	-248
Payment for goods and services	-482	-545
Interest paid	-1,234	-1,334
GST payments to taxation authority	0	0
Other payments(b)	-160	-154
Total operating payments	**-2,158**	**-2,281**
Net cash flows from operating activities	**867**	**953**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	0	0
Purchases of non-financial assets	-79	-1
Net cash flows from investments in non-financial assets	**-79**	**-1**
Net cash flows from investments in financial assets for policy purposes	**125**	**-166**
Net cash flows from investments in financial assets for liquidity purposes	**17,836**	**-1,081**
Net cash flows from financing activities		
Borrowing (net)	-20,013	246
Deposits received (net)	0	0
Other financing (net)	2,566	54
Distributions paid (net)	-1,130	-4
Net cash flows from financing activities	**-18,577**	**296**
Net increase/(decrease) in cash held	**173**	**1**
Cash at the beginning of the year	**520**	**693**
Cash at the end of the year	**693**	**694**
Net cash from operating activities and investments in non-financial assets	**788**	**952**
Distributions paid	-1,130	-4
GFS cash surplus(+)/deficit(-)	**-342**	**948**

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) Other employee related payments are reported under other payments consistent with the treatment in the general government sector.

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; and

- the Australian Accounting Standards (AAS), issued by the Australian Accounting Standards Board (AASB), which includes International Financial Reporting Standards (IFRS) as adopted in Australia and the public sector specific standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting.*

The financial statements have been prepared on an accrual basis that complies with both ABS GFS and AAS, except for departures disclosed at Note 2. A more detailed description of the AAS and ABS GFS frameworks, in addition to definitions of key terms used in these frameworks, can be found in Appendix A. Detailed accounting policies, as well as a set of notes and other disclosures, as required by AAS, are disclosed in the annual Consolidated Financial Statements.

Fiscal reporting focuses on the general government sector (GGS). The GGS provides public services that are mainly non-market in nature and for the collective consumption of the community, or involve the transfer or redistribution of income. These services are largely financed through taxes and other compulsory levies, user charging and external funding. This sector comprises all government departments, offices and some other bodies. In preparing financial statements for the GGS, all material transactions and balances between entities within the GGS have been eliminated.

The Government's key fiscal aggregates are based on ABS GFS concepts and definitions, including the ABS GFS cash surplus/deficit and the derivation of the underlying cash balance and net financial worth. AASB 1049 requires the disclosure of other ABS GFS fiscal aggregates, including net operating balance, net lending/borrowing (fiscal balance) and net worth. In addition to these ABS GFS aggregates, the Uniform Presentation Framework (UPF) requires disclosure of net debt, net financial worth and net financial liabilities.

AASB 1049 and the 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 2017-18* (MYEFO) are disclosed in *Statement 3: Fiscal Strategy and Outlook*, with decisions taken since the MYEFO disclosed in Budget Paper No. 2 *Budget Measures 2018-19*. All policy decisions taken between the 2017-18 Budget and the 2017-18 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	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 that are solely payments of principal and interest are valued at amortised cost 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 acquired.	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
National Disability Insurance Scheme (NDIS) revenue	Funding contributions by the state and territory governments to NDIS are treated as sales of goods and services revenue. In-kind disability services provided by the States and Territory Governments are treated as other revenue.	Funding contributions by the state and territory governments to NDIS are treated as grants revenue. In-kind disability services provided by the States and Territory Governments are treated as sales of goods and services revenue.	AAS

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 at which 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 at which control is transferred. Recognise cash at the time of receipt.	AAS

Note 3: Taxation revenue by type

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Individuals and other withholding taxes					
Gross income tax withholding	192,800	203,800	216,600	229,200	244,500
Gross other individuals	46,800	49,600	52,000	56,300	60,700
less: Refunds	29,100	30,500	34,900	35,400	37,100
Total individuals and other withholding taxation	210,500	222,900	233,700	250,100	268,100
Fringe benefits tax	4,140	4,310	4,490	4,720	4,940
Company tax	86,700	91,200	94,900	98,600	102,100
Superannuation fund taxes	11,060	10,360	11,770	12,870	14,470
Petroleum resource rent tax	1,170	1,420	1,330	1,330	1,350
Income taxation revenue	**313,570**	**330,190**	**346,190**	**367,620**	**390,960**
Goods and services tax	66,700	70,310	72,750	76,740	80,590
Wine equalisation tax	930	1,010	970	1,020	1,040
Luxury car tax	730	740	760	800	830
Excise and Custom duty					
Petrol	6,100	6,210	6,390	6,700	7,030
Diesel	10,980	11,350	11,930	12,590	13,250
Other fuel products	2,000	2,040	2,100	2,160	2,240
Tobacco	11,670	12,720	17,270	15,360	16,220
Beer	2,410	2,440	2,470	2,600	2,650
Spirits	2,220	2,290	2,370	2,470	2,560
Other alcoholic beverages(a)	970	1,000	1,250	1,270	1,310
Other customs duty					
Textiles, clothing and footwear	190	190	190	190	200
Passenger motor vehicles	510	530	540	510	400
Other imports	1,210	1,270	1,250	1,070	1,011
less: Refunds and drawbacks	420	420	420	420	420
Total excise and customs duty	37,840	39,620	45,340	44,500	46,450
Major bank levy	1,550	1,700	1,800	1,900	2,000
Agricultural levies	571	575	589	597	602
Other taxes(b)	6,578	7,856	8,243	8,529	8,830
Mirror taxes	569	598	628	659	687
less: Transfers to States in relation to mirror tax revenue	569	598	628	659	687
Mirror tax revenue	0	0	0	0	0
Indirect taxation revenue	**114,899**	**121,811**	**130,451**	**134,085**	**140,342**
Taxation revenue	**428,469**	**452,001**	**476,641**	**501,705**	**531,303**

Note 3: Taxation revenue by type (continued)

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Memorandum:					
Total excise	22,510	*23,120*	*24,210*	*25,390*	*26,560*
Total customs duty	15,330	*16,500*	*21,130*	*19,110*	*19,890*
Capital gains tax(c)	*16,000*	*16,700*	*18,000*	*19,800*	*21,200*

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

(b) In the 2016-17 FBO, the majority of corporations law fees were reclassified from non-taxation revenue to taxation revenue and financial institutions supervisory levies were reclassified from taxation revenue to non-taxation revenue. See also Note 3(a): Taxation revenue by source and Note 4: Sales of goods and services revenue.

(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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Taxes on income, profits and capital gains					
Income and capital gains levied on individuals	214,630	227,210	238,190	254,820	273,040
Income and capital gains levied on enterprises	98,940	102,980	108,000	112,800	117,920
Total taxes on income, profits and capital gains	**313,570**	**330,190**	**346,190**	**367,620**	**390,960**
Taxes on employers' payroll and labour force	965	1,188	1,016	1,033	1,064
Taxes on the provision of goods and services					
Sales/goods and services tax	68,360	72,060	74,480	78,560	82,460
Excises and levies	23,081	23,695	24,799	25,987	27,162
Taxes on international trade	15,330	16,500	21,130	19,110	19,891
Total taxes on the provision of goods and services	**106,771**	**112,255**	**120,409**	**123,657**	**129,513**
Taxes on the use of goods and performance of activities(a)	7,163	8,368	9,027	9,396	9,766
Total taxation revenue	**428,469**	**452,001**	**476,641**	**501,705**	**531,303**

(a) In the 2016-17 FBO, the majority of corporations law fees were reclassified from non-taxation revenue to taxation revenue and financial institutions supervisory levies were reclassified from taxation revenue to non-taxation revenue. See also Note 3: Taxation revenue by type and Note 4: Sales of goods and services revenue.

Note 4: Sales of goods and services revenue

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Sales of goods	1,407	1,619	1,679	1,605	1,648
Rendering of services	6,611	10,858	12,090	12,272	12,740
Operating lease rental	103	112	113	111	131
Fees from regulatory services(a)	1,974	1,901	1,920	1,913	1,953
Total sales of goods and services revenue	**10,095**	**14,490**	**15,802**	**15,901**	**16,471**

(a) In the 2016-17 FBO, the majority of corporations law fees were reclassified from non-taxation revenue to taxation revenue and financial institutions supervisory levies were reclassified from taxation revenue to non-taxation revenue. See also Note 3: Taxation revenue by type and Note 3(a): Taxation revenue by source.

Note 5: Interest and dividend revenue

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Interest from other governments					
State and Territory debt	61	64	66	74	79
Housing agreements	103	98	93	88	83
Total interest from other governments	**164**	**161**	**159**	**162**	**162**
Interest from other sources					
Advances	220	302	335	389	392
Deposits(a)	847	690	694	735	747
Indexation of HELP receivable and other student loans	714	875	1,128	1,161	1,237
Other	1,717	2,413	3,204	3,615	3,506
Total interest from other sources	**3,499**	**4,281**	**5,362**	**5,900**	**5,882**
Total interest	**3,663**	**4,442**	**5,521**	**6,062**	**6,044**
Dividends					
Dividends from other public sector entities	654	1,090	1,550	1,929	2,234
Other dividends	3,143	3,035	3,055	3,257	3,476
Total dividends	**3,797**	**4,126**	**4,604**	**5,185**	**5,710**
Total interest and dividend revenue	**7,460**	**8,568**	**10,125**	**11,248**	**11,754**

(a) Due to the implementation of the new Commonwealth Government reporting system, 'bank deposits' and 'deposits' are amalgamated and reported as 'deposits' from the 2016-17 FBO.

Note 6: Other sources of non-taxation revenue

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Industry contributions	159	175	176	174	177
Royalties	1,018	1,103	995	904	829
Seigniorage	86	90	88	87	85
Other	8,890	9,714	8,967	7,860	7,596
Total other sources of non-taxation revenue	**10,152**	**11,082**	**10,227**	**9,025**	**8,686**

Note 7: Employee and superannuation expense

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Wages and salaries expenses	**20,019**	**20,411**	**20,653**	**20,836**	**21,367**
Other operating expenses					
Leave and other entitlements	2,369	2,285	2,255	2,282	2,291
Separations and redundancies	119	65	55	52	61
Workers compensation premiums and claims	1,300	1,186	1,197	1,235	1,261
Other	2,334	2,510	2,490	2,553	2,659
Total other operating expenses	**6,122**	**6,045**	**5,997**	**6,122**	**6,273**
Superannuation expenses					
Superannuation	7,825	6,022	5,981	5,983	6,019
Superannuation interest cost	9,241	10,648	11,049	11,387	11,715
Total superannuation expenses	**17,066**	**16,670**	**17,030**	**17,370**	**17,734**
Total employee and superannuation expense	**43,208**	**43,126**	**43,680**	**44,328**	**45,374**

Note 8: Depreciation and amortisation expense

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Depreciation					
Specialist military equipment	4,811	4,988	5,057	5,561	6,257
Buildings	1,408	1,394	1,385	1,361	1,342
Other infrastructure, plant and equipment	1,529	1,481	1,461	1,462	1,493
Heritage and cultural assets	99	97	95	95	94
Total depreciation	**7,847**	**7,961**	**7,998**	**8,479**	**9,186**
Total amortisation	**1,014**	**1,061**	**1,089**	**1,144**	**1,159**
Total depreciation and amortisation expense	**8,861**	**9,023**	**9,087**	**9,623**	**10,345**

Note 9: Supply of goods and services expense

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Supply of goods and services	31,929	33,265	29,949	30,479	31,670
Operating lease rental expenses	2,463	2,612	2,526	2,511	2,529
Personal benefits – indirect(a)	62,509	76,557	83,999	87,338	91,818
Health care payments	4,889	4,724	4,577	4,498	4,428
Other	2,237	2,476	2,764	2,458	2,341
Total supply of goods and services expense	**104,027**	**119,633**	**123,814**	**127,284**	**132,786**

(a) Includes the Child Care Subsidy, which commences from 2018-19, with the majority of the payments to be made directly to child care providers. See also Note 12, Personal benefits expense.

Note 10: Interest expense

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Interest on debt					
Government securities(a)	17,017	17,781	18,325	18,023	17,782
Loans	1	1	1	1	1
Other	206	243	255	273	287
Total interest on debt	**17,223**	**18,025**	**18,581**	**18,297**	**18,070**
Other financing costs	**708**	**1,020**	**1,585**	**1,249**	**1,023**
Total interest expense	**17,931**	**19,045**	**20,166**	**19,545**	**19,093**

(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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Current grants expense					
State and Territory governments	113,044	119,260	121,424	126,536	132,880
Private sector	8,528	9,447	9,337	9,302	9,635
Overseas	3,696	3,894	4,571	3,781	3,745
Non-profit organisations	4,344	3,966	3,694	3,574	3,469
Multi-jurisdictional sector	10,984	10,783	10,958	11,389	11,522
Other	1,327	1,691	2,266	2,496	2,644
Total current grants expense	**141,923**	**149,042**	**152,251**	**157,078**	**163,896**
Capital grants expense					
Mutually agreed write-downs	2,013	1,494	1,585	1,676	1,778
Other capital grants					
State and Territory governments	8,717	7,131	6,326	5,745	5,192
Local governments	678	360	379	379	379
Non-profit organisations	641	995	654	196	30
Private sector	134	121	0	0	0
Other	412	131	173	174	252
Total capital grants expense	**12,594**	**10,232**	**9,117**	**8,170**	**7,631**
Total grants expense	**154,517**	**159,273**	**161,368**	**165,248**	**171,526**

Note 12: Personal benefits expense

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Social welfare - assistance to the aged	45,440	47,099	49,329	51,697	53,865
Assistance to veterans and dependants	5,143	4,967	4,833	4,710	4,630
Assistance to people with disabilities	25,072	25,253	26,195	26,674	27,666
Assistance to families with children(a)	31,112	27,630	28,104	27,948	28,102
Assistance to the unemployed	11,134	10,120	11,001	11,386	11,913
Student assistance	2,607	2,331	2,503	2,637	2,812
Other welfare programs	1,075	1,130	1,199	1,224	1,227
Financial and fiscal affairs	439	625	436	452	470
Vocational and industry training	31	31	32	32	33
Other	6,471	7,243	9,818	12,330	17,251
Total personal benefits expense	**128,525**	**126,429**	**133,450**	**139,091**	**147,970**

(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.

Note 13: Advances paid and other receivables

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Advances paid					
Loans to State and Territory governments	4,012	3,913	4,070	4,305	4,274
Student loans(a)(b)	43,524	46,925	50,183	53,249	56,535
Other(b)	13,123	22,783	29,170	11,418	12,366
less Provision for doubtful debts	432	581	742	919	1,112
Total advances paid	**60,228**	**73,041**	**82,682**	**68,053**	**72,063**
Other receivables					
Goods and services receivable	1,263	1,306	1,314	1,327	1,360
Recoveries of benefit payments	5,139	6,489	7,360	8,156	8,367
Taxes receivable	23,812	26,439	28,387	29,168	30,349
Prepayments	3,558	3,627	3,699	3,717	3,709
Other	21,490	21,698	22,083	22,697	23,880
less Provision for doubtful debts	2,393	3,577	4,399	5,097	5,424
Total other receivables	**52,870**	**55,983**	**58,445**	**59,967**	**62,242**

(a) Due to the implementation of the new Commonwealth Government reporting system, student-related loans, including the Higher Education Loan Program and Student Financial Supplement Schemes, are amalgamated and reported as 'student loans' from the 2016-17 FBO.

(b) Trade Support Loans and Student Start-up Loans which were previously classified to 'other' are now classified to 'student loans'.

Note 14: Investments, loans and placements

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Investments - deposits	50,186	47,911	48,044	48,742	62,184
IMF quota	12,029	12,246	12,246	12,622	13,010
Other	118,017	123,356	136,611	142,141	150,231
Total investments, loans and placements	**180,232**	**183,513**	**196,902**	**203,506**	**225,424**

Note 15: Non-financial assets

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Land and buildings					
Land	10,708	10,650	10,631	10,643	10,566
Buildings	26,091	26,622	27,402	28,656	30,405
Total land and buildings	**36,799**	**37,272**	**38,033**	**39,299**	**40,971**
Plant, equipment and infrastructure					
Specialist military equipment	59,664	62,157	66,384	71,126	76,964
Other	15,796	16,188	16,396	16,627	16,586
Total plant, equipment and infrastructure	**75,460**	**78,346**	**82,780**	**87,753**	**93,549**
Inventories					
Inventories held for sale	1,307	1,344	1,330	1,294	1,391
Inventories not held for sale	6,896	6,531	6,165	5,780	5,397
Total inventories	**8,204**	**7,874**	**7,495**	**7,074**	**6,789**
Intangibles					
Computer software	4,524	5,051	5,231	5,327	5,295
Other	4,054	4,769	5,022	5,259	5,406
Total intangibles	**8,577**	**9,819**	**10,253**	**10,586**	**10,701**
Total investment properties	**159**	**159**	**159**	**159**	**159**
Total biological assets	**54**	**54**	**54**	**54**	**54**
Total heritage and cultural assets	**11,669**	**11,636**	**11,604**	**11,568**	**11,550**
Total assets held for sale	**86**	**85**	**85**	**85**	**84**
Total other non-financial assets	**61**	**62**	**60**	**60**	**60**
Total non-financial assets	**141,069**	**145,308**	**150,523**	**156,638**	**163,917**

Note 16: Loans

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Promissory notes	10,017	9,993	9,967	9,969	9,971
Special drawing rights	5,643	5,745	5,745	5,921	6,103
Other	435	353	290	230	209
Total loans	**16,095**	**16,090**	**16,002**	**16,120**	**16,283**

Note 17: Employee and superannuation liabilities

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Total superannuation liability(a)	**216,287**	**223,564**	**230,677**	**237,706**	**244,499**
Other employee liabilities					
Leave and other entitlements	7,858	7,961	8,037	8,130	8,220
Accrued salaries and wages	253	257	313	308	332
Workers compensation claims	2,656	2,611	2,605	2,603	2,611
Military compensation(b)	7,371	7,682	8,001	8,326	8,651
Other(b)	395	391	399	403	406
Total other employee liabilities	**18,533**	**18,902**	**19,355**	**19,770**	**20,220**
Total employee and superannuation liabilities	**234,820**	**242,466**	**250,031**	**257,476**	**264,719**

(a) For budget reporting purposes, the discount rate 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. This rate is 5 per cent, reflecting the actuaries' view that the long-term cost of borrowing is lower than the previously used 6 per cent. Consistent with Australian Accounting Standards, the superannuation liability for the 2016-17 FBO was calculated using the long-term government bond rate as at 30 June 2017 that best matched each individual scheme's liability duration. These rates were broadly between 3.0 and 3.5 per cent per annum.

(b) Consistent with the presentation of the Consolidated Financial Statements, 'military compensation' is separately disclosed from the 2017-18 MYEFO.

Note 18: Provisions and payables

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Suppliers payables					
Trade creditors	5,595	5,724	5,622	5,638	5,596
Operating lease rental payable	451	462	461	448	427
Personal benefits payables - indirect(a)	619	656	805	838	859
Other creditors	1,473	1,361	1,343	1,337	1,327
Total suppliers payables	**8,138**	**8,203**	**8,231**	**8,261**	**8,210**
Total personal benefits payables - direct(a)(b)	**2,952**	**3,038**	**3,407**	**3,215**	**3,202**
Total subsidies payable(b)	**548**	**1,114**	**1,253**	**1,305**	**1,327**
Grants payables					
State and Territory governments	103	88	79	76	70
Non-profit organisations	183	183	184	185	186
Private sector	351	350	350	350	350
Overseas	1,853	1,630	2,421	2,043	1,634
Local governments	1	1	1	1	1
Other(b)	822	819	819	818	817
Total grants payables(b)	**3,312**	**3,072**	**3,854**	**3,474**	**3,057**
Total other payables(b)	**2,279**	**2,236**	**2,232**	**2,232**	**2,231**
Provisions					
Provisions for tax refunds	2,373	2,376	2,380	2,384	2,387
Grants provisions(b)	7,588	7,028	6,380	6,122	5,847
Personal benefits provisions - direct(a)(b)	6,504	6,243	5,990	5,810	5,708
Personal benefits provisions - indirect(a)(b)	2,028	2,289	2,518	2,624	2,715
Other(b)	15,159	15,222	17,766	17,367	17,550
Total provisions(b)	**33,652**	**33,157**	**35,033**	**34,308**	**34,207**

(a) Implementation of the new Commonwealth Government reporting system provides the ability to distinguish direct and indirect personal benefit liabilities (a GFS distinction). From the 2017-18 MYEFO, these liabilities are separately disclosed.

(b) Consistent with the presentation of the Consolidated Financial Statements, provisions and payables are separately disclosed from the 2017-18 MYEFO.

Note 19: Reconciliation of cash

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Net operating balance (revenues less expenses)	**-12,612**	**-2,443**	**8,623**	**19,633**	**27,383**
less **Revenues not providing cash**					
Other	1,086	1,204	1,108	1,177	1,701
Total revenues not providing cash	**1,086**	**1,204**	**1,108**	**1,177**	**1,701**
plus **Expenses not requiring cash**					
Increase/(decrease) in employee entitlements	8,659	7,727	7,718	7,552	7,203
Depreciation/amortisation expense	8,861	9,023	9,087	9,623	10,345
Mutually agreed write-downs	2,013	1,494	1,585	1,676	1,778
Other	-61	517	1,046	683	392
Total expenses not requiring cash	**19,472**	**18,761**	**19,437**	**19,535**	**19,718**
plus **Cash provided/(used) by working capital items**					
Decrease/(increase) in inventories	-65	-75	-15	35	-97
Decrease/(increase) in receivables	-9,242	-11,199	-10,596	-8,795	-9,756
Decrease/(increase) in other financial assets	-1,021	-720	-439	-817	-757
Decrease/(increase) in other non-financial assets	9	-26	-25	44	85
Increase/(decrease) in benefits, subsidies and grants payable	114	153	-24	-440	-263
Increase/(decrease) in suppliers' liabilities	1,643	-114	-374	-1,049	-1,610
Increase/(decrease) in other provisions and payables	804	-771	3,508	-350	661
Net cash provided/(used) by working capital	**-7,758**	**-12,752**	**-7,965**	**-11,372**	**-11,737**
equals (Net cash from/(to) operating activities)	-1,985	2,362	18,988	26,617	33,663
plus (Net cash from/(to) investing activities)	-26,487	-28,564	-35,492	-8,576	-43,763
Net cash from operating activities and investment	**-28,472**	**-26,203**	**-16,504**	**18,041**	**-10,101**
plus (Net cash from/(to) financing activities)	28,696	26,715	15,599	-17,161	9,538
equals **Net increase/(decrease) in cash**	**224**	**512**	**-906**	**880**	**-563**
Cash at the beginning of the year	**5,140**	**5,363**	**5,875**	**4,969**	**5,848**
Net increase/(decrease) in cash	224	512	-906	880	-563
Cash at the end of the year	**5,363**	**5,875**	**4,969**	**5,848**	**5,285**

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 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. AASB 1049 recognises the GGS as a reporting entity.

AASB 1049 CONCEPTUAL FRAMEWORK

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), 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*.[1]

1 Additional information on the Australian accrual GFS framework is available in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 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.[2]

A change to the value or volume of an asset or liability that does not result from a transaction is an 'other economic flow'. This can include changes in values from market prices, most actuarial valuations, and exchange rates, and changes in volumes from discoveries, depletion and destruction. All 'other economic flows' are reported in the operating statement.

Consistent with the ABS GFS framework, and in general AAS, the financial statements record flows in the period in which they occur. As a result, prior period outcomes may be revised for classification changes relating to information that could reasonably have been expected to be known in the past, is material in at least one of the affected periods and can be reliably assigned to the relevant period(s).

Operating statement

The operating statement presents details of transactions in revenues, expenses, the net acquisition of non-financial assets (net capital investment) and other economic flows for an accounting period.

Revenues arise from transactions that increase net worth and expenses arise from transactions that decrease net worth. Revenues less expenses gives the net operating balance. The net operating balance is similar to the National Accounts concept of government saving plus capital transfers.

The net acquisition of non-financial assets (net capital investment) equals gross fixed capital formation, less depreciation, plus changes (investment) in inventories, plus other transactions in non-financial assets.

'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.

2 Not all transactions impact on net worth. For example, transactions in financial assets and liabilities do not impact on net worth as they represent the swapping of assets and liabilities on the balance sheet.

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 current 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 in the operating statement.

Fiscal balance

The fiscal balance (or net lending/borrowing) is the net operating balance less net capital investment. Thus, the fiscal balance includes the impact of net expenditure (effectively purchases less sales) on non-financial assets rather than consumption (depreciation) of non-financial assets.[3]

The fiscal balance measures the Australian Government's investment-saving balance. It measures in accrual terms the gap between government savings plus net capital transfers, and investment in non-financial assets. As such, it approximates the contribution of the Australian Government GGS to the balance on the current account in the balance of payments.

Balance sheet

The balance sheet shows stocks of assets, liabilities and net worth. In accordance with the UPF, net debt, net financial worth and net financial liabilities are also reported in the balance sheet.

Net worth

The net worth of the GGS, PNFC and PFC sectors is defined as assets less liabilities. This differs from the ABS GFS definition for the PNFC and PFC sectors where net worth is defined as assets less liabilities less shares and other contributed capital. Net worth is an economic measure of wealth, reflecting the Australian Government's contribution to the wealth of Australia.

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3 The net operating balance includes consumption of non-financial assets because depreciation is an expense. Depreciation is deducted in the calculation of net capital investment as the full investment in non-financial assets is included in the calculation of fiscal balance.

Net financial worth

Net financial worth measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets minus liabilities. This differs from the ABS GFS definition of net financial worth for the PNFC and PFC sectors, defined as financial assets, less liabilities, less shares and other contributed capital. Net financial worth is a broader measure than net debt, in that it incorporates provisions made (such as superannuation) as well as holdings of equity. Net financial worth includes all classes of financial assets and all liabilities, only some of which are included in net debt. As non-financial assets are excluded from net financial worth, this is a narrower measure than net worth. However, it avoids the concerns inherent with the net worth measure relating to the valuation of non-financial assets and their availability to offset liabilities.

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[4] (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.

4 Financial assets are defined as cash, an equity instrument of another entity, a contractual right to receive cash or financial asset, and a contract that will or may be settled in the entity's own equity instruments.

Cash flow statement

The cash flow statement identifies how cash is generated and applied in a single accounting period. The cash flow statement reflects a cash basis of recording (rather than an accrual basis) where information is derived indirectly from underlying accrual transactions and movements in balances. This, in effect, means that transactions are captured when cash is received or when cash payments are made. Cash transactions are specifically identified because cash management is considered an integral function of accrual budgeting.

Underlying cash balance

The underlying cash balance plus net Future Fund earnings 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

less

Net acquisitions of assets acquired under finance leases and similar arrangements[5]

less

Net Future Fund cash earnings

equals

Underlying cash balance

5 The underlying cash balance treats the acquisition and disposal of non-financial assets in the same manner regardless of whether they occur by purchase/sale or finance lease — acquisitions reduce the underlying cash balance and disposals increase the underlying cash balance. However, finance leases do not generate cash flows at the time of acquisition or disposal equivalent to the value of the asset. As such, net acquisitions of assets under finance leases are not shown in the body of the cash flow statement but are reported as a supplementary item for the calculation of the underlying cash balance.

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.

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 advances paid.[6] Equity transactions include equity injections into controlled businesses and privatisations of government businesses. Advances paid include net loans to the States and net loans to students.

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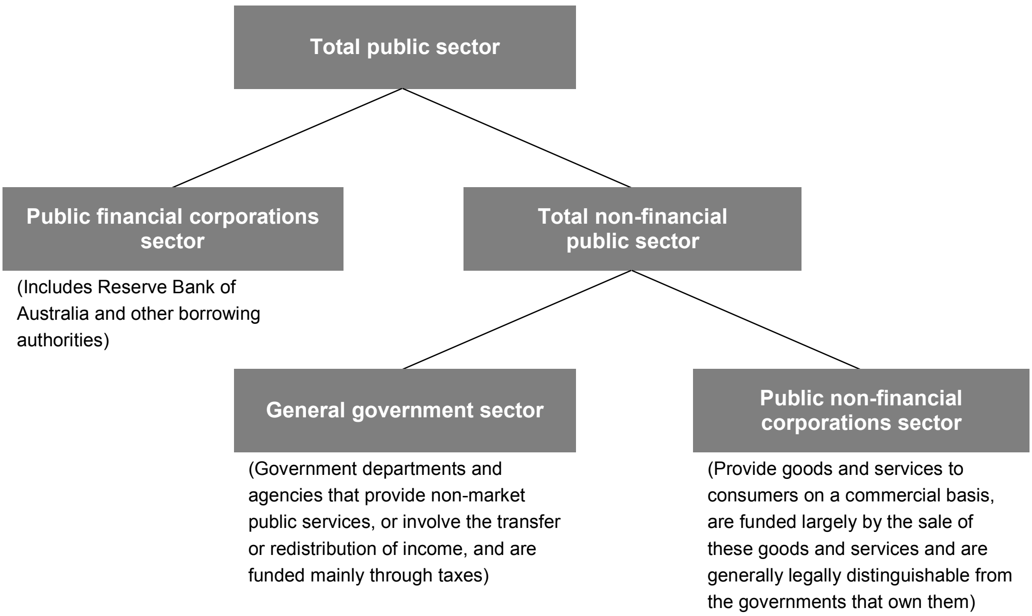
6 Cash flows from investments in financial assets for policy purposes are often referred to as net advances.

Sectoral classifications

To assist in analysing the public sector, data are presented by institutional sector as shown in Figure 1. ABS GFS defines the general government sector (GGS) and the public non-financial corporations (PNFC) and public financial corporations (PFC) sectors. AASB 1049 has also adopted this sectoral reporting.

Figure 1: Institutional structure of the public sector



All entities are classified as GGS entities except for the following list of portfolio entities that are classified as PFC or PNFC (Table A1).

A table which provides a full list of public sector principal entities is available on the Department of Finance website at www.finance.gov.au/resource-management/governance.

Table A1: Entities outside of the general government sector – 2017-18

Public financial corporations
Foreign Affairs and Trade Portfolio
• Export Finance and Insurance Corporation
Jobs and Innovation Portfolio
• Coal Mining Industry (Long Service Leave Funding) Corporation
• CSIRO General Partner Pty Ltd
• CSIRO General Partner 2 Pty Ltd

Public financial corporations (continued)

Treasury Portfolio*

- Australian Reinsurance Pool Corporation
- Reserve Bank of Australia

Public non-financial corporations

Communications and the Arts Portfolio

- Australian Postal Corporation
- NBN Co Limited

Environment and Energy Portfolio

- Snowy Hydro Limited^

Finance Portfolio

- ASC Pty Ltd
- Australian Naval Infrastructure Pty Ltd

Human Services Portfolio

- Australian Hearing Services*

Infrastructure, Regional Development and Cities Portfolio

- Airservices Australia
- Australian Rail Track Corporation Limited
- Moorebank Intermodal Company Limited
- WSA Co Ltd

Jobs and Innovation Portfolio

- ANSTO Nuclear Medicine Pty Ltd

Prime Minister and Cabinet Portfolio

- Voyages Indigenous Tourism Australia Pty Ltd

* The Government has introduced legislation to establish the National Housing Finance and Investment Corporation (NHFIC) as a corporate Commonwealth entity. NHFIC will operate an affordable housing bond aggregator to encourage greater private and institutional investment and provide cheaper and longer-term finance to registered providers of affordable housing. The NHFIC bond aggregator is a public financial corporation. NHFIC will also administer the National Housing Infrastructure Facility. The Facility is included in the general government sector. Under its enabling legislation, NHFIC will commence on 1 July 2018.

^ The Government has reached an agreement with the New South Wales and Victorian Governments to take full ownership of Snowy Hydro Limited in 2017-18.

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

Statement 11 reports historical data for the Australian Government fiscal aggregates across the general government, public non-financial corporations and non-financial public sectors.

DATA SOURCES

Data are sourced from Australian Government *Final Budget Outcomes*, the Australian Bureau of Statistics (ABS), the Australian Office of Financial Management and Australian Government *Consolidated Financial Statements*.

- Accrual data from 1996-97 onwards and cash data, net debt data, net financial worth data and net worth data from 1999-2000 onwards are sourced from Australian Government *Final Budget Outcomes*. Back-casting adjustments for accounting classification changes and other revisions have been made from 1998-99 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* from 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 1998-99, ensuring that data are consistent across the accrual period from 1998-99 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 are 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 have been made in arrangements for transfer payments, where tax concessions or rebates are replaced by payments through the social security system. This has the effect of increasing both cash receipts and payments, as compared with earlier periods, but not changing cash balances. Changes in the opposite direction reduce both cash payments and receipts.

- Classification differences in the data relating to the period prior to 1976-77 mean 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).

There have been no material classification changes that have resulted in back-casting in this update.

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1 Prior to the 2008-09 Budget, cash data calculated under the cash accounting framework was used up to and including 1998-99. In the 2008-09 Budget, cash data prior to 1998-99 have been replaced by ABS data derived from the accrual framework.

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	20.6	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	22.6	31,642	1.5	23.5	-	-1,322	-1.0
1980-81	35,993	23.7	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	25.8	82,039	-0.9	25.3	-	1,452	0.4
1988-89	90,748	24.7	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	24.2	100,665	3.1	24.3	-	-438	-0.1
1991-92	95,840	22.7	108,472	5.7	25.7	-	-12,631	-3.0
1992-93	97,633	22.0	115,751	5.6	26.1	-	-18,118	-4.1
1993-94	103,824	22.3	122,009	3.5	26.2	-	-18,185	-3.9
1994-95	113,458	22.9	127,619	1.4	25.8	-	-14,160	-2.9
1995-96	124,429	23.6	135,538	1.9	25.7	-	-11,109	-2.1
1996-97	133,592	24.1	139,689	1.7	25.2	-	-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	26.0	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	25.6	197,243	1.4	24.6	-	7,370	0.9
2003-04	217,775	25.3	209,785	3.9	24.4	-	7,990	0.9
2004-05	235,984	25.6	222,407	3.5	24.1	-	13,577	1.5
2005-06	255,943	25.7	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	25.1	271,843	3.8	23.1	3,319	19,754	1.7
2008-09	292,600	23.3	316,046	12.7	25.1	3,566	-27,013	-2.1
2009-10	284,662	21.9	336,900	4.2	25.9	2,256	-54,494	-4.2

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
2010-11	302,024	21.4	346,102	-0.4	24.5	3,385	-47,463	-3.4
2011-12	329,874	22.0	371,032	4.8	24.8	2,203	-43,360	-2.9
2012-13	351,052	22.9	367,204	-3.2	23.9	2,682	-18,834	-1.2
2013-14	360,322	22.6	406,430	7.8	25.5	2,348	-48,456	-3.0
2014-15	378,301	23.3	412,079	-0.3	25.4	4,089	-37,867	-2.3
2015-16	386,924	23.3	423,328	1.3	25.5	3,202	-39,606	-2.4
2016-17	409,868	23.3	439,375	2.0	25.0	3,644	-33,151	-1.9
2017-18 (e)	445,146	24.3	459,881	2.7	25.1	3,503	-18,238	-1.0
2018-19 (e)	**473,745**	**24.9**	**484,648**	**3.1**	**25.4**	**3,559**	**-14,462**	**-0.8**
2019-20 (e)	503,666	25.3	497,514	0.2	25.0	3,918	2,234	0.1
2020-21 (p)	525,458	25.2	514,501	1.1	24.7	4,182	10,957	0.5
2021-22 (p)	553,966	25.5	537,347	1.9	24.7	4,467	16,619	0.8

(a) Data have been revised in the 2018-19 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	-2.5	-3,539	-4.3
1976-77	21,890	23,157	-1,530	-1.6	-2,796	-2.9
1977-78	24,019	26,057	-1,324	-1.3	-3,361	-3.2
1978-79	26,129	28,272	-1,074	-0.9	-3,216	-2.7
1979-80	30,321	31,642	-702	-0.5	-2,024	-1.5
1980-81	35,993	36,176	-962	-0.6	-1,146	-0.8
1981-82	41,499	41,151	-1,008	-0.6	-660	-0.4
1982-83	45,463	48,810	-1,363	-0.7	-4,711	-2.5
1983-84	49,981	56,990	-1,136	-0.5	-8,144	-3.8
1984-85	58,817	64,853	-922	-0.4	-6,959	-3.0
1985-86	66,206	71,328	-810	-0.3	-5,932	-2.3
1986-87	74,724	77,158	-545	-0.2	-2,979	-1.0
1987-88	83,491	82,039	657	0.2	2,109	0.7
1988-89	90,748	85,326	168	0.0	5,589	1.5
1989-90	98,625	92,684	1,217	0.3	7,159	1.8
1990-91	100,227	100,665	1,563	0.4	1,125	0.3
1991-92	95,840	108,472	2,156	0.5	-10,475	-2.5
1992-93	97,633	115,751	2,471	0.6	-15,647	-3.5
1993-94	103,824	122,009	3,447	0.7	-14,738	-3.2
1994-95	113,458	127,619	1,546	0.3	-12,614	-2.6
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)	
	$m	$m	$m	Per cent of GDP	$m	Per cent of GDP
2010-11	302,024	346,102	-7,028	-0.5	-51,106	-3.6
2011-12	329,874	371,032	-5,866	-0.4	-47,023	-3.1
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	409,868	439,375	-13,501	-0.8	-43,008	-2.4
2017-18 (e)	445,146	459,881	-22,373	-1.2	-37,108	-2.0
2018-19 (e)	**473,745**	**484,648**	**-16,659**	**-0.9**	**-27,562**	**-1.4**
2019-20 (e)	503,666	497,514	-14,226	-0.7	-8,074	-0.4
2020-21 (p)	525,458	514,501	10,006	0.5	20,964	1.0
2021-22 (p)	553,966	537,347	-8,849	-0.4	7,770	0.4

(a) Data have been revised in the 2018-19 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	20.6
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	22.6
1980-81	32,641	21.5	3,352	2.2	35,993	23.7
1981-82	37,880	21.6	3,619	2.1	41,499	23.6
1982-83	41,025	21.7	4,438	2.3	45,463	24.0
1983-84	44,849	21.0	5,132	2.4	49,981	23.4
1984-85	52,970	22.5	5,847	2.5	58,817	25.0
1985-86	58,841	22.6	7,365	2.8	66,206	25.4
1986-87	66,467	23.3	8,257	2.9	74,724	26.1
1987-88	75,076	23.2	8,415	2.6	83,491	25.8
1988-89	83,452	22.7	7,296	2.0	90,748	24.7
1989-90	90,773	22.5	7,852	1.9	98,625	24.4
1990-91	92,739	22.4	7,488	1.8	100,227	24.2
1991-92	87,364	20.7	8,476	2.0	95,840	22.7
1992-93	88,760	20.0	8,873	2.0	97,633	22.0
1993-94	93,362	20.0	10,462	2.2	103,824	22.3
1994-95	104,921	21.2	8,537	1.7	113,458	22.9
1995-96	115,700	21.9	8,729	1.7	124,429	23.6
1996-97	124,559	22.4	9,033	1.6	133,592	24.1
1997-98	130,984	22.3	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	24.2	12,641	1.8	182,996	26.0
2001-02	175,371	23.3	12,218	1.6	187,588	24.9
2002-03	192,391	24.0	12,222	1.5	204,613	25.6
2003-04	206,734	24.0	11,041	1.3	217,775	25.3
2004-05	223,986	24.3	11,999	1.3	235,984	25.6
2005-06	241,987	24.3	13,956	1.4	255,943	25.7
2006-07	258,252	23.8	14,385	1.3	272,637	25.1
2007-08	279,317	23.8	15,600	1.3	294,917	25.1
2008-09	273,674	21.7	18,926	1.5	292,600	23.3
2009-10	262,167	20.2	22,495	1.7	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	282,106	19.9	19,918	1.4	302,024	21.4
2011-12	311,269	20.8	18,606	1.2	329,874	22.0
2012-13	327,835	21.4	23,218	1.5	351,052	22.9
2013-14	340,283	21.3	20,038	1.3	360,322	22.6
2014-15	353,883	21.8	24,418	1.5	378,301	23.3
2015-16	362,387	21.8	24,537	1.5	386,924	23.3
2016-17	379,271	21.6	30,597	1.7	409,868	23.3
2017-18 (e)	416,354	22.7	28,791	1.6	445,146	24.3
2018-19 (e)	**440,480**	**23.1**	**33,265**	**1.7**	**473,745**	**24.9**
2019-20 (e)	465,504	23.3	38,162	1.9	503,666	25.3
2020-21 (p)	491,025	23.6	34,433	1.7	525,458	25.2
2021-22 (p)	519,595	23.9	34,371	1.6	553,966	25.5

(a) Data have been revised in the 2018-19 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	12.5	3,986	0.9
1993-94	70,223	15.1	5,628	1.2
1994-95	83,492	16.9	7,292	1.5
1995-96	95,831	18.2	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	57,661	8.7	7,514	1.1
2000-01	46,802	6.6	6,195	0.9
2001-02	42,263	5.6	5,352	0.7
2002-03	33,403	4.2	3,758	0.5
2003-04	26,995	3.1	3,040	0.4
2004-05	15,604	1.7	2,502	0.3
2005-06	331	0.0	2,303	0.2
2006-07	-24,288	-2.2	228	0.0
2007-08	-39,958	-3.4	-1,015	-0.1
2008-09	-11,285	-0.9	-1,196	-0.1
2009-10	47,874	3.7	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	90,660	6.4	4,608	0.3
2011-12	153,443	10.3	6,609	0.4
2012-13	159,594	10.4	8,285	0.5
2013-14	209,559	13.1	10,843	0.7
2014-15	245,817	15.2	10,868	0.7
2015-16	303,467	18.3	12,041	0.7
2016-17	322,320	18.3	12,365	0.7
2017-18 (e)	341,003	18.6	13,128	0.7
2018-19 (e)	**349,851**	**18.4**	**14,492**	**0.8**
2019-20 (e)	344,036	17.3	12,226	0.6
2020-21 (p)	334,254	16.1	12,401	0.6
2021-22 (p)	319,270	14.7	12,175	0.6

(a) Data have been revised in the 2018-19 Budget to improve accuracy and comparability through time.
(b) Net debt is equal to the sum of deposits held, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.
(c) Net interest payments are equal to the difference between interest paid and interest receipts.
(e) Estimates.
(p) Projections.

Table 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	24.6	-	-	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	23.2	-	-	5,952	2.5
1985-86	63,089	24.2	-	-	7,394	2.8
1986-87	67,172	23.5	-	-	8,339	2.9
1987-88	62,794	19.4	-	-	8,139	2.5
1988-89	56,854	15.5	-	-	8,222	2.2
1989-90	48,399	12.0	-	-	8,064	2.0
1990-91	48,723	11.8	-	-	6,994	1.7
1991-92	58,826	13.9	-	-	6,819	1.6
1992-93	76,509	17.3	-	-	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	20.9	-	-	10,325	2.0
1996-97	111,067	20.0	-	-	10,653	1.9
1997-98	93,664	15.9	-	-	9,453	1.6
1998-99	85,331	13.8	-	-	9,299	1.5
1999-00	75,536	11.4	-	-	8,509	1.3
2000-01	66,403	9.4	-	-	7,335	1.0
2001-02	63,004	8.4	-	-	6,270	0.8
2002-03	57,435	7.2	-	-	4,740	0.6
2003-04	54,750	6.4	-	-	4,096	0.5
2004-05	55,151	6.0	-	-	3,902	0.4
2005-06	54,070	5.4	-	-	4,628	0.5
2006-07	53,264	4.9	-	-	3,959	0.4
2007-08	55,442	4.7	-	-	3,754	0.3
2008-09	101,147	8.0	95,103	7.6	3,970	0.3
2009-10	147,133	11.3	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	13.5	186,704	13.2	9,551	0.7
2011-12	233,976	15.6	229,389	15.3	10,875	0.7
2012-13	257,378	16.8	252,791	16.5	11,846	0.8
2013-14	319,481	20.0	316,952	19.9	13,972	0.9
2014-15	368,738	22.7	366,202	22.6	13,924	0.9
2015-16	420,420	25.3	417,936	25.2	14,977	0.9
2016-17	500,979	28.5	498,510	28.4	15,290	0.9
2017-18 (e)	533,000	29.0	530,000	28.9	16,586	0.9
2018-19 (e)	**561,000**	**29.5**	**561,000**	**29.5**	**18,749**	**1.0**
2019-20 (e)	579,000	29.0	578,000	29.0	17,516	0.9
2020-21 (p)	566,000	27.2	566,000	27.2	18,151	0.9
2021-22 (p)	578,000	26.6	578,000	26.6	17,458	0.8

(a) Data have been revised in the 2018-19 Budget to improve accuracy and comparability through time.
(b) From 2017-18 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. Data on 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		Net operating balance(b)		Net capital investment		Fiscal balance(c)	
	$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	25.5	145,821	26.3	-4,133	-0.7	90	0.0	-4,223	-0.8
1997-98	146,820	25.0	148,652	25.3	-1,832	-0.3	147	0.0	-1,979	-0.3
1998-99	152,106	24.5	146,772	23.7	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	25.6	6,016	0.9	8	0.0	6,007	0.9
2001-02	190,432	25.3	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	24.9	13,261	1.4	1,034	0.1	12,228	1.3
2005-06	260,569	26.2	241,665	24.3	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	25.8	279,862	23.8	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	-4.1
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	22.5	377,220	25.2	-39,896	-2.7	4,850	0.3	-44,746	-3.0
2012-13	359,496	23.4	382,397	24.9	-22,901	-1.5	987	0.1	-23,888	-1.6
2013-14	374,151	23.4	414,500	26.0	-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		Net operating balance(b)		Net capital investment		Fiscal balance(c)	
	$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	23.4	417,514	25.8	-38,059	-2.3	2,706	0.2	-40,764	-2.5
2015-16	395,055	23.8	428,691	25.8	-33,636	-2.0	3,829	0.2	-37,464	-2.3
2016-17	415,723	23.6	447,807	25.5	-32,084	-1.8	2,876	0.2	-34,960	-2.0
2017-18 (e)	456,176	24.9	468,788	25.5	-12,612	-0.7	748	0.0	-13,360	-0.7
2018-19 (e)	**486,141**	**25.5**	**488,584**	**25.7**	**-2,443**	**-0.1**	**4,989**	**0.3**	**-7,431**	**-0.4**
2019-20 (e)	512,795	25.7	504,171	25.3	8,623	0.4	4,923	0.2	3,700	0.2
2020-21 (p)	537,880	25.8	518,247	24.9	19,633	0.9	6,720	0.3	12,913	0.6
2021-22 (p)	568,213	26.1	540,830	24.9	27,383	1.3	8,000	0.4	19,383	0.9

(a) Data have been revised in the 2018-19 Budget to improve accuracy and comparability through time.
(b) Net operating balance is equal to revenue less expenses.
(c) 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	-10,424	-1.6	-70,414	-10.7
2000-01	-10,287	-1.5	-75,544	-10.7
2001-02	-15,330	-2.0	-81,707	-10.8
2002-03	-18,856	-2.4	-86,456	-10.8
2003-04	-4,740	-0.6	-75,976	-8.8
2004-05	11,066	1.2	-62,372	-6.8
2005-06	14,293	1.4	-63,442	-6.4
2006-07	42,677	3.9	-39,370	-3.6
2007-08	67,122	5.7	-18,428	-1.6
2008-09	15,452	1.2	-75,465	-6.0
2009-10	-50,383	-3.9	-148,930	-11.5
2010-11	-100,504	-7.1	-203,904	-14.4
2011-12	-252,046	-16.8	-360,672	-24.1
2012-13	-207,769	-13.5	-317,843	-20.7
2013-14	-261,596	-16.4	-375,882	-23.6
2014-15	-308,390	-19.0	-427,169	-26.3
2015-16	-423,674	-25.5	-548,028	-33.0
2016-17	-390,897	-22.2	-529,225	-30.1
2017-18 (e)	-325,232	-17.7	-466,301	-25.4
2018-19 (e)	**-337,609**	**-17.7**	**-482,917**	**-25.4**
2019-20 (e)	-331,574	-16.6	-482,097	-24.2
2020-21 (p)	-314,685	-15.1	-471,324	-22.6
2021-22 (p)	-289,955	-13.3	-453,871	-20.9

(a) Data have been revised in the 2018-19 Budget to improve accuracy and comparability through time.
(b) Net worth is equal to total assets less liabilities.
(c) Net financial worth is equal to financial assets less 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	25.0	10,229	1.5	186,106	26.4
2001-02	178,410	23.7	12,022	1.6	190,432	25.3
2002-03	195,319	24.4	11,458	1.4	206,778	25.8
2003-04	210,541	24.5	11,501	1.3	222,042	25.8
2004-05	230,490	25.0	11,863	1.3	242,354	26.3
2005-06	245,846	24.7	14,723	1.5	260,569	26.2
2006-07	262,876	24.2	15,019	1.4	277,895	25.6
2007-08	286,869	24.4	16,534	1.4	303,402	25.8
2008-09	279,303	22.2	19,206	1.5	298,508	23.7
2009-10	268,841	20.7	23,546	1.8	292,387	22.5
2010-11	289,566	20.5	19,639	1.4	309,204	21.9
2011-12	317,413	21.2	19,911	1.3	337,324	22.5
2012-13	338,106	22.0	21,390	1.4	359,496	23.4
2013-14	353,239	22.1	20,912	1.3	374,151	23.4
2014-15	356,321	22.0	23,134	1.4	379,455	23.4
2015-16	369,410	22.3	25,645	1.5	395,055	23.8
2016-17	388,641	22.1	27,082	1.5	415,723	23.6
2017-18 (e)	428,469	23.4	27,706	1.5	456,176	24.9
2018-19 (e)	**452,001**	**23.7**	**34,140**	**1.8**	**486,141**	**25.5**
2019-20 (e)	476,641	23.9	36,154	1.8	512,795	25.7
2020-21 (p)	501,705	24.1	36,174	1.7	537,880	25.8
2021-22 (p)	531,303	24.4	36,910	1.7	568,213	26.1

(a) Data have been revised in the 2018-19 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)]

	General government			Public non-financial corporations			Non-financial public sector		
	Receipts(b)	Payments(c)	Underlying cash balance(d)	Receipts(b)	Payments(f)	Cash surplus	Receipts(b)	Payments(f)	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	6,323
2001-02	187,588	188,655	-1,067	na	na	1,210	na	na	65
2002-03	204,613	197,243	7,370	27,386	26,105	1,280	na	na	8,651
2003-04	217,775	209,785	7,990	27,718	26,142	1,575	238,236	228,664	9,569
2004-05	235,984	222,407	13,577	29,621	28,071	1,550	257,946	242,805	15,141
2005-06	255,943	240,136	15,757	30,875	31,874	-999	278,254	263,421	14,833
2006-07	272,637	253,321	17,190	16,882	18,641	-1,759	285,336	267,719	17,625
2007-08	294,917	271,843	19,754	7,758	8,231	-472	300,503	277,754	22,800
2008-09	292,600	316,046	-27,013	7,987	8,960	-973	297,421	321,275	-23,786
2009-10	284,662	336,900	-54,494	8,419	9,341	-922	290,681	343,816	-52,879

Table 9: Australian Government cash receipts, payments and surplus by institutional sector ($m)[a] (continued)

	General government			Public non-financial corporations			Non-financial public sector		
	Receipts(b)	Payments(c)	Underlying cash balance(d)	Receipts(b)	Payments(f)	Cash surplus	Receipts(b)	Payments(f)	Cash surplus
2010-11	302,024	346,102	-47,463	8,558	9,733	-1,175	308,258	353,452	-44,911
2011-12	329,874	371,032	-43,360	8,845	10,847	-2,002	336,122	379,266	-42,763
2012-13	351,052	367,204	-18,834	9,766	13,061	-3,294	358,088	377,221	-19,133
2013-14	360,322	406,430	-48,456	11,042	14,246	-3,204	368,521	417,248	-48,726
2014-15	378,301	412,079	-37,867	11,256	15,136	-3,880	386,643	424,229	-37,586
2015-16	386,924	423,328	-39,606	11,606	17,753	-6,147	395,842	438,228	-42,386
2016-17	409,868	439,375	-33,151	12,406	19,543	-7,138	419,433	456,020	-36,587
2017-18 (e)	445,146	459,881	-18,238	14,134	22,998	-8,864	455,750	479,273	-23,523
2018-19 (e)	**473,745**	**484,648**	**-14,462**	**16,555**	**25,815**	**-9,261**	**486,127**	**506,313**	**-20,186**
2019-20 (e)	503,666	497,514	2,234	na	na	na	na	na	na
2020-21 (p)	525,458	514,501	10,957	na	na	na	na	na	na
2021-22 (p)	553,966	537,347	16,619	na	na	na	na	na	na

(a) Data have been revised in the 2018-19 Budget to improve accuracy and comparability through time.
(b) Receipts are equal to receipts from operating activities and sales of non-financial assets.
(c) Payments 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.
(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) Payments in the public non-financial corporations and non-financial public sectors are equal to payments for operating activities, purchases of non-financial assets and distributions paid.
(p) Projections.
na Data not available.

Table 10: Australian Government accrual revenue, expenses and fiscal balance by institutional sector ($m)[(a)]

	General government			Public non-financial corporations			Non-financial public sector		
	Revenue	Expenses	Fiscal balance(b)	Revenue	Expenses	Fiscal balance(b)	Revenue	Expenses	Fiscal balance(b)
1996-97	141,688	145,821	-4,223	27,431	26,015	-331	na	na	-4,554
1997-98	146,820	148,652	-1,979	29,618	26,999	2,360	na	na	387
1998-99	152,106	146,772	3,901	27,687	26,088	-816	175,891	168,958	3,085
1999-00	167,304	155,558	11,815	25,485	23,542	1,062	188,841	175,152	11,721
2000-01	186,106	180,090	6,007	25,869	24,762	-826	207,367	200,246	5,181
2001-02	190,432	192,984	-2,935	26,638	25,341	793	212,462	213,718	-2,142
2002-03	206,778	201,113	5,377	24,339	22,916	1,975	225,989	218,944	7,311
2003-04	222,042	215,235	6,148	25,449	23,444	2,143	241,746	232,934	8,291
2004-05	242,354	229,092	12,228	26,965	25,191	1,473	263,434	248,398	13,700
2005-06	260,569	241,665	16,406	28,143	29,531	-2,442	281,927	264,410	13,964
2006-07	277,895	258,761	16,801	15,443	16,360	-1,763	289,551	271,335	15,038
2007-08	303,402	279,862	20,948	6,854	6,686	-584	308,888	285,179	20,364
2008-09	298,508	324,387	-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
2015-16	395,055	428,691	-37,464	10,044	12,809	-7,486	403,868	440,270	-44,950
2016-17	415,723	447,807	-34,960	10,894	15,035	-9,918	425,114	461,338	-44,879
2017-18 (e)	456,176	468,788	-13,360	11,908	16,900	-9,963	466,574	484,178	-23,322
2018-19 (e)	**486,141**	**488,584**	**-7,431**	**15,016**	**21,100**	**-12,050**	**498,543**	**506,972**	**-19,383**
2019-20 (e)	512,795	504,171	3,700	na	na	na	na	na	na
2020-21 (p)	537,880	518,247	12,913	na	na	na	na	na	na
2021-22 (p)	568,213	540,830	19,383	na	na	na	na	na	na

(a) Data have been revised in the 2018-19 Budget to improve accuracy and comparability through time.
(b) Fiscal balance is equal to revenue less expenses less net capital investment. Net capital investment is not shown in this table.
(e) Estimates.
(p) Projections.
na Data not available.

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	4,365	569
2000-01	12,010	891	12,901	12,487	414	3,299	437
2001-02	11,882	828	12,710	12,782	-72	2,863	363
2002-03	12,500	794	13,294	12,815	479	2,170	244
2003-04	12,983	693	13,677	13,175	502	1,695	191
2004-05	13,566	727	14,293	13,470	822	945	152
2005-06	14,012	808	14,820	13,904	912	19	133
2006-07	14,269	795	15,064	13,997	950	-1,342	13
2007-08	14,630	817	15,447	14,239	1,035	-2,093	-53
2008-09	13,618	942	14,559	15,726	-1,344	-562	-60
2009-10	12,552	1,077	13,629	16,131	-2,609	2,292	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	12,919	912	13,831	15,849	-2,174	4,152	211
2011-12	13,687	818	14,505	16,314	-1,907	6,747	291
2012-13	13,849	981	14,829	15,512	-796	6,742	350
2013-14	13,781	812	14,593	16,460	-1,962	8,487	439
2014-15	13,886	958	14,844	16,169	-1,486	9,646	426
2015-16	13,817	936	14,753	16,141	-1,510	11,571	459
2016-17	13,994	1,129	15,123	16,212	-1,223	11,893	456
2017-18 (e)	14,836	1,026	15,862	16,387	-650	12,151	468
2018-19 (e)	**15,104**	**1,141**	**16,244**	**16,618**	**-496**	**11,996**	**497**
2019-20 (e)	15,333	1,257	16,590	16,387	74	11,332	403
2020-21 (p)	15,561	1,091	16,652	16,304	347	10,592	393
2021-22 (p)	15,818	1,046	16,864	16,358	506	9,719	371

(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.
(e) Estimates.
(p) Projections.